
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2018

Commission File Number 001-16407

ZIMMER BIOMET HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

13-4151777
(IRS Employer
Identification No.)

345 East Main Street, Warsaw, IN 46580
(Address of principal executive offices)
Telephone: (574) 267-6131

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of May 1, 2018, 203,271,319 shares of the registrant's \$.01 par value common stock were outstanding.

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Part I – Financial Information

Item 1. Financial Statements

ZIMMER BIOMET HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(in millions, except per share amounts, unaudited)

	Three Months Ended March 31,	
	2018	2017
Net Sales	\$ 2,017.6	\$ 1,972.4
Cost of products sold, excluding intangible asset amortization	575.8	512.9
Intangible asset amortization	150.8	152.0
Research and development	95.7	91.1
Selling, general and administrative	785.1	758.2
Acquisition, quality remediation and other (Note 4)	105.2	110.1
Operating expenses	1,712.6	1,624.3
Operating Profit	305.0	348.1
Other expense, net	(3.6)	(0.5)
Interest income	0.9	0.5
Interest expense	(78.9)	(82.9)
Earnings before income taxes	223.4	265.2
Provision (benefit) for income taxes	47.2	(34.1)
Net Earnings	176.2	299.3
Less: Net earnings (loss) attributable to noncontrolling interest	1.5	(0.1)
Net Earnings of Zimmer Biomet Holdings, Inc.	\$ 174.7	\$ 299.4
Earnings Per Common Share		
Basic	\$ 0.86	\$ 1.49
Diluted	\$ 0.85	\$ 1.47
Weighted Average Common Shares Outstanding		
Basic	203.0	201.1
Diluted	204.6	203.1
Cash Dividends Declared Per Common Share	\$ 0.24	\$ 0.24

The accompanying notes are an integral part of these condensed consolidated financial statements.

ZIMMER BIOMET HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in millions, unaudited)

	Three Months Ended March 31,	
	2018	2017
Net Earnings	\$ 176.2	\$ 299.3
Other Comprehensive Income:		
Foreign currency cumulative translation adjustments, net of tax	94.8	49.0
Unrealized cash flow hedge losses, net of tax	(26.4)	(26.3)
Reclassification adjustments on hedges, net of tax	9.7	(9.0)
Adjustments to prior service cost and unrecognized actuarial assumptions, net of tax	(3.3)	(3.5)
Total Other Comprehensive Income	74.8	10.2
Comprehensive Income	251.0	309.5
Comprehensive income (loss) attributable to the noncontrolling interest	1.4	(0.2)
Comprehensive Income Attributable to Zimmer Biomet Holdings, Inc.	\$ 249.6	\$ 309.7

The accompanying notes are an integral part of these condensed consolidated financial statements.

ZIMMER BIOMET HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions, unaudited)

	March 31, 2018	December 31, 2017
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,765.4	\$ 524.4
Accounts receivable, less allowance for doubtful accounts	1,418.5	1,544.1
Inventories	2,125.9	2,068.3
Prepaid expenses and other current assets	465.5	428.0
Total Current Assets	5,775.3	4,564.8
Property, plant and equipment, net	2,031.3	2,038.6
Goodwill	10,729.1	10,668.4
Intangible assets, net	8,235.7	8,353.4
Other assets	409.8	388.8
Total Assets	\$ 27,181.2	\$ 26,014.0
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 347.3	\$ 330.2
Income taxes payable	194.7	165.2
Salaries, wages and benefits	181.8	255.2
Other current liabilities	1,075.7	1,094.1
Current portion of long-term debt	1,625.0	1,225.0
Total Current Liabilities	3,424.5	3,069.7
Deferred income taxes	1,092.1	1,101.5
Long-term income tax payable	754.7	744.0
Other long-term liabilities	423.5	445.8
Long-term debt	9,486.9	8,917.5
Total Liabilities	15,181.7	14,278.5
Commitments and Contingencies (Note 16)		
Stockholders' Equity:		
Zimmer Biomet Holdings, Inc. Stockholders' Equity:		
Common stock, \$0.01 par value, one billion shares authorized, 307.1 million shares issued in 2018 (306.5 million in 2017)	3.1	3.1
Paid-in capital	8,576.6	8,514.9
Retained earnings	10,191.7	10,022.8
Accumulated other comprehensive loss	(51.3)	(83.2)
Treasury stock, 103.8 million shares in 2018 (103.9 million shares in 2017)	(6,721.7)	(6,721.8)
Total Zimmer Biomet Holdings, Inc. stockholders' equity	11,998.4	11,735.8
Noncontrolling interest	1.1	(0.3)
Total Stockholders' Equity	11,999.5	11,735.5
Total Liabilities and Stockholders' Equity	\$ 27,181.2	\$ 26,014.0

The accompanying notes are an integral part of these condensed consolidated financial statements.

ZIMMER BIOMET HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions, unaudited)

	For the Three Months Ended March 31,	
	2018	2017
Cash flows provided by (used in) operating activities:		
Net earnings	\$ 176.2	\$ 299.3
Adjustments to reconcile net earnings to cash provided by operating activities:		
Depreciation and amortization	263.5	267.6
Share-based compensation	13.9	14.0
Inventory step-up	0.1	14.6
Changes in operating assets and liabilities, net of effect of acquisitions:		
Income taxes	8.6	(86.9)
Receivables	146.2	27.0
Inventories	(39.7)	(13.3)
Accounts payable and accrued expenses	(27.7)	(137.2)
Other assets and liabilities	(50.6)	(109.7)
Net cash provided by operating activities	<u>490.5</u>	<u>275.4</u>
Cash flows provided by (used in) investing activities:		
Additions to instruments	(60.4)	(86.4)
Additions to other property, plant and equipment	(26.7)	(43.1)
Other investing activities	(14.6)	(3.6)
Net cash used in investing activities	<u>(101.7)</u>	<u>(133.1)</u>
Cash flows provided by (used in) financing activities:		
Proceeds from senior notes	749.5	-
Proceeds from multicurrency revolving facility	400.0	400.0
Payments on term loan	(225.0)	(150.0)
Net payments on other debt	(0.2)	(0.7)
Dividends paid to stockholders	(48.6)	(48.1)
Proceeds from employee stock compensation plans	47.9	66.1
Net cash flows from unremitted collections from factoring programs	(60.8)	-
Business combination contingent consideration payments	(13.6)	(6.0)
Restricted stock withholdings	(2.5)	(5.2)
Debt issuance costs	(4.9)	-
Net cash provided by financing activities	<u>841.8</u>	<u>256.1</u>
Effect of exchange rates on cash and cash equivalents	<u>10.4</u>	<u>7.0</u>
Increase in cash and cash equivalents	1,241.0	405.4
Cash and cash equivalents, beginning of year	524.4	634.1
Cash and cash equivalents, end of period	<u>\$ 1,765.4</u>	<u>\$ 1,039.5</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

ZIMMER BIOMET HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

The financial data presented herein is unaudited and should be read in conjunction with the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2017.

In our opinion, the accompanying unaudited condensed consolidated financial statements include all adjustments necessary for a fair statement of the financial position, results of operations and cash flows for the interim periods presented. The December 31, 2017 condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America (“GAAP”). Results for interim periods should not be considered indicative of results for the full year.

The words “we,” “us,” “our” and similar words and “Zimmer Biomet” refer to Zimmer Biomet Holdings, Inc. and its subsidiaries. “Zimmer Biomet Holdings” refers to the parent company only.

2. Significant Accounting Policies

Accounting Pronouncements Recently Adopted

In August 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) 2017-12 – Targeted Improvements to Accounting for Hedging Activities. This ASU amends the hedge accounting guidance to simplify the application of hedge accounting, makes more financial and nonfinancial hedging strategies eligible for hedge accounting treatment, changes how companies assess effectiveness and updates presentation and disclosure requirements. We early adopted this ASU in the first quarter of 2018. Based upon our hedging portfolio that existed prior to adoption, the adoption of this ASU did not have any impact on our financial position, results of operations or cash flows. However, after adoption we entered into cross-currency interest rate swaps that we designated as net investment hedges. Under this ASU, we have made a policy election for changes in the fair value of the cross-currency component of the cross-currency interest rate swaps to be recorded in accumulated other comprehensive income. Therefore, all changes in the fair value of the cross-currency interest rate swaps are recorded as a component of accumulated other comprehensive loss in the condensed consolidated balance sheet. The portion of this change related to the excluded component will be amortized into earnings over the life of the derivative while the remainder will be recorded in accumulated other comprehensive loss until the hedged net investment is sold or substantially liquidated. Under previous guidance, the fair value change related to the cross-currency component was recognized in earnings. See Note 11 for additional information.

In February 2018, the FASB issued ASU 2018-02 – Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. Under GAAP, when there is a change in tax rates, it requires remeasurement of deferred tax assets and liabilities to be recognized as part of income, even if the deferred tax asset or liability had been recorded and recognized in Accumulated Other Comprehensive Income (“AOCI”). As a result, a portion of the amount recognized in AOCI at the previous tax rate would remain stranded in AOCI permanently. ASU 2018-02 allows the stranded tax effects in AOCI related only to the Tax Cuts and Jobs Act of 2017 (“2017 Tax Act”) to be reclassified from AOCI to retained earnings. The only stranded tax effects in AOCI we had related to the 2017 Tax Act were due to changes in the U.S. federal corporate income tax rate. We early adopted this ASU in the first quarter of 2018 and elected to use the beginning of period transition method, which means we recognized the reclassification as of January 1, 2018. As a result, we reclassified \$42.9 million from AOCI to retained earnings.

In March 2017, the FASB issued ASU 2017-07 – Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This ASU requires us to report the service cost component of pensions in the same location as other compensation costs arising from services rendered by the pertinent employees during the period. We are required to report the other components of net benefit costs in other income (expense) in the statement of earnings. This ASU was effective for us as of January 1, 2018. This ASU must be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost in the statement of earnings and prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension cost in assets. This ASU provides a practical expedient that allows companies to use the amounts disclosed in prior financial statements as the basis for the retrospective application. We elected to use this practical expedient. The impacts of this ASU on our condensed consolidated financial statements for the three month period ended March 31, 2017 are included in the tables below. See Note 13 for further information on the components of our net benefit cost.

In May 2014, the FASB issued ASU 2014-09 – Revenue from Contracts with Customers (Topic 606). This ASU provides a five-step model for revenue recognition that all industries will apply to recognize revenue when a customer obtains control of a good

or service. This ASU was effective for us as of January 1, 2018. Entities were permitted to apply the standard and related amendments either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the ASU recognized at the date of initial application. We adopted this new standard using the retrospective method, which resulted in us restating prior reporting periods presented. This ASU did not result in a change to the timing of our revenue recognition. However, we were required to reclassify certain immaterial costs from selling, general and administrative (“SG&A”) expense to net sales, which resulted in a reduction of net sales, but had no impact on operating profit or retained earnings. This ASU also required us to reclassify our estimated refund liability for products expected to be returned from a reduction of accounts receivable to other current liabilities and the related right to receive products from the return from inventories to prepaid expenses and other current assets. The impacts of this ASU on our condensed consolidated financial statements for the three month period ended March 31, 2017 and as of December 31, 2017 are included in the tables below.

(in millions)	As Previously Reported	New Revenue Standard Adjustment	New Pension Standard Adjustment	As Restated
Statement of Earnings				
Three Months Ended March 31, 2017				
Net Sales	\$ 1,977.3	\$ (4.9)	\$ -	\$ 1,972.4
Selling, general and administrative	760.8	(4.9)	2.3	758.2
Operating expenses	1,626.9	(4.9)	2.3	1,624.3
Operating Profit	350.4	-	(2.3)	348.1
Other expense, net	(2.8)	-	2.3	(0.5)

(in millions)	As Previously Reported	New Revenue Standard Adjustment	As Restated
Balance Sheet			
December 31, 2017			
Accounts receivable, less allowance for doubtful accounts	\$ 1,494.6	\$ 49.5	\$ 1,544.1
Inventories	2,081.8	(13.5)	2,068.3
Prepaid expenses and other current assets	414.5	13.5	428.0
Other current liabilities	1,143.6	49.5	1,094.1

Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02 – Leases. This ASU requires lessees to recognize right-of-use assets and lease liabilities on the balance sheet. This ASU will be effective for us beginning January 1, 2019. Early adoption is permitted. Based on current guidance, this ASU must be adopted using a modified retrospective transition approach at the beginning of the earliest comparative period in the consolidated financial statements. We own most of our manufacturing facilities, but lease various office space, vehicles and other less significant assets throughout the world. We have formed our project team and have begun a process to collect the necessary information to implement this ASU. We will continue evaluating our leases and the related impact this ASU will have on our consolidated financial statements throughout 2018.

There are no other recently issued accounting pronouncements that we have not yet adopted that are expected to have a material effect on our financial position, results of operations or cash flows.

3. Revenue Recognition

We recognize revenue when our performance obligations under the terms of a contract with our customer are satisfied. This happens when we transfer control of our products to the customer, which generally occurs upon implantation or when title passes upon

shipment. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring our product. Taxes collected from customers and remitted to governmental authorities are excluded from revenues.

We sell product through three principal channels: 1) direct to healthcare institutions, referred to as direct channel accounts; 2) through stocking distributors and healthcare dealers; and 3) directly to dental practices and dental laboratories. The direct channel accounts represented approximately 80 percent of our net sales in 2017. Through this channel, inventory is generally consigned to sales agents or customers so that products are available when needed for surgical procedures. No revenue is recognized upon the placement of inventory into consignment as we retain the ability to control the inventory. Upon implantation, we issue an invoice and revenue is recognized. Pricing for products is generally predetermined by contracts with customers, agents acting on behalf of customer groups or by government regulatory bodies, depending on the market. Price discounts under group purchasing contracts are generally linked to volume of implant purchases by customer healthcare institutions within a specified group. At negotiated thresholds within a contract buying period, price discounts may increase. Payment terms vary by customer, but are typically less than 90 days.

Sales to stocking distributors, healthcare dealers, dental practices and dental laboratories accounted for approximately 20 percent of our net sales in 2017. With these types of sales, revenue is recognized when control of our product passes to the customer, either upon shipment of the product or in some cases upon implantation of the product. It is our accounting policy to account for shipping and handling activities as a fulfillment cost rather than as an additional promised service. We have contracts with these customers or orders may be placed from available price lists. Payment terms vary by customer, but are typically less than 90 days.

We offer standard warranties to our customers that our products are not defective. These standard warranties are not considered separate performance obligations. In limited circumstances, we offer extended warranties that are separate performance obligations. We have very few contracts that have multiple performance obligations. Since we do not have significant multiple element arrangements and essentially all of our sales are recognized upon implantation of a product or when title passes, very little judgment is required to allocate the transaction price of a contract or determine when control has passed to a customer. Our costs to obtain contracts consist primarily of sales commissions to employees or third party agents that are earned when control of our product passes to the customer. Therefore, sales commissions are expensed as part of selling, general and administrative expenses at the same time revenue is recognized. Accordingly, we do not have significant contract assets, liabilities or future performance obligations.

We offer variable consideration through volume-based discounts, rebates, prompt pay discounts, right of return and other various incentives. If sales incentives may be earned by a customer for purchasing a specified amount of our product, we estimate whether such incentives will be achieved and recognize these incentives as a reduction in revenue in the same period the underlying revenue transaction is recognized. We primarily use the expected value method to estimate incentives. Under the expected value method, we consider the historical experience of similar programs as well as review sales trends on a customer-by-customer basis to estimate what levels of incentives will be earned. Occasionally, products are returned and, accordingly, we maintain an estimated refund liability based upon the expected value method that is recorded as a reduction in revenue.

We analyze sales by three geographies, the Americas, EMEA and Asia Pacific, and by the following product categories: Knees, Hips, S.E.T., Dental, Spine & CMF and Other. As discussed in Note 15, we have seven operating segments that are based upon geography and product categories. The geographic segments include sales of all product categories exclusive of the specific product category operating segments. The geographic operating segments are the Americas, EMEA and Asia Pacific. These three operating segments are our reporting segments. The product category operating segments are Spine, less Asia Pacific; Office Based Technologies; CMF and Dental. The product operating segments do not constitute a reporting segment because they are, individually and on a combined basis, insignificant to our consolidated results.

Our sales analysis differs from our reporting operating segments because the underlying market trends in any particular geography tend to be similar across product categories, we primarily sell the same products in all geographies and the product category operating segments are not individually significant to our consolidated results.

Net sales by geography are as follows (in millions):

	Three Months Ended	
	March 31,	
	2018	2017
Americas	\$ 1,208.1	\$ 1,229.9
EMEA	496.5	453.2
Asia Pacific	313.0	289.3
Total	<u>\$ 2,017.6</u>	<u>\$ 1,972.4</u>

Net sales by product category are as follows (in millions):

	Three Months Ended	
	March 31,	
	2018	2017
Knees	\$ 713.3	\$ 700.8
Hips	492.0	473.8
S.E.T.	442.3	423.5
Dental	107.6	107.8
Spine & CMF	183.1	186.3
Other	79.3	80.2
Total	<u>\$ 2,017.6</u>	<u>\$ 1,972.4</u>

“S.E.T.” refers to our Surgical, Sports Medicine, Foot and Ankle, Extremities and Trauma product category.

4. Acquisition, Quality Remediation and Other

In 2015, we completed our merger with LVB Acquisition, Inc. (“LVB”), the parent company of Biomet, Inc. (“Biomet”) (which merger is sometimes referred to herein as the “Biomet merger”). The Biomet merger was a transformational event for our company due to its size and complexity. We developed detailed, three-year integration plans to combine numerous aspects of the businesses. These integration plans are expected to last through mid-2018. In 2016, we acquired LDR Holding Corporation and other individually immaterial companies. We also developed integration plans for these businesses. We have incurred significant expenses related to the integration plans of the Biomet merger and other business combinations, particularly relating to the integration of these businesses.

In recent years, we have dedicated significant resources to our ongoing quality and operational excellence journey and we will continue to take the necessary actions to demonstrate our commitment to quality excellence, patient safety and regulatory compliance at our sites around the world. Further, as discussed in Note 16, we are addressing inspectional observations on Form 483 issued by the U.S. Food and Drug Administration (“FDA”) following its inspection of the Warsaw North Campus facility that we acquired as part of the Biomet merger, among other matters. As part of our quality and operational excellence journey, and in connection with addressing these and other inspectional observations, we have incurred significant expenses, including external consultants and temporary labor.

Due to the significance and different nature of the expenses incurred in connection with the Biomet merger, other acquisitions and our quality enhancement and remediation efforts and operational excellence initiatives, we recognize expenses resulting directly from our business combinations, employee termination benefits, certain contract terminations, consulting and professional fees connected with global restructuring, quality enhancement and remediation efforts, operational excellence initiatives, and other items as Acquisition, quality remediation and other in our consolidated statement of earnings. Acquisition, quality remediation and other expenses included (in millions):

	Three Months Ended	
	March 31,	
	2018	2017
Biomet merger-related		
Consulting and professional fees	\$ 10.0	\$ 18.7
Employee termination benefits	1.8	(3.0)
Dedicated project personnel	2.2	8.7
Relocated facilities	0.7	2.8
Information technology integration	0.1	2.3
Other	1.8	7.5
Total Biomet merger-related	16.6	37.0
Other		
Consulting and professional fees	\$ 63.8	\$ 50.4
Employee termination benefits	1.6	1.2
Dedicated project personnel	9.3	12.8
Relocated facilities	0.7	2.4
Certain litigation matters	5.7	7.0
Contract terminations	2.6	-
Information technology integration	1.2	0.5
Contingent consideration adjustments	0.5	(3.6)
Other	3.2	2.4
Total Other	88.6	73.1
Acquisition, quality remediation and other	\$ 105.2	\$ 110.1

Consulting and professional fees include expenditures related to third-party integration consulting performed in a variety of areas such as tax, compliance, logistics and human resources for our business combinations including the Biomet merger; legal fees related to the consummation of mergers and acquisitions and certain litigation and compliance matters; other consulting and professional fees and contract labor related to our quality enhancement and remediation efforts and operational excellence initiatives; third-party fees related to severance and termination benefits matters; costs of complying with our deferred prosecution agreement including the cost of the independent compliance monitor and external legal counsel; and consulting fees related to certain information system integrations.

