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

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**FORM 10-Q**

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

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2018**

Commission File Number 001-16407

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**ZIMMER BIOMET HOLDINGS, INC.**

(Exact name of registrant as specified in its charter)

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**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**

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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 every Interactive Data File required to be submitted 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 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"/>	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 October 25, 2018, 203,976,311 shares of the registrant's \$.01 par value common stock were outstanding.

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**Part I – Financial Information**

**Item 1. Financial Statements**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
<b>Net Sales</b>	\$ 1,836.7	\$ 1,813.1	\$ 5,861.9	\$ 5,735.0
Cost of products sold, excluding intangible asset amortization	529.0	500.9	1,688.5	1,541.5
Intangible asset amortization	147.6	152.7	447.9	452.4
Research and development	95.7	91.2	290.5	274.9
Selling, general and administrative	787.7	711.7	2,380.7	2,239.6
Goodwill and intangible asset impairment	3.8	32.7	3.8	59.5
Acquisition, integration and related	17.4	61.6	113.9	192.3
Quality remediation	32.2	51.1	112.3	135.4
Operating expenses	<u>1,613.4</u>	<u>1,601.9</u>	<u>5,037.6</u>	<u>4,895.6</u>
<b>Operating Profit</b>	223.3	211.2	824.3	839.4
Other expense, net	(2.2)	(2.3)	(8.7)	(4.5)
Interest income	0.8	0.6	2.3	1.4
Interest expense	(68.3)	(82.3)	(223.1)	(247.5)
Earnings before income taxes	153.6	127.2	594.8	588.8
(Benefit) provision for income taxes	(8.5)	28.4	71.6	6.6
<b>Net Earnings</b>	162.1	98.8	523.2	582.2
Less: Net (loss) earnings attributable to noncontrolling interest	(0.1)	-	1.3	(0.2)
<b>Net Earnings of Zimmer Biomet Holdings, Inc.</b>	<u>\$ 162.2</u>	<u>\$ 98.8</u>	<u>\$ 521.9</u>	<u>\$ 582.4</u>
<b>Earnings Per Common Share</b>				
Basic	\$ 0.80	\$ 0.49	\$ 2.57	\$ 2.89
Diluted	\$ 0.79	\$ 0.48	\$ 2.55	\$ 2.86
<b>Weighted Average Common Shares Outstanding</b>				
Basic	203.7	202.3	203.3	201.7
Diluted	205.4	204.0	204.9	203.6
<b>Cash Dividends Declared Per Common Share</b>	\$ 0.24	\$ 0.24	\$ 0.72	\$ 0.72

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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net Earnings	\$ 162.1	\$ 98.8	\$ 523.2	\$ 582.2
Other Comprehensive Income (Loss):				
Foreign currency cumulative translation adjustments, net of tax	(44.0)	129.7	(127.0)	367.9
Unrealized cash flow hedge gains (losses), net of tax	32.8	(28.3)	58.0	(79.4)
Reclassification adjustments on hedges, net of tax	4.1	4.1	23.0	(9.4)
Adjustments to prior service cost and unrecognized actuarial assumptions, net of tax	2.0	(1.0)	4.0	(5.0)
Total Other Comprehensive Income (Loss)	(5.1)	104.5	(42.0)	274.1
Comprehensive Income	157.0	203.3	481.2	856.3
Comprehensive income (loss) attributable to the noncontrolling interest	(0.1)	(0.2)	1.3	(0.6)
Comprehensive Income Attributable to Zimmer Biomet Holdings, Inc.	\$ 157.1	\$ 203.5	\$ 479.9	\$ 856.9

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)

