

---

---

**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 JUNE 30, 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 July 27, 2018, 203,485,719 shares of the registrant's \$.01 par value common stock were outstanding.

---

---

**ZIMMER BIOMET HOLDINGS, INC.**  
**INDEX TO FORM 10-Q**  
**June 30, 2018**

	<u>Page</u>
<b><u>Part I - Financial Information</u></b>	
<b>Item 1.</b>	3
<a href="#"><u>Financial Statements (unaudited)</u></a>	3
<a href="#"><u>Condensed Consolidated Statements of Earnings for the Three and Six Months Ended June 30, 2018 and 2017</u></a>	3
<a href="#"><u>Condensed Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2018 and 2017</u></a>	4
<a href="#"><u>Condensed Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017</u></a>	5
<a href="#"><u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2018 and 2017</u></a>	6
<a href="#"><u>Notes to Interim Condensed Consolidated Financial Statements</u></a>	7
<b>Item 2.</b>	28
<a href="#"><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></a>	28
<b>Item 3.</b>	39
<a href="#"><u>Quantitative and Qualitative Disclosures About Market Risk</u></a>	39
<b>Item 4.</b>	39
<a href="#"><u>Controls and Procedures</u></a>	39
<b><u>Part II - Other Information</u></b>	
<b>Item 1.</b>	40
<a href="#"><u>Legal Proceedings</u></a>	40
<b>Item 1A.</b>	40
<a href="#"><u>Risk Factors</u></a>	40
<b>Item 2.</b>	40
<a href="#"><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></a>	40
<b>Item 3.</b>	40
<a href="#"><u>Defaults Upon Senior Securities</u></a>	40
<b>Item 4.</b>	40
<a href="#"><u>Mine Safety Disclosures</u></a>	40
<b>Item 5.</b>	40
<a href="#"><u>Other Information</u></a>	40
<b>Item 6.</b>	41
<a href="#"><u>Exhibits</u></a>	41
<b><u>Signatures</u></b>	42

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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
<b>Net Sales</b>	\$ 2,007.6	\$ 1,949.5	\$ 4,025.2	\$ 3,921.9
Cost of products sold, excluding intangible asset amortization	583.7	527.7	1,159.5	1,040.6
Intangible asset amortization	149.5	147.7	300.3	299.7
Research and development	99.1	92.6	194.8	183.7
Selling, general and administrative	791.3	752.2	1,593.0	1,527.9
Intangible asset impairment	-	26.8	-	26.8
Acquisition, integration and related	50.5	72.5	96.5	130.7
Quality remediation	37.5	49.9	80.1	84.3
Operating expenses	<u>1,711.6</u>	<u>1,669.4</u>	<u>3,424.2</u>	<u>3,293.7</u>
<b>Operating Profit</b>	296.0	280.1	601.0	628.2
Other expense, net	(2.9)	(1.7)	(6.5)	(2.2)
Interest income	0.6	0.3	1.5	0.8
Interest expense	(75.9)	(82.3)	(154.8)	(165.2)
Earnings before income taxes	217.8	196.4	441.2	461.6
Provision (benefit) for income taxes	32.9	12.3	80.1	(21.8)
<b>Net Earnings</b>	184.9	184.1	361.1	483.4
Less: Net earnings (loss) attributable to noncontrolling interest	(0.1)	(0.1)	1.4	(0.2)
<b>Net Earnings of Zimmer Biomet Holdings, Inc.</b>	<u>\$ 185.0</u>	<u>\$ 184.2</u>	<u>\$ 359.7</u>	<u>\$ 483.6</u>
<b>Earnings Per Common Share</b>				
Basic	\$ 0.91	\$ 0.91	\$ 1.77	\$ 2.40
Diluted	\$ 0.90	\$ 0.90	\$ 1.76	\$ 2.38
<b>Weighted Average Common Shares Outstanding</b>				
Basic	203.3	201.8	203.2	201.4
Diluted	204.6	203.7	204.6	203.4
<b>Cash Dividends Declared Per Common Share</b>	\$ 0.24	\$ 0.24	\$ 0.48	\$ 0.48

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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net Earnings	\$ 184.9	\$ 184.1	\$ 361.1	\$ 483.4
Other Comprehensive Income (Loss):				
Foreign currency cumulative translation adjustments, net of tax	(177.8)	189.2	(83.0)	238.2
Unrealized cash flow hedge gains (losses), net of tax	51.6	(24.8)	25.2	(51.1)
Reclassification adjustments on hedges, net of tax	9.2	(4.5)	18.9	(13.5)
Adjustments to prior service cost and unrecognized actuarial assumptions, net of tax	5.3	(0.5)	2.0	(4.0)
Total Other Comprehensive Income (Loss)	(111.7)	159.4	(36.9)	169.6
Comprehensive Income	73.2	343.5	324.2	653.0
Comprehensive income (loss) attributable to the noncontrolling interest	-	(0.2)	1.4	(0.4)
Comprehensive Income Attributable to Zimmer Biomet Holdings, Inc.	<u>\$ 73.2</u>	<u>\$ 343.7</u>	<u>\$ 322.8</u>	<u>\$ 653.4</u>

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)

	June 30, 2018	December 31, 2017
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 481.2	\$ 524.4
Accounts receivable, less allowance for doubtful accounts	1,335.3	1,544.1
Inventories	2,158.5	2,068.3
Prepaid expenses and other current assets	500.2	428.0
<b>Total Current Assets</b>	<b>4,475.2</b>	<b>4,564.8</b>
Property, plant and equipment, net	1,986.9	2,038.6
Goodwill	10,595.9	10,668.4
Intangible assets, net	7,996.6	8,353.4
Other assets	436.2	388.8
<b>Total Assets</b>	<b>\$ 25,490.8</b>	<b>\$ 26,014.0</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 355.7	\$ 330.2
Income taxes payable	211.7	165.2
Other current liabilities	1,186.2	1,349.3
Current portion of long-term debt	100.0	1,225.0
<b>Total Current Liabilities</b>	<b>1,853.6</b>	<b>3,069.7</b>
Deferred income taxes	1,080.9	1,101.5
Long-term income tax payable	755.0	744.0
Other long-term liabilities	343.8	445.8
Long-term debt	9,413.3	8,917.5
<b>Total Liabilities</b>	<b>13,446.6</b>	<b>14,278.5</b>
<b>Commitments and Contingencies (Note 15)</b>		
<b>Stockholders' Equity:</b>		
Zimmer Biomet Holdings, Inc. Stockholders' Equity:		
Common stock, \$0.01 par value, one billion shares authorized, 307.2 million shares issued in 2018 (306.5 million in 2017)	3.1	3.1
Paid-in capital	8,596.8	8,514.9
Retained earnings	10,327.9	10,022.8
Accumulated other comprehensive loss	(163.0)	(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	12,043.1	11,735.8
Noncontrolling interest	1.1	(0.3)
<b>Total Stockholders' Equity</b>	<b>12,044.2</b>	<b>11,735.5</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 25,490.8</b>	<b>\$ 26,014.0</b>

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)

	<b>For the Six Months Ended June 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>Cash flows provided by (used in) operating activities:</b>		
Net earnings	\$ 361.1	\$ 483.4
Adjustments to reconcile net earnings to cash provided by operating activities:		
Depreciation and amortization	525.1	531.7
Share-based compensation	26.0	27.7
Intangible asset impairment	-	26.8
Inventory step-up	-	30.9
Changes in operating assets and liabilities, net of effect of acquisitions:		
Income taxes	(42.4)	(210.4)
Receivables	177.7	226.3
Inventories	(99.3)	(69.7)
Accounts payable and accrued expenses	(27.1)	(201.2)
Other assets and liabilities	(37.3)	(129.6)
Net cash provided by operating activities	<u>883.8</u>	<u>715.9</u>
<b>Cash flows used in investing activities:</b>		
Additions to instruments	(126.1)	(172.6)
Additions to other property, plant and equipment	(53.7)	(73.8)
Other business combination investments, net of acquired cash	-	(4.0)
Other investing activities	(15.5)	(11.7)
Net cash used in investing activities	<u>(195.3)</u>	<u>(262.1)</u>
<b>Cash flows provided by (used in) financing activities:</b>		
Proceeds from senior notes	749.5	-
Payments on senior notes	(1,150.0)	-
Proceeds from multicurrency revolving facility	400.0	400.0
Payments on multicurrency revolving facility	(375.0)	(400.0)
Redemption of senior notes	-	(500.0)
Payments on term loan	(225.0)	(150.0)
Net payments on other debt	(0.2)	(0.7)
Dividends paid to stockholders	(97.4)	(96.5)
Proceeds from employee stock compensation plans	56.4	105.5
Net cash flows from unremitted collections from factoring programs	(62.9)	-
Business combination contingent consideration payments	(16.7)	(8.1)
Restricted stock withholdings	(2.8)	(7.1)
Debt issuance costs	(4.9)	-
Net cash used in financing activities	<u>(729.0)</u>	<u>(656.9)</u>
Effect of exchange rates on cash and cash equivalents	(2.7)	19.0
Decrease in cash and cash equivalents	(43.2)	(184.1)
Cash and cash equivalents, beginning of year	524.4	634.1
Cash and cash equivalents, end of period	<u>\$ 481.2</u>	<u>\$ 450.0</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.

We have reclassified expenses that were previously recognized in a financial statement line item labeled “Acquisition, quality remediation and other” (and prior to that, labeled “Special items”) to the financial statement line items of “Research and development,” “Selling, general and administrative,” “Intangible asset impairment,” “Acquisition, integration and related,” and “Quality remediation”. Prior periods have been reclassified to conform to the current year presentation. Please refer to Note 2 for additional details on the reclassified items. We made this change to provide additional transparency and better reflect the nature of these expenses.

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**

We use the financial statement line item “Acquisition, integration and related” to recognize expenses resulting from the consummation of business mergers and acquisitions and the related integration of those businesses. 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”). In 2016, we acquired LDR Holding Corporation and other individually immaterial companies. Acquisition, integration and related expenses are primarily composed of:

- Consulting and professional fees related to third-party integration consulting performed in a variety of areas, such as tax, compliance, logistics and human resources, and legal fees related to the consummation of mergers and acquisitions.
- Employee termination benefits in various areas of our business.
- Dedicated project personnel expenses which include the salary, benefits, travel expenses and other costs directly associated with employees who are 100 percent dedicated to our integration of acquired businesses and employees who have been notified of termination.
- Contract termination expenses related to terminated contracts, primarily with sales agents and distribution agreements.
- Other various expenses to relocate facilities, integrate information technology, losses incurred on assets resulting from the applicable acquisition, and other various expenses.

We use the financial statement line item “Quality remediation” to recognize expenses related to addressing inspectional observations on Form 483 issued by the FDA following its inspections of our Warsaw North Campus facility, among other matters. The majority of these expenses are related to consultants who are helping us to update previous documents and redesign certain processes.

*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 10 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 (Loss) (“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 statements 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 statements 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 and six month periods ended June 30, 2017 are included in the tables below. See Note 12 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 and six month periods ended June 30, 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	Reclassifications	As Restated
<b>Statement of Earnings</b>					
<b>Three Months Ended June 30, 2017</b>					
<b>Net Sales</b>	\$ 1,954.4	\$ (4.9)	\$ -	\$ -	\$ 1,949.5
Research and development	90.1	-	-	2.5	92.6
Selling, general and administrative	748.0	(4.9)	2.2	6.9	752.2
Intangible asset impairment	-	-	-	26.8	26.8
Acquisition, integration and related	-	-	-	72.5	72.5
Quality remediation	-	-	-	49.9	49.9
Special items	158.6	-	-	(158.6)	-
Operating expenses	1,672.1	(4.9)	2.2	-	1,669.4
<b>Operating Profit</b>	282.3	-	(2.2)	-	280.1
Other expense, net	(3.9)	-	2.2	-	(1.7)

(in millions)	As Previously Reported	New Revenue Standard Adjustment	New Pension Standard Adjustment	Reclassifications	As Restated
<b>Statement of Earnings</b>					
<b>Six Months Ended June 30, 2017</b>					
<b>Net Sales</b>	\$ 3,931.7	\$ (9.8)	\$ -	\$ -	\$ 3,921.9
Research and development	181.2	-	-	2.5	183.7
Selling, general and administrative	1,508.8	(9.8)	4.5	24.4	1,527.9
Intangible asset impairment	-	-	-	26.8	26.8
Acquisition, integration and related	-	-	-	130.7	130.7
Quality remediation	-	-	-	84.3	84.3
Special items	268.7	-	-	(268.7)	-
Operating expenses	3,299.0	(9.8)	4.5	-	3,293.7
<b>Operating Profit</b>	632.7	-	(4.5)	-	628.2
Other expense, net	(6.7)	-	4.5	-	(2.2)

(in millions)	As Previously Reported	New Revenue Standard Adjustment	As Restated
<b>Balance Sheet</b>			
<b>December 31, 2017</b>			
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	1,299.8	49.5	1,349.3

#### *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 collected all of our lease agreements from across the organization. We are in the process of abstracting the key terms from these lease agreements to determine the appropriate accounting treatment. 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 14, 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		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Americas	\$ 1,216.3	\$ 1,203.9	\$ 2,424.4	\$ 2,433.8
EMEA	457.7	438.2	954.2	891.4
Asia Pacific	333.6	307.4	646.6	596.7
Total	\$ 2,007.6	\$ 1,949.5	\$ 4,025.2	\$ 3,921.9

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Knees	\$ 703.0	\$ 680.0	\$ 1,416.3	\$ 1,380.8
Hips	486.9	468.0	978.9	941.8
S.E.T.	433.8	421.1	876.1	844.6
Dental	106.9	110.4	214.5	218.2
Spine & CMF	198.2	193.3	381.3	379.6
Other	78.8	76.7	158.1	156.9
Total	<u>\$ 2,007.6</u>	<u>\$ 1,949.5</u>	<u>\$ 4,025.2</u>	<u>\$ 3,921.9</u>

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

#### 4. Inventories

	June 30, 2018	December 31, 2017
	(in millions)	
Finished goods	\$ 1,724.6	\$ 1,618.7
Work in progress	235.6	200.0
Raw materials	198.3	249.6
Inventories	<u>\$ 2,158.5</u>	<u>\$ 2,068.3</u>

#### 5. Property, Plant and Equipment

	June 30, 2018	December 31, 2017
	(in millions)	
Land	\$ 28.8	\$ 29.0
Buildings and equipment	1,904.2	1,838.5
Capitalized software costs	430.9	421.6
Instruments	2,828.3	2,683.9
Construction in progress	94.2	110.7
	5,286.4	5,083.7
Accumulated depreciation	(3,299.5)	(3,045.1)
Property, plant and equipment, net	<u>\$ 1,986.9</u>	<u>\$ 2,038.6</u>

#### 6. Transfers of Financial Assets

In the fourth quarter of 2016, we executed receivables purchase arrangements with unrelated third parties to liquidate portions of our trade accounts receivable balance. 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 June 30, 2018 of \$400 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 \$30.5 million and \$22.9 million as of June 30, 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 six month periods ended June 30, 2018 and 2017, we sold receivables having an aggregate face value of \$1,260.7 million and \$582.7 million to third parties in exchange for cash proceeds of \$1,260.1 million and \$582.3 million, respectively. Expenses recognized on these sales during the six month periods ended June 30, 2018 and 2017 were not significant. In the six month periods ended June 30, 2018 and 2017, under the U.S. and Japan programs, we collected \$1,007.8 million and \$314.0 million, respectively, from our customers and remitted that amount to the third party, and we effectively repurchased \$121.0 million and \$31.0 million, respectively, of previously sold accounts receivable from the third party, due to the programs' revolving nature. As of June 30, 2018 and December 31, 2017, we had collected \$40.6 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 \$30 million in the six month period ended June 30, 2018.