Dedicated project personnel expenses include the salary, benefits, travel expenses and other costs directly associated with employees who are 100 percent dedicated to our integration of acquired businesses, employees who have been notified of termination, but are continuing to work on transferring their responsibilities and employees working on our quality enhancement and remediation efforts and operational excellence initiatives.

A further detailed description of expenses included in Acquisition, quality remediation and other can be found in Note 2 to our Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2017.

5. Inventories

	March 31, 2018	December 31, 2017
	(in millions)	
Finished goods	\$ 1,703.3	\$ 1,618.7
Work in progress	233.8	200.0
Raw materials	188.8	249.6
Inventories	\$ 2,125.9	\$ 2,068.3

6. Property, Plant and Equipment

	March 31, 2018	December 31, 2017
	(in millions)	
Land	\$ 29.3	\$ 29.0
Buildings and equipment	1,880.4	1,838.5
Capitalized software costs	433.9	421.6
Instruments	2,786.9	2,683.9
Construction in progress	116.4	110.7
	5,246.9	5,083.7
Accumulated depreciation	(3,215.6)	(3,045.1)
Property, plant and equipment, net	<u>\$ 2,031.3</u>	<u>\$ 2,038.6</u>

7. Transfers of Financial Assets

In the fourth quarter of 2016, we executed receivables purchase arrangements to liquidate portions of our trade accounts receivable balance with unrelated third parties. The receivables relate to products sold to customers and are short-term in nature. The factorings were treated as sales of our accounts receivable. Proceeds from the transfers reflect either the face value of the accounts receivable or the face value less factoring fees.

In the U.S. and Japan, our programs are executed on a revolving basis with a maximum funding limit as of March 31, 2018 of \$350 million. We act as the collection agent on behalf of the third party, but have no significant retained interests or servicing liabilities related to the accounts receivable sold. In order to mitigate credit risk, we purchased credit insurance for the factored accounts receivable. As a result, our risk of loss is limited to the factored accounts receivable not covered by the insurance. Additionally, we have provided guarantees for the factored accounts receivable. The maximum exposures to loss associated with these arrangements were \$28.7 million and \$22.9 million as of March 31, 2018 and December 31, 2017, respectively.

In Europe, we sell to a third party and have no continuing involvement or significant risk with the factored accounts receivable.

Funds received from the transfers are recorded as an increase to cash and a reduction to accounts receivable outstanding in the condensed consolidated balance sheets. We report the cash flows attributable to the sale of receivables to third parties in cash flows from operating activities in our condensed consolidated statements of cash flows. Net expenses resulting from the sales of receivables are recognized in selling, general and administrative expense. Net expenses include any resulting gains or losses from the sales of receivables, credit insurance and factoring fees.

In the three month periods ended March 31, 2018 and 2017, we sold receivables having an aggregate face value of \$617.0 million and \$208.7 million to third parties in exchange for cash proceeds of \$616.7 million and \$208.5 million, respectively. Expenses recognized on these sales during the three month periods ended March 31, 2018 and 2017 were not significant. In the three month periods ended March 31, 2018 and 2017, under the U.S. and Japan programs, we collected \$481.4 million and \$117.9 million, respectively, from our customers and remitted that amount to the third party, and we effectively repurchased \$51.2 million and \$11.2 million, respectively, of previously sold accounts receivable from the third party, due to the programs' revolving nature. As of March 31, 2018 and December 31, 2017, we had collected \$42.7 million and \$103.5 million, respectively, of funds that were unremitted to the third party, which are reflected in our condensed consolidated balance sheets under other current liabilities. The initial collection of cash from customers and its remittance to the third party is reflected in net cash provided by/(used in) financing activities in our condensed consolidated statements of cash flows. We estimate the incremental operating cash inflows related to all of our receivables purchase programs were approximately \$12 million in the three month period ended March 31, 2018.

At March 31, 2018 and December 31, 2017, the outstanding principal amount of receivables that has been derecognized under the U.S. and Japan revolving arrangements amounted to \$323.4 million and \$261.2 million, respectively.

8. Debt

Our debt consisted of the following (in millions):

	March 31, 2018	December 31, 2017
Current portion of long-term debt		
2.000% Senior Notes due 2018	\$ 1,150.0	\$ 1,150.0
U.S. Term Loan B	75.0	75.0
Multicurrency Revolving Facility	400.0	-
Total current portion of long-term debt	<u>\$ 1,625.0</u>	<u>\$ 1,225.0</u>
Long-term debt		
4.625% Senior Notes due 2019	\$ 500.0	\$ 500.0
2.700% Senior Notes due 2020	1,500.0	1,500.0
Floating Rate Notes due 2021	450.0	-
3.375% Senior Notes due 2021	300.0	300.0
3.150% Senior Notes due 2022	750.0	750.0
3.700% Senior Notes due 2023	300.0	-
3.550% Senior Notes due 2025	2,000.0	2,000.0
4.250% Senior Notes due 2035	253.4	253.4
5.750% Senior Notes due 2039	317.8	317.8
4.450% Senior Notes due 2045	395.4	395.4
1.414% Euro Notes due 2022	614.9	600.4
2.425% Euro Notes due 2026	614.9	600.4
U.S. Term Loan A	610.0	835.0
U.S. Term Loan B	600.0	600.0
Japan Term Loan A	110.2	103.2
Japan Term Loan B	200.5	187.9
Other long-term debt	4.1	4.1
Debt discount and issuance costs	(55.3)	(53.2)
Adjustment related to interest rate swaps	21.0	23.1
Total long-term debt	<u>\$ 9,486.9</u>	<u>\$ 8,917.5</u>

At March 31, 2018, our total debt balance consisted of \$9.1 billion aggregate principal amount of our senior notes, which included \$1.2 billion of Euro-denominated senior notes (“Euro Notes”), \$610.0 million outstanding under a U.S. term loan (“U.S. Term Loan A”) that will mature on June 24, 2020, \$675.0 million outstanding under a U.S. term loan (“U.S. Term Loan B”) that will mature on September 30, 2019, an 11.7 billion Japanese Yen term loan agreement (“Japan Term Loan A”) and a 21.3 billion Japanese Yen term loan agreement (“Japan Term Loan B”) that will each mature on September 27, 2022, and other debt and fair value adjustments totaling \$25.1 million, partially offset by debt discount and issuance costs of \$55.3 million.

On March 19, 2018, we completed the offering of \$450.0 million aggregate principal amount of our floating rate senior notes due March 19, 2021 and \$300.0 million aggregate principal amount of our 3.700% senior notes due March 19, 2023. Interest on the floating rate senior notes is equal to three-month LIBOR plus 0.750% and is payable quarterly, commencing on June 19, 2018, until maturity. Interest is payable on the 3.700% senior notes semi-annually, commencing on September 19, 2018, until maturity. We received net proceeds of \$749.5 million from this offering. On April 2, 2018, these proceeds, together with borrowings under the Multicurrency Revolving Facility (as defined below) and cash on hand, were used to repay the 2.000% Senior Notes due 2018.

On September 22, 2017, we entered into a term loan agreement for the Japan Term Loan B, and an amended and restated term loan agreement, which amended and restated the Japan Term Loan A loan agreement dated as of May 24, 2012, as amended as of October 31, 2014. As described above, the term loans under both of these agreements will mature on September 27, 2022. Each of these term loans bears interest at a fixed rate of 0.635% per annum.

We have a revolving credit and term loan agreement (the “2016 Credit Agreement”) and a first amendment to our credit agreement executed in 2014 (the “2014 Credit Agreement”). The 2016 Credit Agreement contains the U.S. Term Loan B and a five-year unsecured multicurrency revolving facility of \$1.5 billion (the “Multicurrency Revolving Facility”). The Multicurrency Revolving Facility replaced the previous multicurrency revolving facility under the 2014 Credit Agreement and will mature on

September 30, 2021, with two available one-year extensions at our discretion. The 2014 Credit Agreement also provided for the U.S. Term Loan A, which remains in effect.

Borrowings under the 2014 and 2016 Credit Agreements generally bear interest at floating rates. We pay a facility fee on the aggregate amount of the Multicurrency Revolving Facility. If our credit rating falls below investment grade, additional restrictions would result, including restrictions on investments and payment of dividends. We were in compliance with all financial covenants under the 2014 and 2016 Credit Agreements as of March 31, 2018. As of March 31, 2018, we had \$400.0 million of borrowings outstanding under the Multicurrency Revolving Facility.

Under the terms of U.S. Term Loan A, starting September 30, 2015, principal payments are due as follows: \$75.0 million on a quarterly basis during the first three years, \$112.5 million on a quarterly basis during the fourth year, and \$412.5 million on a quarterly basis during the fifth year. We have paid \$2.39 billion in principal under U.S. Term Loan A, resulting in \$610.0 million in outstanding borrowings as of March 31, 2018.

Under the terms of U.S. Term Loan B, future principal payments are due as follows: \$75.0 million on September 30, 2018, with the remaining balance due on the maturity date of September 30, 2019. We have paid \$75.0 million in principal under U.S. Term Loan B, resulting in \$675.0 million outstanding on the U.S. Term Loan B as of March 31, 2018.

The estimated fair value of our senior notes as of March 31, 2018, based on quoted prices for the specific securities from transactions in over-the-counter markets (Level 2), was \$9,133.7 million. The estimated fair value of Japan Term Loan A and Japan Term Loan B, in the aggregate, as of March 31, 2018, based upon publicly available market yield curves and the terms of the debt (Level 2), was \$309.4 million. The carrying values of U.S. Term Loan A, U.S. Term Loan B and the Multicurrency Revolving Facility approximate their fair values as they bear interest at short-term variable market rates.

9. Accumulated Other Comprehensive Income

Accumulated other comprehensive income (“AOCI”) refers to certain gains and losses that under GAAP are included in comprehensive income but are excluded from net earnings as these amounts are initially recorded as an adjustment to stockholders’ equity. Amounts in AOCI may be reclassified to net earnings upon the occurrence of certain events.

Our AOCI is comprised of foreign currency translation adjustments, unrealized gains and losses on cash flow hedges and amortization of prior service costs and unrecognized gains and losses in actuarial assumptions on our defined benefit plans. Foreign currency translation adjustments are reclassified to net earnings upon sale or upon a complete or substantially complete liquidation of an investment in a foreign entity. Unrealized gains and losses on cash flow hedges are reclassified to net earnings when the hedged item affects net earnings. Amounts related to defined benefit plans that are in AOCI are reclassified over the service periods of employees in the plan.

The following table shows the changes in the components of AOCI, net of tax (in millions):

	Foreign Currency Translation	Cash Flow Hedges	Defined Benefit Plan Items	Total AOCI
Balance at December 31, 2017	\$ 121.5	\$ (66.5)	\$ (138.2)	\$ (83.2)
AOCI before reclassifications	94.8	(26.4)	(6.1)	62.3
Reclassifications to retained earnings	(17.4)	(4.4)	(21.1)	(42.9)
Reclassifications to statement of earnings	-	9.7	2.8	12.5
Balance at March 31, 2018	<u>\$ 198.9</u>	<u>\$ (87.6)</u>	<u>\$ (162.6)</u>	<u>\$ (51.3)</u>

The following table shows the reclassification adjustments from AOCI (in millions):

Component of AOCI	Amount of Gain (Loss) Reclassified from AOCI		Location on Statement of Earnings
	Three Months Ended March 31,		
	2018	2017	
<i>Cash flow hedges</i>			
Foreign exchange forward contracts	\$ (11.1)	\$ 11.1	Cost of products sold
Forward starting interest rate swaps	(0.1)	(0.1)	Interest expense
	(11.2)	11.0	Total before tax
	(1.5)	2.0	Provision for income taxes
	<u>\$ (9.7)</u>	<u>\$ 9.0</u>	Net of tax
<i>Defined benefit plans</i>			
Prior service cost	\$ 2.5	\$ 2.6	Other expense, net
Unrecognized actuarial (loss)	(6.1)	(5.6)	Other expense, net
	(3.6)	(3.0)	Total before tax
	(0.8)	(1.2)	Benefit for income taxes
	<u>\$ (2.8)</u>	<u>\$ (1.8)</u>	Net of tax
Total reclassifications	<u>\$ (12.5)</u>	<u>\$ 7.2</u>	Net of tax

The following table shows the tax effects on each component of AOCI recognized in our condensed consolidated statements of comprehensive income (in millions):

	Three Months Ended March 31, 2018		
	Before Tax	Tax	Net of Tax
Foreign currency cumulative translation adjustments	\$ 83.5	\$ (11.3)	\$ 94.8
Unrealized cash flow hedge (losses)	(33.1)	(6.7)	(26.4)
Reclassification adjustments on cash flow hedges	11.2	1.5	9.7
Adjustments to prior service cost and unrecognized actuarial assumptions	(24.7)	(21.4)	(3.3)
Total Other Comprehensive Income	<u>\$ 36.9</u>	<u>\$ (37.9)</u>	<u>\$ 74.8</u>

	Three Months Ended March 31, 2017		
	Before Tax	Tax	Net of Tax
Foreign currency cumulative translation adjustments	\$ 54.4	\$ 5.4	\$ 49.0
Unrealized cash flow hedge (losses)	(36.6)	(10.3)	(26.3)
Reclassification adjustments on cash flow hedges	(11.0)	(2.0)	(9.0)
Adjustments to prior service cost and unrecognized actuarial assumptions	(3.7)	(0.2)	(3.5)
Total Other Comprehensive Income	<u>\$ 3.1</u>	<u>\$ (7.1)</u>	<u>\$ 10.2</u>

10. Fair Value Measurement of Assets and Liabilities

The following financial assets and liabilities are recorded at fair value on a recurring basis (in millions):

Description	As of March 31, 2018			
	Recorded Balance	Fair Value Measurements at Reporting Date Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Derivatives, current and long-term				
Foreign currency forward contracts	\$ 0.6	\$ -	\$ 0.6	\$ -
Interest rate swaps	8.3	-	8.3	-
Total Assets	<u>\$ 8.9</u>	<u>\$ -</u>	<u>\$ 8.9</u>	<u>\$ -</u>
Liabilities				
Derivatives, current and long-term				
Foreign currency forward contracts	\$ 73.1	\$ -	\$ 73.1	\$ -
Contingent payments related to acquisitions	26.9	-	-	26.9
Total Liabilities	<u>\$ 100.0</u>	<u>\$ -</u>	<u>\$ 73.1</u>	<u>\$ 26.9</u>
Description	As of December 31, 2017			
	Recorded Balance	Fair Value Measurements at Reporting Date Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Derivatives, current and long-term				
Foreign currency forward contracts	\$ 1.6	\$ -	\$ 1.6	\$ -
Interest rate swaps	4.5	-	4.5	-
Total Assets	<u>\$ 6.1</u>	<u>\$ -</u>	<u>\$ 6.1</u>	<u>\$ -</u>
Liabilities				
Derivatives, current and long-term				
Foreign currency forward contracts	\$ 50.9	\$ -	\$ 50.9	\$ -
Contingent payments related to acquisitions	41.0	-	-	41.0
Total Liabilities	<u>\$ 91.9</u>	<u>\$ -</u>	<u>\$ 50.9</u>	<u>\$ 41.0</u>

We value our foreign currency forward contracts and foreign currency options using a market approach based on foreign currency exchange rates obtained from active markets, and we perform ongoing assessments of counterparty credit risk.

We value our interest rate swaps using a market approach based on publicly available market yield curves and the terms of our swaps, and we perform ongoing assessments of counterparty credit risk.

Contingent payments related to acquisitions consist of commercial milestone, cost savings and sales-based payments, and are valued using discounted cash flow techniques. The fair value of commercial milestone payments reflects management's expectations of probability of payment, and increases as the probability of payment increases or expectation of timing of payments is accelerated. The fair value of cost savings and sales-based payments is based upon probability-weighted future cost savings and revenue estimates, and increases as cost savings and revenue estimates increase, probability weighting of higher cost savings and revenue scenarios increase or expectation of timing of payment is accelerated.

The following table provides a reconciliation of the beginning and ending balances of items measured at fair value on a recurring basis in the tables above that used significant unobservable inputs (Level 3) (in millions):

	Level 3 - Liabilities	
Contingent payments related to acquisitions		
Beginning balance December 31, 2017	\$	41.0
Change in estimate		0.5
Settlements		(14.6)
Ending balance March 31, 2018	\$	26.9

Changes in estimates are recognized in Acquisition, quality remediation and other on our condensed consolidated statement of earnings.

11. Derivative Instruments and Hedging Activities

We are exposed to certain market risks relating to our ongoing business operations, including foreign currency exchange rate risk, commodity price risk, interest rate risk and credit risk. We manage our exposure to these and other market risks through regular operating and financing activities. Currently, the only risks that we manage through the use of derivative instruments are interest rate risk and foreign currency exchange rate risk.

Interest Rate Risk

Derivatives Designated as Fair Value Hedges

In prior years, we entered into various fixed-to-variable interest rate swap agreements that were accounted for as fair value hedges of a portion of our 4.625% Senior Notes due 2019 and all of our 3.375% Senior Notes due 2021. In August 2016, we received cash for these interest rate swap assets by terminating the hedging instruments with the counterparties. The remaining unamortized balance as of March 31, 2018 related to these discontinued hedges was \$21.0 million, which will be recognized using the effective interest rate method over the remaining maturity period of the hedged notes. As of March 31, 2018 and December 31, 2017, the following amounts were recorded on our condensed consolidated balance sheets related to cumulative basis adjustments for fair value hedges (in millions):

<u>Balance Sheet Line Item</u>	<u>Carrying Amount of the Hedged Liabilities</u>		<u>Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Liabilities</u>	
	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2018</u>	<u>December 31, 2017</u>
Long-term debt	\$ 570.7	\$ 572.8	\$ 21.0	\$ 23.1

Derivatives Designated as Cash Flow Hedges

In 2014, we entered into forward starting interest rate swaps that were designated as cash flow hedges of our thirty-year tranche of senior notes (the 4.450% Senior Notes due 2045) we expected to issue in 2015. The forward starting interest rate swaps mitigated the risk of changes in interest rates prior to the completion of the offering of senior notes in connection with the Biomet merger. The interest rate swaps were settled, and the remaining loss to be recognized at March 31, 2018 was \$27.5 million, which will be recognized using the effective interest rate method over the remaining maturity period of the hedged notes.

In September 2016, we entered into various variable-to-fixed interest rate swap agreements with a notional amount of \$375.0 million that were accounted for as cash flow hedges of U.S. Term Loan B. The interest rate swaps minimize the exposure to changes in the LIBOR interest rates while the variable-rate debt is outstanding. The weighted average fixed interest rate for all of the swaps executed is approximately 0.82 percent through September 30, 2019.