	September 30, 2018	December 31, 2017
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 524.6	\$ 524.4
Accounts receivable, less allowance for doubtful accounts	1,262.7	1,544.1
Inventories	2,219.5	2,068.3
Prepaid expenses and other current assets	506.5	428.0
<b>Total Current Assets</b>	<b>4,513.3</b>	<b>4,564.8</b>
Property, plant and equipment, net	2,002.4	2,038.6
Goodwill	10,583.6	10,668.4
Intangible assets, net	7,837.4	8,353.4
Other assets	445.3	388.8
<b>Total Assets</b>	<b>\$ 25,382.0</b>	<b>\$ 26,014.0</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 345.8	\$ 330.2
Income taxes payable	196.2	165.2
Other current liabilities	1,249.2	1,349.3
Current portion of long-term debt	600.0	1,225.0
<b>Total Current Liabilities</b>	<b>2,391.2</b>	<b>3,069.7</b>
Deferred income taxes	1,054.0	1,101.5
Long-term income tax payable	782.0	744.0
Other long-term liabilities	334.4	445.8
Long-term debt	8,597.4	8,917.5
<b>Total Liabilities</b>	<b>13,159.0</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, 307.8 million shares issued in 2018 (306.5 million in 2017)	3.1	3.1
Paid-in capital	8,662.3	8,514.9
Retained earnings	10,441.2	10,022.8
Accumulated other comprehensive loss	(168.1)	(83.2)
Treasury stock, 103.8 million shares in 2018 (103.9 million shares in 2017)	(6,721.7)	(6,721.8)
<b>Total Zimmer Biomet Holdings, Inc. stockholders' equity</b>	<b>12,216.8</b>	<b>11,735.8</b>
Noncontrolling interest	6.2	(0.3)
<b>Total Stockholders' Equity</b>	<b>12,223.0</b>	<b>11,735.5</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 25,382.0</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)

	For the Nine Months Ended September 30,	
	2018	2017
<b>Cash flows provided by (used in) operating activities:</b>		
Net earnings	\$ 523.2	\$ 582.2
Adjustments to reconcile net earnings to cash provided by operating activities:		
Depreciation and amortization	785.7	798.2
Share-based compensation	45.3	40.1
Goodwill and intangible asset impairment	3.8	59.5
Inventory step-up	-	32.2
Changes in operating assets and liabilities, net of effect of acquisitions:		
Income taxes	(58.3)	(245.4)
Receivables	237.4	346.7
Inventories	(165.2)	(123.9)
Accounts payable and accrued expenses	23.6	(170.6)
Other assets and liabilities	(27.6)	(139.6)
Net cash provided by operating activities	<u>1,367.9</u>	<u>1,179.4</u>
<b>Cash flows used in investing activities:</b>		
Additions to instruments	(203.7)	(255.7)
Additions to other property, plant and equipment	(115.2)	(109.8)
Other business combination investments, net of acquired cash	-	(4.0)
Other investing activities	(15.3)	(13.1)
Net cash used in investing activities	<u>(334.2)</u>	<u>(382.6)</u>
<b>Cash flows provided by (used in) financing activities:</b>		
Proceeds from senior notes	749.5	-
Proceeds from multicurrency revolving facility	400.0	400.0
Payments on multicurrency revolving facility	(400.0)	(400.0)
Redemption of senior notes	(1,150.0)	(500.0)
Proceeds from term loan	-	192.7
Payments on term loan	(500.0)	(640.0)
Net payments on other debt	(3.9)	(0.9)
Dividends paid to stockholders	(146.2)	(145.0)
Proceeds from employee stock compensation plans	103.4	132.6
Net cash flows from unremitted collections from factoring programs	(54.6)	-
Business combination contingent consideration payments	(16.7)	(9.1)
Restricted stock withholdings	(3.3)	(7.6)
Debt issuance costs	(4.9)	(0.3)
Net cash used in financing activities	<u>(1,026.7)</u>	<u>(977.6)</u>
Effect of exchange rates on cash and cash equivalents	(6.8)	27.5
Increase (decrease) in cash and cash equivalents	0.2	(153.3)
Cash and cash equivalents, beginning of year	524.4	634.1
Cash and cash equivalents, end of period	<u>\$ 524.6</u>	<u>\$ 480.8</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,” “Goodwill and 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 and a warning letter issued by the U.S. Food and Drug Administration (“FDA”) following its inspections of our Warsaw North Campus facility, among other matters. See Note 15 for additional information about the Form 483 and warning letter. 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 nine month periods ended September 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 nine month periods ended September 30, 2017 and as of December 31, 2017 are included in the tables below.

<b>(in millions)</b>	<b>As Previously Reported</b>	<b>New Revenue Standard Adjustment</b>	<b>New Pension Standard Adjustment</b>	<b>Reclassifications</b>	<b>As Restated</b>
<b>Statement of Earnings</b>					
<b>Three Months Ended September 30, 2017</b>					
<b>Net Sales</b>	\$ 1,818.1	\$ (5.0)	\$ -	\$ -	\$ 1,813.1
Selling, general and administrative	694.5	(5.0)	2.2	20.0	711.7
Goodwill and intangible asset impairment	-	-	-	32.7	32.7
Acquisition, integration and related	-	-	-	61.6	61.6
Quality remediation	-	-	-	51.1	51.1
Special items	165.4	-	-	(165.4)	-
Operating expenses	1,604.7	(5.0)	2.2	-	1,601.9
<b>Operating Profit</b>	<b>213.4</b>	<b>-</b>	<b>(2.2)</b>	<b>-</b>	<b>211.2</b>
Other expense, net	(4.5)	-	2.2	-	(2.3)