At June 30, 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 \$338.9 million and \$261.2 million, respectively.

## 7. Debt

Our debt consisted of the following (in millions):

	June 30, 2018	December 31, 2017
Current portion of long-term debt		
2.000% Senior Notes due 2018	\$ -	\$ 1,150.0
U.S. Term Loan B	75.0	75.0
Multicurrency Revolving Facility	25.0	-
Total current portion of long-term debt	<u>\$ 100.0</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	583.8	600.4
2.425% Euro Notes due 2026	583.8	600.4
U.S. Term Loan A	610.0	835.0
U.S. Term Loan B	600.0	600.0
Japan Term Loan A	105.9	103.2
Japan Term Loan B	192.8	187.9
Other long-term debt	3.9	4.1
Debt discount and issuance costs	(52.4)	(53.2)
Adjustment related to interest rate swaps	18.9	23.1
Total long-term debt	<u>\$ 9,413.3</u>	<u>\$ 8,917.5</u>

At June 30, 2018, our total debt balance consisted of \$7.9 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, \$25.0 million outstanding under the Multicurrency Revolving Facility (defined below) and other debt and fair value adjustments totaling \$22.8 million, partially offset by debt discount and issuance costs of \$52.4 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 June 30, 2018. As of June 30, 2018, we had \$25.0 million of borrowings outstanding under the Multicurrency Revolving Facility.

Under the terms of U.S. Term Loan A, we have the ability to prepay principal without penalty. We have paid \$2.39 billion in principal under U.S. Term Loan A, resulting in \$610.0 million in outstanding borrowings as of June 30, 2018. Of the outstanding balance, \$197.5 million is due March 31, 2020 and \$412.5 million is due June 30, 2020.

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 June 30, 2018.

The estimated fair value of our senior notes as of June 30, 2018, based on quoted prices for the specific securities from transactions in over-the-counter markets (Level 2), was \$7,864.8 million. The estimated fair value of Japan Term Loan A and Japan Term Loan B, in the aggregate, as of June 30, 2018, based upon publicly available market yield curves and the terms of the debt (Level 2), was \$297.4 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.

## **8. 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	(83.0)	25.2	(3.8)	(61.6)
Reclassifications to retained earnings (Note 2)	(17.4)	(4.4)	(21.1)	(42.9)
Reclassifications to statement of earnings	-	18.9	5.8	24.7
Balance at June 30, 2018	\$ 21.1	\$ (26.8)	\$ (157.3)	\$ (163.0)

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

Component of AOCI	Amount of Gain (Loss) Reclassified from AOCI				Location on Statements of Earnings
	Three Months Ended June 30,		Six Months Ended June 30,		
	2018	2017	2018	2017	
<i>Cash flow hedges</i>					
Foreign exchange forward contracts	\$ (10.5)	\$ 5.9	\$ (21.6)	\$ 17.0	Cost of products sold
Forward starting interest rate swaps	(0.2)	(0.2)	(0.3)	(0.3)	Interest expense
	(10.7)	5.7	(21.9)	16.7	Total before tax
	(1.5)	1.2	(3.0)	3.2	Provision for income taxes
	\$ (9.2)	\$ 4.5	\$ (18.9)	\$ 13.5	Net of tax
<i>Defined benefit plans</i>					
Prior service cost	\$ 2.5	\$ 2.5	\$ 5.0	\$ 5.1	Other expense, net
Unrecognized actuarial (loss)	(6.7)	(5.2)	(12.8)	(10.8)	Other expense, net
	(4.2)	(2.7)	(7.8)	(5.7)	Total before tax
	(1.2)	(1.1)	(2.0)	(2.3)	Benefit for income taxes
	\$ (3.0)	\$ (1.6)	\$ (5.8)	\$ (3.4)	Net of tax
Total reclassifications	\$ (12.2)	\$ 2.9	\$ (24.7)	\$ 10.1	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 June 30, 2018			Six Months Ended June 30, 2018		
	Before Tax	Tax	Net of Tax	Before Tax	Tax	Net of Tax
Foreign currency cumulative translation adjustments	\$ (192.0)	\$ (14.2)	\$ (177.8)	\$ (90.6)	\$ (7.6)	\$ (83.0)
Unrealized cash flow hedge (losses)	62.7	11.1	51.6	29.6	4.4	25.2
Reclassification adjustments on cash flow hedges	10.7	1.5	9.2	21.9	3.0	18.9
Adjustments to prior service cost and unrecognized actuarial assumptions	4.1	(1.2)	5.3	-	(2.0)	2.0
Total Other Comprehensive Loss	\$ (114.5)	\$ (2.8)	\$ (111.7)	\$ (39.1)	\$ (2.2)	\$ (36.9)
	Three Months Ended June 30, 2017			Six Months Ended June 30, 2017		
	Before Tax	Tax	Net of Tax	Before Tax	Tax	Net of Tax
Foreign currency cumulative translation adjustments	\$ 215.3	\$ 26.1	\$ 189.2	\$ 269.7	\$ 31.5	\$ 238.2
Unrealized cash flow hedge (losses)	(26.5)	(1.7)	(24.8)	(63.1)	(12.0)	(51.1)
Reclassification adjustments on cash flow hedges	(5.7)	(1.2)	(4.5)	(16.7)	(3.2)	(13.5)
Adjustments to prior service cost and unrecognized actuarial assumptions	0.2	0.7	(0.5)	(3.5)	0.5	(4.0)
Total Other Comprehensive Income	\$ 183.3	\$ 23.9	\$ 159.4	\$ 186.4	\$ 16.8	\$ 169.6

## 9. 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 June 30, 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)
<b>Assets</b>				
Derivatives, current and long-term				
Foreign currency forward contracts	\$ 9.9	\$ -	\$ 9.9	\$ -
Interest rate swaps	37.2	-	37.2	-
Total Assets	<u>\$ 47.1</u>	<u>\$ -</u>	<u>\$ 47.1</u>	<u>\$ -</u>
<b>Liabilities</b>				
Derivatives, current and long-term				
Foreign currency forward contracts	\$ 10.9	\$ -	\$ 10.9	\$ -
Interest rate swaps	1.2	-	1.2	-
Contingent payments related to acquisitions	23.5	-	-	23.5
Total Liabilities	<u>\$ 35.6</u>	<u>\$ -</u>	<u>\$ 12.1</u>	<u>\$ 23.5</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)
<b>Assets</b>				
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>
<b>Liabilities</b>				
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 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):

	<b>Level 3 - Liabilities</b>	
Contingent payments related to acquisitions		
Beginning balance December 31, 2017	\$	41.0
Change in estimate		0.3
Settlements		(17.8)
Ending balance June 30, 2018	\$	23.5

Changes in estimates are recognized in Acquisition, integration and related on our condensed consolidated statement of earnings.

## 10. 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 June 30, 2018 related to these discontinued hedges was \$18.9 million, which will be recognized using the effective interest rate method over the remaining maturity period of the hedged notes. As of June 30, 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>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2018</u>	<u>December 31, 2017</u>
Long-term debt	\$ 568.6	\$ 572.8	\$ 18.9	\$ 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 June 30, 2018 was \$27.4 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 AOCI in the condensed consolidated balance sheets.

In the first quarter of 2018, we initiated receive-fixed-rate, pay-fixed-rate cross-currency interest rate swaps with a notional amount of €500.0 million. In the second quarter of 2018, we initiated additional receive-fixed-rate, pay-fixed-rate cross-currency interest rate swaps with a notional amount of €500.0 million. These transactions 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 a derivative instrument designated as a net investment hedge are recorded as a component of AOCI in the condensed consolidated balance sheets. 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 AOCI until the hedged net investment is sold or substantially liquidated. The gains related to the excluded component were not significant for the period.

In the three and six month periods ended June 30, 2018, we recognized foreign exchange gains of \$91.1 million and \$64.7 million, respectively, in AOCI in foreign currency translation adjustments on our net investment hedges. In the three and six month periods ended June 30, 2017, we recognized foreign exchange losses of \$71.0 million and \$85.8 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 and six month periods ended June 30, 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 AOCI and then recognized in cost of products sold when the hedged item affects net earnings. On our condensed consolidated statements 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 June 30, 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 July 2018 through December 2020. As of June 30, 2018, the notional amounts of outstanding forward contracts and options entered into with third parties to purchase U.S. Dollars were \$1,608.9 million. As of June 30, 2018, the notional amounts of outstanding forward contracts and options entered into with third parties to purchase Swiss Francs were \$264.2 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 Statements of Earnings	Amount of Gain (Loss) Reclassified from AOCI			
	Three Months Ended June 30,		Six Months Ended June 30,			Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017		2018	2017	2018	2017
Foreign exchange forward contracts	\$ 63.7	\$ (25.9)	\$ 29.5	\$ (63.1)	Cost of products sold	\$ (10.5)	\$ 5.9	\$ (21.6)	\$ 17.0
Interest rate swaps	(1.0)	(0.6)	0.1	-	Interest expense	-	-	-	-
Forward starting interest rate swaps	-	-	-	-	Interest expense	(0.2)	(0.2)	(0.3)	(0.3)
	<u>\$ 62.7</u>	<u>\$ (26.5)</u>	<u>\$ 29.6</u>	<u>\$ (63.1)</u>		<u>\$ (10.7)</u>	<u>\$ 5.7</u>	<u>\$ (21.9)</u>	<u>\$ 16.7</u>

The net amounts recognized in earnings during the three and six month periods ended June 30, 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 June 30, 2018, together with settled derivatives where the hedged item has not yet affected earnings, was a net unrealized loss of \$32.9 million, or \$26.8 million after taxes, which is deferred in AOCI. A loss of \$10.7 million, or \$9.3 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 June 30, 2018		Three Months Ended June 30, 2017		Six Months Ended June 30, 2018		Six Months Ended June 30, 2017	
	Cost of Goods Sold	Interest Expense	Cost of Goods Sold	Interest Expense	Cost of Goods Sold	Interest Expense	Cost of Goods Sold	Interest Expense
<b>Total amounts of income and expense line items presented in the statements of earnings in which the effects of fair value or cash flow hedges are recorded</b>	\$ 583.7	\$ (75.9)	\$ 527.7	\$ (82.3)	\$ 1,159.5	\$ (154.8)	\$ 1,040.6	\$ (165.2)
The effects of fair value and cash flow hedging:								
<b>Gain (loss) on fair value hedging relationships</b>								
Discontinued interest rate swaps	-	2.1	-	2.1	-	4.2	-	4.1
<b>Gain (loss) on cash flow hedging relationships</b>								
Forward starting interest rate swaps	-	(0.2)	-	(0.2)	-	(0.3)	-	(0.3)
Foreign exchange forward contracts	(10.5)	-	5.9	-	(21.6)	-	17.0	-

*Derivatives Not Designated as Hedging Instruments*

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

Derivative Instrument	Location on Statements of Earnings	Three Months Ended June 30,		Six Months Ended June 30,	
		2018	2017	2018	2017
Foreign exchange forward contracts	Other expense, net	\$ 27.6	\$ (10.8)	\$ 17.9	\$ (38.6)

These gains and losses do not reflect offsetting losses of \$32.9 million and \$29.0 million in the three and six month periods ended June 30, 2018, respectively, and offsetting gains of \$6.3 million and \$31.9 million in the three and six month periods ended June 30, 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 June 30, 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 June 30, 2018		As of December 31, 2017	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<b>Asset Derivatives</b>				
Foreign exchange forward contracts	Other current assets	\$ 15.0	Other current assets	\$ 14.5
Foreign exchange forward contracts	Other assets	7.9	Other assets	4.8
Interest rate swaps	Other assets	4.6	Other assets	4.5
Cross-currency interest rate swaps	Other assets	32.6	Other assets	-
<b>Total asset derivatives</b>		<u>\$ 60.1</u>		<u>\$ 23.8</u>
<b>Liability Derivatives</b>				
Foreign exchange forward contracts	Other current liabilities	\$ 18.2	Other current liabilities	\$ 45.8
Foreign exchange forward contracts	Other long-term liabilities	5.7	Other long-term liabilities	22.8
Cross-currency interest rate swaps	Other long-term liabilities	1.2	Other long-term liabilities	-
<b>Total liability derivatives</b>		<u>\$ 25.1</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 June 30, 2018			As of December 31, 2017		
		Gross Amount	Offset	Net Amount in Balance Sheet	Gross Amount	Offset	Net Amount in Balance Sheet
<b>Asset Derivatives</b>							
Cash flow hedges	Other current assets	\$ 15.0	\$ 8.7	\$ 6.3	\$ 14.5	\$ 13.4	\$ 1.1
Cash flow hedges	Other assets	7.9	4.3	3.6	4.8	4.3	0.5
<b>Liability Derivatives</b>							
Cash flow hedges	Other current liabilities	18.2	8.7	9.5	45.8	13.4	32.4
Cash flow hedges	Other long-term liabilities	5.7	4.3	1.4	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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Euro Notes	\$ 62.3	\$ (71.0)	\$ 33.3	\$ (85.8)
Cross-currency interest rate swaps	28.8	-	31.4	-
	<u>\$ 91.1</u>	<u>\$ (71.0)</u>	<u>\$ 64.7</u>	<u>\$ (85.8)</u>

## 11. 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 and six month periods ended June 30, 2018, we did not make any material changes to the amount recorded in the year ended December 31, 2017. As of June 30, 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 and six month periods ended June 30, 2018, our effective tax rate ("ETR") was 15.1 percent and 18.2 percent, respectively. In the three month period ended June 30, 2018, we recognized a tax benefit related to adjustments from internal restructuring transactions. Other than this tax benefit, our ETR approximates the U.S. federal income tax rate for both the three and six month periods ended June 30, 2018. In the prior year periods, we had certain discrete adjustments that significantly impacted our ETR. In the six month period ended June 30, 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. In the three and six month periods ended June 30, 2017, we recognized tax benefits of \$67.0 million and \$88.8 million, respectively, related to 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.