Foreign Currency Exchange Rate Risk

We operate on a global basis and are exposed to the risk that our financial condition, results of operations and cash flows could be adversely affected by changes in foreign currency exchange rates. To reduce the potential effects of foreign currency exchange rate movements on net earnings, we enter into derivative financial instruments in the form of foreign currency exchange forward contracts with major financial institutions. We also designated our Euro Notes as net investment hedges of investments in foreign subsidiaries. We are primarily exposed to foreign currency exchange rate risk with respect to transactions and net assets denominated in Euros,

Swiss Francs, Japanese Yen, British Pounds, Canadian Dollars, Australian Dollars, Korean Won, Swedish Krona, Czech Koruna, Thai Baht, Taiwan Dollars, South African Rand, Russian Rubles, Indian Rupees, Turkish Lira, Polish Zloty, Danish Krone, and Norwegian Krone. We do not use derivative financial instruments for trading or speculative purposes.

Derivatives Designated as Net Investment Hedges

We are exposed to the impact of foreign exchange rate fluctuations in the investments in our wholly-owned foreign subsidiaries that are denominated in currencies other than the U.S. Dollar. In order to mitigate the volatility in foreign exchange rates, we issued Euro Notes in December 2016 and designated 100 percent of the Euro Notes to hedge our net investment in certain wholly-owned foreign subsidiaries that have a functional currency of the Euro. All changes in the fair value of a hedging instrument designated as a net investment hedge are recorded as a component of accumulated other comprehensive loss in the condensed consolidated balance sheet.

In March 2018, we initiated receive-fixed-rate, pay-fixed-rate cross-currency interest rate swaps with a notional amount of €500.0 million which further hedged our net investment in certain wholly-owned foreign subsidiaries that have a functional currency of Euro. All changes in the fair value of the derivative instrument designated as a net investment hedge are recorded as a component of accumulated other comprehensive loss in the condensed consolidated balance sheet. The portion of this change related to the excluded component will be amortized into earnings over the life of the derivative while the remainder will be recorded in accumulated other comprehensive loss until the hedged net investment is sold or substantially liquidated. The gains related to the excluded component are not significant for the period.

In the three month periods ended March 31, 2018 and 2017, we recognized foreign exchange losses of \$26.5 million and \$14.8 million, respectively, in AOCI in foreign currency translation adjustments on our net investment hedges. We did not reclassify any amount from AOCI to earnings in the three month periods ended March 31, 2018 and 2017.

Derivatives Designated as Cash Flow Hedges

Our revenues are generated in various currencies throughout the world. However, a significant amount of our inventory is produced in U.S. Dollars. Therefore, movements in foreign currency exchange rates may have different proportional effects on our revenues compared to our cost of products sold. To minimize the effects of foreign currency exchange rate movements on cash flows, we hedge intercompany sales of inventory expected to occur within the next 30 months with foreign currency exchange forward contracts. We designate these derivative instruments as cash flow hedges.

We perform quarterly assessments of hedge effectiveness by verifying and documenting the critical terms of the hedge instrument and confirming that forecasted transactions have not changed significantly. We also assess on a quarterly basis whether there have been adverse developments regarding the risk of a counterparty default. Under ASU 2017-12 for derivatives which qualify as hedges of future cash flows, the gains and losses are temporarily recorded in other comprehensive income and then recognized in cost of products sold when the hedged item affects net earnings. On our condensed consolidated statement of cash flows, the settlements of these cash flow hedges are recognized in operating cash flows.

For foreign currency exchange forward contracts and options outstanding at March 31, 2018, we had obligations to purchase U.S. Dollars and sell Euros, Japanese Yen, British Pounds, Canadian Dollars, Australian Dollars, Korean Won, Swedish Krona, Czech Koruna, Thai Baht, Taiwan Dollars, South African Rand, Russian Rubles, Indian Rupees, Turkish Lira, Polish Zloty, Danish Krone, and Norwegian Krone and obligations to purchase Swiss Francs and sell U.S. Dollars. These derivatives mature at dates ranging from April 2018 through September 2020. As of March 31, 2018, the notional amounts of outstanding forward contracts and options entered into with third parties to purchase U.S. Dollars were \$1,729.9 million. As of March 31, 2018, the notional amounts of outstanding forward contracts and options entered into with third parties to purchase Swiss Francs were \$277.4 million.

Derivatives Not Designated as Hedging Instruments

We enter into foreign currency forward exchange contracts with terms of one month to manage currency exposures for monetary assets and liabilities denominated in a currency other than an entity's functional currency. As a result, any foreign currency re-measurement gains/losses recognized in earnings are generally offset with gains/losses on the foreign currency forward exchange contracts in the same reporting period. The net amount of these offsetting gains/losses is recorded in Other expense. These contracts are settled on the last day of each reporting period. Therefore, there is no outstanding balance related to these contracts recorded on the balance sheet as of the end of the reporting period. The notional amounts of these contracts are typically in a range of \$1.5 billion to \$2.0 billion per quarter.

Income Statement Presentation

Derivatives Designated as Cash Flow Hedges

Derivative instruments designated as cash flow hedges had the following effects, before taxes, on AOCI and Net earnings on our condensed consolidated statements of earnings, condensed consolidated statements of comprehensive income and condensed consolidated balance sheets (in millions):

Derivative Instrument	Amount of Gain (Loss) Recognized in AOCI		Location on Statement of Earnings	Amount of Gain (Loss) Reclassified from AOCI	
	Three Months Ended March 31,			Three Months Ended March 31,	
	2018	2017		2018	2017
Foreign exchange forward contracts	\$ (34.2)	\$ (37.2)	Cost of products sold	\$ (11.1)	\$ 11.1
Interest rate swaps	1.1	0.6	Interest expense	-	-
Forward starting interest rate swaps	-	-	Interest expense	(0.1)	(0.1)
	<u>\$ (33.1)</u>	<u>\$ (36.6)</u>		<u>\$ (11.2)</u>	<u>\$ 11.0</u>

The net amounts recognized in earnings during the three month periods ended March 31, 2018 and 2017 due to ineffectiveness and amounts excluded from the assessment of hedge effectiveness were not significant.

The fair value of outstanding derivative instruments designated as cash flow hedges and recorded on our condensed consolidated balance sheet at March 31, 2018, together with settled derivatives where the hedged item has not yet affected earnings, was a net unrealized loss of \$106.3 million, or \$87.6 million after taxes, which is deferred in AOCI. A loss of \$52.0 million, or \$44.7 million after taxes, is expected to be reclassified to earnings in cost of products sold and a loss of \$0.6 million, or \$0.4 million after taxes, is expected to be reclassified to earnings in interest expense over the next twelve months.

The following table presents the effect of fair value and cash flow hedge accounting on our condensed consolidated statements of earnings (in millions):

	Location and Amount of Gain/(Loss) Recognized in Income on Fair Value and Cash Flow Hedging Relationships for the Period Ended:			
	Three Months Ended March 31, 2018		Three Months Ended March 31, 2017	
	Cost of Goods Sold	Interest Expense	Cost of Goods Sold	Interest Expense
Total amounts of income and expense line items presented in the income statement in which the effects of fair value or cash flow hedges are recorded	\$ 575.8	\$ (78.9)	\$ 512.9	\$ (82.9)
The effects of fair value and cash flow hedging:				
Gain (loss) on fair value hedging relationships				
Discontinued interest rate swaps	-	2.1	-	2.0
Gain (loss) on cash flow hedging relationships				
Forward starting interest rate swaps	-	(0.1)	-	(0.1)
Foreign exchange forward contracts	(11.1)	-	11.1	-

Derivatives Not Designated as Hedging Instruments

The following losses from these derivative instruments were recognized on our condensed consolidated statements of earnings (in millions):

Derivative Instrument	Location on Statement of Earnings	Three Months Ended March 31,	
		2018	2017
Foreign exchange forward contracts	Other expense, net	\$ (9.7)	\$ (27.8)

These losses do not reflect offsetting gains of \$3.9 million and \$25.6 million in the three month periods ended March 31, 2018 and 2017, respectively, recognized in Other expense, net as a result of foreign currency re-measurement of monetary assets and liabilities denominated in a currency other than an entity's functional currency.

Balance Sheet Presentation

As of March 31, 2018 and December 31, 2017, all derivative instruments designated as fair value hedges and cash flow hedges were recorded at fair value on our condensed consolidated balance sheets. On our condensed consolidated balance sheets, we recognize individual forward contracts and options with the same counterparty on a net asset/liability basis if we have a master netting agreement with the counterparty. Under these master netting agreements, we are able to settle derivative instrument assets and liabilities with the same counterparty in a single transaction, instead of settling each derivative instrument separately. We have master netting agreements with all of our counterparties. The fair value of derivative instruments on a gross basis is as follows (in millions):

	As of March 31, 2018		As of December 31, 2017	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Asset Derivatives				
Foreign exchange forward contracts	Other current assets	\$ 7.3	Other current assets	\$ 14.5
Foreign exchange forward contracts	Other assets	4.0	Other assets	4.8
Interest rate swaps	Other assets	5.7	Other assets	4.5
Cross-currency interest rate swaps	Other assets	2.6	Other assets	-
Total asset derivatives		<u>\$ 19.6</u>		<u>\$ 23.8</u>
Liability Derivatives				
Foreign exchange forward contracts	Other current liabilities	\$ 56.0	Other current liabilities	\$ 45.8
Foreign exchange forward contracts	Other long-term liabilities	27.8	Other long-term liabilities	22.8
Total liability derivatives		<u>\$ 83.8</u>		<u>\$ 68.6</u>

The table below presents the effects of our master netting agreements on our condensed consolidated balance sheets (in millions):

Description	Location	As of March 31, 2018			As of December 31, 2017		
		Gross Amount	Offset	Net Amount in Balance Sheet	Gross Amount	Offset	Net Amount in Balance Sheet
Asset Derivatives							
Cash flow hedges	Other current assets	\$ 7.3	\$ 7.0	\$ 0.3	\$ 14.5	\$ 13.4	\$ 1.1
Cash flow hedges	Other assets	4.0	3.7	0.3	4.8	4.3	0.5
Liability Derivatives							
Cash flow hedges	Other current liabilities	56.0	7.0	49.0	45.8	13.4	32.4
Cash flow hedges	Other long-term liabilities	27.8	3.7	24.1	22.8	4.3	18.5

The following net investment hedge gains (losses) were recognized on our condensed consolidated statements of comprehensive income (in millions):

Derivative Instrument	Amount of Gain (Loss) Recognized in AOCI	
	Three Months Ended	
	2018	2017
Euro Notes	\$ (29.1)	\$ (14.8)
Cross-currency interest rate swaps	2.6	-
	<u>\$ (26.5)</u>	<u>\$ (14.8)</u>

12. Income Taxes

We operate on a global basis and are subject to numerous and complex tax laws and regulations. Additionally, tax laws continue to undergo rapid changes in both application and interpretation by various countries, including state aid interpretations and initiatives led by the Organization for Economic Cooperation and Development. Our income tax filings are subject to examinations by taxing authorities throughout the world. Income tax audits may require an extended period of time to reach resolution and may result in significant income tax adjustments when interpretation of tax laws or allocation of company profits is disputed. Although ultimate timing is uncertain, the net amount of tax liability for unrecognized tax benefits may change within the next twelve months due to changes in audit status, expiration of statutes of limitations, settlements of tax assessments and other events. Management's best estimate of such change is within the range of a \$115 million decrease to a \$25 million increase.

Our U.S. Federal income tax returns have been audited through 2009 and are currently under audit for years 2010-2015. The IRS has proposed adjustments for years 2005-2012, reallocating profits between certain of our U.S. and foreign subsidiaries. We have disputed these adjustments and intend to continue to vigorously defend our positions. For years 2005-2007, we have filed a petition with the U.S. Tax Court. For years 2008-2009, we are pursuing resolution through the IRS Administrative Appeals Process.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "2017 Tax Act"). The 2017 Tax Act made changes to the U.S. tax code, which included (1) reducing the U.S. corporate income tax rate from 35 percent to 21 percent, (2) implementing a base erosion and anti-abuse tax, (3) generally eliminating U.S. federal income taxes on dividends from foreign subsidiaries, (4) adding a new provision designed to tax global intangible low-taxed income ("GILTI") of foreign subsidiaries which allows for the possibility of utilizing foreign tax credits to offset the tax liability (subject to some limitations), (5) implementing a lower effective U.S. income tax rate on certain revenues from sources outside the U.S., and (6) implementing a one-time transition tax on certain undistributed earnings of foreign subsidiaries. In the year ended December 31, 2017, we recorded a provisional discrete net tax benefit associated with the 2017 Tax Act and related matters. In the three month period ended March 31, 2018, we did not make any material changes to the amount recorded in the year ended December 31, 2017. As of March 31, 2018, the amounts recorded for the 2017 Tax Act remain provisional for the transition tax, the remeasurement of deferred taxes, and our reassessment of permanently reinvested earnings, uncertain tax positions and other related matters. These estimates may be impacted by further analysis and future clarification and guidance regarding available tax accounting methods and elections, earnings and profits computations, state tax conformity to federal tax changes and the impact of the GILTI provisions. We have not yet determined our policy election with respect to whether to record deferred taxes for basis differences expected to reverse as a result of the GILTI provisions in future periods or use the period cost method. We have, however, included an estimate of the current GILTI impact in our tax provision for 2018.

In the three month period ended March 31, 2018, our effective tax rate ("ETR") was 21.1 percent, which approximates the U.S. federal income tax rate. In the three month period ended March 31, 2017, we recognized a tax benefit of \$69.7 million resulting from a tax restructuring that lowered the tax rate on certain deferred tax liabilities recorded on intangible assets recognized in the Biomet merger acquisition-related accounting. We also recognized tax benefits of \$21.8 million in the three month period ended March 31, 2017 related to the resolution of certain tax matters. In addition, our prior year ETR was affected by the significant expenses associated with the Biomet merger and other acquisitions which have generally been recognized in higher income tax jurisdictions. Accordingly, this has reduced our ETR as our earnings have been lower in these higher income tax jurisdictions.

13. Retirement Benefit Plans

We have defined benefit pension plans covering certain U.S. and Puerto Rico employees. The employees who are not participating in the defined benefit plans receive additional benefits under our defined contribution plans. Plan benefits are primarily based on years of credited service and the participant's compensation. In addition to the U.S. and Puerto Rico defined benefit pension plans, we sponsor various foreign pension arrangements, including retirement and termination benefit plans required by local law or coordinated with government sponsored plans.

The components of net periodic pension expense for our U.S. and foreign defined benefit pension plans are as follows (in millions):

	Three Months Ended March 31,			
	2018		2017	
Service cost	\$	7.5	\$	7.5
Interest cost		5.5		4.7
Expected return on plan assets		(11.8)		(10.1)
Amortization of prior service cost		(2.5)		(2.6)
Amortization of unrecognized actuarial loss		6.1		5.6
Net periodic pension expense	\$	4.8	\$	5.1

Service cost is recognized in the operating expense line item in which the related employee is classified. All other components of net periodic pension expense are recognized in Other expense, net.

We expect that we will have minimal legally required funding obligations in 2018 for our U.S. and Puerto Rico defined benefit pension plans, and therefore we have not made, nor do we voluntarily expect to make, any material contributions to these plans during 2018. We contributed \$5.0 million to our foreign-based defined benefit pension plans in the three month period ended March 31, 2018, and we expect to contribute \$16.2 million to these foreign-based plans during the remainder of 2018.

14. Earnings Per Share

The following is a reconciliation of weighted average shares for the basic and diluted shares computations (in millions):

	Three Months Ended March 31,	
	2018	2017
Weighted average shares outstanding for basic net earnings per share	203.0	201.1
Effect of dilutive stock options and other equity awards	1.6	2.0
Weighted average shares outstanding for diluted net earnings per share	204.6	203.1

During the three month periods ended March 31, 2018 and 2017, an average of 1.2 million options and 0.5 million options, respectively, to purchase shares of common stock were not included in the computation of diluted earnings per share because the exercise prices of these options were greater than the average market price of our common stock.

15. Segment Information

We design, manufacture and market orthopaedic reconstructive products; sports medicine, biologics, extremities and trauma products; spine, craniomaxillofacial and thoracic products ("CMF"); office based technologies; dental implants; and related surgical products. We allocate resources to achieve our operating profit goals through seven operating segments. Our operating segments are comprised of both geographic and product category business units. The geographic operating segments are the Americas, which is comprised principally of the U.S. and includes other North, Central and South American markets; EMEA, which is comprised principally of Europe and includes the Middle East and African markets; and Asia Pacific, which is comprised primarily of Japan, China and Australia and includes other Asian and Pacific markets. The product category operating segments are Spine, less Asia Pacific; Office Based Technologies; CMF and Dental. The geographic operating segments include results from all of our product categories except those in the product category operating segments. The Office Based Technologies, CMF and Dental product category operating segments reflect those respective product category results from all regions, whereas the Spine, less Asia Pacific product category operating segment includes all spine product results excluding those from Asia Pacific.

As it relates to the geographic operating segments, we evaluate performance based upon segment operating profit exclusive of operating expenses pertaining to inventory step-up and certain other inventory and manufacturing related charges, intangible asset amortization, Acquisition, quality remediation and other and global operations and corporate functions. Global operations and corporate functions include research, development engineering, medical education, brand management, corporate legal, finance and human resource functions, manufacturing operations and logistics and share-based payment expense. As it relates to each product category operating segment, research, development engineering, medical education, brand management and other various costs that

are specific to the product category operating segment's operations are reflected in its operating profit results. Due to these additional costs included in the product category operating segments, profitability metrics among the geographic operating segments and product category operating segments are not comparable. Intercompany transactions have been eliminated from segment operating profit.

We do not review asset information by operating segment. Instead, we review cash flow and other financial ratios by operating segment.

These seven operating segments are the basis for our reportable segment information provided below. The four product category operating segments are individually insignificant to our consolidated results and therefore do not constitute a reporting segment either individually or combined. For presentation purposes, these product category operating segments have been aggregated. Prior period reportable segment financial information has been restated to reflect the impact of the adoption of ASU 2017-07 and ASU 2014-09, as described in Note 2.

Net sales and operating profit by segment are as follows (in millions):

	Net Sales		Operating Profit	
	Three Months Ended		Three Months Ended	
	March 31,		March 31,	
	2018	2017	2018	2017
Americas	\$ 991.1	\$ 1,000.6	\$ 518.9	\$ 541.2
EMEA	432.6	392.7	140.4	129.7
Asia Pacific	298.9	276.6	104.4	100.0
Product Category Operating Segments	295.0	302.5	53.5	72.8
Global Operations and Corporate Functions	-	-	(245.4)	(210.3)
Total	<u>\$ 2,017.6</u>	<u>\$ 1,972.4</u>		
Inventory step-up and other inventory and manufacturing related charges			(10.8)	(23.2)
Intangible asset amortization			(150.8)	(152.0)
Acquisition, quality remediation and other			(105.2)	(110.1)
Operating profit			<u>\$ 305.0</u>	<u>\$ 348.1</u>

16. Commitments and Contingencies

On a quarterly and annual basis, we review relevant information with respect to loss contingencies and update our accruals, disclosures and estimates of reasonably possible losses or ranges of loss based on such reviews. We establish liabilities for loss contingencies when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. For matters where a loss is believed to be reasonably possible, but not probable, no accrual has been made.