(in millions)	As Previously Reported	New Revenue Standard Adjustment	New Pension Standard Adjustment	Reclassifications	As Restated
<b>Statement of Earnings</b>					
<b>Nine Months Ended September 30, 2017</b>					
<b>Net Sales</b>	\$ 5,749.8	\$ (14.8)	\$ -	\$ -	\$ 5,735.0
Research and development	272.4	-	-	2.5	274.9
Selling, general and administrative	2,203.3	(14.8)	6.7	44.4	2,239.6
Goodwill and intangible asset impairment	-	-	-	59.5	59.5
Acquisition, integration and related	-	-	-	192.3	192.3
Quality remediation	-	-	-	135.4	135.4
Special items	434.1	-	-	(434.1)	-
Operating expenses	4,903.7	(14.8)	6.7	-	4,895.6
<b>Operating Profit</b>	846.1	-	(6.7)	-	839.4
Other expense, net	(11.2)	-	6.7	-	(4.5)

(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. We own most of our manufacturing facilities, but lease various office space, vehicles and other less significant assets throughout the world. We have collected all of our lease agreements from across the organization that were entered into prior to 2018. We substantially completed our analysis of the key terms of these lease agreements to determine the appropriate accounting treatment. We are also nearing completion of our methodology to determine discount rates as well as our implementation of software that will be utilized to account for this ASU. We will continue evaluating our leases, including the collection and analysis of leases entered into during 2018, and the related impact this ASU will have on our consolidated financial statements through the remainder of 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, Europe, Middle East and Africa (“EMEA”) and Asia Pacific, and by the following product categories: Knees; Hips; Surgical, Sports Medicine, Foot and Ankle, Extremities and Trauma (“S.E.T.”); Dental; Spine & Craniomaxillofacial and Thoracic products (“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		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Americas	\$ 1,153.6	\$ 1,137.0	\$ 3,578.0	\$ 3,570.8
EMEA	372.1	381.1	1,326.3	1,272.5
Asia Pacific	311.0	295.0	957.6	891.7
Total	<u>\$ 1,836.7</u>	<u>\$ 1,813.1</u>	<u>\$ 5,861.9</u>	<u>\$ 5,735.0</u>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Knees	\$ 627.9	\$ 622.9	\$ 2,044.2	\$ 2,003.7
Hips	444.8	432.8	1,423.7	1,374.6
S.E.T.	414.6	404.8	1,290.7	1,249.4
Dental	92.3	92.9	306.8	311.1
Spine & CMF	184.9	184.5	566.2	564.1
Other	72.2	75.2	230.3	232.1
Total	\$ 1,836.7	\$ 1,813.1	\$ 5,861.9	\$ 5,735.0

#### 4. Inventories

	September 30, 2018	December 31, 2017
	(in millions)	
Finished goods	\$ 1,784.7	\$ 1,618.7
Work in progress	231.7	200.0
Raw materials	203.1	249.6
Inventories	\$ 2,219.5	\$ 2,068.3

#### 5. Property, Plant and Equipment

	September 30, 2018	December 31, 2017
	(in millions)	
Land	\$ 28.6	\$ 29.0
Buildings and equipment	1,906.4	1,838.5
Capitalized software costs	422.7	421.6
Instruments	2,892.8	2,683.9
Construction in progress	126.6	110.7
	5,377.1	5,083.7
Accumulated depreciation	(3,374.7)	(3,045.1)
Property, plant and equipment, net	\$ 2,002.4	\$ 2,038.6

#### 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 September 30, 2018 of \$400 million combined. 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 \$31.0 million and \$22.9 million as of September 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 nine month periods ended September 30, 2018 and 2017, we sold receivables having an aggregate face value of \$1,942.8 million and \$1,050.5 million to third parties in exchange for cash proceeds of \$1,942.1 million and \$1,049.8 million, respectively. Expenses recognized on these sales during the nine month periods ended September 30, 2018 and 2017 were not significant. In the nine month periods ended September 30, 2018 and 2017, under the U.S. and Japan programs, we collected \$1,613.1 million and \$682.2 million, respectively, from our customers and remitted that amount to the third party, and we effectively repurchased \$166.7 million and \$58.9 million, respectively, of previously sold accounts receivable from the third party, due to the programs' revolving nature. As of September 30, 2018 and December 31, 2017, we had collected \$48.9 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 \$25 million in the nine month period ended September 30, 2018.