## 12. 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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Service cost	\$ 7.0	\$ 6.4	\$ 14.5	\$ 13.9
Interest cost	5.6	4.6	11.1	9.3
Expected return on plan assets	(11.7)	(10.1)	(23.5)	(20.2)
Curtailment loss	-	0.2	-	0.2
Amortization of prior service cost	(2.5)	(2.5)	(5.0)	(5.1)
Amortization of unrecognized actuarial loss	6.7	5.2	12.8	10.8
Net periodic pension expense	<u>\$ 5.1</u>	<u>\$ 3.8</u>	<u>\$ 9.9</u>	<u>\$ 8.9</u>

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 \$9.8 million to our foreign-based defined benefit pension plans in the six month period ended June 30, 2018, and we expect to contribute \$9.7 million to these foreign-based plans during the remainder of 2018.

## 13. Earnings Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Weighted average shares outstanding for basic net earnings per share	203.3	201.8	203.2	201.4
Effect of dilutive stock options and other equity awards	1.3	1.9	1.4	2.0
Weighted average shares outstanding for diluted net earnings per share	<u>204.6</u>	<u>203.7</u>	<u>204.6</u>	<u>203.4</u>

During the three and six month periods ended June 30, 2018, an average of 3.4 million options and 2.3 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. In the three and six month periods ended June 30, 2017, an average of 1.0 million and 0.7 million options, respectively, were not included for the same reason.

## 14. 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, intangible asset impairment, acquisition, integration and related, quality remediation, litigation, other charges 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	
	June 30,		June 30,	
	2018	2017	2018	2017
Americas	\$ 979.3	\$ 969.2	\$ 516.3	\$ 523.6
EMEA	400.0	380.4	118.6	118.9
Asia Pacific	319.2	292.2	112.3	111.8
Product Category Operating Segments	309.1	307.7	39.8	69.6
Global Operations and Corporate Functions	-	-	(225.5)	(212.6)
Total	<u>\$ 2,007.6</u>	<u>\$ 1,949.5</u>		
Inventory step-up and other inventory and manufacturing related charges			(12.5)	(22.5)
Intangible asset amortization			(149.5)	(147.7)
Intangible asset impairment			-	(26.8)
Acquisition, integration and related			(50.5)	(72.5)
Quality remediation			(45.4)	(52.3)
Litigation			4.2	-
Other charges			(11.8)	(9.4)
Operating profit			<u>\$ 296.0</u>	<u>\$ 280.1</u>

	Net Sales		Operating Profit	
	Six Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Americas	\$ 1,970.4	\$ 1,969.8	\$ 1,035.2	\$ 1,064.8
EMEA	832.6	773.1	259.0	248.6
Asia Pacific	618.1	568.8	216.7	211.8
Product Category Operating Segments	604.1	610.2	93.3	142.4
Global Operations and Corporate Functions	-	-	(470.9)	(422.9)
Total	\$ 4,025.2	\$ 3,921.9		

Inventory step-up and other inventory and manufacturing related charges		(19.7)	(41.2)
Intangible asset amortization		(300.3)	(299.7)
Intangible asset impairment		-	(26.8)
Acquisition, integration and related		(96.5)	(130.7)
Quality remediation		(91.6)	(91.2)
Litigation		(1.5)	(7.0)
Other charges		(22.7)	(19.9)
Operating profit	\$	601.0	\$ 628.2

## 15. 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*<sup>®</sup> *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 the majority of these claims and others are still pending. The majority of the pending U.S. lawsuits are currently in a federal Multidistrict Litigation (“MDL”) in the District of New Jersey (*In Re: Zimmer Durom Hip Cup Products Liability Litigation*). As of June 30, 2018, litigation activity in the MDL 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. The majority of claims in the UK are consolidated in a Group Litigation Order.

In the second quarter of 2018, we lowered our estimate of the number of Durom Cup-related claims we expect to settle. Therefore, we recognized a \$20.0 million gain in selling, general and administrative expense in the three and six month periods ended June 30, 2018. In the three and six month periods ended June 30, 2017, we did not record any expense for Durom Cup-related claims. Since 2008, we have recognized net expense of \$469.7 million 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 June 30, 2018 for any possible future insurance recoveries for these claims.

Our estimate as of June 30, 2018 of the remaining liability for all Durom Cup-related claims is \$119.4 million, of which \$48.9 million is classified as short-term in “Other current liabilities” and \$70.5 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 C up-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 June 30, 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 June 30, 2018 of the remaining liability for all Biomet metal-on-metal hip implant claims is \$41.4 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 June 30, 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. As of June 30, 2018, these claims were still pending. 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. On June 29, 2018, the court in Freiberg, Germany dismissed Heraeus' request for an injunction prohibiting the marketing of the European Cements under their current names. Heraeus may appeal this decision to the Court of Appeals in Karlsruhe, Germany.

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<sup>®</sup> 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 \$170.0 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 continue 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, plaintiffs filed their omnibus response to the motions to dismiss on March 13, 2018 and the defendants filed their respective reply briefs on May 18, 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 June 30, 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 (the legacy Biomet facility is sometimes referred to in this report as the “Warsaw North Campus”). 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 are subject to oversight by an independent compliance monitor. 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 and Six Month Periods ended June 30, 2018

Net sales increased by 3.0 percent and 2.6 percent in the three and six month periods ended June 30, 2018, respectively, compared to the same prior year periods. The sales increases were driven primarily by volume/mix in our Knees and Hips product categories and changes in foreign currency exchange rates, most notably from the weakening of the U.S. Dollar against the Euro, Renminbi and Japanese Yen. We continue to make progress addressing our ongoing supply and quality remediation challenges at our Warsaw North Campus facility, which was reflected by higher year-over-year volume/mix growth in our second quarter of 2018 compared to our first quarter of 2018.

Our net earnings were flat in the three month period ended June 30, 2018 compared to the same prior year period and declined in the six month period ended June 30, 2018 compared to the same prior year period. In the three month period ended June 30, 2018, sales increases and lower acquisition, integration and related expenses were partially offset by hedge losses, increased excess and obsolescence charges, incremental production and inventory costs at our Warsaw North Campus facility and continued investments in research and development ("R&D") and selling, general and administrative ("SG&A"). Additionally, the prior year three month period featured \$67.0 million of tax benefits from the resolution of certain tax matters, resulting in higher tax expense in the current year period despite U.S. tax reform. The decline in net earnings in the six month period ended June 30, 2018 was primarily due to the same reasons, as well as a tax benefit of \$69.7 million in the first quarter of 2017 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.

#### 2018 Outlook

We estimate our sales growth in 2018 over 2017 will be in a range of 1.0 to 2.5 percent. This estimate assumes foreign currency exchange rates will increase sales by 1.0 to 1.5 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 are expected to 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, and we plan to reinvest those savings into the business to drive sales growth. Accordingly, we expect R&D and SG&A expenses to be higher in 2018 compared to 2017. We expect our acquisition, integration and related expenses to decline in the last half of the year compared to the first half as we complete our integration activities related to the Biomet merger and other 2016 acquisitions. We expect quality remediation expense to remain consistent in the last half of the year compared to the first half as we continue our quality remediation at our Warsaw North Campus facility. We expect interest expense in 2018 to be approximately \$300 million due to lower debt levels than in 2017.

We 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 and six month periods ended June 30, 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 11 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 tables present our net sales by geography and the components of the percentage changes (dollars in millions):

	Three Months Ended		% Inc	Volume / Mix	Price	Foreign Exchange
	June 30,					
	2018	2017				
Americas	\$ 1,216.3	\$ 1,203.9	1.0 %	3.3 %	(2.4) %	0.1 %
EMEA	457.7	438.2	4.4	0.5	(2.3)	6.2
Asia Pacific	333.6	307.4	8.5	8.9	(3.5)	3.1
Total	\$ 2,007.6	\$ 1,949.5	3.0	3.5	(2.5)	2.0

	Six Months Ended		% Inc / (Dec)	Volume / Mix	Price	Foreign Exchange
	June 30,					
	2018	2017				
Americas	\$ 2,424.4	\$ 2,433.8	(0.4) %	1.8 %	(2.4) %	0.2 %
EMEA	954.2	891.4	7.0	-	(2.4)	9.4
Asia Pacific	646.6	596.7	8.4	7.7	(3.7)	4.4
Total	\$ 4,025.2	\$ 3,921.9	2.6	2.3	(2.6)	2.9

“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 tables present 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
	June 30,					
	2018	2017				
Knees	\$ 703.0	\$ 680.0	3.4 %	4.2 %	(2.8) %	2.0 %
Hips	486.9	468.0	4.0	4.4	(2.9)	2.5
S.E.T.	433.8	421.1	3.0	3.6	(2.4)	1.8
Dental	106.9	110.4	(3.2)	(4.6)	(0.9)	2.3
Spine & CMF	198.2	193.3	2.5	3.8	(2.5)	1.2
Other	78.8	76.7	2.8	3.1	(1.9)	1.6
<b>Total</b>	<b>\$ 2,007.6</b>	<b>\$ 1,949.5</b>	<b>3.0</b>	<b>3.5</b>	<b>(2.5)</b>	<b>2.0</b>

	Six Months Ended		% Inc / (Dec)	Volume / Mix	Price	Foreign Exchange
	June 30,					
	2018	2017				
Knees	\$ 1,416.3	\$ 1,380.8	2.6 %	2.6 %	(3.0) %	3.0 %
Hips	978.9	941.8	3.9	3.1	(2.8)	3.6
S.E.T.	876.1	844.6	3.7	3.6	(2.4)	2.5
Dental	214.5	218.2	(1.7)	(3.6)	(1.5)	3.4
Spine & CMF	381.3	379.6	0.5	0.8	(2.0)	1.7
Other	158.1	156.9	0.8	(0.1)	(1.4)	2.3
<b>Total</b>	<b>\$ 4,025.2</b>	<b>\$ 3,921.9</b>	<b>2.6</b>	<b>2.3</b>	<b>(2.6)</b>	<b>2.9</b>

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 June 30,		% Inc	Six Months Ended June 30,		% Inc / (Dec)
	2018	2017		2018	2017	
<b>Knees</b>						
<i>Americas</i>	\$ 408.1	\$ 405.4	0.7 %	\$ 825.3	\$ 833.4	(1.0) %
<i>EMEA</i>	170.8	159.8	7.0	359.7	327.7	9.8
<i>Asia Pacific</i>	124.1	114.8	8.1	231.3	219.7	5.3
<b>Total</b>	<b>\$ 703.0</b>	<b>\$ 680.0</b>	<b>3.4</b>	<b>\$ 1,416.3</b>	<b>\$ 1,380.8</b>	<b>2.6</b>
<b>Hips</b>						
<i>Americas</i>	\$ 250.0	\$ 243.4	2.7 %	\$ 497.8	\$ 487.9	2.0 %
<i>EMEA</i>	133.8	130.7	2.2	276.0	266.9	3.4
<i>Asia Pacific</i>	103.1	93.9	9.9	205.1	187.0	9.7
<b>Total</b>	<b>\$ 486.9</b>	<b>\$ 468.0</b>	<b>4.0</b>	<b>\$ 978.9</b>	<b>\$ 941.8</b>	<b>3.9</b>

### Demand (Volume and Mix) Trends

Increased volume and changes in the mix of product sales had a positive effect of 3.5 percent and 2.3 percent on year-over-year sales during the three and six month periods ended June 30, 2018, respectively. 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 2.5 percent and 2.6 percent on year-over-year sales during the three and six month periods ended June 30, 2018, respectively. 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 and six month periods ended June 30, 2018, changes in foreign currency exchange rates had a positive effect of 2.0 percent and 2.9 percent, respectively, 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 for the full year, but will be slightly negative in the second half of the year.

#### Sales by Product Category

##### *Knees*

Knee sales increased in the three and six month periods ended June 30, 2018 when compared to the same prior year periods 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<sup>®</sup> The Personalized Knee System and the Oxford<sup>®</sup> Partial Knee.

##### *Hips*

Hip sales increased in the three and six month periods ended June 30, 2018 when compared to the same prior year periods 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<sup>®</sup> Complete Hip System, Arcos<sup>®</sup> Modular Hip System and G7<sup>®</sup> Acetabular System.

##### *S.E.T.*

Our S.E.T. product category sales increased in the three and six month periods ended June 30, 2018 when compared to the same prior year periods, driven primarily by a growing emphasis on sales force specialization, strong performance by certain key brands and changes in foreign currency exchange rates.

##### *Dental*

Dental sales declined in the three and six month periods ended June 30, 2018 when compared to the same prior year periods. The decline was primarily due to unseasonably high demand in the prior year periods from certain U.S. customers, ongoing stabilization initiatives in certain European markets and product backorders.

##### *Spine and CMF*

Spine and CMF sales increased in the three and six month periods ended June 30, 2018 when compared to the same prior year periods, primarily due to continuing strong sales of our Thoracic products partially offset by a decline in Spine sales driven by U.S. distributor integration issues.