Litigation

Durom[®] *Cup-related claims* : On July 22, 2008, we temporarily suspended marketing and distribution of the Durom Cup in the U.S. Subsequently, a number of product liability lawsuits were filed against us in various U.S. and foreign jurisdictions. The plaintiffs seek damages for personal injury, and they generally allege that the Durom Cup contains defects that result in complications and premature revision of the device. We have settled some of these claims and others are still pending. The majority of the pending U.S. lawsuits are currently in an MDL in the District of New Jersey (*In Re: Zimmer Durom Hip Cup Products Liability Litigation*). Multi-plaintiff state court cases are pending in St. Clair County, Illinois (*Santas, et al. v. Zimmer, Inc., et al.*) and Los Angeles County, California (*McAllister, et al. v. Zimmer, Inc., et al.*). The initial trial in *Santas* took place in November 2014, the initial trial in the MDL took place in May 2015 and the initial trial in *McAllister* took place in July 2015. As of March 31, 2018, litigation activity in the MDL, *Santas* and *McAllister* is stayed to allow participation in the U.S. Durom Cup Settlement Program, an extrajudicial program created to resolve actions and claims of eligible U.S. plaintiffs and claimants. Other lawsuits are pending in various domestic and foreign jurisdictions, and additional claims may be asserted in the future. The majority of claims outside the U.S. are pending in Canada, Germany, Netherlands, Italy and the UK. A Canadian class settlement was approved in late 2016, and the period for class members to submit a claim for compensation under the settlement closed in September 2017. Trials have commenced in Germany, and the majority of claims in the UK are consolidated in a Group Litigation Order.

Since 2008, we have recognized expense of \$489.7 million for Durom Cup-related claims. Our estimate of our total liability for these claims as of March 31, 2018 remains consistent with our estimate as of December 31, 2017, and, accordingly, we did not record any additional expense during the three month period ended March 31, 2018. With respect to the same prior year period, we also did not record any expense for Durom Cup-related claims.

We maintain insurance for product liability claims, subject to self-insurance retention requirements. We have recovered insurance proceeds from certain of our insurance carriers for Durom Cup-related claims. While we may recover additional insurance proceeds in the future for Durom Cup-related claims, we do not have a receivable recorded on our condensed consolidated balance sheet as of March 31, 2018 for any possible future insurance recoveries for these claims.

Our estimate as of March 31, 2018 of the remaining liability for all Durom Cup-related claims is \$151.3 million, of which \$48.9 million is classified as short-term in "Other current liabilities" and \$102.4 million is classified as long-term in "Other long-term liabilities" on our condensed consolidated balance sheet. We expect to pay the majority of the Durom Cup-related claims within the next few years.

Our understanding of clinical outcomes with the Durom Cup and other large diameter hip cups continues to evolve. We rely on significant estimates in determining the provisions for Durom Cup-related claims, including our estimate of the number of claims that we will receive and the average amount we will pay per claim. The actual number of claims and the actual amount we pay per claim may differ from our estimates. Among other factors, since our understanding of the clinical outcomes is still evolving, we cannot reasonably estimate the possible loss or range of loss that may result from Durom Cup-related claims in excess of the losses we have accrued. Although we are vigorously defending these lawsuits, their ultimate resolution is uncertain.

Margo and Daniel Polett v. Zimmer, Inc. et al. : On August 20, 2008, Margo and Daniel Polett filed an action against us and an unrelated third party, Public Communications, Inc. ("PCI"), in the Court of Common Pleas, Philadelphia, Pennsylvania seeking an unspecified amount of damages for injuries and loss of consortium allegedly suffered by Mrs. Polett and her spouse, respectively. The complaint alleged that defendants were negligent in connection with Mrs. Polett's participation in a promotional video featuring one of our knee products. The case was tried in November 2010 and the jury returned a verdict in favor of plaintiffs. The jury awarded \$27.6 million in compensatory damages and apportioned fault 30 percent to plaintiffs, 34 percent to us and 36 percent to PCI. Under applicable law, we may be liable for any portion of the damages apportioned to PCI that it does not pay. On December 2, 2010, we and PCI filed a motion for post-trial relief seeking a judgment notwithstanding the verdict, a new trial or a remittitur. On June 10, 2011, the trial court entered an order denying our motion for post-trial relief and affirming the jury verdict in full and entered judgment for \$20.3 million against us and PCI. On June 29, 2011, we filed a notice of appeal to the Superior Court of Pennsylvania and posted a bond for the verdict amount plus interest. Oral argument before the appellate court in Philadelphia, Pennsylvania was held on March 13, 2012. On March 1, 2013, the Superior Court of Pennsylvania vacated the \$27.6 million judgment and remanded the case for a new trial. On March 15, 2013, plaintiffs filed a motion for re-argument *en banc*, and on March 28, 2013, we filed our response in opposition. On May 9, 2013, the Superior Court of Pennsylvania granted plaintiffs' motion for re-argument *en banc*. Oral argument (re-argument *en banc*) before the Superior Court of Pennsylvania was held on October 16, 2013. On December 20, 2013, the Court issued its opinion again vacating the trial court judgment and remanding the case for a new trial. On January 21, 2014, plaintiffs filed a petition for allowance of appeal in the Supreme Court of Pennsylvania, which was granted on May 21, 2014. Oral argument before the Supreme Court of Pennsylvania took place on October 8, 2014. On October 27, 2015, the Supreme Court of Pennsylvania reversed the order of the Superior Court of Pennsylvania and remanded the case to that court to consider the question of whether the trial court erred in refusing to remit the jury's compensatory damages award. On June 6, 2016, an *en banc* panel of the Superior Court of Pennsylvania vacated the \$27.6 million verdict and remanded the case back to the trial court for reconsideration of whether remittitur was appropriate. On December 2, 2016, the trial court remitted the verdict to \$21.5 million, which, after being molded to reduce for plaintiffs' comparative negligence, totals approximately \$15.8 million between PCI and us. On December 5, 2016, we filed a notice of appeal to the Superior Court of Pennsylvania. Oral argument before the Superior Court of Pennsylvania took place on September 20, 2017, and on December 15, 2017, the Superior Court of Pennsylvania issued its decision affirming the \$21.5 million remitted award. We subsequently filed a motion for re-argument *en banc* on December 29, 2017, which motion was denied without opinion on February 12, 2018. We filed a petition for allowance of appeal in the Supreme Court of Pennsylvania on March 14, 2018. That petition was pending as of March 31, 2018. While we are pursuing appeal, we recorded a charge in the three month period ended December 31, 2017 for the approximately \$15.8 million remitted and molded verdict, plus post-judgment interest from the date of verdict in 2010.

NexGen® Knee System claims: Following a wide-spread advertising campaign conducted by certain law firms beginning in 2010, a number of product liability lawsuits have been filed against us in various jurisdictions. The plaintiffs seek damages for personal injury, alleging that certain products within the NexGen Knee System, specifically the NexGen Flex Femoral Components and MIS Stemmed Tibial Component, suffer from defects that cause them to loosen prematurely. The majority of the cases are currently pending in an MDL in the Northern District of Illinois (*In Re: Zimmer NexGen Knee Implant Products Liability Litigation*). Other cases are pending in various state courts, and additional lawsuits may be filed. Thus far, all cases decided by the

MDL court or a jury on the merits have involved NexGen Flex Femoral Components, which represent the majority of cases in the MDL. The initial bellwether trial took place in October 2015 and resulted in a defense verdict. The next scheduled bellwether trial, which was set to commence in November 2016, was dismissed following the court's grant of summary judgment in our favor in October 2016. That decision was appealed by the plaintiff and subsequently affirmed by the Seventh Circuit Court of Appeals in March 2018. The second bellwether trial took place in January 2017 and resulted in a defense verdict. The parties attended a court-ordered mediation in January 2018, at which a settlement in principle was reached that would resolve all MDL cases and all state court cases that involved MDL products. MDL proceedings have been stayed pending administration of the aforementioned settlement. Although we are vigorously defending these lawsuits, their ultimate resolution is uncertain.

Biomet metal-on-metal hip implant claims : Biomet is a defendant in a number of product liability lawsuits relating to metal-on-metal hip implants, most of which involve the M2a-Magnum™ hip system. The majority of the cases are currently consolidated in an MDL in the U.S. District Court for the Northern District of Indiana (*In Re: Biomet M2a Magnum Hip Implant Product Liability Litigation*). Other cases are pending in various state and foreign courts, with the majority of domestic state court cases pending in Indiana and Florida.

On February 3, 2014, Biomet announced the settlement of the MDL. Lawsuits filed in the MDL by April 15, 2014 were eligible to participate in the settlement. Those claims that did not settle via the MDL settlement program have re-commenced litigation in the MDL under a new case management plan. The settlement does not affect certain other claims relating to Biomet's metal-on-metal hip products that are pending in various state and foreign courts, or other claims that may be filed in the future. Our estimate as of March 31, 2018 of the remaining liability for all Biomet metal-on-metal hip implant claims is \$32.5 million.

Biomet has exhausted the self-insured retention in its insurance program and has been reimbursed for claims related to its metal-on-metal products up to its policy limits in the program. Zimmer Biomet is responsible for any amounts by which the ultimate losses exceed the amount of Biomet's third-party insurance coverage. As of March 31, 2018, Biomet had received all of the insurance proceeds it expects to recover under the excess policies. Although we are vigorously defending these lawsuits, their ultimate resolution is uncertain.

Heraeus trade secret misappropriation lawsuits: In December 2008, Heraeus Kulzer GmbH (together with its affiliates, "Heraeus") initiated legal proceedings in Germany against Biomet, Inc., Biomet Europe BV, certain other entities and certain employees alleging that the defendants misappropriated Heraeus trade secrets when developing Biomet Europe's Refobacin and Biomet Bone Cement line of cements ("European Cements"). The lawsuit sought to preclude the defendants from producing, marketing and offering for sale their current line of European Cements and to compensate Heraeus for any damages incurred.

On June 5, 2014, the German appeals court in Frankfurt (i) enjoined Biomet, Inc., Biomet Europe BV and Biomet Deutschland GmbH from manufacturing, selling or offering the European Cements to the extent they contain certain raw materials in particular specifications; (ii) held the defendants jointly and severally liable to Heraeus for any damages from the sale of European Cements since 2005; and (iii) ruled that no further review may be sought (the "Frankfurt Decision"). The Heraeus and Biomet parties both sought appeal against the Frankfurt Decision. In a decision dated June 16, 2016, the German Supreme Court dismissed the parties' appeals without reaching the merits, rendering that decision final.

In December 2016, Heraeus filed papers to restart proceedings against Biomet Orthopaedics Switzerland GmbH, seeking to require that entity to relinquish its CE certificates for the European Cements. In January 2017, Heraeus notified Biomet it had filed a claim for damages in the amount of €121.9 million for sales in Germany. In September 2017, Heraeus filed an enforcement action in the Frankfurt court against Biomet Europe, requesting that a fine be imposed against Biomet Europe for failure to prevent Biomet Orthopaedics Switzerland from having bone cements for the Chinese market manufactured in Germany. Also in September 2017, Heraeus filed suit against Zimmer Biomet Deutschland in the court of first instance in Freiberg concerning the sale of the European Cements with certain changed raw materials. Heraeus seeks an injunction on the basis that the continued use of the product names for the European Cements is misleading for customers and thus an act of unfair competition. As of March 31, 2018, these claims were still pending.

On September 8, 2014, Heraeus filed a complaint against a Biomet supplier, Esschem, Inc. ("Esschem"), in the U.S. District Court for the Eastern District of Pennsylvania. The lawsuit contained allegations that focused on two copolymer compounds that Esschem sells to Biomet, which Biomet incorporates into certain bone cement products that compete with Heraeus' bone cement products. The complaint alleged that Biomet helped Esschem to develop these copolymers, using Heraeus trade secrets that Biomet allegedly misappropriated. The complaint asserted a claim under the Pennsylvania Uniform Trade Secrets Act, as well as other various common law tort claims, all based upon the same trade secret misappropriation theory. Heraeus sought to enjoin Esschem from supplying the copolymers to any third party and actual damages. The complaint also sought punitive damages, costs and attorneys' fees. Although Biomet was not a party to this lawsuit, Biomet agreed, at Esschem's request and subject to certain limitations, to indemnify Esschem for any liability, damages and legal costs related to this matter. On November 3, 2014, the court entered an order denying Heraeus' motion for a temporary restraining order. On June 30, 2016, the court entered an order denying Heraeus' request to give preclusive effect to the factual findings in the Frankfurt Decision. On June 6, 2017, the court entered an

order denying Heraeus' motion to add Biomet as a party to the lawsuit. On January 26, 2018, the court entered an order granting Esschem's motion for summary judgment and dismissed all of Heraeus' claims with prejudice. On February 21, 2018, Heraeus filed a notice of appeal to U.S. Court of Appeals for the Third Circuit.

On December 7, 2017, Heraeus filed a complaint against Zimmer Biomet Holdings, Inc. and Biomet, Inc. in the U.S. District Court for the Eastern District of Pennsylvania alleging a single claim of trade secret misappropriation under the Pennsylvania Uniform Trade Secrets Act based on the same factual allegations as the Esschem litigation. On March 5, 2018, Heraeus filed an amended complaint adding a second claim of trade secret misappropriation under Pennsylvania common law. Heraeus seeks to enjoin the Zimmer Biomet parties from future use of the allegedly misappropriated trade secrets and recovery of unspecified damages for alleged past use. On April 18, 2018, the Zimmer Biomet parties filed a motion to dismiss both claims.

Heraeus continues to pursue other related legal proceedings in Europe seeking various forms of relief, including injunctive relief and damages, against Biomet-related entities relating to the European Cements.

We have accrued an estimated loss relating to the Frankfurt Decision, but have not recognized any losses for Heraeus-related lawsuits in other jurisdictions because we do not believe it is probable that we have incurred a liability, and we cannot reasonably estimate any loss that might eventually be incurred. Damages relating to the Frankfurt Decision are subject to separate proceedings and it is reasonably possible that our estimate of the loss we may incur may change in the future. Although we are vigorously defending these lawsuits, their ultimate resolution is uncertain.

Stryker patent infringement lawsuit : On December 10, 2010, Stryker Corporation and related entities ("Stryker") filed suit against us in the U.S. District Court for the Western District of Michigan, alleging that certain of our Pulsavac[®] Plus Wound Debridement Products infringe three U.S. patents assigned to Stryker. The case was tried beginning on January 15, 2013, and on February 5, 2013, the jury found that we infringed certain claims of the subject patents. The jury awarded \$70.0 million in monetary damages for lost profits. The jury also found that we willfully infringed the subject patents. We filed multiple post-trial motions, including a motion seeking a new trial. On August 7, 2013, the trial court issued a ruling denying all of our motions and awarded treble damages and attorneys' fees to Stryker. We filed a notice of appeal to the Court of Appeals for the Federal Circuit to seek reversal of both the jury's verdict and the trial court's rulings on our post-trial motions. Oral argument before the Court of Appeals for the Federal Circuit took place on September 8, 2014. On December 19, 2014, the Federal Circuit issued a decision affirming the \$70.0 million lost profits award but reversed the willfulness finding, vacating the treble damages award and vacating and remanding the attorneys' fees award. We accrued an estimated loss of \$70.0 million related to this matter in the three month period ended December 31, 2014. On January 20, 2015, Stryker filed a motion with the Federal Circuit for a rehearing *en banc*. On March 23, 2015, the Federal Circuit denied Stryker's petition. Stryker subsequently filed a petition for certiorari to the U.S. Supreme Court. In July 2015, we paid the final award of \$90.3 million, which includes the original \$70.0 million plus pre- and post-judgment interest and damages for sales that occurred post-trial but prior to our entry into a license agreement with Stryker. On October 19, 2015, the U.S. Supreme Court granted Stryker's petition for certiorari. Oral argument took place on February 23, 2016. On June 13, 2016, the U.S. Supreme Court issued its decision, vacating the judgment of the Federal Circuit and remanding the case for further proceedings related to the willfulness issue. On September 12, 2016, the Federal Circuit issued an opinion affirming the jury's willfulness finding and vacating and remanding the trial court's award of treble damages, its finding that this was an exceptional case and its award of attorneys' fees. The case was remanded back to the trial court. Oral argument on Stryker's renewed consolidated motion for enhanced damages and attorneys' fees took place on June 28, 2017. On July 12, 2017, the trial court issued an order reaffirming its award of treble damages, its finding that this was an exceptional case and its award of attorney's fees. On July 24, 2017, we appealed the ruling to the Federal Circuit and obtained a supersedeas bond staying enforcement of the judgment pending appeal. Although we are defending this lawsuit vigorously, the ultimate resolution of this matter is uncertain. In the future, we could be required to record a charge of up to \$165.0 million that could have a material adverse effect on our results of operations and cash flows.

Putative Class Action: On December 2, 2016, a complaint was filed in the U.S. District Court for the Northern District of Indiana (*Shah v. Zimmer Biomet Holdings, Inc. et al.*), naming us, two of our officers and one of our now former officers as defendants. On June 28, 2017, the plaintiffs filed a corrected amended complaint, naming as defendants, in addition to those previously named, current and former members of our Board of Directors, one additional officer, and the underwriters in connection with secondary offerings of our common stock by certain selling stockholders in 2016. On October 6, 2017, the plaintiffs voluntarily dismissed the underwriters without prejudice. On October 8, 2017, the plaintiffs filed a second amended complaint, naming as defendants, in addition to those current and former officers and Board members previously named, certain former stockholders of ours who sold shares of our common stock in secondary public offerings in 2016. The second amended complaint relates to a putative class action on behalf of persons who purchased our common stock between June 7, 2016 and November 7, 2016. The second amended complaint generally alleges that the defendants violated federal securities laws by making materially false and/or misleading statements and/or omissions about our compliance with FDA regulations and our ability to accelerate our organic revenue growth rate in the second half of 2016. The defendants filed their respective motions to dismiss on December 20, 2017, and plaintiffs filed their omnibus response to the motions to dismiss on March 13, 2018. The plaintiffs seek unspecified damages and interest, attorneys' fees, costs and other relief. We believe this lawsuit is without merit, and we and the individual defendants are defending it vigorously.

Regulatory Matters, Government Investigations and Other Matters

FDA warning letters: In September 2012, Zimmer received a warning letter from the FDA citing concerns relating to certain processes pertaining to products manufactured at our Ponce, Puerto Rico manufacturing facility. In May 2016, Zimmer received a warning letter from the FDA related to observed non-conformities with current good manufacturing practice requirements of the FDA's Quality System Regulation (21 CFR Part 820) at our facility in Montreal, Quebec, Canada. We have provided detailed responses to the FDA as to our corrective actions and will continue to work expeditiously to address the issues identified by the FDA during inspections in Ponce and Montreal. As of March 31, 2018, these warning letters remained pending. Until the violations cited in the pending warning letters are corrected, we may be subject to additional regulatory action by the FDA, as described more fully below. Additionally, requests for Certificates to Foreign Governments related to products manufactured at certain of our facilities may not be granted and premarket approval applications for Class III devices to which the Quality System Regulation deviations at these facilities are reasonably related will not be approved until the violations have been corrected. In addition to responding to the warning letters described above, we are in the process of addressing various FDA Form 483 inspectional observations at certain of our manufacturing facilities, including at both the legacy Zimmer and the legacy Biomet manufacturing facilities in Warsaw, Indiana and, in the case of the legacy Biomet manufacturing facility in Warsaw, Indiana, preparing a response to inspectional observations in an FDA Form 483 issued in late April 2018. The ultimate outcome of these matters is presently uncertain. Among other available regulatory actions, the FDA may impose operating restrictions, including a ceasing of operations, at one or more facilities, enjoining and restraining certain violations of applicable law pertaining to medical devices and assessing civil or criminal penalties against our officers, employees or us. The FDA could also issue a corporate warning letter, a recidivist warning letter or a consent decree of permanent injunction. The FDA may also recommend prosecution by the U.S. Department of Justice ("DOJ"). Any adverse regulatory action, depending on its magnitude, may restrict us from effectively manufacturing, marketing and selling our products and could have a material adverse effect on our business, financial condition and results of operations.

Deferred Prosecution Agreement ("DPA") relating to U.S. Foreign Corrupt Practices Act ("FCPA") matters: On January 12, 2017, we resolved previously-disclosed FCPA matters involving Biomet and certain of its subsidiaries. As part of the settlement, Biomet resolved matters with the U.S. Securities and Exchange Commission (the "SEC") through an administrative cease-and-desist order (the "Order"); (ii) we entered into a DPA with the DOJ; and (iii) JERDS Luxembourg Holding S.à r.l. ("JERDS"), the direct parent company of Biomet 3i Mexico SA de CV and an indirect, wholly-owned subsidiary of Biomet, entered into a plea agreement (the "Plea Agreement") with the DOJ. The conduct underlying these resolutions occurred prior to our acquisition of Biomet.

Pursuant to the terms of the Order, Biomet resolved claims with the SEC related to violations of the books and records, internal controls and anti-bribery provisions of the FCPA by disgorging profits to the U.S. government in an aggregate amount of approximately \$6.5 million, inclusive of pre-judgment interest, and paying a civil penalty in the amount of \$6.5 million (collectively, the "Civil Settlement Payments"). We also agreed to pay a criminal penalty of approximately \$17.5 million (together with the Civil Settlement Payments, the "Settlement Payments") to the U.S. government pursuant to the terms of the DPA. We made the Settlement Payments in January 2017 and, as previously disclosed, had accrued, as of June 24, 2015, the closing date of the Biomet merger, an amount sufficient to cover this matter.

Under the DPA, which has a term of three years, the DOJ agreed to defer criminal prosecution of us in connection with the charged violation of the internal controls provision of the FCPA as long as we comply with the terms of the DPA. In addition, we will be subject to oversight by an independent compliance monitor for at least 12 months. The monitor, who was appointed effective as of July 2017, will focus on legacy Biomet operations as integrated into our operations. If we remain in compliance with the DPA during its term, the charges against us will be dismissed with prejudice. The term of the DPA may be extended for up to one additional year at the DOJ's discretion. In addition, under its Plea Agreement with the DOJ, JERDS pleaded guilty on January 13, 2017 to aiding and

abetting a violation of the books and records provision of the FCPA. In light of the DPA we entered into, JERDS paid only a nominal assessment and no criminal penalty.

If we do not comply with the terms of the DPA, we could be subject to prosecution for violating the internal controls provisions of the FCPA and the conduct of Biomet and its subsidiaries described in the DPA, which conduct pre-dated our acquisition of Biomet, as well as any new or continuing violations. We could also be subject to exclusion by the Office of Inspector General of the Department of Health and Human Services (“OIG”) from participation in federal healthcare programs, including Medicaid and Medicare. Any of these events could have a material adverse effect on our business, financial condition, results of operations and cash flows.

OIG subpoena : In June 2017, we received a subpoena from the OIG. The subpoena requests that we produce a variety of records primarily related to our healthcare professional consulting arrangements (including in the areas of medical education, product development, and clinical research) for the period spanning January 1, 2010 to the present. The subpoena does not indicate the nature of the OIG’s investigation beyond reference to possible false or otherwise improper claims submitted for payment. We are in the process of responding to the subpoena. We cannot currently predict the outcome of this investigation .

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the interim condensed consolidated financial statements and corresponding notes included elsewhere in this Form 10-Q. Certain percentages presented in this discussion and analysis are calculated from the underlying whole-dollar amounts and, therefore, may not recalculate from the rounded numbers used for disclosure purposes. In addition, certain amounts in the 2017 interim condensed consolidated financial statements have been reclassified to conform to the 2018 presentation and to reflect the impact of the adoption of ASU 2017-07 and ASU 2014-09, as described in Note 2 to our interim condensed consolidated financial statements included in Part I, Item 1 of this report.

Executive Level Overview

Results for the Three Month Period ended March 31, 2018

Net sales increased by 2.3 percent in the three month period ended March 31, 2018 compared to the same prior year period. The sales increase was driven primarily by changes in foreign currency exchange rates, most notably from the weakening of the U.S. Dollar against the Euro and Japanese Yen. Volume/mix growth of 1.1 percent continued to be negatively affected by ongoing supply and quality remediation challenges at our Warsaw North Campus facility, ongoing stabilization initiatives in our Dental business and U.S. distributor integration issues in our Spine business.

Our net earnings decreased in the three month period ended March 31, 2018 compared to the same prior year period. The decline was primarily due to increased cost of products sold and a higher income tax provision. The increased cost of products sold was driven by incremental production and inventory costs at our Warsaw North Campus facility. The income tax provision increased significantly over the same prior year period, as the prior year period included a \$69.7 million tax benefit recognized resulting from an internal tax restructuring that lowered the tax rate on certain deferred tax liabilities.

2018 Outlook

We estimate our sales growth in 2018 over 2017 will be in a range of 1.5 to 3.5 percent. This estimate assumes foreign currency exchange rates will increase sales by 2.0 to 3.0 percent. We expect to make additional progress in remediating supply constraints as we progress through the remainder of 2018. As a result, we expect volume/mix growth will be stronger in the second half of the year.

We estimate cost of products sold will be higher in 2018 compared to the prior year due to the higher costs of products manufactured at our Warsaw North Campus facility. Based on our inventory turns, these costs will continue to impact our costs of product sold into 2019. We expect ongoing benefits from the reduction of the U.S. corporate income tax rate, but we plan to reinvest those savings into the business to drive sales growth. Accordingly, we expect research and development ("R&D") and selling, general and administrative ("SG&A") expenses to be higher in 2018 compared to 2017. We also expect our Acquisition, quality remediation and other expense in the last three quarters of 2018 to remain consistent with the first quarter of 2018 as we continue our quality remediation at our Warsaw North Campus facility. We expect interest expense to be approximately \$300 million due to lower debt levels.

In 2018, we will continue to refine our estimates related to impacts of the 2017 Tax Act. In the year ended December 31, 2017, we recognized an income tax benefit of \$1,272.4 million. In accordance with authoritative guidance issued by the SEC, the income tax effect for certain aspects of the 2017 Tax Act represents provisional amounts for which our accounting is incomplete, but with respect to which a reasonable estimate could be determined. In the three month period ended March 31, 2018, we did not make any material changes to the amount recorded in the year ended December 31, 2017. The actual effects of the 2017 Tax Act and final amounts recorded may differ materially from our current estimate of provisional amounts due to, among other things, further interpretive guidance that may be issued by U.S. tax authorities or regulatory bodies, including the SEC and the FASB. We will continue to analyze the 2017 Tax Act and any additional guidance that may be issued so we can finalize the full effects of applying the new legislation on our financial statements in the measurement period, which ends in the fourth quarter of 2018. See Note 12 to our interim condensed consolidated financial statements included in Part I, Item 1 of this report for additional details related to the 2017 Tax Act.

Results of Operations

We analyze sales by three geographies, the Americas, EMEA and Asia Pacific, and by the following product categories: Knees, Hips, S.E.T., Dental, Spine & CMF and Other. This sales analysis differs from our reportable operating segments, which are based upon our senior management organizational structure and how we allocate resources towards achieving operating profit goals. We analyze sales by geography because the underlying market trends in any particular geography tend to be similar across product categories and because we primarily sell the same products in all geographies. Our business is seasonal in nature to some extent, as

many of our products are used in elective procedures, which typically decline during the summer months and can increase at the end of the year once annual deductibles have been met on health insurance plans.

Net Sales by Geography

The following table presents our net sales by geography and the components of the percentage changes (dollars in millions):

	Three Months Ended		% Inc / (Dec)	Volume / Mix	Price	Foreign Exchange
	March 31,					
	2018	2017				
Americas	\$ 1,208.1	\$ 1,229.9	(1.8) %	0.4 %	(2.4) %	0.2 %
EMEA	496.5	453.2	9.6	(0.6)	(2.4)	12.6
Asia Pacific	313.0	289.3	8.2	6.5	(3.9)	5.6
Total	<u>\$ 2,017.6</u>	<u>\$ 1,972.4</u>	2.3	1.1	(2.6)	3.8

“Foreign Exchange,” as used in the tables in this report, represents the effect of changes in foreign currency exchange rates on sales.

Net Sales by Product Category

The following table presents our net sales by product category and the components of the percentage changes (dollars in millions):

	Three Months Ended		% Inc / (Dec)	Volume / Mix	Price	Foreign Exchange
	March 31,					
	2018	2017				
Knees	\$ 713.3	\$ 700.8	1.8 %	1.1 %	(3.2) %	3.9 %
Hips	492.0	473.8	3.8	1.9	(2.8)	4.7
S.E.T.	442.3	423.5	4.4	3.6	(2.5)	3.3
Dental	107.6	107.8	(0.2)	(2.7)	(2.1)	4.6
Spine & CMF	183.1	186.3	(1.7)	(2.2)	(1.6)	2.1
Other	79.3	80.2	(1.1)	(3.1)	(0.9)	2.9
Total	<u>\$ 2,017.6</u>	<u>\$ 1,972.4</u>	2.3	1.1	(2.6)	3.8

The following table presents our net sales by geography for our Knees and Hips product categories, which represent our most significant product categories (dollars in millions):

	Three Months Ended March 31,		% Inc / (Dec)
	2018	2017	
Knees			
<i>Americas</i>	\$ 417.2	\$ 428.0	(2.5) %
<i>EMEA</i>	188.9	167.9	12.4
<i>Asia Pacific</i>	107.2	104.9	2.3
<i>Total</i>	<u>\$ 713.3</u>	<u>\$ 700.8</u>	1.8
Hips			
<i>Americas</i>	\$ 247.8	\$ 244.5	1.3 %
<i>EMEA</i>	142.2	136.2	4.5
<i>Asia Pacific</i>	102.0	93.1	9.5
<i>Total</i>	<u>\$ 492.0</u>	<u>\$ 473.8</u>	3.8

Demand (Volume and Mix) Trends

Increased volume and changes in the mix of product sales had a positive effect of 1.1 percent on year-over-year sales during the three month period ended March 31, 2018. Volume/mix growth was driven by recent product introductions, sales in key emerging markets and an aging population.

We believe long-term indicators point toward sustained growth driven by an aging global population, growth in emerging markets, obesity, proven clinical benefits, new material technologies, advances in surgical techniques and more active lifestyles, among other factors. In addition, demand for clinically proven premium products and patient specific devices are expected to continue to positively affect sales growth in markets that recognize the value of these advanced technologies.

Pricing Trends

Global selling prices had a negative effect of 2.6 percent on year-over-year sales during the three month period ended March 31, 2018. The majority of countries in which we operate continue to experience pricing pressure from governmental healthcare cost containment efforts and from local hospitals and health systems.

Foreign Currency Exchange Rates

For the three month period ended March 31, 2018, changes in foreign currency exchange rates had a positive effect of 3.8 percent on year-over-year sales. If foreign currency exchange rates remain consistent with recent rates, we estimate foreign currency exchange rates will have a positive effect in each of our quarterly periods in 2018, but will be less significant in the second half of the year.

Sales by Product Category

Knees

Knee sales increased in the three month period ended March 31, 2018 when compared to the same prior year period primarily due to changes in foreign currency exchange rates and volume/mix growth in the EMEA and Asia Pacific operating segments. Knee sales volume/mix growth was led by Persona[®] The Personalized Knee System and the Oxford[®] Partial Knee.

Hips

Hip sales increased in the three month period ended March 31, 2018 when compared to the same prior year period primarily due to changes in foreign currency exchange rates and volume/mix growth in the Americas and Asia Pacific operating segments. Hip sales volume/mix growth was led by our Taperloc[®] Hip System, Arcos[®] Modular Hip System and G7[®] Acetabular System.

S.E.T.

Our S.E.T. product category sales increased in the three month period ended March 31, 2018 when compared to the same prior year period, driven primarily by a growing emphasis on sales force specialization, strong performance by key brands and changes in foreign currency exchange rates.

Dental

Dental sales declined in the three month period ended March 31, 2018 when compared to the same prior year period. The decline was primarily due to unseasonably high demand in the prior year period from certain U.S. customers and ongoing stabilization initiatives in certain European markets.

Spine and CMF

Spine and CMF sales decreased in the three month period ended March 31, 2018 when compared to the same prior year period, primarily due to a decline in Spine sales driven by U.S. distributor integration issues partially offset by continuing strong sales of our Thoracic products.

Expenses as a Percentage of Net Sales

	Three Months Ended		% Inc / (Dec)
	March 31,		
	2018	2017	
Cost of products sold, excluding intangible asset amortization	28.5 %	26.0 %	2.5 %
Intangible asset amortization	7.5	7.7	(0.2)
Research and development	4.7	4.6	0.1
Selling, general and administrative	38.9	38.4	0.5
Acquisition, quality remediation and other	5.2	5.5	(0.3)
Operating profit	15.1	17.7	(2.6)

The increase in cost of products sold as a percentage of net sales for the three month period ended March 31, 2018 compared to the same prior year period was primarily due to hedge losses of \$11.1 million recognized in the 2018 period compared to hedge gains of \$11.1 million recognized in the 2017 period. For derivatives which qualify as hedges of future cash flows, the effective portion of changes in fair value is temporarily recorded in other comprehensive income and then recognized in cost of products sold when the hedged items affect earnings. Additional unfavorable factors that increased cost of products sold as a percentage of net sales in the three month period ended March 31, 2018 when compared to the same prior year period included lower average selling prices, increased manufacturing costs at our Warsaw North Campus facility and higher excess and obsolete inventory charges. These 2018 period unfavorable items were partially offset by lower inventory step-up charges in the 2018 period. Inventory step-up charges represent the difference in cost of products sold between inventory expensed at fair value after business combination accounting is applied versus what cost of products sold would have been had inventory been recognized at historical cost. The reduction in inventory step-up charges resulted from the LDR Holding Corporation ("LDR") inventory that was stepped-up to fair value being fully recognized by September 30, 2017.

Intangible asset amortization expense remained generally consistent between the three month periods ended March 31, 2018 and 2017 as there were no significant business combinations in the past year.

R&D expenses and R&D expenses as a percentage of sales increased slightly in the three month period ended March 31, 2018 compared to the same prior year period primarily due to increased investment in our Knee product pipeline.

SG&A expenses and SG&A expenses as a percentage of net sales increased in the three month period ended March 31, 2018 when compared to the same prior year period. The primary drivers of the increased expense were higher sales and increased investments in our specialized sales force.

Acquisition, quality remediation and other expenses decreased slightly in dollars and as a percentage of net sales in the three month period ended March 31, 2018 compared to the same prior year period. The decrease was primarily due to lower integration expenses associated with the Biomet merger as we near completion of our three year integration plans, partially offset by increased consulting and professional expenses related to our quality enhancement and remediation efforts. Our quality enhancement and remediation efforts accelerated in 2017 and will continue throughout 2018. These costs primarily relate to fees paid to temporary external consultants engaged to assist in the remediation of our Warsaw North Campus facility. See Note 4 to our interim condensed consolidated financial statements included in Part I, Item 1 of this report for more information regarding Acquisition, quality remediation and other charges.

Other Expense, Net, Interest Income, Interest Expense and Income Taxes

In the three month periods ended March 31, 2018 and 2017, other expense, net, was primarily related to certain components of pension expense and remeasuring monetary assets and liabilities denominated in a foreign currency other than an entity's functional currency, partially offset by foreign currency forward exchange contracts we entered into to mitigate any gain or loss. The increased expense in the three month period ended March 31, 2018 compared to the same prior year period was primarily caused by higher foreign currency losses.

Net interest expense decreased in the three month period ended March 31, 2018, compared to the same prior year period, primarily due to lower average outstanding debt balances during the 2018 period due to debt repayments throughout 2017.

In the three month period ended March 31, 2018, our ETR was 21.1 percent, which approximates the U.S. federal income tax rate. In the three month period ended March 31, 2017, we recognized a tax benefit of \$69.7 million resulting from a tax restructuring

that lowered the tax rate on certain deferred tax liabilities recorded on intangible assets recognized in the Biomet merger acquisition-related accounting. We also recognized tax benefits of \$21.8 million in the three month period ended March 31, 2017 related to the resolution of certain tax matters. In addition, our prior year ETR was affected by the significant expenses associated with the Biomet merger and other acquisitions which have generally been recognized in higher income tax jurisdictions. Accordingly, this has reduced our ETR as our earnings have been lower in these higher income tax jurisdictions.

Our future ETR is expected to be unfavorably impacted by the 2017 Tax Act as we establish an estimate for a new U.S. tax on certain off-shore earnings, referred to as GILTI, at an effective tax rate of 10.5 percent for tax years beginning after December 31, 2017 (increasing to 13.125 percent for tax years beginning after December 31, 2025), with a partial offset from foreign tax credits. See Note 12 to our interim condensed consolidated financial statements included in Part I, Item 1 of this report for further details related to the 2017 Tax Act. Our ETR in future periods could also potentially be impacted by changes in our mix of pre-tax earnings; changes in tax rates, tax laws or their interpretation, including the European Union rules on state aid; the outcome of various federal, state and foreign audits; and the expiration of certain statutes of limitations. Currently, we cannot reasonably estimate the impact of these items on our financial results.

Segment Operating Profit

	Net Sales		Operating Profit		Operating Profit as a Percentage of Net Sales	
	Three Months Ended		Three Months Ended		Three Months Ended	
	March 31,		March 31,		March 31,	
(dollars in millions)	2018	2017	2018	2017	2018	2017
Americas	\$ 991.1	\$ 1,000.6	\$ 518.9	\$ 541.2	52.4 %	54.1 %
EMEA	432.6	392.7	140.4	129.7	32.5	33.0
Asia Pacific	298.9	276.6	104.4	100.0	34.9	36.2

In the Americas, operating profit as a percentage of sales declined in the three month period ended March 31, 2018 compared to the same prior year period primarily due to price declines and higher excess and obsolete inventory charges caused by the Warsaw North Campus facility supply issues and quality remediation efforts.

In EMEA and Asia Pacific, operating profit as a percentage of sales decreased in the three month period ended March 31, 2018 compared to the same prior year period primarily due to price declines.