## Expenses as a Percentage of Net Sales

	Three Months Ended			Six Months Ended		
	June 30,		% Inc / (Dec)	June 30,		% Inc / (Dec)
	2018	2017		2018	2017	
Cost of products sold, excluding intangible asset amortization	29.1 %	27.1 %	2.0 %	28.8 %	26.5 %	2.3 %
Intangible asset amortization	7.4	7.6	(0.2)	7.5	7.6	(0.1)
Research and development	4.9	4.8	0.1	4.8	4.7	0.1
Selling, general and administrative	39.4	38.6	0.8	39.6	39.0	0.6
Intangible asset impairment	-	1.4	(1.4)	-	0.7	(0.7)
Acquisition, integration and related	2.5	3.7	(1.2)	2.4	3.3	(0.9)
Quality remediation	1.9	2.6	(0.7)	2.0	2.1	(0.1)
Operating profit	14.7	14.4	0.3	14.9	16.0	(1.1)

The increase in cost of products sold as a percentage of net sales for the three and six month periods ended June 30, 2018 compared to the same prior year periods was primarily due to hedge losses of \$10.5 million and \$21.6 million recognized in the 2018 periods, respectively, compared to hedge gains of \$5.9 million and \$17.0 million recognized in the 2017 periods, respectively. 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 and six month periods ended June 30, 2018 when compared to the same prior year periods included lower average selling prices, increased manufacturing costs at our Warsaw North Campus facility and higher excess and obsolete inventory charges. These unfavorable items in the 2018 periods were partially offset by lower inventory step-up charges in those periods. 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 during the 2018 periods was primarily the result of the step-up to fair value of the LDR Holding Corporation (“LDR”) inventory having been fully recognized by September 30, 2017.

Intangible asset amortization expense and intangible asset amortization expense as a percentage of net sales remained generally consistent between the three and six month periods ended June 30, 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 net sales increased slightly in the three and six month periods ended June 30, 2018 compared to the same prior year periods, 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 and six month periods ended June 30, 2018 when compared to the same prior year periods. The primary drivers of the increased expense were higher sales, increased investments in our specialized sales force and increased expenses related to our compliance with the DPA.

In the three month period ended June 30, 2017, we recognized \$18.8 million and \$8.0 million of intangible asset impairment from Biomet merger-related in-process research and development and trademark intangible assets, respectively. The impairments were primarily due to the termination of certain IPR&D projects and reclassification of a trademark from an indefinite life to a finite life.

Acquisition, integration and related expenses declined in the three and six month periods ended June 30, 2018 compared to the same prior year periods due to the natural regression of integration activities related to the 2015 Biomet merger and other various acquisitions that were consummated in 2016. We are nearing completion of our integration plans for these businesses.

Our quality enhancement and remediation efforts began in late 2016, accelerated throughout 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.

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

In the three and six month periods ended June 30, 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 and six month periods ended June 30, 2018 compared to the same prior year periods was primarily caused by higher foreign currency losses.

Net interest expense decreased in the three and six month periods ended June 30, 2018, compared to the same prior year periods, primarily due to lower average outstanding debt balances during the 2018 periods resulting from debt repayments throughout 2017.

In the three and six month periods ended June 30, 2018, our effective tax rate ("ETR") was 15.1 percent and 18.2 percent, respectively. In the three month period ended June 30, 2018, we recognized a tax benefit related to adjustments from internal restructuring transactions. Other than this tax benefit, our ETR approximates the U.S. federal income tax rate for both the three and six month periods ended June 30, 2018. In the prior year periods, we had certain discrete adjustments that significantly impacted our ETR. In the six month period ended June 30, 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. In the three and six month periods ended June 30, 2017, we recognized tax benefits of \$67.0 million and \$88.8 million, respectively, related to 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 11 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	
	June 30,		June 30,		June 30,	
(dollars in millions)	2018	2017	2018	2017	2018	2017
Americas	\$ 979.3	\$ 969.2	\$ 516.3	\$ 523.6	52.7 %	54.0 %
EMEA	400.0	380.4	118.6	118.9	29.7	31.3
Asia Pacific	319.2	292.2	112.3	111.8	35.2	38.3

	Net Sales		Operating Profit		Operating Profit as a Percentage of Net Sales	
	Six Months Ended		Six Months Ended		Six Months Ended	
	June 30,		June 30,		June 30,	
(dollars in millions)	2018	2017	2018	2017	2018	2017
Americas	\$ 1,970.4	\$ 1,969.8	\$ 1,035.2	\$ 1,064.8	52.5 %	54.1 %
EMEA	832.6	773.1	259.0	248.6	31.1	32.2
Asia Pacific	618.1	568.8	216.7	211.8	35.1	37.2

In the Americas, operating profit as a percentage of net sales decreased in the three and six month periods ended June 30, 2018 compared to the same prior year periods 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 net sales decreased in the three and six month periods ended June 30, 2018 compared to the same prior year periods primarily due to price declines and hedge losses recognized in the current year periods versus hedge gains recognized in the prior year periods.

### 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 including charges to discontinue certain product lines; intangible asset amortization; intangible asset impairment; acquisition, integration and related expenses; quality remediation expenses; certain litigation gains and charges; other charges; any related effects on our income tax provision associated with these items; and other certain tax adjustments. We use these non-GAAP financial measures internally to evaluate the performance of the business. Additionally, we believe these non-GAAP measures provide meaningful incremental 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 income but that do not impact the fundamentals of our operations. The non-GAAP measures enable the evaluation of operating results and trend analysis by allowing a reader to better identify operating trends that may otherwise be masked or distorted by these types of items that are excluded from the non-GAAP measures. In addition, adjusted diluted net earnings per share 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		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Net Earnings of Zimmer Biomet Holdings, Inc.	\$ 185.0	\$ 184.2	\$ 359.7	\$ 483.6
Inventory step-up and other inventory and manufacturing-related charges (1)	12.5	22.5	19.7	41.2
Intangible asset amortization (2)	149.5	147.7	300.3	299.7
Intangible asset impairment (3)	-	26.8	-	26.8
Acquisition, integration and related (4)	50.5	72.5	96.5	130.7
Quality remediation (5)	45.4	52.3	91.6	91.2
Litigation (6)	(4.2)	-	1.5	7.0
Other charges (7)	11.8	8.8	22.7	20.8
Taxes on above items (8)	(44.8)	(102.2)	(95.4)	(185.2)
Other certain tax adjustments (9)	(13.7)	12.0	(13.7)	(57.8)
Adjusted Net Earnings	\$ 392.0	\$ 424.6	\$ 782.9	\$ 858.0

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Diluted Earnings Per Share	\$ 0.90	\$ 0.90	\$ 1.76	\$ 2.38
Inventory step-up and other inventory and manufacturing-related charges (1)	0.06	0.11	0.10	0.20
Intangible asset amortization (2)	0.73	0.73	1.47	1.47
Intangible asset impairment (3)	-	0.13	-	0.13
Acquisition, integration and related (4)	0.25	0.36	0.47	0.64
Quality remediation (5)	0.22	0.26	0.45	0.45
Litigation (6)	(0.02)	-	0.01	0.04
Other charges (7)	0.06	0.04	0.11	0.10
Taxes on above items (8)	(0.22)	(0.51)	(0.47)	(0.91)
Other certain tax adjustments (9)	(0.06)	0.06	(0.07)	(0.28)
Adjusted Diluted Earnings Per Share	\$ 1.92	\$ 2.08	\$ 3.83	\$ 4.22

- (1) Inventory step-up and other inventory and manufacturing-related charges relate to inventory step-up expense, excess and obsolete inventory charges on certain product lines we intend to discontinue and other inventory and manufacturing-related charges. Inventory step-up expense represents the incremental expense of inventory sold recognized at its fair value after business combination accounting is applied versus the expense that would have been recognized if sold at its cost to manufacture. Since only the inventory that existed at the business combination date was stepped-up to fair value, we believe excluding the incremental expense provides investors useful information as to what our costs may have been if we had not been required to

increase the inventory's book value to fair value. Only the 2017 periods include inventory step-up expenses. The excess and obsolete inventory charges on certain product lines are driven by acquisitions where there are competing product lines and we have plans to discontinue one of the competing product lines.

- (2) We exclude intangible asset amortization from our non-GAAP financial measures because we internally assess our performance against our peers without this amortization. Due to various levels of acquisitions among our peers, intangible asset amortization can vary significantly from company to company.
- (3) In the 2017 periods, we recognized \$18.8 million and \$8.0 million of intangible asset impairment from Biomet merger-related in-process research and development and trademark intangible assets, respectively.
- (4) The acquisition, integration and related expenses we have excluded from our non-GAAP financial measures resulted from our merger with Biomet in 2015 and various acquisitions we consummated in 2016. For Biomet, we have detailed integration roadmaps that cover a three year period from the merger date to accomplish the tasks we feel are necessary to integrate the businesses. For the various 2016 acquisitions, we also have integration plans that are necessary to integrate the businesses. The acquisition, integration and related expenses include the following types of expenses:
  - Consulting and professional fees related to third-party integration consulting performed in a variety of areas, such as tax, compliance, logistics and human resources, and legal fees related to the consummation of mergers and acquisitions.
  - Employee termination benefits related to various areas of our business.
  - Dedicated project personnel expenses which include the salary, benefits, travel expenses and other costs directly associated with employees who are 100 percent dedicated to our integration of acquired businesses and employees who have been notified of termination.
  - Contract termination expenses related to terminated contracts, primarily with sales agents and distribution agreements.
  - Other various expenses to relocate facilities, integrate information technology, losses incurred on assets resulting from the applicable acquisition, and other various expenses.
- (5) We are addressing inspectional observations on Form 483 issued by the FDA following its inspections of our Warsaw North Campus facility, among other matters. This quality remediation has required us to devote significant financial resources and is for a discrete period of time. The majority of these expenses are related to consultants who are helping us to update previous documents and redesign certain processes.
- (6) We are involved in routine patent litigation, product liability litigation, commercial litigation and other various litigation matters. We review litigation matters from both a qualitative and quantitative perspective to determine if excluding the losses or gains will provide our investors with useful incremental information. Litigation matters can vary in their characteristics, frequency and significance to our operating results. The litigation charges or gains excluded from our non-GAAP financial measures in the periods presented relate to product liability matters where we have received numerous claims on specific products. Due to the complexities involved and claims filed in multiple districts, the expenses associated with these matters are significant to our operating results. Once the litigation matter has been excluded from our non-GAAP financial measures in a particular period, any additional expenses or gains from changes in estimates are also excluded, even if they are not significant, to ensure consistency in our non-GAAP financial measures from period-to-period.
- (7) We have incurred other various expenses from specific events or projects that we consider highly variable or have a significant impact to our operating results that we have excluded from our non-GAAP measures. This includes our costs of complying with our DPA with the U.S. government related to certain FCPA matters involving Biomet and certain of its subsidiaries. Under the DPA, which has a three-year term, we are subject to oversight by an independent compliance monitor for at least 12 months, which mentorship commenced in July 2017. The excluded costs include the fees paid to the independent compliance monitor and to external legal counsel assisting in the matter.
- (8) Represents the tax effects on the previously specified items. 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.
- (9) Other certain tax adjustments in the three and six month periods ended June 30, 2018 primarily related to internal restructuring transactions that provide us access to offshore funds in a tax efficient manner. In the three month period ended June 30, 2017, other certain tax adjustments related to charges from internal restructuring transactions that provided us access to cash in a tax efficient manner, partially offset by net favorable resolutions of various tax matters. The six month period ended June 30, 2017

also included a tax restructuring that lowered the tax rate on deferred tax liabilities recorded on intangible assets recognized in acquisition-related accounting.

## Liquidity and Capital Resources

Cash flows provided by operating activities were \$883.8 million in the six month period ended June 30, 2018, compared to \$715.9 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 15 to our interim condensed consolidated financial statements included in Part I, Item 1 of this report.

Cash flows used in investing activities were \$195.3 million in the six month period ended June 30, 2018, compared to \$262.1 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 used in financing activities were \$729.0 million in the six month period ended June 30, 2018, compared to \$656.9 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. We repaid \$375.0 million of the Multicurrency Revolving Facility borrowings and also repaid \$225.0 million on U.S. Term Loan A in the 2018 period. In the 2017 period, we borrowed and subsequently repaid \$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 \$62.9 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 and May 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 June 30, 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 11 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 intend to vigorously defend our positions. 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 15 to our interim condensed consolidated financial statements included in Part I, Item 1 of this report, as of June 30, 2018, a short-term liability of \$48.9 million and a long-term liability of \$70.5 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 condensed consolidated balance sheet as of June 30, 2018 for any possible future insurance recoveries for these claims. As of June 30, 2018, we also had a short-term liability of \$41.4 million related to Biomet metal-on-metal hip implant claims.

At June 30, 2018, we had twelve tranches of senior notes outstanding as follows (dollars in millions):

Principal	Interest Rate	Maturity Date
\$ 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
583.8 *	1.414	December 13, 2022
300.0	3.700	March 19, 2023
2,000.0	3.550	April 1, 2025
583.8 *	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 \$1,583.7 million outstanding as of June 30, 2018.

We have a \$1.5 billion Multicurrency Revolving Facility that will mature on September 30, 2021. There were \$25.0 million in outstanding borrowings under this facility as of June 30, 2018. We also have other available uncommitted credit facilities totaling \$53.3 million as of June 30, 2018.

For additional information on our debt, see Note 7 to our interim condensed 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 June 30, 2018, \$331.9 million of our cash and cash equivalents were held in jurisdictions outside of the U.S. Of this amount, \$68.0 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 or six month periods ended June 30, 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 remediation efforts at the Warsaw North Campus 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 June 30, 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 15 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 June 30, 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 \(incorporated by reference to Exhibit 3.3 to the Registrant's Current Report on Form 8-K filed June 26, 2015\)](#)
- 10.1\* [Restated Zimmer Biomet Holdings, Inc. Executive Severance Plan](#)
- 10.2\* [Form of Restricted Stock Unit Award Agreement \(two-year cliff vesting\) under the Zimmer Biomet Holdings, Inc. 2009 Stock Incentive Plan](#)
- 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](#)
- 99 [Zimmer Biomet Holdings, Inc. Employee Stock Purchase Plan \(As amended and restated effective June 1, 2018\)](#)
- 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: August 6, 2018

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

Date: August 6, 2018

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

# My Rewards

My Pay/Recognition • My Benefits • My Work/Life • My Career Growth

Exhibit 10.1

## Restated Zimmer Biomet Holdings, Inc. Executive Severance Plan

**Effective as of May 14, 2018**



---

# **Table of Contents**

## **INTRODUCTION 1**

## **ABOUT YOUR PARTICIPATION 1**

Eligibility to Participate in the Plan 1

Eligibility to Receive Severance Benefits 2

## **AMOUNT OF SEVERANCE BENEFIT OFFER 3**

How Your Severance Benefit Offer Is Calculated 3

## **HOW SEVERANCE BENEFITS ARE PAID 4**

General Release Requirements 5

Forfeiture and Repayment 5

Form of General Release 5

How Other Benefits Are Affected 6

Deductions from Severance Benefits 6

## **PLAN ADMINISTRATION 7**

Plan Sponsor 7

Plan Administrator 7

Agent for Service of Legal Process 9

Identification Numbers 9

Plan Year 9

Plan Funding 9

Amendments/Reservation of Rights 9

Plan Document 9

## **CLAIM AND APPEAL PROCESS FOR SEVERANCE BENEFITS 9**

Initial Claim for Benefits 9

Procedures for Appealing an Adverse Benefit Determination 10

## **YOUR RIGHTS UNDER ERISA 11**

---

---

**Receive Information About Your Plan and Benefits 11**

**Enforce Your Rights 12**

**Assistance with Your Questions 12**

**GENERAL PROVISIONS 12**

**GOVERNING LAW 13**

**SECTION 409A 13**

---

## INTRODUCTION

Zimmer Biomet Holdings, Inc. (the “Company”) hereby restates the Zimmer Biomet Holdings, Inc. Executive Severance Plan (the “Executive Severance Plan” or the “Plan”), effective as of May 14, 2018. This document serves as the plan document and summary plan description (SPD) for the Plan, and supersedes any prior Executive Severance Plan document. It describes the benefits as they apply to eligible executives. The plan document applies to eligible participants (as defined below) who are notified in writing by the Company on or after the effective date of this restatement of their separation or pending separation from employment with the Company.

Nothing in this Plan creates or constitutes a contract of employment with the Company or any of its direct or indirect subsidiaries or affiliates. Employment with the Company and its affiliates is “at-will” absent any contractual employment agreement or applicable law to the contrary, which means that either the executive or the Company, subsidiary or affiliate may terminate the employment relationship at any time for any reason, with or without cause or notice.

## ABOUT YOUR PARTICIPATION

This section includes important information about your participation in the Executive Severance Plan. The Plan provides severance benefits to eligible executives of the Company and its direct and indirect subsidiaries and affiliates whose employment is involuntarily terminated for reasons other than misconduct or other cause, subject to the terms set forth below. No individual shall have a vested right to benefits under the Plan.

This section covers two types of eligibility — eligibility to participate in the Plan and eligibility to receive severance benefits under the Plan. You must satisfy both eligibility requirements to be eligible for benefits.

### Eligibility to Participate in the Plan

You are eligible to participate in the Executive Severance Plan if at the time of the Company’s providing to you written notice of immediate or pending separation from employment as of a specified date, you are:

- A member of the Company’s Leadership Team or a successor committee; and
- Designated in writing as a participant in this Plan by the Compensation and Management Development Committee (the “Compensation Committee”) of the Board of Directors (the “Board”), or the Company’s highest-level Human Resources executive (“VP HR”).

Notwithstanding the foregoing, you are not eligible to participate in this Plan if you:

- Are eligible to receive (regardless of whether you actually qualify for or receive the benefits), or have received, an offer of severance benefits pursuant to terms and conditions of an individual employment or change in control agreement;
- Have been designated as no longer eligible to participate by the Compensation Committee or the VP HR;
- Are entitled to long-term disability (LTD) benefits under a Company LTD plan; and/or
- Have agreed in writing that you are not entitled to participate in this Plan.

If you are a participant in this Plan, you are not eligible to participate in or receive benefits under the Zimmer Biomet Holdings, Inc. Restated Severance Plan.

---

### ***When Participation Ends***

Participation in the Plan ends on the first of the following dates:

- The date you no longer meet the eligibility requirements to participate, including due to your removal as a participant by the Compensation Committee or the VP HR, regardless of whether you are notified of such ineligibility or removal;
- The date all severance benefits you are eligible or agree to receive have been paid;
- The date your employment ends for any reason that does not qualify you for an offer of severance benefits;
- The date of your death; or
- The date the Plan is terminated or amended so that you lose coverage.

### **Eligibility to Receive Severance Benefits**

As a Plan participant, you become eligible to receive severance benefits if you meet all of the following requirements:

- You are notified in writing that your employment is being terminated;
- You sign the general release required by the Company within the time period specified within the general release and, if applicable, do not validly revoke your signature within the revocation period;
- If required to do so, you execute any confidentiality, intellectual property, and/or other restrictive covenant agreement in a form provided by the Company; and
- You work through your scheduled termination date.

Notwithstanding the foregoing, you will not be eligible to receive severance benefits under this Plan if your employment is terminated for any of the following reasons:

- Voluntary termination of employment or resignation of employment before your scheduled termination date;
  - Mandatory retirement due to Company policies or legal requirements;
  - Willful misconduct or activity that the Company has deemed actually or potentially detrimental to the interests of the Company, which may include, but is not limited to, dishonesty; theft; violation of the Company Code of Business Conduct and Ethics or other Company policy, rule, or procedure, such as those relating to alcohol or drugs, discrimination or harassment, workplace violence, product quality, safety, etc.; unauthorized disclosure of confidential information; conduct inconsistent with any applicable law or regulation; or other serious misconduct;
  - Willful failure or refusal to substantially perform job responsibilities (other than any such failure resulting from incapacity due to disability), as determined by the Company, including but not limited to deliberate unsatisfactory behavior and/or job performance;
  - Excessive, unauthorized absenteeism;
  - Any act or omission that the Company has determined has caused, is causing, will cause, or has the potential to cause, significant harm or loss to the Company, its officers, and/or its employees;
  - Refusal to accept reassignment to a different primary work location designated by the Board (for the President and CEO) or by the President and CEO or the VP HR (for other Leadership Team or successor committee members), despite the availability of relocation assistance benefits in accordance with the terms of the Company's relocation policy and plan as applicable for senior executives;
  - The sale of all or part of the Company's business, if you are offered comparable employment with the acquiring or restructured company; or
  - Extended absence under a Company short-term disability (STD) or LTD plan or program, including your failure or inability to return to active employment from a period of receiving
-

STD/LTD benefits ; provided, however, if, but for your approved leave, you would have been separated from employment for a reason unrelated to your leave, such as position elimination or organizational restructuring, while you are receiving STD benefits, then you may be eligible for severance benefits equal to the amount of benefits determined under the Plan less the amount of STD benefits paid after the date your employment would have terminated.

**When Severance Benefits End**

Severance benefit eligibility will end on the earliest of the following dates:

- The date you receive all severance benefits to which you are entitled or agree to receive;
- The date you effectively revoke your signature on your release within the time allowed;
- The date you engage in activity that the Company determines has caused, is causing, will cause, or has the potential to cause significant loss or harm to the Company, its officers and/or its employees; or
- The date the Plan is terminated or amended to change eligibility requirements so as to make you ineligible.

**AMOUNT OF SEVERANCE BENEFIT OFFER**

The amount of your severance benefit offer is calculated based on the following as of the date of your termination of employment:

**How Your Severance Benefit Offer Is Calculated**

Position	
President and CEO	2x the sum of your annualized base salary plus your target annual bonus, determined as of your separation date
Other eligible Leadership Team or successor committee members	1x the sum of your annualized base salary plus your target annual bonus, determined as of your separation date

In addition to the benefit described above, if you are eligible to receive severance benefits (including providing a valid general release as described above) and you are covered under the federal law known as COBRA, you will receive an amount equal to the then-current monthly COBRA premium based upon the group health insurance (medical and dental, but excluding vision) you had in effect the day before your separation from employment, multiplied by 24 for the President and CEO and by 12 for other members of the Leadership Team or successor committee. If you are eligible to receive severance benefits, you will receive this amount (less all applicable withholding taxes) whether or not you elect COBRA coverage or use the amount to pay for the cost of COBRA coverage. In order to continue your health insurance coverage after your separation from employment, you must elect continuation of coverage in accordance with COBRA instructions you will be provided upon your separation from employment, and pay the applicable premiums in a timely manner.

---

Effective January 1, 2019, in addition to the above amounts, if your employment is terminated by the Company on or after January 1 but prior to the payment date for bonuses related to the previous calendar year under the Executive Performance Incentive Plan or the Performance Incentive Plan (collectively, the “PIP”), and you were eligible to participate in the PIP immediately prior to your separation and are entitled to severance benefits under this Plan, your severance benefit will be increased by the value of the bonus you would have received under the PIP, if any, had you remained employed on the payment date (the “Enhanced Amount”). If PIP payout amounts have not yet been determined at that time, your lump-sum severance payment that includes the base pay, target bonus, and COBRA subsidy components will include a bonus component based upon the approximate value of the anticipated bonus you would have been eligible to receive had you remained employed as of the payout date (the “Estimated Bonus Payment”). The Company, upon finalizing bonus payment calculations for the year, will determine the actual bonus you would have been paid had you remained employed on the payout date and, if that amount is greater than the Estimated Bonus Payment, will pay such difference (the “Bonus True-Up Payment”) to you.

Notwithstanding the foregoing, if you are on an approved STD leave and would, but for your approved STD leave, be separated from employment for a severance-qualifying reason unrelated to your leave, such as position elimination or organizational restructuring, then you may be eligible for severance benefits upon your separation equal to the amount of benefits determined under the Plan less the amount of STD benefits paid after the date your employment would have terminated.

Any severance benefits otherwise offered under this Plan shall be reduced by any severance benefits required to be paid under applicable law, including, but not limited to, statutes, ordinances, or local laws or customs (collectively, “Other Severance Benefits”). If the amount of Other Severance Benefits is greater than the amount offered under this Plan, no benefits are payable under this Plan. In the event that in your situation the laws of a country other than the United States may apply to this Plan and/or to your employment relationship with the Company or its affiliates, and such laws will cause, directly or indirectly, total severance benefits under this Plan and Other Severance Benefits otherwise payable to you to exceed the benefits payable under this Plan, then you shall be excluded from participation in this Plan.

The Company will also offer to you, if you are eligible, reasonable outplacement services provided through a third-party administrator at the Company’s expense (with a value not to exceed \$25,000) or an equivalent cash benefit in the plan administrator’s discretion.

The Company may from time to time amend this Plan, via addendum or otherwise, to provide for different severance benefits and/or severance benefit terms and conditions, or to eliminate severance benefits entirely, for all or a portion of the Company’s executives. Any addendum will be effective only upon approval by the Compensation Committee (or by the Board, should the Board limit or remove the authority of the Compensation Committee to approve such Plan changes). All other terms of the plan document shall continue to apply.

## **HOW SEVERANCE BENEFITS ARE PAID**

Severance payments will be made in lump-sum form, less tax withholdings and any amounts owed to the Company for any reason. Payment will be made as soon as administratively feasible, in accordance with the Company’s regular payroll schedule, after your timely return of a signed general release in the form you were provided and, if applicable, after the expiration of a specified revocation period during which you do not validly revoke your signature on the general release. Any Bonus True-Up Payment you are eligible to receive will be paid in lump-sum form as soon as administratively feasible in accordance with the Company’s regular payroll

---

schedule once the amount has been determined , less tax withholdings and any amounts owed to the Company for any reason .

Notwithstanding the foregoing, severance benefits will not be paid to you until you have returned all Company-owned property to the Company in a condition satisfactory to the Company. Company-owned property shall include, but not be limited to, the Company's intellectual property and confidential and trade secret information as well as Company-issued computers, PDAs, electronic tablets, cell phones, and corporate credit cards that are in your possession or control.

### **General Release Requirements**

You must sign a release in the form provided by the Company to receive severance benefits. By signing the release, you agree to the terms of the release, which include giving up, to the fullest extent permitted by law, any right to sue the Company and any of its direct or indirect subsidiaries and affiliates.

The general release you are provided will state how many days you have to sign and deliver the release to the Company and, if applicable, how many days you have to rescind your signature. If you do not deliver the signed release within the time allowed, or if you timely and properly rescind your signature, the Company will consider this a refusal to sign and you will not be eligible to receive severance benefits.

### **Forfeiture and Repayment**

If (1) you violate or breach any term of the Plan or the general release or any non-disclosure, intellectual property, and/or other restrictive covenant agreement with the Company or any of its direct or indirect subsidiaries or affiliates, or (2) after your termination of employment, facts are disclosed or discovered that could have supported your termination for cause and would have rendered you ineligible to receive severance benefits under this Plan, as described in the *Eligibility to Receive Severance Benefits* section above, then you shall automatically forfeit any and all rights to benefits under this Plan, and, to the extent benefits have been paid to you under this Plan, you must repay the full amount within 15 days of receiving written notification from the Company. The Company may recover any benefits that you fail to repay in any of the following ways:

- Withholding wages, or any other money owed to you, if permitted by applicable law; and
- Using other appropriate legal means.

These remedies are not exclusive, and the Company may pursue any other legal claims and/or remedies that it may have against you arising out of or related to the facts supporting the forfeiture of rights under this Plan.

### **Form of General Release**

The form of general release you must sign to receive any severance benefits for which you are eligible will be determined by the Company at the time of your separation from employment, and may include, among other provisions, the following:

- Your agreement that you will not take any action or make any statement that disparages the Company or other released parties, or its or their practices, or which disrupts or impairs its or their normal operations so as to cause a material adverse impact; provided, however, that nothing in the general release shall restrict your rights to make disclosures specifically allowed or required under applicable law.
-

- Your agreement to make yourself reasonably available by telephone, without additional compensation beyond your severance benefit, for a specified period of time following your separation date to respond in a timely manner to inquiries from one or more designated Company officials related to carrying out an orderly transition of business.
- Your agreement to cooperate with the Company and any of its direct or indirect subsidiaries and affiliates on an ongoing basis to the extent reasonably necessary for response to any governmental investigation or defense of litigation, with reimbursement for reasonable out-of-pocket expenses that you may incur in providing this cooperation and compensation for your time at an hourly rate based on your final Company base salary.
- If your separation date falls on or after January 1 but prior to the payment date for bonuses related to the previous calendar year under the PIP and your severance benefit includes an Enhanced Amount, your specific waiver and release of any entitlement to any further payout under the PIP for the prior calendar year.

### **How Other Benefits Are Affected**

Your participation in all Company employee benefit plans will end on your termination date, unless the provisions of a plan specifically allow for benefits to continue following termination.