Non-GAAP Operating Performance Measures

We use financial measures that differ from financial measures determined in accordance with GAAP to evaluate our operating performance. These non-GAAP financial measures exclude the impact of inventory step-up; certain inventory and manufacturing-related charges connected to discontinuing certain product lines, quality enhancement and remediation efforts; intangible asset amortization; Acquisition, quality remediation and other; any related effects on our income tax provision associated with these items; and an other certain tax adjustment. The other certain tax adjustment relates to an internal tax restructuring that lowered the tax rate on certain deferred tax liabilities recorded on intangible assets recognized in the Biomet merger acquisition-related accounting. We use these non-GAAP financial measures internally to evaluate the performance of the business and believe they are useful measures that provide meaningful supplemental information to investors to consider when evaluating our performance. We believe these measures offer the ability to make period-to-period comparisons that are not impacted by certain items that can cause dramatic changes in reported operating results, to perform trend analysis, to better identify operating trends that may otherwise be masked or distorted by these types of items and to provide additional transparency of certain items. In addition, certain of these non-GAAP financial measures are used as performance metrics in our incentive compensation programs.

The following are reconciliations from our GAAP net earnings and diluted earnings per share to our non-GAAP adjusted net earnings and non-GAAP adjusted diluted earnings per share used for internal management purposes (in millions, except per share amounts):

	Three Months Ended	
	March 31,	
	2018	2017
Net Earnings of Zimmer Biomet Holdings, Inc.	\$ 174.7	\$ 299.4
Inventory step-up and other inventory and manufacturing-related charges	10.8	23.2
Intangible asset amortization	150.8	152.0
Acquisition, quality remediation and other		
Biomet merger-related	16.6	37.0
Other acquisition, quality remediation and other	88.6	73.1
Merger-related and other (income) expense in other expense, net	-	1.5
Taxes on above items (1)	(50.6)	(83.1)
Other certain tax adjustment (2)	-	(69.7)
Adjusted Net Earnings	<u>\$ 390.9</u>	<u>\$ 433.4</u>

	Three Months Ended	
	March 31,	
	2018	2017
Diluted Earnings Per Share	\$ 0.85	\$ 1.47
Inventory step-up and other inventory and manufacturing-related charges	0.05	0.11
Intangible asset amortization	0.74	0.75
Acquisition, quality remediation and other		
Biomet merger-related	0.08	0.18
Other acquisition, quality remediation and other	0.43	0.36
Merger-related and other expense in other expense, net	-	0.01
Taxes on above items (1)	(0.24)	(0.41)
Other certain tax adjustment (2)	-	(0.34)
Adjusted Diluted Earnings Per Share	<u>\$ 1.91</u>	<u>\$ 2.13</u>

- (1) The tax effect for the U.S. jurisdiction is calculated based on an effective rate considering federal and state taxes, as well as permanent items. For jurisdictions outside the U.S., the tax effect is calculated based upon the statutory rates where the items were incurred.
- (2) The adjustment relates to an internal tax restructuring that lowered the tax rate on certain deferred tax liabilities recorded on intangible assets recognized in the Biomet merger acquisition-related accounting.

Liquidity and Capital Resources

Cash flows provided by operating activities were \$490.5 million in the three month period ended March 31, 2018, compared to \$275.4 million in the same prior year period. The increase was driven by additional cash flows from our sale of accounts receivable in certain countries as well as certain significant payments made in the 2017 period. In the 2017 period, we made payments related to the U.S. Durom Cup Settlement Program and we paid \$30.5 million in Settlement Payments to resolve previously-disclosed FCPA matters involving Biomet and certain of its subsidiaries as discussed in Note 16 to our interim condensed consolidated financial statements included in Part I, Item 1 of this report.

Cash flows used in investing activities were \$101.7 million in the three month period ended March 31, 2018, compared to \$133.1 million in the same prior year period. Instrument and property, plant and equipment additions reflected ongoing investments in our product portfolio and optimization of our manufacturing and logistics network.

Cash flows provided by financing activities were \$841.8 million in the three month period ended March 31, 2018, compared to \$256.1 million in the same prior year period. In the 2018 period, we issued \$749.5 million of additional senior notes and borrowed \$400.0 million from our Multicurrency Revolving Facility to repay \$1,150.0 million of senior notes that became due on April 2, 2018.

Due to the timing of these events, our cash and debt balances were temporarily higher as of March 31, 2018. We also repaid \$225.0 million on U.S. Term Loan A in the three month period ended March 31, 2018. In the 2017 period, we borrowed \$400.0 million on our Multicurrency Revolving Facility in order to repay \$500.0 million of senior notes that became due on April 1, 2017. In the 2018 period, we also had net cash outflows of \$60.8 million related to our factoring programs caused by the timing differences of collections from customers and repayments to the financial institution to which we sold the collected receivables.

In February 2018, our Board of Directors declared a quarterly cash dividend of \$0.24 per share. We expect to continue paying cash dividends on a quarterly basis; however, future dividends are subject to approval of the Board of Directors and may be adjusted as business needs or market conditions change. Additionally, our debt facilities restrict the payment of dividends in certain circumstances.

In February 2016, our Board of Directors authorized a new \$1.0 billion share repurchase program effective March 1, 2016, with no expiration date. The previous program expired on February 29, 2016. As of March 31, 2018, all \$1.0 billion remained authorized.

We will continue to exercise disciplined capital allocation designed to drive stockholder value creation. We intend to use available cash for reinvestment in the business, debt repayment and dividends. If the right opportunities arise, we may also use available cash to pursue business development opportunities.

As discussed in Note 12 to our interim condensed consolidated financial statements included in Part I, Item 1 of this report, the IRS has issued proposed adjustments for years 2005 through 2012 reallocating profits between certain of our U.S. and foreign subsidiaries. We have disputed these proposed adjustments and continue to pursue resolution with the IRS. Although the ultimate timing for resolution of the disputed tax issues is uncertain, future payments may be significant to our operating cash flows.

Also, as discussed in Note 16 to our interim condensed consolidated financial statements included in Part I, Item 1 of this report, as of March 31, 2018, a short-term liability of \$48.9 million and a long-term liability of \$102.4 million related to Durom Cup product liability claims were recorded on our condensed consolidated balance sheet. We expect to continue paying these claims over the next few years. We maintain insurance for product liability claims, subject to self-insurance retention requirements. We have recovered insurance proceeds from certain of our insurance carriers for Durom Cup-related claims. While we may recover additional insurance proceeds in the future for Durom Cup-related claims, we do not have a receivable recorded on our consolidated balance sheet as of March 31, 2018 for any possible future insurance recoveries for these claims. As of March 31, 2018, we also had a short-term liability of \$32.5 million related to Biomet metal-on-metal hip implant claims.

At March 31, 2018, we had thirteen tranches of senior notes outstanding as follows (dollars in millions):

	Principal	Interest Rate	Maturity Date
\$	1,150.0	2.000%	April 1, 2018
	500.0	4.625	November 30, 2019
	1,500.0	2.700	April 1, 2020
	450.0	Floating	March 19, 2021
	300.0	3.375	November 30, 2021
	750.0	3.150	April 1, 2022
	614.9 *	1.414	December 13, 2022
	300.0	3.700	March 19, 2023
	2,000.0	3.550	April 1, 2025
	614.9 *	2.425	December 13, 2026
	253.4	4.250	August 15, 2035
	317.8	5.750	November 30, 2039
	395.4	4.450	August 15, 2045

* Euro denominated debt securities

We also had four term loans with total principal of \$1,595.7 million outstanding as of March 31, 2018.

We have a \$1.5 billion Multicurrency Revolving Facility that will mature on September 30, 2021. There was \$400.0 million in outstanding borrowings under this facility as of March 31, 2018. We also have other available uncommitted credit facilities totaling \$58.0 million as of March 31, 2018.

For additional information on our debt, see Note 8 to our interim consolidated financial statements included in Part I, Item 1 of this report.

We place our cash and cash equivalents in highly-rated financial institutions and limit the amount of credit exposure to any one entity. We invest only in high-quality financial instruments in accordance with our internal investment policy.

As of March 31, 2018, \$326.2 million of our cash and cash equivalents were held in jurisdictions outside of the U.S. Of this amount, \$64.1 million is denominated in U.S. Dollars and, therefore, bears no foreign currency translation risk. The balance of these assets is denominated in currencies of the various countries where we operate. We intend to repatriate at least \$3.6 billion of unremitted earnings in future years.

Our concentrations of credit risks with respect to trade accounts receivable is limited due to the large number of customers and their dispersion across a number of geographic areas and by frequent monitoring of the creditworthiness of the customers to whom credit is granted in the normal course of business. Substantially all of our trade receivables are concentrated in the public and private hospital and healthcare industry in the U.S. and internationally or with distributors or dealers who operate in international markets and, accordingly, are exposed to their respective business, economic and country-specific variables.

Management believes that cash flows from operations and available borrowings under the Multicurrency Revolving Facility are sufficient to meet our working capital, capital expenditure and debt service needs, as well as return cash to stockholders in the form of dividends and share repurchases. Should additional investment opportunities arise, we believe that our earnings, balance sheet and cash flows will allow us to obtain additional capital, if necessary.

Recent Accounting Pronouncements

Information pertaining to recent accounting pronouncements can be found in Note 2 to our interim condensed consolidated financial statements included in Part I, Item 1 of this report.

Critical Accounting Estimates

Our financial results are affected by the selection and application of accounting policies and methods. There were no changes in the three month period ended March 31, 2018 to the application of critical accounting policies as described in our Annual Report on Form 10-K for the year ended December 31, 2017.

In the fourth quarter of 2017, we recognized a \$272.0 million goodwill impairment charge related to our Spine, less Asia Pacific reporting unit. The impairment charge represented the amount by which the reporting unit's carrying value exceeded its estimated fair value. We estimated the fair value of the reporting unit based on income and market approaches. Since the carrying value of this reporting unit was written down to its estimated fair value, future impairment could occur if the estimates used in the income and market approaches change. If our estimates of profitability in the reporting unit decline, the fair value estimate under the income approach will decline. If there are negative outlooks of the broader economic environment, comparable company valuation indicators may decline, which would cause our fair value estimate under the market approach to decline. The lowering of the U.S. corporate income tax rate subsequent to the goodwill impairment charge will provide a benefit to the future profitability estimates for this reporting unit. However, any inability to execute on our operating plans could more than offset any favorable cash flows from lower U.S. corporate income tax rates.

We have five other reporting units that have goodwill assigned to them. As of the date of our last goodwill impairment test, each of the five reporting unit's estimated fair value exceeded its carrying value by more than 10 percent.

Cautionary Note Regarding Forward-Looking Statements and Factors That May Affect Future Results

This quarterly report contains certain statements that are forward-looking statements within the meaning of federal securities laws. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. When used in this report, the words "may," "will," "can," "should," "would," "could," "anticipate," "expect," "plan," "seek," "believe," "are confident that," "predict," "estimate," "potential," "project," "target," "forecast," "intend," "strategy," "future," "opportunity," "assume," "guide," "position" and similar expressions are intended to identify forward-looking statements. Forward-looking statements are based on current beliefs, expectations and assumptions that are subject to significant risks, uncertainties and changes in circumstances that could cause actual results to differ materially from such forward-looking statements. These risks, uncertainties and changes in circumstances include, but are not limited to:

- the potential impact on our business and future strategic direction resulting from our transition to a new chief executive officer and our ability to attract and retain other key members of senior management;
- compliance with the Deferred Prosecution Agreement entered into in January 2017;

- the possibility that the anticipated synergies and other benefits from mergers and acquisitions will not be realized, or will not be realized within the expected time periods;
- the risks and uncertainties related to our ability to successfully integrate the operations, products, employees and distributors of acquired companies;
- the effect of the potential disruption of management’s attention from ongoing business operations due to integration matters related to mergers and acquisitions;
- the effect of mergers and acquisitions on our relationships with customers, vendors and lenders and on our operating results and business generally;
- the success of our quality and operational excellence initiatives, including our ongoing quality enhancement and remediation efforts at the legacy Biomet Warsaw facility;
- our ability to remediate matters identified in any inspectional observations or warning letters issued by the FDA, while continuing to satisfy the demand for our products;
- challenges relating to changes in and compliance with governmental laws and regulations affecting our U.S. and international businesses, including regulations of the FDA and foreign government regulators, such as more stringent requirements for regulatory clearance of our products;
- the outcome of government investigations;
- competition;
- pricing pressures;
- changes in customer demand for our products and services caused by demographic changes or other factors;
- the impact of healthcare reform measures, 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 the regional sales mix of our products and services;
- supply and prices of raw materials and products;
- control of costs and expenses;
- our ability to obtain and maintain adequate intellectual property protection;
- our ability to form and implement alliances;
- changes in tax obligations arising from tax reform measures, including the European Union rules on state aid, or examinations by tax authorities;
- product liability and intellectual property litigation losses;
- our ability to retain the independent agents and distributors who market our products;
- our 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;
- changes in general domestic and international economic conditions, including interest rate and currency exchange rate fluctuations; and
- the impact of the ongoing financial and political uncertainty on countries in the Euro zone on our ability to collect accounts receivable in affected countries.

Our Annual Report on Form 10-K for the year ended December 31, 2017 contains detailed discussions of these and other important factors under the heading “Risk Factors.” You should understand that it is not possible to predict or identify all factors that could cause actual results to differ materially from forward-looking statements. Consequently, you should not consider any list or discussion of such factors to be a complete set of all potential risks or uncertainties.

Forward-looking statements speak only as of the date they are made and we expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Readers of this report are cautioned not to rely on these forward-looking statements since 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 report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes from the information provided in our Annual Report on Form 10-K for the year ended December 31, 2017.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (“Exchange Act”)) that are designed to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Because of inherent limitations, disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of disclosure controls and procedures are met.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective at a reasonable assurance level.

Changes in Internal Control Over Financial Reporting. There were no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II – Other Information

Item 1. Legal Proceedings

Information pertaining to legal proceedings can be found in Note 16 to our interim condensed consolidated financial statements included in Part I, Item 1 of this report and is incorporated herein by reference.

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

During the three month period ended March 31, 2018, the Audit Committee of our Board of Directors approved the engagement of PricewaterhouseCoopers LLP, our independent registered public accounting firm, to perform certain non-audit services. This disclosure is made pursuant to Section 10A(i)(2) of the Exchange Act, as added by Section 202 of the Sarbanes-Oxley Act of 2002.

Item 6. Exhibits

The following exhibits are filed or furnished as part of this report:

- 3.1 [Restated Certificate of Incorporation of Zimmer Biomet Holdings, Inc., dated June 24, 2015 \(incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed June 26, 2015\)](#)
- 3.2 [Restated By-Laws of Zimmer Biomet Holdings, Inc., effective June 24, 2015 \(incorporated by reference to Exhibit 3.3 to the Registrant's Current Report on Form 8-K filed June 26, 2015\)](#)
- 4.1 [Fifth Supplemental Indenture, dated as of March 19, 2018, between Zimmer Biomet Holdings, Inc. and Wells Fargo Bank, National Association, as trustee \(incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed March 19, 2018\)](#)
- 4.2 [Form of Floating Rate Notes due 2021 \(incorporated by reference to Exhibit 4.1 above\)](#)
- 4.3 [Form of 3.700% Notes due 2023 \(incorporated by reference to Exhibit 4.1 above\)](#)
- 10.1* [Form of Performance-Based Restricted Stock Unit Award Agreement \(2018\) under the Zimmer Biomet Holdings, Inc. 2009 Stock Incentive Plan](#)
- 10.2* [Zimmer Biomet Holdings, Inc. Executive Severance Plan \(incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed January 19, 2018\)](#)
- 10.3* [Form of Change in Control Severance Agreement with Aure Bruneau \(incorporated by reference to Exhibit 10.11 to the Registrant's Annual Report on Form 10-K filed February 27, 2018\)](#)
- 10.4* [Form of Confidentiality, Non-Competition and Non-Solicitation Agreement with Aure Bruneau \(incorporated by reference to Exhibit 10.18 to the Registrant's Annual Report on Form 10-K filed February 27, 2018\)](#)
- 10.5* [Form of Nonqualified Stock Option Award Agreement \(four-year vesting\) under the Zimmer Biomet Holdings, Inc. 2009 Stock Incentive Plan \(incorporated by reference to Exhibit 10.31 to the Registrant's Annual Report on Form 10-K filed February 27, 2018\)](#)
- 10.6* [Form of Nonqualified Stock Option Award Agreement \(two-year vesting\) under the Zimmer Biomet Holdings, Inc. 2009 Stock Incentive Plan \(incorporated by reference to Exhibit 10.37 to the Registrant's Annual Report on Form 10-K filed February 27, 2018\)](#)
- 10.7* [Aircraft Time Sharing Agreement by and between Zimmer, Inc. and Bryan C. Hanson \(incorporated by reference to Exhibit 10.40 to the Registrant's Annual Report on Form 10-K filed February 27, 2018\)](#)
- 21 [List of Subsidiaries of Zimmer Biomet Holdings, Inc.](#)
- 31.1 [Certification pursuant to Rule 13a-14\(a\)/15d-14\(a\) of the Securities Exchange Act of 1934 of the Chief Executive Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- 31.2 [Certification pursuant to Rule 13a-14\(a\)/15d-14\(a\) of the Securities Exchange Act of 1934 of the Chief Financial Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- 32 [Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

* Management contract or compensatory plan or arrangement

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ZIMMER BIOMET HOLDINGS, INC.

(Registrant)

Date: May 8, 2018

By: /s/ Daniel P. Florin
Daniel P. Florin
Executive Vice President and Chief Financial Officer

Date: May 8, 2018

By: /s/ Tony W. Collins
Tony W. Collins
*Vice President, Corporate Controller and
Chief Accounting Officer*

ZIMMER BIOMET HOLDINGS, INC.

2009 STOCK INCENTIVE PLAN THREE-YEAR PERFORMANCE-BASED RESTRICTED STOCK UNIT AWARD

To encourage your continued employment with Zimmer Biomet Holdings, Inc. (the “Company”) or its Affiliates, you have been granted this restricted stock unit (“RSU”) award (“Award”) pursuant to the Company’s 2009 Stock Incentive Plan (“Plan”). Each RSU represents an unfunded, unsecured promise by the Company to deliver one share of Common Stock (“Share”) to you, subject to the fulfillment of the vesting requirements set forth in this agreement and in Annex A to this agreement (collectively, the “Agreement”) and all other restrictions, terms and conditions contained in this Agreement and in the Plan. Except as may be required by law, you are not required to make any payment (other than payments for Tax-Related Items pursuant to Section 7 hereof) or provide any consideration other than the rendering of future services to the Company or its Affiliates. Capitalized terms that are not defined in this Agreement have the meanings given to them in the Plan.

Important Notice. If you do not wish to receive the RSUs and/or do not consent and agree to the terms and conditions on which the RSUs are offered, as set forth in this Agreement and the Plan, then you must reject the RSUs no later than 60 days following the Grant Date specified in Section 1 hereof. If you reject the Award, any right to the underlying RSUs will be cancelled. Your failure to reject the Award within this 60-day period will constitute your acceptance of the RSUs and your agreement with all terms and conditions of the Award, as set forth in this Agreement and the Plan.

1. Grant Date _____, 2018 the “Grant Date”).

2. Number of RSUs Subject to this Award The target number of RSUs subject to this Award was communicated to you separately and is posted to your online Zimmer Biomet long-term incentive plan account (administered as of the Grant Date by Computershare).