Severance benefits shall not be considered compensation for purposes of any qualified or nonqualified deferred compensation or retirement plan or program.

### **Deductions from Severance Benefits**

#### ***Amounts Owed to the Company***

The Company reserves the right to deduct any amount you owe the Company, or any of its direct or indirect subsidiaries or affiliates, for any reason, including but not limited to plan premiums, borrowed vacation/PTO days, loans, signing or retention incentives, educational assistance, and/or relocation reimbursement, from any severance benefits payable to you, to the fullest extent permitted by law. Any offset shall be considered a reduction in severance benefits under this Plan (but may still be considered taxable income under applicable law).

#### ***Deductions***

Federal, state, and local income taxes and other deductions required by law will be withheld from all severance benefits.

#### ***Correction of Errors***

The Company reserves the right to correct any errors that may occur in administering the Plan. The Company has the right to recover, at any time, any excess severance benefits that occur if severance benefits paid exceed those due to you because of a mistake, incorrect information about your entitlement to severance benefits, or any other reason. The Company may recover any excess severance benefits paid to you in any of the following ways:

- Reducing or suspending future severance benefit payments;
  - Requesting direct payment from you;
  - Withholding wages, or any other money owed to you, if permitted by applicable law; and
  - Using other appropriate legal means.
-

These remedies are not exclusive, and the Company may pursue any other legal claims and/or remedies that it may have against you arising out of or related to the facts supporting the correction of any errors under this Plan as described above.

## **PLAN ADMINISTRATION**

This information about the administration of the Plan is provided in compliance with the Employee Retirement Income Security Act of 1974, as amended (ERISA). While you should not need these details on a regular basis, the information may be useful if you have specific questions about the Plan.

### **Plan Sponsor**

The name and address of the plan sponsor are:

Zimmer Biomet Holdings, Inc.  
345 East Main Street  
Warsaw, IN 46580  
USA

This Plan is a welfare benefit plan that provides severance benefits to eligible executive s.

### **Plan Administrator**

The name, address and telephone number of the plan administrator and named fiduciary are:

Administrative Committee  
Zimmer Biomet Holdings, Inc.  
345 East Main Street  
Warsaw, IN 46580  
USA  
1-574-267-6131

The administration of the Plan will be under the supervision of the plan administrator. To the fullest extent permitted by law, the plan administrator will have the discretion to determine all matters relating to eligibility, coverage, and benefits under the Plan. Benefits under the Plan will be paid only if the plan administrator or any authorized delegate decides in the administrator's or delegate's discretion that the applicant is entitled to them. The plan administrator will also have the discretion to determine all matters relating to the interpretation and operation of the Plan. Any determination by the plan administrator or any authorized delegate shall be final and binding.

Questions regarding this Plan should be directed to the plan administrator at the address shown above.

In addition to any other authority or responsibility placed upon the plan administrator under the terms of this Plan or applicable law, the plan administrator is responsible for and authorized to do the following:

- To grant or deny an individual's claim for benefits under the Plan;
  - To require any individual seeking benefits under the Plan to furnish such information as the plan administrator may request for the purpose of the proper administration of the Plan and as a condition to receiving any benefits under the Plan;
  - To make and enforce such rules and regulations and prescribe the use of such forms as the plan administrator deems necessary for the efficient administration of the Plan;
-

- To decide such questions as may arise in connection with the operation of the Plan including, but not limited to, questions concerning the eligibility of any individual to participate in or receive benefits under the Plan;
- To determine the amount of benefits which shall be payable to an executive in accordance with the provisions of the Plan and to authorize payment of such benefits;
- To require, as a condition of receiving any benefits payable under the Plan, the filing of an authorization or release by the spouse of an eligible executive divesting such spouse of any right in the Plan or in any payments thereunder which such spouse may have by operation of law under the laws of his or her matrimonial domicile or otherwise;
- To comply with all reporting and disclosure requirements with respect to the Plan;
- To interpret and construe, with discretionary authority, the provisions of the Plan and to resolve ambiguities, inconsistencies and omissions therein;
- To employ legal counsel, who may be counsel to the Company, in which case the employment of such counsel shall not be construed or otherwise used in any direct or indirect manner to support any allegation of an actual or purported conflict of interest (inherent, structural, or otherwise) under the Plan, and such other specialists or persons as the plan administrator deems necessary or desirable in connection with the administration of the Plan; and
- To delegate any of the plan administrator's discretionary or ministerial responsibilities to other designated persons as the plan administrator may see fit, including, but not limited to, the determination of questions concerning the eligibility of any employee to participate in or receive benefits under the Plan, the interpretation and construction of the provisions of the Plan and the resolution of ambiguities, inconsistencies, and omissions therein, and the resolution of any appeal of the denial of a claim for benefits under the Plan. The delegation of ministerial responsibilities may be effected with or without written instrument, including pursuant to a standard operating procedure that the plan administrator utilizes to administer the Plan. The delegation of discretionary responsibilities will be effected by written instrument executed by the plan administrator. Notwithstanding the foregoing, the plan administrator's failure to delegate responsibilities in writing shall not affect or undermine the propriety of any delegation of the plan administrator's responsibilities under the Plan, and the plan administrator may ratify, at any later time, through written instrument or otherwise, actions that a delegate has taken in accordance with delegation authority not previously conveyed through written instrument, upon which ratification the delegate's actions shall be treated as if originally taken under a delegation effected in accordance with the terms of the Plan. The determination of the plan administrator as to any question involving the general administration and interpretation of the Plan, and such determinations made by each person to whom the plan administrator may delegate the plan administrator's responsibilities under the Plan, shall be final, conclusive and binding upon all persons claiming any interest in or under the Plan except as otherwise provided by law. Any discretionary actions to be taken under the Plan by the plan administrator, and such actions taken by each person to whom the plan administrator may delegate the plan administrator's responsibilities under the Plan, shall not be subject to *de novo* review if challenged in court, by arbitration or in any other forum, and shall be upheld unless found to be an abuse of discretion.

Consistent with the requirements of ERISA and the regulations thereunder of the Secretary of Labor, the plan administrator will:

- Provide adequate notice in writing to any individual whose claim for benefits under the Plan has been denied, setting forth specific reasons for such denial, written in a manner calculated to be understood by such employee or former employee, and
  - Afford a reasonable opportunity to any individual whose claim for benefits has been denied for a full and fair review of the decision denying the claim.
-

### **Agent for Service of Legal Process**

The name and address of the agent for service of legal process are:

Corporate Secretary  
Zimmer Biomet Holdings, Inc.  
345 East Main Street  
Warsaw, IN 46580  
USA

Legal process also can be served on the plan administrator.

### **Identification Numbers**

The Employer Identification Number (EIN) assigned by the Internal Revenue Service to the Company is 13-4151777. The plan number for the Plan is 513.

### **Plan Year**

The plan year for the Plan is January 1 through December 31.

### **Plan Funding**

The Plan is funded from the general assets of the Company, as needed. Executives are not required to contribute to the Plan.

### **Amendments/Reservation of Rights**

The Plan may be amended by the duly authorized action of the Compensation Committee or by the Board, should the Board limit or remove the authority of the Compensation Committee to approve such Plan changes.

The Company reserves the right, as described above, to amend, terminate, suspend, withdraw, or modify the Plan, in whole or in part, at any time, for any or no reason, and without prior notice. Any Plan amendments may be made by execution of a written document incorporating the changes. The Company also reserves in the plan administrator and service providers, as applicable, the discretionary authority and responsibility to interpret and construe the provisions of the Plan as described in the above *Plan Administrator* section.

### **Plan Document**

This document serves as both the summary plan description (SPD) and the official plan document for the Zimmer Biomet Holdings, Inc. Executive Severance Plan.

## **CLAIM AND APPEAL PROCESS FOR SEVERANCE BENEFITS**

As further explained below, if your claim for severance benefits is denied, you will receive a notice in writing that explains the reasons for the denial. You will then have the opportunity to appeal the denial of your claim and receive a full and fair review of the decision.

### **Initial Claim for Benefits**

The plan administrator, or its delegate, will consider your involuntary termination to be a claim for benefits under the Plan. Notwithstanding the foregoing, if you believe that you are entitled to benefits under this Plan, you may submit a claim to the plan administrator within 60 days of your date of termination. Your claim submission must be written and delivered to the plan administrator.

---

If the plan administrator delegates the initial determination on your claim, that delegation shall be considered a delegation of the plan administrator's ministerial responsibilities under the Plan, unless the plan administrator determines that the delegation was of its discretionary responsibilities under the Plan and effects, or ratifies, the discretionary delegation in accordance with the Plan's terms.

If the determination on your claim is adverse because your claim is denied in whole or in part, the plan administrator or its delegate will notify you of that adverse determination within a reasonable period of time, but not later than 90 days after receiving the claim, or within 90 days of your date of termination if the plan administrator or its delegate has automatically considered your termination to be a claim for benefits under the Plan.

If an adverse determination is made on your claim, the plan administrator's, or its delegate's, notice to you will include:

- The specific reason(s) for the adverse benefit determination;
- References to the specific Plan provisions on which the benefit determination is based; and
- A description of the Plan's appeal procedures and the time limits applicable to those procedures, including a statement of your right to bring a civil action under ERISA after an adverse determination on appeal.

The 90-day claim determination period may be extended for up to an additional 90 days if the plan administrator or its delegate (1) determines that special circumstances require an extension of time for processing the claim, and (2) notifies you, before the initial 90-day period expires, of the special circumstances requiring the extension of time along with the date by which it expects to render a determination.

In the event that additional material or information is needed from you to process and make a determination on your claim, the plan administrator or its delegate will send you a request for that information, along with an explanation of why it is necessary. If an extension of time is necessary in order to obtain such additional information, the Plan's time frame for making a benefit determination on review will be suspended from the date the plan administrator or its delegate sends you the request for information with an extension notification until the date you respond to the request for additional information.

### **Procedures for Appealing an Adverse Benefit Determination**

If you receive an adverse benefit determination, you may appeal that determination. You or your authorized representative will have 60 days following receipt of a notification of an adverse benefit determination within which to appeal the determination. You have the right to:

- Request, free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to your claim for benefits. For this purpose, a document, record, or other information is treated as "relevant" to your claim if it:
    - Was relied upon in making the benefit determination;
    - Was submitted, considered, or generated in the course of making the benefit determination, regardless of whether such document, record or other information was relied upon in making the benefit determination; or
    - Demonstrates compliance with the administrative processes and safeguards required in making the benefit determination.
  - Submit written comments, documents, records, and other information relating to your claim for benefits, which will be taken into account in the review on appeal, regardless of whether the information was submitted or considered in the initial benefit determination.
-

The plan administrator or its delegate will notify you of the determination on appeal within a reasonable period of time, but not later than 60 days after receipt of your request to appeal. This 60 -day period may be extended for up to an additional 60 days if the plan administrator or its delegate (1) determines that special circumstances require an extension of time for processing the claim, and (2) notifies you, before the initial 60-day period expires, of the special circumstances requiring the extension of time and the date by which a determination on review is expected.

In the event that additional material or information is needed from you to process and make a determination on your request for appeal, the plan administrator or its delegate will send you a request for that information. If an extension of time is necessary in order to obtain such additional information, the time frame for making a benefit determination on appeal will be suspended from the date the plan administrator or its delegate sends you the request for information with an extension notification until the date you respond to the request for additional information.

If an adverse determination is made on your appeal, the plan administrator's or its delegate's notice to you will include:

- The specific reason(s) for the adverse benefit determination;
- References to the specific Plan provisions on which the benefit determination is based;
- A statement that you are entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records and other information relevant to your claim; and
- A statement describing any further voluntary appeal procedures that may be offered under the Plan and your right to obtain information about such procedures, and a statement of your right to bring an action under ERISA.

You must use and exhaust the Plan's administrative claim and appeal procedures described above before bringing a lawsuit claiming benefits under the Plan in either state or federal court. Your failure to follow the Plan's prescribed procedures in a timely manner may cause you to lose your right to contest an adverse benefit determination in court. Any lawsuit claiming benefits must be filed within two years from your date of termination. In other words, you may not file a lawsuit related to any claim for benefits under the Plan on or after the second anniversary of your termination date.

## **YOUR RIGHTS UNDER ERISA**

As a participant in the Plan, you are entitled to certain rights and protections under ERISA. ERISA provides that all Plan participants shall be entitled to:

### **Receive Information About Your Plan and Benefits**

- Examine, without charge, at the plan administrator's office and at other specified locations, such as worksites, all documents governing the Plan, including a copy of the latest annual report (Form 5500 Series) filed by the Plan with the U.S. Department of Labor and available at the Public Disclosure Room of the Employee Benefits Security Administration.
  - Obtain, upon written request to the plan administrator, copies of documents governing the operation of the Plan, including copies of the latest annual report (Form 5500 Series) and updated SPD. The plan administrator may make a reasonable charge for the copies.
  - Receive a summary of the Plan's annual financial report. The plan administrator is required by law to furnish each participant with a copy of this summary annual report.
-

## Enforce Your Rights

If your claim for Plan benefits is denied or ignored, in whole or in part, you have the right to know why this was done, to obtain copies of documents relating to the decision without charge, and to appeal any denial, all within certain time schedules.

Under ERISA, there are steps you can take to enforce the above rights. For instance, if you request a copy of plan documents or the latest annual report from the Plan and do not receive them within 30 days, you may file suit in a federal court. In such a case, the court may require the plan administrator to provide the materials and pay you up to \$110 a day until you receive the materials, unless the materials were not sent because of reasons beyond the control of the administrator.

If you have a claim for benefits that is denied or ignored, in whole or in part, you may file a suit in a state or federal court, but only after you have exhausted the Plan's claims and appeals procedures as described in the *Claim and Appeal Process for Severance Benefits* section.

If it should happen that Plan fiduciaries misuse Plan money, or if you are discriminated against for asserting your rights, you may seek assistance from the U.S. Department of Labor, or you may file suit in a federal court. The court will decide who should pay court costs and legal fees. If you are successful, the court may order the person you have sued to pay these costs and fees. If you lose, the court may order you to pay these costs and fees, for example, if it finds your claim is frivolous.