3. Vesting Schedule This Award is based on a three-year performance period from January 1, 2018 to December 31, 2020 (the “Performance Period”) and includes three measurement periods within that Performance Period as set forth in Annex A. No RSUs will be earned with respect to any measurement period unless and until the Committee determines the extent to which the performance criteria set forth in Annex A have been met with respect to such measurement period. As soon as

practicable following the availability of audited results of the Company for the last year in each measurement period, the Committee will determine whether and the extent to which the performance criteria in Annex A have been satisfied and the number of RSUs earned with respect to that measurement period (“Earned RSUs”). Except as otherwise set forth in Sections 6, 15 and 16 below, provided that you have been continuously employed by the Company or its Affiliates since the Grant Date, (i) the Earned RSUs, if any, with respect to the first measurement period will become vested and nonforfeitable on the first anniversary of the Grant Date (or, if later, the date the Committee makes its determination) (the “First Scheduled Vest Date”); (ii) the Earned RSUs, if any, with respect to the second measurement period will become vested and nonforfeitable on the second anniversary of the Grant Date (or, if later, the date the Committee makes its determination) (the “Second Scheduled Vest Date”); and (iii) the Earned RSUs, if any, with respect to the third measurement period will become vested and nonforfeitable on the third anniversary of the Grant Date (or, if later, the date the Committee makes its determination) (the “Third Scheduled Vest Date”). The period from the Grant Date until the Third Scheduled Vest Date is referred to in this Agreement as the “Restriction Period”.

4. Stockholder Rights You will have none of the rights of a holder of Common Stock (including any voting rights, rights with respect to cash dividends paid by the Company on its Common Stock or any other rights whatsoever) until the Award is settled by the issuance of Shares to you.

5. Conversion of Earned RSUs and Issuance of Shares Subject to the terms and conditions of this Agreement and the Plan, the Company will transfer Shares to you within 60 days after each of the First Scheduled Vest Date, the Second Scheduled Vest Date and the Third Scheduled Vest Date for Earned RSUs. No fractional Shares will be issued under this Agreement. The Company will not be required to issue or deliver any Shares prior to (a) the admission of such Shares to listing on any stock exchange on which the stock may then be listed, (b) the completion of any registration or other qualification of such Shares under any state or federal law or rulings or regulations of any governmental regulatory body, or (c) the obtaining of any consent or approval or other clearance from any governmental agency, which the Company shall, in its sole discretion, determine to be necessary or advisable. The

Company reserves the right to determine the manner in which the Shares are delivered to you, including but not limited to delivery by direct registration with the Company's transfer agent.

6. Termination of Employment

(a) For all purposes of this Agreement, the term "Employment Termination Date" shall mean the earlier of (i) the date, as determined by the Company, that you are no longer actively employed by the Company or an Affiliate of the Company, and in the case of an involuntary termination, such date shall not be extended by any notice period mandated under local law (e.g., active employment would not include any contractual notice period or any period of "garden leave" or similar period mandated under employment laws in the jurisdiction where you are employed or the terms of your employment agreement, if any); or (ii) the date, as determined by the Company, that your employer is no longer an Affiliate of the Company.

(b) (i) A transfer of your employment from the Company to an Affiliate, or vice versa from one Affiliate to another, (ii) a leave of absence, duly authorized in writing by the Company, for military service or sickness or for any other purpose approved by the Company if the period of such leave does not exceed ninety (90) days, and (iii) a leave of absence in excess of ninety (90) days, duly authorized in writing by the Company, provided your right to reemployment is guaranteed either by a statute or by contract, shall not be deemed a termination of employment. However, your failure to return to the employ of the Company at the end of an approved leave of absence shall be deemed a termination. During a leave of absence as defined in (ii) or (iii), you will be considered to have been continuously employed by the Company.

(c) Except as set forth below, if your Employment Termination Date occurs before the Third Scheduled Vest Date, RSUs subject to this Award that are not already vested as of your Employment Termination Date shall be forfeited and immediately cancelled.

(d) If after you have been continuously employed by the Company or its Affiliates for one year or more from the Grant Date, you terminate employment on account of Retirement or death, all time-based restrictions imposed under this Award will lapse as of your Employment Termination Date, but this Award will continue to be subject to the satisfaction of the performance criteria set forth in Annex A; the number of Earned RSUs, if any, for each measurement period, as determined by the Committee, will vest and become nonforfeitable on

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the Scheduled Vest Date applicable to such measurement period (subject to any applicable requirements described in the definition of "Retirement" in the Plan).

In the event of your death prior to the delivery of Shares issuable pursuant to Earned RSUs under this Agreement, such Shares shall be delivered to the duly appointed legal representative of your estate or to the proper legatees or distributees thereof, upon presentation of documentation satisfactory to the Committee.

7. Responsibility for Taxes

(a) You acknowledge that, regardless of any action taken by the Company or, if your actual employer (the "Employer"), the ultimate liability for all income tax (including federal, state and local taxes), social insurance, payroll tax, fringe benefits tax, payment on account or other tax-related items related to your participation in the Plan and legally applicable to you or deemed by the Company or the Employer to be an appropriate charge to you even if legally applicable to the Company or the Employer ("Tax-Related Items") is and remains your responsibility and may exceed the amount, if any, actually withheld by the Company or the Employer. You further acknowledge that the Company and/or the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the RSUs, including the grant of the Award, the vesting or settlement of the RSUs, the conversion of the RSUs into Shares, the subsequent sale of any Shares acquired at vesting or the receipt of any dividends; and (ii) do not commit to, and are under no obligation to, structure the terms or any aspect of the Award to reduce or eliminate your liability for Tax-Related Items or achieve any particular result. Further, if you are subject to Tax-Related Items in more than one jurisdiction, you acknowledge that the Company or the Employer (or former Employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

(b) Prior to any relevant taxable or tax withholding event, as applicable, you agree to make adequate arrangements satisfactory to the Company or to the Employer (in their sole discretion) to satisfy all Tax-Related Items. In this regard and, if permissible under local law, you authorize the Company and/or the Employer, at their discretion, to satisfy any applicable obligations with respect to all Tax-Related Items in one or a combination of the following: (i) requiring you to pay an amount necessary to pay the Tax-Related Items directly to the Company (or the Employer) in the form of cash,

check or other cash equivalent; (ii) withholding such amount from wages or other cash compensation payable to you by the Company and/or the Employer; (iii) withholding from proceeds of the sale of Shares acquired upon settlement of the RSUs either through a voluntary sale or through a mandatory sale arranged by the Company (on your behalf pursuant to this authorization or such other authorization, without further consent, as you may be required to provide to the Company or Computershare (or any other designated broker)); or (iv) withholding in Shares to be issued upon settlement of the RSUs. If you are a Section 16 officer of the Company under the Exchange Act ("Section 16 officer") who is primarily providing services in the U.S., withholding obligations for Tax-Related Items shall be satisfied by the mandatory withholding in Shares. If you are a Section 16 officer who is primarily providing services outside the U.S., any withholding in Shares to satisfy applicable withholding obligations shall be determined by the Committee prior to the applicable withholding event.

(c) Depending on the withholding method, the Company and/or the Employer may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding amounts or other applicable withholding rates in your jurisdiction, including maximum applicable rates, in which case you may receive a refund of any over-withheld amount in cash and will have no entitlement to the Shares, and you agree that the amount withheld may exceed your actual liability. If the obligation for Tax-Related Items is satisfied by withholding in Shares, for tax purposes, you are deemed to have been issued the full number of Shares subject to the vested RSUs, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Items.

(d) Finally, you agree to pay to the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold or account for as a result of your participation in the Plan that cannot be satisfied by the means previously described. The Company may refuse to issue or deliver the Shares or the proceeds of the sale of Shares, if you fail to comply with your obligations in connection with the Tax-Related Items.

8. Nature of Grant In accepting the RSUs, you acknowledge, understand and agree that:

(a) the Plan is established voluntarily by the Company, it is discretionary in nature and may be modified, amended, suspended or terminated by the Company at any time, as provided in the Plan;

(b) the Award is exceptional, discretionary, voluntary and occasional and does not create any contractual or other right to receive future awards of RSUs, or benefits in lieu of RSUs even if RSUs have been awarded in the past;

(c) all decisions with respect to future RSU or other awards, if any, will be at the sole discretion of the Company;

(d) the Award and your participation in the Plan shall not create a right to employment or be interpreted as forming an employment or service contract with the Company, the Employer or any Affiliate of the Company and shall not interfere with the ability of the Company, the Employer or any Affiliate of the Company, as applicable to terminate your employment or service relationship (if any);

(e) your participation in the Plan is voluntary;

(f) the Award, the Shares subject to the RSUs, and the income from and value of same are not intended to replace any pension rights or compensation;

(g) the Award and the Shares subject to the RSUs, and the income from and value of same are not part of normal or expected compensation for purposes of calculation of any severance, resignation, termination, redundancy, dismissal, end-of-service payments, holiday pay, bonuses, long-service awards, pension or retirement benefits or similar mandatory payments;

(h) the future value of the Shares underlying the RSUs is unknown, indeterminable and cannot be predicted with certainty;

(i) no claim or entitlement to compensation or damages arises from forfeiture of RSUs resulting from termination of your employment or other service relationship with the Company or the Employer (regardless of the reason for such termination and whether or not later found to be invalid or in breach of employment laws in the jurisdiction where you are employed or the terms of your employment agreement, if any), or resulting from a breach or violation as described in Section 15 or Section 16 below;

(j) unless otherwise provided in the Plan or by the Company in its discretion, the RSUs and the benefits evidenced by this Agreement do not create any entitlement to have the RSUs or any such benefits transferred to, or assumed by, another company, nor to be exchanged, cashed out or substituted for, in connection with any corporate transaction affecting the Shares of the Company; and

(k) the following provisions apply only if you are providing services outside the United States: (i) the Award and the Shares subject to the RSU s are not part of normal or expected compensation or salary for any purpose; (ii) neither the Company, the Employer nor any other A affiliate of the Company shall be liable for any foreign exchange rate fluctuation between your local currency and the United States Dollar that may affect the value of the RSU s or of any amounts due to you pursuant to the settlement of the RSU s or the subsequent sale of any Shares acquired upon settlement.

9. No Advice Regarding Grant The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding your participation in the Plan, or your acquisition or sale of the underlying Shares. You should consult with your own personal tax, legal and financial advisors regarding your participation in the Plan before taking any action related to the Plan.

10. Data Privacy *You hereby explicitly and unambiguously consent to the collection, use and transfer, in electronic or other form, of your personal data as described in this Agreement and any other RSU Award materials (“Data”) by and among, as applicable, the Company, the Employer and any other Affiliate s for the exclusive purpose of implementing, administering and managing your participation in the Plan.*

You understand that the Company and the Employer may hold certain personal information about you, including, but not limited to, your name, home address and telephone number, email address, date of birth, social insurance, passport or other identification number (e.g. resident registration number), salary, nationality, job title, any Shares or directorships held in the Company, details of all RSUs or any other stock-based awards, canceled, exercised, vested, unvested or outstanding in your favor, for the exclusive purpose of implementing, administering and managing the Plan.

You understand that Data may be transferred to Computershare or such other stock plan service provider as may be selected by the Company to assist the Company with the implementation, administration and management of the Plan. You understand that the recipients of the Data may be located in the United States or elsewhere, and that the recipients’ country may have different data privacy laws and protections than your country. You understand that if you reside outside the United States, you may request a list with the names and addresses of any potential recipients of the Data by

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contacting your local human resources representative. You authorize the Company, Computershare and any other possible recipients which may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purpose of implementing, administering and managing your participation in the Plan. You understand that Data will be held only as long as is necessary to implement, administer and manage your participation in the Plan. You understand that if you reside outside the United States, you may, at any time, view Data, request information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing your local human resources representative.

Further, you understand that you are providing the consents herein on a purely voluntary basis. If you do not consent, or if you later seek to revoke your consent, your employment status or service with the Employer will not be affected; the only consequence of refusing or withdrawing your consent is that the Company would not be able to grant RSUs or any other equity awards to you or administer or maintain such awards. Therefore, you understand that refusing or withdrawing your consent may affect your ability to participate in the Plan . For more information on the consequences of your refusal to consent or withdrawal of consent, you understand that you may contact your local human resources representative.

Finally, upon the request of the Company or the Employer, you agree to provide an executed data privacy consent form (or any other agreements or consents) that the Company and/or the Employer may deem necessary to obtain from you for the purpose of administering your participation in the Plan in compliance with the data privacy laws in your country, either now or in the future. You understand and agree that you will not be able to participate in the Plan if you fail to provide any such consent or agreement requested by the Company and/or the Employer .

11. Change in Control Under certain circumstances, if your employment with the Company or its Affiliates terminates during the three year period following a Change in Control of the Company, this Award may be deemed vested. Please refer to the Plan for more information.

12. Changes in Capitalization If prior to the expiration of the Restriction Period changes occur in

the outstanding Common Stock by reason of stock dividends, recapitalization, mergers, consolidations, stock splits, combinations or exchanges of Shares and the like, the number and class of Shares subject to this Award will be appropriately adjusted by the Committee, whose determination will be conclusive. If as a result of any adjustment under this paragraph you should become entitled to a fractional Share of stock, you will have the right only to the adjusted number of full Shares and no payment or other adjustment will be made with respect to the fractional Share so disregarded.

13. Notice Until you are advised otherwise by the Committee, all notices and other correspondence with respect to this Award will be effective upon receipt at the following address: Zimmer Biomet Holdings, Inc., ATTN: Employee Stock Services, 345 East Main Street, Post Office Box 708, Warsaw, Indiana 46581-0708, U.S.A.

14. No Additional Rights Except as explicitly provided in this Agreement, this Agreement will not confer any rights upon you, including any right with respect to continuation of employment by the Company or any of its Affiliates or any right to future awards under the Plan. In no event shall the value, at any time, of this Agreement, the Shares covered by this Agreement or any other benefit provided under this Agreement be included as compensation or earnings for purposes of any other compensation, retirement, or benefit plan offered to employees of the Company or its Affiliates unless otherwise specifically provided for in such plan.

15. Breach of Restrictive Covenants As a condition of receiving this Award, you have entered into a non-disclosure, non-solicitation and/or non-competition agreement with the Company or its Affiliates. The Company may, at its discretion, require execution of a restated non-disclosure, non-solicitation and/or non-competition agreement as a condition of receiving the Award. Should you decline to sign such a restated agreement as required by the Company and, therefore, forego receiving the Award, your most recently signed non-disclosure, non-solicitation and/or non-competition agreement shall remain in full force and effect. You understand and agree that if you violate any provision of any such agreement that remains in effect at the time of the violation, the Committee may require you to forfeit your right to any unvested portion of the Award and, to the extent that any portion of the Award has previously vested, the Committee may require you to return to the Company the Shares covered by the Award or any cash proceeds you received upon the sale of such Shares.

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16. Violation of Policies Notwithstanding any other provisions of this Agreement, you understand and agree that if you engage in conduct (which may include a failure to act) in connection with, or that results in, a violation of any of the Company's policies, procedures or standards, a violation of the Company's Code of Business Conduct and Ethics, or that is deemed detrimental to the business or reputation of the Company, the Committee may, in its discretion, require you to forfeit your right to any unvested portion of the Award and, to the extent that any portion of the Award has previously vested, the Committee may require you to return to the Company the Shares covered by the Award or any cash proceeds you received upon the sale of such Shares. The Committee may exercise this discretion at any time that you are employed by the Company or any Affiliate of the Company, and at any time during the 18-month period following the termination of your employment with the Company or any Affiliate of the Company for any reason, including, without limitation, on account of Retirement or death.

17. Consent to Electronic Delivery The Company may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means. You hereby consent to receive such documents by electronic delivery and agree to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

18. Code Section 409A Compliance To the extent applicable, it is intended that the Plan and this Agreement comply with the requirements of Section 409A of the U.S. Internal Revenue Code of 1986, as amended, and any related regulations or other guidance promulgated with respect to such Section by the U.S. Department of the Treasury or the Internal Revenue Service. The RSUs granted in this Award are intended to be short-term deferrals exempt from Section 409A, but in the event that any portion of this Award constitutes deferred compensation within the meaning of Section 409A, then the issuance of Shares covered by an RSU award shall conform to the Section 409A standards, including, without limitation, the requirement that no payment on account of separation from service will be made to any specified employee (within the meaning of Section 409A) until six months after the separation from service occurs, and the prohibition against acceleration of payment, which means that the Committee does not have the authority to accelerate settlement of this Award in the event that any portion of it constitutes deferred compensation within the meaning of Section 409A. Any provision of the Plan

or this Agreement that would cause this Award to fail to satisfy any applicable requirement of Section 409A shall have no force or effect until amended to comply with Section 409A, which amendment may be retroactive to the extent permitted by Section 409A.

19. Construction and Interpretation The Board of Directors of the Company (the “Board”) and the Committee shall have full authority and discretion, subject only to the express terms of the Plan, to decide all matters relating to the administration and interpretation of the Plan and this Agreement and all such Board and Committee determinations shall be final, conclusive, and binding upon you and all interested parties. The terms and conditions set forth in this Agreement are subject in all respects to the terms and conditions of the Plan, as amended from time to time, which shall be controlling. This Agreement and the Plan contain the entire understanding of the parties and this Agreement may not be modified or amended except in writing duly signed by the parties. You acknowledge that a waiver by the Company of breach of any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by you or any other party to this Agreement. The various provisions of this Agreement are severable and in the event any provision of this Agreement shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining provisions of this Agreement, and this Agreement shall be construed and enforced as if such illegal or invalid provision had not been included. This Agreement will be binding upon and inure to the benefit of the successors, assigns, and heirs of the respective parties.

The validity and construction of this Agreement shall be governed by the laws of the State of Indiana, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of this Agreement to the substantive law of another jurisdiction. For purposes of litigating any dispute arising under this Agreement, the parties hereby submit and consent to the jurisdiction of the State of Indiana, agree that such litigation shall be conducted in the courts of Kosciusko County Indiana, or the federal courts for the United States for the Northern District of Indiana, where this grant is made and/or to be performed.

You acknowledge that you are proficient in the English language and understand the provisions of this Agreement and the Plan. If you have received this Agreement or any other document related to the Plan translated into a language other than English and

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if meaning of the translated version is different from the English version, the English version will control.

20. Insider Trading/Market Abuse Laws You acknowledge that you may be subject to insider trading restrictions and/or market abuse laws based on the exchange on which the Shares are listed in applicable jurisdictions, including the United States; your country or the country of the applicable stock plan service provider, which may affect your ability to accept, acquire, sell, attempt to sell or otherwise dispose of Shares, rights to Shares (e.g. , RSUs) or rights linked to the value of Shares during such times as you are considered to have “inside information” regarding the Company (as defined by the laws or regulations in applicable jurisdictions). Local insider trading laws and regulations may prohibit the cancellation or amendment of orders you placed before you possessed inside information. Furthermore, you could be prohibited from (i) disclosing the inside information to any third party, including fellow employees (other than on a “need to know” basis) and (ii) “tipping” third parties or causing them otherwise to buy or sell securities. Any restrictions under these laws or regulations are separate from and in addition to any restrictions that may be imposed under any applicable insider trading policy of the Company. You acknowledge that it is your responsibility to comply with any applicable restrictions, and you should speak to your personal advisor on this matter.

21. Foreign Asset/Account Reporting Please be aware that your country may have certain foreign asset and/or account reporting requirements which may affect your ability to acquire or hold Shares under the Plan or cash received from participating in the Plan (including from any dividends received or sale proceeds arising from the sale of Shares) in a brokerage or bank account outside your country. You may be required to report such accounts, assets or transactions to the tax or other authorities in your country. You acknowledge that it is your responsibility to be compliant with such regulations, and you should speak to your personal advisor on this matter.

22. Compliance with Laws and Regulations Notwithstanding any other provisions of this Agreement, you understand that the Company will not be obligated to issue any Shares pursuant to the vesting of the RSUs if the issuance of such Shares shall constitute a violation by you or the Company of any provision of law or regulation of any governmental authority. Any determination by the Company in this regard shall be final, binding and conclusive.

23. Addendum Your Award shall be subject to any special provisions set forth in the Addendum to this Agreement for your country, if any. If you relocate to one of the countries included in the Addendum during the Restriction Period, the special provisions for such country shall apply to you, to the extent the Company determines that the application of such provisions is necessary or advisable for legal or administrative reasons. The Addendum, if any, constitutes part of this Agreement.


24. Imposition of Other Requirements The Company reserves the right to impose other requirements on your participation in the Plan, on the Award and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require you to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

25. Recoupment Any benefits you may receive hereunder shall be subject to repayment or forfeiture

as may be required to comply with (i) any applicable listing standards of a national securities exchange adopted in accordance with Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (regarding recovery of erroneously awarded compensation) and any implementing rules and regulations of the U.S. Securities and Exchange Commission adopted thereunder; (ii) similar rules under the laws of any other jurisdiction; and (iii) any policies adopted by the Company to implement such requirements, all to the extent determined by the Company in its discretion to be applicable to you.

26. Acceptance If you do not agree with the terms of this Agreement and the Plan, you must reject the Award no later than 60 days following the Grant Date; non-rejection of the Award will constitute your acceptance of the Award on the terms on which they are offered, as set forth in this Agreement and the Plan.

ZIMMER BIOMET HOLDINGS, INC.

By: 
Chad F. Phipps
Senior Vice President,
General Counsel and Secretary

PERFORMANCE CRITERIA

Performance will be measured 50% on revenue growth and 50% on relative total shareholder return (TSR), as described further below.

- Performance on each metric will be measured over a one-year (2018), two-year (2018-2019) and three-year (2018-2020) period relative to 2017.
- There is a possible payout following each of the three measurement periods.
- The revenue and TSR component payouts will be determined independently and then added together for the total payout for each of the three measurement periods.
- As illustrated in the below table, RSUs not earned in an earlier measurement period due to below-target performance may be earned in a later measurement period as a result of improved performance. Further, above-target performance in the third measurement period will result in RSUs being earned above target on the entire award; however, the cumulative payout over the three measurement periods may not exceed 200% of the target award.

Possible Payouts as a Cumulative Percentage of Target Award			
Measurement Period	1	2	3
	2018	2018-2019	2018-2020
Payout Range*	0% - 33%	0% - 67%	0% - 200%
Scheduled Vest Date**	March 20, 2019	March 20, 2020	March 20, 2021
*Payout as a cumulative percentage of target number of RSUs subject to this award; the grand total of the three payouts may not exceed 200% of the target award			
** Scheduled Vest Date is later of date indicated or the date the Committee determines whether and the extent to which the performance criteria have been satisfied and the number of RSUs earned with respect to that measurement period			

Revenue Growth Component (50%)				
• Constant currency, compound annual growth rate (CAGR)				
Revenue CAGR Over 2017				
Measurement Period	1	2	3	
	2018	2018-2019	2018-2020	Payout*
Stretch			%	200%
			%	150%
Target	%	%	%	100%
Threshold	%	%	%	50%
Below Threshold	%	%	%	0%
*Period 1 Payout = (Payout percentage) x (1/2 of RSUs subject to this award) x (1/3)				
Period 2 Payout = Excess, if any, of [(Payout percentage) x (1/2 of RSUs subject to this award) x (2/3)] over Period 1 Payout				
Period 3 Payout = Excess, if any, of [(Payout percentage) x (1/2 of RSUs subject to this award)] over [Period 1 Payout + Period 2 Payout]				

Relative Total Shareholder Return (TSR) Component (50%)				
• TSR measured against the S&P 500 Health Care Index constituents				
• Payout under this component will be capped at target if Zimmer Biomet's TSR is negative				
Relative TSR (%ile)				
Measurement Period	1	2	3	
	2018	2018-2019	2018-2020	Payout*
Stretch			%	200%
			%	150%
Target	%	%	%	100%
Threshold	%	%	%	50%
Below Threshold	%	%	%	0%
*Period 1 Payout = (Payout percentage) x (1/2 of RSUs subject to this award) x (1/3)				
Period 2 Payout = Excess, if any, of [(Payout percentage) x (1/2 of RSUs subject to this award) x (2/3)] over Period 1 Payout				
Period 3 Payout = Excess, if any, of [(Payout percentage) x (1/2 of RSUs subject to this award)] over [Period 1 Payout + Period 2 Payout]				

**Subsidiaries of Zimmer Biomet Holdings, Inc.
As of March 31, 2018**

<u>Name of Subsidiary</u> ¹	<u>Jurisdiction of Formation</u>
<u>Domestic subsidiaries :</u>	
Accelero Health Partners, LLC	Pennsylvania
Biomet 3i, LLC	Florida
dba Zimmer Biomet Dental	
Biomet Biologics, LLC	Indiana
Biomet CV Holdings, LLC	Delaware
Biomet Europe Holdings, LLC	Delaware
Biomet Europe Ltd.	Delaware
Biomet Fair Lawn LLC	Indiana
Biomet Finance US, LLC	Delaware
Biomet Holdings US, Inc.	Delaware
Biomet International Orthopedics, LLC	Delaware
Biomet International, Inc.	Delaware
Biomet Leasing, Inc.	Indiana
Biomet Manufacturing, LLC	Indiana
Biomet Orthopedics, LLC	Indiana
Biomet Sports Medicine, LLC	Indiana
dba Biomet Sports Medicine Limited Liability Company (<i>Forced</i>)	
Biomet Trauma, LLC	Indiana
Biomet U.S. Reconstruction, LLC	Indiana
Biomet US Inc.	Delaware
Biomet, Inc.	Indiana
dba Zimmer Biomet	
Cayenne Medical, Inc.	Delaware
CD Diagnostics, Inc.	Delaware
CD Laboratories, Inc.	Maryland
CelgenTek Innovations Corporation	Delaware
Citra Labs, LLC	Indiana
dba Biomet Citra Labs, LLC (<i>Forced</i>)	
Compression Therapy Concepts, Inc.	New Jersey
Dornoch Medical Systems, Inc.	Illinois
EBI Holdings, LLC	Delaware
EBI Medical Systems, LLC	Delaware
EBI, LLC	Indiana
dba Zimmer Biomet Bone Healing Technologies	
dba Biomet Bone Healing Technologies	
dba Biomet Bracing	
dba Biomet Healing Technologies (<i>Forced</i>)	
dba Biomet Osteobiologics	
dba Biomet Spine (<i>Forced</i>)	
dba Biomet Spine & Bone Healing Technologies	
dba Biomet Spine & Bone Healing Technologies, LLC (<i>Forced</i>)	
dba Biomet Spine & Bone Healing Technologies, Biomet Bracing and Biomet Osteobiologics, LLC (<i>Forced</i>)	
dba Biomet Trauma, Biomet Spine (<i>Forced</i>)	
dba Biomet Trauma, Biomet Spine, Biomet Bracing and Biomet Osteobiologics, LLC (<i>Forced</i>)	
dba EBI, LLC (IN) (<i>Forced</i>)	
dba EBI, LLC of Indiana (<i>Forced</i>)	
Electro-Biology, LLC	Delaware

Name of Subsidiary 1**Jurisdiction of Formation**

ETEX Corporation dba Zimmer ETEX dba Zimmer Biomet ETEX	Massachusetts
ETEX Holdings, Inc. dba Zimmer ETEX dba Zimmer Biomet ETEX	Delaware
Implant Innovations Holdings, LLC	Indiana
InnoVision, Inc.	Delaware
Interpore Cross International, LLC dba Zimmer Biomet Irvine	California
Jamabil US, Inc.	Delaware
Kirschner Medical Corporation	Delaware
LDR Holding Corporation	Delaware
LDR Spine USA, Inc.	Delaware
LVB Acquisition, Inc.	Delaware
Medical Compression Systems, Inc.	Delaware
Medtech Surgical, Inc.	Delaware
Orthopaedic Advantage, LLC	Indiana
ResponDesign, Inc.	Oregon
Synvasive Technology, Inc.	California
ZB COOP LLC	Delaware
ZB LHS LLC	Delaware
ZB Manufacturing, LLC	Delaware
Zimmer Biomet CMF and Thoracic, LLC dba Biomet Microfixation	Florida
Zimmer Biomet Connected Health, LLC	Delaware
Zimmer Biomet Finance US Holding, Inc.	Delaware
Zimmer Biomet Spine, Inc. dba Lanx dba Zimmer Spine	Delaware
Zimmer Biomet US 2 Holding, Inc.	Delaware
Zimmer Caribe, LLC	Delaware
Zimmer CBT I Holding, Inc.	Delaware
Zimmer CBT II Holding, Inc.	Delaware
Zimmer CEP USA Holding Co.	Delaware
Zimmer CEP USA, Inc.	Delaware
Zimmer Co-op Holdings, LLC	Delaware
Zimmer CV, Inc.	Delaware
Zimmer Dental Inc.	Delaware
Zimmer Investments, LLC	Delaware
Zimmer Knee Creations, Inc.	Delaware
Zimmer Orthobiologics, Inc.	New Jersey
Zimmer Production, Inc.	Delaware
Zimmer Southeast Florida, LLC	Delaware
Zimmer Spine Next, Inc.	Delaware
Zimmer Surgical, Inc.	Delaware
Zimmer Trabecular Metal Technology, Inc.	New Jersey
Zimmer US, Inc. dba Compression Therapy Concepts dba CTC Inc. dba Zimmer Biomet dba Zimmer Biomet Bay Area	Delaware

Name of Subsidiary**Jurisdiction of Formation**

dba Zimmer Biomet Mid-Atlantic
dba Zimmer Biomet North Texas
dba Zimmer Biomet Southern California
Zimmer, Inc.
dba Zimmer Biomet
dba Zimmer Biomet Corporate Services (*Forced*)
dba Z Hotel

Delaware

Foreign subsidiaries :

Biomet Argentina SA
Biomet 3i Australia Pty. Ltd.
Biomet Australia Pty. Ltd.
Zimmer Australia Holding Pty. Ltd.
Zimmer Biomet Pty. Ltd.
Zimmer Biomet Austria GmbH
ZH2LX Barbados Branch (branch)
Biomet 3i Belgium N.V.
Biomet 3i Benelux Holdings N.V.
Zimmer Biomet BVBA
Biomet Insurance Ltd.
Biomet 3i do Brasil Comercio de Aparelhos Medicos Ltda.
Biomet Brazil Medical Device Ltda.
Exopro Industria Comercio, Importacao Exportacao SA
LDR Brasil Comercio, Importacao e Exportacao Ltda.
Ospol Participacoes Ltda.
Zimmer do Brasil Comercio Ltda.
ORTHOsoft ULC
 dba Zimmer CAS
Zimmer Biomet Canada, Inc.
Zimmer Biomet Dental Canada Inc.
ZB Cayman (Asia) Holding Ltd.
ZB Cayman Island CBT 2 Ltd.
Zimmer Cayman Islands Holding Co. Ltd.
Biomet Chile SA
Zimmer Dental Chile Spa
Beijing Montagne Medical Device Co. Ltd.
Biomet China Co., Ltd.
Changzhou Biomet Medical Devices Co. Ltd.
Shanghai Biomet Business Consulting Co. Ltd.
Zhejiang Biomet Medical Products Co. Ltd.
Zimmer Biomet CBT
Zimmer Biomet CBT 2
Zimmer Dental (Shanghai) Medical Device Co. Ltd.
Zimmer (Shanghai) Medical International Trading Co., Ltd.
Zimmer Columbia SAS
Zimmer Biomet Centroamerica SA
Zimmer Czech sro
Zimmer Biomet Denmark ApS
Biomet El Salvador SA de CV
Zimmer Biomet Finland Oy
Biomet France Sarl
LDR Médical S.A.S.

Argentina
Australia
Australia
Australia
Australia
Austria
Barbados
Belgium
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Belgium
Bermuda
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Cayman Islands
Cayman Islands
Cayman Islands
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China
Columbia
Costa Rica
Czech Republic
Denmark
El Salvador
Finland
France
France

Name of Subsidiary**Jurisdiction of Formation**

Medtech SA	France
Zimmer Dental SAS	France
Zimmer France Manufacturing Sarl	France
Zimmer Biomet France SAS	France
Zimmer Biomet France Holdings SAS	France
Zimmer Spine SAS	France
Biomet Deutschland GmbH	Germany
Biomet Deutschland Holding GmbH	Germany
Biomet Healthcare Management GmbH	Germany
CelgenTek Deutschland GmbH	Germany
Medtech Surgical GmbH	Germany
Zimmer Dental GmbH	Germany
Zimmer Biomet Deutschland GmbH	Germany
Zimmer Germany Holdings GmbH	Germany
Zimmer International Logistics GmbH	Germany
Zfx GmbH	Germany
ZB (Gibraltar) Holding Limited	Gibraltar
ZB (Gibraltar) CV Holding Limited	Gibraltar
Zimmer Biomet Hellas SA	Greece
SM Re Ltd.	Guernsey
Biomet Hong Kong CBT Ltd.	Hong Kong
Biomet Hong Kong Holding Ltd.	Hong Kong
Biomet Hong Kong No. 1 Ltd.	Hong Kong
Biomet Hong Kong No. 2 Ltd.	Hong Kong
Biomet Hong Kong No. 3 Ltd.	Hong Kong
LDR Medical Hong Kong (branch)	Hong Kong
ZB Hong Kong CBT 2 Ltd.	Hong Kong
ZB Hong Kong Holding Ltd.	Hong Kong
ZB Hong Kong Ltd.	Hong Kong
Zimmer Asia (HK) Ltd.	Hong Kong
Biomet Orthopaedic India Private Limited	India
Zimmer India Private Ltd.	India
CelgenTek, Limited	Ireland
Zimmer Finance Ireland	Ireland
Zimmer Biomet Ireland Limited	Ireland
Zimmer Orthopedics Manufacturing Limited	Ireland
D.S. Comp Ltd.	Israel
Zimmer Biomet Comp Ltd.	Israel
Zimmer Dental Ltd.	Israel
Lanx Srl	Italy
Zimmer Dental Italy Srl	Italy
Zimmer Biomet Italia Srl	Italy
Zfx Innovation GmbH	Italy
Zimmer Biomet Dental K.K.	Japan
Zimmer Biomet GK	Japan
Zimmer Biomet Korea Ltd.	Korea
JERDS Luxembourg Holding Sarl dba JERDS LLC	Luxembourg
ZB Investment Luxembourg Sarl	Luxembourg
ZB Top LHS Sarl	Luxembourg
Zimmer Luxembourg Sarl	Luxembourg
Zimmer Luxembourg II Sarl	Luxembourg

Name of Subsidiary**Jurisdiction of Formation**

Zimmer Medical Malaysia SDN BHD	Malaysia
Biomet 3i Mexico S.A. de C.V.	Mexico
Biomet Mexico S.A. de C.V.	Mexico
Representaciones Zimmer Inc., S. de R.L. de C.V.	Mexico
Biomet 3i Netherlands B.V.	Netherlands
Biomet C.V.	Netherlands
Biomet Global Supply Chain Center B.V.	Netherlands
Biomet Holdings B.V.	Netherlands
Biomet Microfixation B.V.	Netherlands
Clinical Graphics BV	Netherlands
ZB COOP C.V.	Netherlands
Zimmer Biomet Asia Holding B.V.	Netherlands
Zimmer Europe Holdings B.V.	Netherlands
Zimmer Manufacturing B.V.	Netherlands
Zimmer Biomet Nederland B.V.	Netherlands
Zimmer Netherlands Cooperatief U.A.	Netherlands
Zimmer Biomet New Zealand Company	New Zealand
Zimmer Biomet Norway AS	Norway
Zimmer Biomet Polska Sp. z.o.o	Poland
Biomet 3i Portugal Lda	Portugal
Zimmer Biomet Portugal Unipessoal, Lda	Portugal
Biomet Orthopedics Puerto Rico, Inc.	Puerto Rico
EBI Patient Care, Inc.	Puerto Rico
Lanx Puerto Rico, LLC	Puerto Rico
Zimmer Manufacturing B.V. (branch)	Puerto Rico
Zimmer CIS Ltd.	Russia
Zimmer Biomet Asia Holdings Pte. Ltd.	Singapore
Zimmer Pte. Ltd.	Singapore
Zimmer Slovakia sro	Slovakia
Zimmer Biomet South Africa (Pty) Ltd.	South Africa
Biomet 3i Dental Iberica SL	Spain
Biomet Spain Orthopaedics S.L.	Spain
Espanormed S.L.	Spain
Zimmer Biomet Spain S.L.	Spain
Biomet 3i Nordic AB	Sweden
Biomet Cementing Technologies AB	Sweden
Scandimed Holding AB	Sweden
Zimmer Biomet Sweden AB	Sweden
Biomet 3i Switzerland GmbH	Switzerland
Biomet Orthopaedics Switzerland GmbH	Switzerland
Guillaume Genin & Co.	Switzerland
ZB Investment Luxembourg Sarl, Luxembourg (LU), Winterthur Branch (branch)	Switzerland
ZB Luxembourg II Sarl, Luxembourg (LU), EURO Finance, Winterthur Branch (branch)	Switzerland
Zimmer Europe Holdings GmbH	Switzerland
Zimmer GmbH	Switzerland
Zimmer GmbH Euro IP Branch (branch)	Switzerland
Zimmer Surgical SA	Switzerland
Zimmer Switzerland Holdings LLC	Switzerland
Zimmer Switzerland Manufacturing GmbH	Switzerland
Zimmer Biomet Taiwan Co., Ltd.	Taiwan
Zimmer Biomet (Thailand) Co., Ltd.	Thailand
Biomet 3i Turkey	Turkey

Name of Subsidiary¹

Zimmer Tibbi Cihazlar Sanayi ve Ticaret AS
Zimmer Gulf FZ LLC
Biomet 3i UK Ltd.
Biomet Acquisitions (Unlimited)
Biomet UK Ltd.
Biomet UK Healthcare Ltd.
CelgenTek UK Limited
Centerpulse (UK) Ltd.
Zimmer Biomet UK Ltd.
Zimmer Trustee Ltd.
Zimmer UK Limited

Jurisdiction of Formation

Turkey
United Arab Emirates
United Kingdom
United Kingdom
United Kingdom
United Kingdom
United Kingdom
United Kingdom
United Kingdom
United Kingdom
United Kingdom

¹ Excludes certain entities that have de minimis activity or are in the process of being liquidated or dissolved and that, if considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary.

CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Bryan C. Hanson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Zimmer Biomet Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2018

/s/ Bryan C. Hanson

Bryan C. Hanson

President and Chief Executive Officer

CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Daniel P. Florin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Zimmer Biomet Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2018

/s/ Daniel P. Florin

Daniel P. Florin

Executive Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Zimmer Biomet Holdings, Inc. (the "Company") for the period ended March 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Bryan C. Hanson

Bryan C. Hanson

President and Chief Executive Officer

May 8, 2018

/s/ Daniel P. Florin

Daniel P. Florin

Executive Vice President and Chief Financial Officer

May 8, 2018