## Assistance with Your Questions

If you have any questions about the Plan, you should contact the plan administrator. If you have any questions about this statement or about your rights under ERISA, or if you need assistance in obtaining documents from the plan administrator, you should contact the nearest office of the Employee Benefits Security Administration, U.S. Department of Labor, listed in your telephone directory, or the Division of Technical Assistance and Inquiries, Employee Benefits Security Administration, U.S. Department of Labor, 200 Constitution Avenue, N.W., Washington, DC 20210.

You may also obtain certain publications about your rights and responsibilities under ERISA by calling the publications hotline of the Employee Benefits Security Administration.

## GENERAL PROVISIONS

The Plan shall not be deemed to constitute a contract of employment, nor shall anything contained herein be deemed to give you any right to be retained in the employ of any employer or to interfere with the rights of the employer to discharge you at any time and to treat you without regard to the effect which such treatment might have upon you with respect to participation in the Plan.

If the plan administrator or its delegate determines that you are entitled to benefits under the Plan but are incompetent or unable to care for your affairs by reason of physical or mental disability, the plan administrator or its delegate may cause all payments thereafter becoming due to you to be made to another person for your benefit, without responsibility to follow the application of amounts so paid. Payments made pursuant to this provision shall completely discharge the Company, its direct and indirect subsidiaries and affiliates, the plan administrator, its delegate(s), and the named fiduciary with respect to such payments.

In the United States, the Plan is not in lieu of, and does not affect any requirement for coverage by, workers' compensation insurance.

---

You have no right to anticipate, expect, assign, or otherwise dispose of any interest under the Plan, nor may your interests under the Plan be assigned or transferred by operation of law.

## **GOVERNING LAW**

The provisions of the Plan shall be construed, administered and governed under the laws of the State of Indiana to the extent such laws are not pre-empted by ERISA. To the extent that the laws of a country other than the United States may apply to an eligible executive, the Plan shall be administered consistent with the laws of the other country, or, in the alternative and notwithstanding any other provisions of this Plan, the plan administrator or its delegate may deem the executive ineligible to participate in this Plan, and the Company may provide alternative benefits as it deems reasonable in its sole discretion.

## **SECTION 409A**

The Plan is intended to comply with the requirements of Section 409A of the Internal Revenue Code (the "Code") and shall be interpreted and construed consistently with such intent. Payments to you pursuant to the Plan are also intended to be exempt from Section 409A of the Code to the maximum extent possible, under either the separation pay exemption pursuant to Treasury regulation §1.409A-1(b)(9)(iii) or as short-term deferrals pursuant to Treasury regulation §1.409A-1(b)(4), and, for purposes of such exemptions, each payment under the Plan shall be considered a separate payment. In the event the terms of the Plan would subject you to taxes or penalties under Section 409A of the Code ("409A Penalties"), the Company shall cooperate diligently with you to amend the terms of the Plan to avoid such 409A Penalties, to the extent possible. Notwithstanding any other provision in the Plan, if you are a "specified employee," as defined in Section 409A of the Code, as of the date of your separation from service, then to the extent any amount payable under the Plan (i) constitutes the payment of nonqualified deferred compensation, within the meaning of Section 409A of the Code, (ii) is payable upon your separation from service and (iii) under the terms of the Plan would be payable prior to the six-month anniversary of your separation from service, such payment shall be delayed until the earlier to occur of (a) the six-month anniversary of your separation from service or (b) the date of your death. In addition to the foregoing, to the extent that any payment of deferred compensation subject to Section 409A of the Code is contingent upon the execution of a written release, if the designated period for executing a written release spans two tax years, the payment will be paid in the second tax year.

# ZIMMER BIOMET HOLDINGS, INC.

## 2009 STOCK INCENTIVE PLAN TWO-YEAR CLIFF VESTING 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 (“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** \_\_\_\_\_, 20\_\_ (the “Grant Date”).

**2. Number of RSUs Subject to this Award** The number of RSUs subject to this Award was communicated to you separately and is posted to your online Zimmer Biomet - Fidelity account.

**3. Vesting Schedule** An RSU granted in this Award shall be subject to the restrictions and conditions set forth herein during the period from the Grant Date until such RSU becomes vested and nonforfeitable (the “Restriction Period”). Except as otherwise set forth in Section 6 below, 100% of the RSUs granted in this Award shall become vested and nonforfeitable on the second anniversary of the Grant Date provided that you have been continuously employed by the Company or an Affiliate since the Grant Date.

**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 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 the lapse of the Restriction Period for those 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” 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 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 all RSUs have become vested, the RSUs 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, the restrictions with respect to all unvested RSUs granted in this Award shall be waived and the RSUs will be deemed fully vested as of your Employment Termination Date (subject to any applicable requirements described in the definition of "Retirement" in the Plan).

he event of your death prior to the delivery of Shares issuable pursuant to 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 different, 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 Fidelity (or any other designated broker)); or (iv) withholding in Shares to be issued upon settlement of the RSUs.

(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 RSUs are not part

of normal or expected compensation or salary for any purpose; and (ii) you acknowledge and agree that neither the Company, the Employer nor any other 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 RSUs or of any amounts due to you pursuant to the settlement of the RSUs 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 Fidelity 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 contacting your local human resources representative. You authorize the Company, Fidelity 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: Kathryn Diller, Corporate Securities Senior Administrator, 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.

**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 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

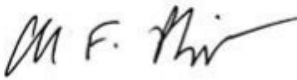
provisions for such country shall apply to you, to the extent the Company determines that the application of such provisions is necessary or advisable for legal or administrative reasons. The Addendum, if any, constitutes part of this Agreement.

**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 accept 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

**Subsidiaries of Zimmer Biomet Holdings, Inc.  
As of June 30, 2018**

**Name of Subsidiary**<sup>1</sup>**Jurisdiction of Formation****Domestic subsidiaries :**

Accelero Health Partners, LLC	Pennsylvania
Biomet 3i, LLC	Florida
dba Zimmer Biomet Dental	
Biomet Biologics, LLC	Indiana
Biomet CV Holdings, LLC	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
ETEX Corporation	Massachusetts
dba Zimmer ETEX	

---

**Name of Subsidiary**<sup>1</sup>**Jurisdiction of Formation**

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

---

**Name of Subsidiary**<sup>1</sup>**Jurisdiction of Formation**

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.  
Medtech SA  
Zimmer Dental SAS

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

---

**Name of Subsidiary**<sup>1</sup>**Jurisdiction of Formation**

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
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	Luxembourg
dba JERDS LLC	
ZB Investment Luxembourg Sarl	Luxembourg
ZB Top LHS Sarl	Luxembourg
Zimmer Luxembourg Sarl	Luxembourg
Zimmer Luxembourg II Sarl	Luxembourg
Zimmer Medical Malaysia SDN BHD	Malaysia
Biomet 3i Mexico S.A. de C.V.	Mexico
Biomet Mexico S.A. de C.V.	Mexico

---

**Name of Subsidiary**<sup>1</sup>**Jurisdiction of Formation**

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 Asel Alarabiya Limited Company	Saudi Arabia
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
Zimmer Tibbi Cihazlar Sanayi ve Ticaret AS	Turkey
Zimmer Gulf FZ LLC	United Arab Emirates

---

**Name of Subsidiary**<sup>1</sup>

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**

United Kingdom  
United Kingdom  
United Kingdom  
United Kingdom  
United Kingdom  
United Kingdom  
United Kingdom  
United Kingdom  
United Kingdom

---

<sup>1</sup> 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 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: August 6, 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: August 6, 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 June 30, 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*

August 6, 2018

/s/ Daniel P. Florin

Daniel P. Florin

*Executive Vice President and Chief Financial Officer*

August 6, 2018

**ZIMMER BIOMET HOLDINGS, INC.****EMPLOYEE STOCK PURCHASE PLAN****(As amended and restated effective June 1, 2018)**

**Section 1. Designation and Purpose.** The name of this Plan is the Zimmer Biomet Holdings, Inc. Employee Stock Purchase Plan. The purpose of the Plan is to provide Employees of the Company and its Designated Subsidiaries with an opportunity to purchase Common Stock of the Company. The Plan is intended to qualify as an "Employee Stock Purchase Plan" under Code Section 423. The provisions of the Plan will, accordingly, be construed so as to extend and limit participation in a manner within the requirements of that section of the Code. However, the Company makes no undertaking or representation to maintain such qualification. In addition, this Plan authorizes the grant of options and issuance of Common Stock that do not qualify under Code Section 423 pursuant to rules, procedures, or sub-plans adopted by the Committee and designed to achieve desired tax or other objectives in particular locations outside the United States.

For purposes of this Plan and with respect to the Code Section 423 component of the Plan, unless the Committee otherwise determines, each Designated Subsidiary (as defined in Section 2(l) below) shall be deemed to participate in a separate offering from the Company or any other Designated Subsidiary, provided that the terms of participation within any such offering are the same for all Employees in such offering, as determined under Code Section 423.

**Section 2. Definitions.** As used in the Plan, the following terms, when capitalized, have the following meanings:

(a) "**Beneficiary**" means, with respect to a Participant, the individual or estate designated, pursuant to Section 12, to receive the Participant's Payroll Deduction Account balance and Common Stock Account assets after the Participant's death.

(b) "**Board**" means the Board of Directors of the Company.

(c) "**Code**" means the U.S. Internal Revenue Code of 1986, as amended from time to time, and its interpretive rules and regulations.

(d) "**Committee**" means a committee established pursuant to Section 13 to administer the Plan.

(e) "**Common Stock**" means the common stock of the Company or any stock into which that common stock may be converted.

(f) "**Common Stock Account**" means the account established for each Participant to hold Common Stock purchased under the Plan pursuant to Section 6.

---

(g) "**Company**" means Zimmer Biomet Holdings, Inc, a Delaware corporation, and any successor by Corporate Transaction.

(h) "**Compensation**" means the total cash compensation received by an Employee from the Company, a partnership of which the Company is a general partner, or a Designated Subsidiary, including an Employee's salary, wages, overtime, shift differentials, bonuses, commissions, and incentive compensation, but excluding relocation and expense reimbursements, tuition reimbursements, scholarship grants, and income realized as a result of participation in any stock option, stock purchase, or similar plan of the Company or any Subsidiary.

(i) "**Contributions**" means all amounts made by a Participant and credited to the Participant's Payroll Deduction Account pursuant to the Plan (whether via payroll deductions, check or other means determined by the Committee).

(j) "**Corporate Transaction**" means a sale of all or substantially all of the Company's assets, or a merger, consolidation, or other capital reorganization of the Company with or into another corporation.

(k) "**Designated Broker**" means a broker (or any successor or replacement broker) selected by the Committee from time to time to serve as the Designated Broker under the terms of the Plan.

(l) "**Designated Subsidiary**" means a Subsidiary that has been designated by the Board or the Committee, in their sole discretion, as eligible to participate in the Plan with respect to its Employees.

(m) "**Employee**" means any person, including an Officer, who performs services for the Company or a Subsidiary and who is initially classified as an employee on the payroll records of the Company or a Designated Subsidiary. If the Company or a Designated Subsidiary treats a person as an independent contractor for tax or labor law purposes, and that person is subsequently determined to be an employee of the Company or a Designated Subsidiary by the Internal Revenue Service or any other federal, state, or local government agency or court of competent authority, that person will become an Employee on the date that the determination is finally adjudicated or otherwise accepted by the Company or the affected Designated Subsidiary, as long as he or she otherwise meets the requirements of this Section 2(m). Such a person will not, under any circumstances, be treated as an Employee for the period of time during which the Company or Designated Subsidiary treated the person as an independent contractor, even if the determination of employee status has retroactive effect.

(n) "**Exchange Act**" means the U.S. Securities Exchange Act of 1934, as amended from time to time, and its interpretive rules and regulations.

(o) "**Fair Market Value**" means, with respect to any date, the closing price of the Common Stock for that date (or, in the event that the Common Stock is not traded on that date, the closing price on the immediately preceding trading date),

as reported by the New York Stock Exchange. If the Common Stock is no longer traded on the New York Stock Exchange, then "Fair Market Value" means, with respect to any date, the fair market value of the Common Stock as determined by the Committee in good faith. The Committee's determination will be conclusive and binding on all persons.

(p) "**Offering Date**" means the first business day of each Offering Period of the Plan.

(q) "**Offering Period**" means a period of six (6) months commencing on January 1 and July 1 of each year, or such other period as determined by the Committee, provided, however, that in no event will the Offering Period be a period longer than twenty-seven (27) months.

(r) "**Officer**" means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act.

(s) "**Payroll Deduction Account**" means the account established for a Participant to hold the Participant's Contributions pursuant to Section 5.

(t) "**Plan**" means the Zimmer Biomet Holdings, Inc. Employee Stock Purchase Plan.

(u) "**Purchase Date**" means the last day of each Offering Period of the Plan.

(v) "**Purchase Price**" means, with respect to an Offering Period beginning on or after July 1, 2018, an amount equal to eighty-five percent (85%) of the Fair Market Value of a Share of Common Stock on the Offering Date or on the Purchase Date, whichever is lower; provided, however, that in the event (i) of any stockholder-approved increase in the number of Shares available for issuance under the Plan, (ii) all or a portion of such additional Shares are to be issued with respect to the Offering Period that is underway at the time of such increase ("Additional Shares"), and (iii) the Fair Market Value of a Share of Common Stock on the date of such increase (the "Approval Date Fair Market Value") is higher than the Fair Market Value on the Offering Date for any such Offering Period, then in such instance the Purchase Price with respect to the Additional Shares will be eighty-five percent (85%) of the Approval Date Fair Market Value or the Fair Market Value of a Share of Common Stock on the Purchase Date, whichever is lower.

(w) "**Share**" means a share of Common Stock, as adjusted in accordance with Section 16 of the Plan.

(x) "**Subsidiary**" means a domestic or foreign corporation of which not less than fifty percent (50%) of the voting shares are held by the Company or a Subsidiary, within the meaning of Code Section 424, whether or not such corporation now exists or is hereafter organized or acquired by the Company or a Subsidiary.

**Section 3 . Eligibility .**

(a) Any person who is an Employee as of an Offering Date in a given Offering Period will be eligible to participate in the Plan for that Offering Period, subject to the requirements of Section 4 and the limitations imposed by Code Section 423(b). Notwithstanding the foregoing, (1) the Committee may restrict participation in the Plan to full-time Employees pursuant to criteria and procedures established by the Committee, and (2) the Committee may establish administrative rules and may impose an eligibility service requirement of up to two years of employment with the Company or a Designated Subsidiary with respect to participation on any prospective Offering Date. The Board may also determine that a designated group of highly compensated employees are ineligible to participate in the Plan, so long as the excluded category fits within the definition of "highly compensated employee" in Code Section 414(q). For purposes of the Plan, an Employee will be considered a full-time Employee unless his or her customary employment is less than 20 hours per week or five months per year. Further, the Committee may designate whether a Subsidiary is a Designated Subsidiary for purposes of the Code Section 423 or non-Code Section 423 component.

(b) Notwithstanding any other provision of the Plan, no Employee will be eligible to participate in the Plan if the Employee (or any other person whose stock would be attributed to the Employee pursuant to Code Section 424(d)) owns capital stock of the Company and/or holds outstanding options to purchase stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company or of any Subsidiary of the Company.

**Section 4 . Participation .** An Employee may become a Participant in the Plan by completing a subscription agreement that authorizes payroll deductions and any other required documents ("Enrollment Documents") provided by the Committee or its designee and submitting them to the Committee (or its designee) or the Designated Broker, pursuant to the rules prescribed by the Committee, during the 30-day period prior to the applicable Offering Date, unless a different time for submission of the Enrollment Documents is set by the Board or the Committee for all Employees with respect to a given Offering Period. The Enrollment Documents will set forth the amount of the Participant's Compensation, up to one hundred percent (100%) or such lower limit as is designated by the Committee, to be paid as Contributions pursuant to the Plan. The Committee may provide for a separate election (of a different percentage) for a specified item or items of pay. In countries where payroll deductions are not feasible, the Committee may permit an Employee to participate in the Plan by an alternative means, such as by check.

**Section 5 . Method of Payment of Contributions .**

(a) A Participant's payroll deductions will begin either on the first pay date following the Offering Date or the date on which the Participant submits Enrollment Documents in accordance with Section 4, whichever is later, and will end on the last pay date on or prior to the Purchase Date of the Offering Period to which the Enrollment Documents are applicable, unless the Participant elects to withdraw from

the Plan as provided in Section 8. A Participant's Enrollment Documents will remain in effect for successive Offering Periods unless the Participant elects to withdraw from the Plan as provided in Section 8 or unless the Participant timely submits new Enrollment Documents to change the rate of payroll deductions for a subsequent Offering Period in accordance with rules established by the Committee.

(b) All Contributions made by a Participant will be held by the Company as part of its general assets; however, the Company will establish a Payroll Deduction Account for each Participant and credit each Participant's Contributions to the Participant's Payroll Deduction Account. A Participant may not make any additional payments to the Participant's Payroll Deduction Account, except as authorized by the Committee in countries where payroll deductions are not feasible.

(c) No interest will accrue on a Participant's Contributions to the Plan, unless required by local law and specified by the Committee.

(d) Except as otherwise specified by the Committee, payroll deductions made with respect to Employees paid in currencies other than U.S. dollars will be accumulated in local (non-U.S.) currency and converted to U.S. dollars as of the Purchase Date.

**Section 6 . Participant Purchases and Common Stock Accounts .** On each Purchase Date, each Participant will be deemed, without further action, to have elected to purchase Shares of Common Stock with the entire balance in the Participant's Payroll Deduction Account, and the Designated Broker will credit the purchased shares to the Participant's Common Stock Account.

(a) The Participant will be credited with the number of whole and fractional Shares (rounded to the nearest thousandth) that the Participant's Payroll Deduction Account balance can purchase at the Purchase Price on that Purchase Date.

(b) Expenses incurred in the purchase of Shares and the expenses of the Designated Broker will be paid by the Participant.

(c) A Participant will have no interest or voting right in a Share until a Share has been purchased on the Participant's behalf under the Plan.

(d) Shares held in a Participant's Common Stock Account will be registered in the name of the Designated Broker or its nominee for the benefit of the Participant. Shares to be delivered to a Participant under the Plan will be reregistered in the name of the Participant or in the name of the Participant and the Participant's spouse.

**Section 7 . Limitation on Purchases .** Participant purchases are subject to the following limitations:

(a) During any one calendar year, a Participant may not purchase, under the Plan, or under any other plan qualified under Code Section 423, Shares of Common Stock having a Fair Market Value on the applicable Offering Date in excess of \$25,000. In addition, in no event shall the number of Shares of Common Stock that a Participant may purchase during any Offering Period under the Plan exceed 5,000 Shares of Common Stock.

(b) A Participant's Payroll Deduction Account may not be used to purchase Common Stock on any Purchase Date to the extent that, after such purchase, the Participant would own (or be considered as owning within the meaning of Code Section 424(d)) stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company or of any Subsidiary of the Company. For this purpose, stock that the Participant may purchase under any outstanding option will be treated as owned by that Participant.

(c) As of the first Purchase Date on which this Section limits a Participant's ability to purchase Common Stock, the Participant's payroll deductions will terminate, and the Participant will receive a refund of the balance in the Participant's Payroll Deduction Account as soon as practicable after the Purchase Date.

(d) In no event will the aggregate amount of purchases of Common Stock pursuant to the Plan equal or exceed twenty percent (20%) of the outstanding stock of the Company.

**Section 8. Withdrawal from Participation.**

(a) A Participant may withdraw all, but not less than all, of the Contributions credited to the Participant's Payroll Deduction Account at any time prior to a Purchase Date by notifying the Committee or its designee or the Designated Broker of the Participant's election to withdraw, pursuant to rules prescribed by the Committee. If a Participant elects to withdraw, all of the Participant's Contributions credited to the Participant's Payroll Deduction Account will be returned to the Participant and the Participant may not make any further Contributions to the Plan for the purchase of Shares during that Offering Period.

(b) A Participant's voluntary withdrawal during an Offering Period will not have any effect upon the Participant's eligibility to participate in the Plan during a subsequent Offering Period or in the Participant's ability to retain Common Stock previously credited to the Participant in the Participant's Common Stock Account.

**Section 9. Stock Purchases by Designated Broker.** As of each Purchase Date, the Designated Broker will acquire, using the accumulated balances of all Participants' Payroll Deduction Accounts, Shares of Common Stock to be credited to those Participants' Common Stock Accounts.

(a) The Designated Broker will acquire Shares that are newly issued or held as treasury shares by the Company or, if directed by the Committee, will acquire Shares by purchases on the open market or in private transactions.

(b) If Shares are purchased in one or more transactions on the open market or in private transactions at the direction of the Committee, the Company will pay the Designated Broker the difference between the Purchase Price and the price at which the Shares are purchased for Participants.

**Section 10 . Common Stock Account Withdrawals .** Except as otherwise provided in this Section, upon 14 days advance written notice to the Designated Broker, a Participant may elect to withdraw the assets in the Participant's Common Stock Account.

(a) A Participant may elect to obtain a certificate for the whole Shares of Common Stock credited to the Participant's Common Stock Account. As a condition of participation in the Plan, each Participant will agree to notify the Company if the Participant sells or otherwise disposes of any of the Participant's Shares of Common Stock within two years of the Purchase Date on which the Shares were purchased.

(b) A Participant may elect that all Shares in the Participant's Common Stock Account be sold and that the proceeds, less expenses of sale, be remitted to the Participant.

(c) In either event, the Designated Broker will sell any fractional Shares held in the Common Stock Account and remit the proceeds of such sale, less selling expenses, to the Participant.

Notwithstanding the foregoing, the Committee may require that Shares of Common Stock credited to a Participant's Common Stock Account be retained by the Designated Broker for a designated period of time and may restrict dispositions during that period, and/or the Committee may establish other procedures to permit tracking of disqualifying dispositions of the Shares of Common Stock or to restrict transfer of the Shares.

**Section 11 . Cessation of Participation .** If a Participant dies or terminates employment, the Participant will cease to participate in the Plan, the Company or its designee will refund the balance in the Participant's Payroll Deduction Account, and the Designated Broker will distribute the assets in the Participant's Common Stock Account.

(a) In the event of a Participant's death, the Participant's Payroll Deduction Account balance and the Participant's Common Stock Account assets will be distributed to the Participant's Beneficiary.

(b) If a Participant terminates employment, the Participant's Payroll Deduction Account balance and the Participant's Common Stock Account assets will be distributed to the Participant. For purposes of this Section 11, a Participant's employment will not be considered terminated in the case of a transfer of employment to the Company or another Subsidiary. However, in the event of a transfer of employment, the Committee may transfer a Participant's participation to a separate offering or non-Code Section 423 offering that the entity the Participant is being transferred to participates in, if advisable or necessary considering the application of local law and the Code Section 423 requirements.

(c) Upon distribution, the Participant or, in the event of the Participant ' s death, the Participant ' s Beneficiary, may elect to obtain a certificate for the whole Shares of Common Stock credited to the Participant ' s Common Stock Account or may elect that any whole Shares in the Participant ' s Common Stock Account be sold. In that event, the Designated Broker will sell such whole Shares and any fractional Shares held in the Common Stock Account and remit the proceeds of such sale, less selling expenses, to the Participant or Beneficiary.

Notwithstanding the foregoing, if a Participant dies or terminates employment, the Committee may require that Shares of Common Stock credited to the Participant's or Beneficiary's Common Stock Account be retained by the Designated Broker for a designated period of time and may restrict dispositions during that period, and/or the Committee may establish other procedures to permit tracking of disqualifying dispositions of the Shares of Common Stock or to restrict transfer of the Shares.

**Section 12 . Designation of Beneficiary .** Each Payroll Deduction Account and each Common Stock Account will be in the name of the Participant. To the extent permitted by the Committee, a Participant may designate a Beneficiary to receive the Participant's interests in both accounts in the event of the Participant's death by complying with procedures prescribed by the Committee. If a Participant is married and the designated Beneficiary is not the spouse, spousal consent will be required for such designation to be effective. A Participant may change a Beneficiary designation (with spousal consent if necessary) at any time by complying with the procedures prescribed by the Committee. If a Participant dies without having designated a Beneficiary, or if the Beneficiary does not survive the Participant, the Participant's estate will be the Participant's Beneficiary.

**Section 13 . Administration of the Plan .** The Plan will be administered by the Committee, consisting of not less than three members appointed by the Board.

(a) The Committee will be the Compensation Committee of the Board unless the Board appoints another committee to administer the Plan. The Board from time to time may fill vacancies on the Committee.

(b) Subject to the express provisions of the Plan, the Committee will have the discretionary authority to take any and all actions (including directing the Designated Broker as to the acquisition of Shares) necessary to implement the Plan and to interpret the Plan; to prescribe, amend, and rescind rules and regulations relating to it; and to make all other determinations necessary or advisable in administering the Plan. All such determinations will be final and binding upon all persons.

(c) A quorum of the Committee will consist of a majority of its members and the Committee may act by vote of a majority of its members at a meeting at which a quorum is present, or without a meeting by a written consent to their action taken signed by all members of the Committee.

(d) The Committee may request advice or assistance or employ or designate such other persons as are necessary for proper administration of the Plan.

**Section 14. Rights Not Transferable.** Rights under the Plan are not transferable by a Participant.

**Section 15. Shares Reserved for the Plan.** Subject to the following sentence and any adjustments as provided in Section 16, the maximum number of Shares that will be made available for purchase under the Plan will be 3,000,000 Shares or the lesser number of Shares determined by the Board.

**Section 16. Change in Capital Structure.** Despite anything in the Plan to the contrary, the Committee may take the following actions without the consent of any Participant or Beneficiary, and the Committee's determination will be conclusive and binding on all persons for all purposes.

(a) In the event of a Common Stock dividend, Common Stock split, or any combination of Shares, a Corporate Transaction in which the Company is the surviving corporation, or any other change in the Company's capital stock (including, but not limited to, the creation or issuance to stockholders generally of rights, options or warrants for the purchase of common stock or preferred stock of the Company), the number and kind of shares of stock or securities of the Company to be subject to the Plan, the maximum number of shares or securities that may be delivered under the Plan, and the selling price and other relevant provisions of the Plan will be appropriately adjusted by the Committee, whose determination will be binding on all persons.

(b) If the Company is a party to a Corporate Transaction in which the Company is not the surviving corporation, the Committee may take such actions with respect to the Plan as the Committee deems appropriate.

**Section 17. Amendment of the Plan.** The Board may at any time, or from time to time, amend the Plan in any respect. The stockholders of the Company, however, must approve any amendment that would increase the number of Shares of Common Stock that may be issued under the Plan (other than an increase merely reflecting a change in capitalization of the Company pursuant to Section 16) or a change in the designation of any corporations (other than a Subsidiary) whose employees become Employees under the Plan.

**Section 18. Termination of the Plan.** The Plan and all rights of Employees and Beneficiaries under the Plan will terminate:

(a) on the Purchase Date that Participants become entitled to purchase a number of Shares greater than the number of reserved Shares remaining available for purchase as set forth in Section 15, or

(b) at any date at the discretion of the Board.

In the event that the Plan terminates under circumstances described in (a) above, reserved Shares remaining as of the termination date will be credited to Participants' Common Stock Accounts on a prorata basis. Upon termination of the Plan, each Participant will receive the balance in the Participant's Payroll Deduction Account and all Shares in the Participant's Common Stock Account.

**Section 19. Indemnification of Committee.** Service on the Committee will constitute service as a director of the Company so that members of the Committee will be entitled to indemnification and reimbursement as directors of the Company pursuant to its Certificate of Incorporation and Bylaws.

**Section 20. Government Regulations.** The Plan, the grant and exercise of the rights to purchase Shares under the Plan, and the Company's or Designated Broker's obligation to sell and deliver Shares upon the exercise of rights to purchase Shares, will be subject to all applicable federal, state and foreign laws, rules and regulations, and to such approvals by any regulatory or government agency as may, in the opinion of counsel for the Company, be required.

**Section 21. Reports.** Statements of account will be provided to Participants by the Committee or the Designated Broker at least annually, which statements will set forth the amounts of Contributions, the per Share Purchase Price, the number of Shares purchased and credited to Participants' Common Stock Accounts, and the remaining cash balance, if any, in Participants' Payroll Deduction Accounts.

**Section 22. Governing Law.** This Plan shall be governed by the laws of the State of Indiana, except that a sub-plan adopted for a Designated Subsidiary in a location outside of the United States will be governed by the laws of the jurisdiction in which that Designated Subsidiary is located.

**Section 23. Effective Date.** This Plan as amended and restated by the Board on February 16, 2018 shall be effective as of June 1, 2018.