At September 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 \$341.8 million and \$261.2 million, respectively.

## 7. Debt

Our debt consisted of the following (in millions):

	September 30, 2018	December 31, 2017
<b>Current portion of long-term debt</b>		
2.000% Senior Notes due 2018	\$ -	\$ 1,150.0
U.S. Term Loan B	600.0	75.0
Total current portion of long-term debt	<u>\$ 600.0</u>	<u>\$ 1,225.0</u>
<b>Long-term debt</b>		
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	580.8	600.4
2.425% Euro Notes due 2026	580.8	600.4
U.S. Term Loan A	410.0	835.0
U.S. Term Loan B	-	600.0
Japan Term Loan A	103.5	103.2
Japan Term Loan B	188.4	187.9
Other long-term debt	-	4.1
Debt discount and issuance costs	(49.4)	(53.2)
Adjustment related to interest rate swaps	16.7	23.1
Total long-term debt	<u>\$ 8,597.4</u>	<u>\$ 8,917.5</u>

At September 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"), \$410.0 million outstanding under a U.S. term loan ("U.S. Term Loan A") that will mature on June 24, 2020, \$600.0 million outstanding under a U.S. term loan ("U.S. Term Loan B") that will

mature on September 30, 2019, an 11.7 billion Japanese Yen term loan agreement (“Japan Term Loan A”) and a 21.3 billion Japanese Yen term loan agreement (“Japan Term Loan B”) that will each mature on September 27, 2022, and fair value adjustments totaling \$16.7 million, partially offset by debt discount and issuance costs of \$49.4 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 September 30, 2018. As of September 30, 2018, we had no 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 \$2.59 billion in principal under U.S. Term Loan A, resulting in \$410.0 million in outstanding borrowings as of September 30, 2018. The outstanding balance is due June 24, 2020.

Under the terms of U.S. Term Loan B, the remaining balance of \$600.0 million is due on the maturity date of September 30, 2019.

The estimated fair value of our senior notes as of September 30, 2018, based on quoted prices for the specific securities from transactions in over-the-counter markets (Level 2), was \$7,850.1 million. The estimated fair value of Japan Term Loan A and Japan Term Loan B, in the aggregate, as of September 30, 2018, based upon publicly available market yield curves and the terms of the debt (Level 2), was \$290.9 million. The carrying values of U.S. Term Loan A and U.S. Term Loan B 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	(127.0)	58.0	(5.1)	(74.1)
Reclassifications to retained earnings (Note 2)	(17.4)	(4.4)	(21.1)	(42.9)
Reclassifications to statement of earnings	-	23.0	9.1	32.1
Balance at September 30, 2018	\$ (22.9)	\$ 10.1	\$ (155.3)	\$ (168.1)

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 September 30,		Nine Months Ended September 30,		
	2018	2017	2018	2017	
<i>Cash flow hedges</i>					
Foreign exchange forward contracts	\$ (4.9)	\$ (5.1)	\$ (26.5)	\$ 12.0	Cost of products sold
Forward starting interest rate swaps	(0.1)	(0.1)	(0.4)	(0.4)	Interest expense
	(5.0)	(5.2)	(26.9)	11.6	Total before tax
	(0.9)	(1.1)	(3.9)	2.2	Provision for income taxes
	\$ (4.1)	\$ (4.1)	\$ (23.0)	\$ 9.4	Net of tax
<i>Defined benefit plans</i>					
Prior service cost	\$ 2.4	\$ 2.6	\$ 7.4	\$ 7.7	Other expense, net
Unrecognized actuarial (loss)	(6.7)	(5.4)	(19.5)	(16.2)	Other expense, net
	(4.3)	(2.8)	(12.1)	(8.5)	Total before tax
	(1.0)	(1.1)	(3.0)	(3.4)	Benefit for income taxes
	\$ (3.3)	\$ (1.7)	\$ (9.1)	\$ (5.1)	Net of tax
Total reclassifications	\$ (7.4)	\$ (5.8)	\$ (32.1)	\$ 4.3	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 September 30, 2018			Nine Months Ended September 30, 2018		
	Before Tax	Tax	Net of Tax	Before Tax	Tax	Net of Tax
Foreign currency cumulative translation adjustments	\$ (45.4)	\$ (1.4)	\$ (44.0)	\$ (136.0)	\$ (9.0)	\$ (127.0)
Unrealized cash flow hedge gains	38.1	5.3	32.8	67.7	9.7	58.0
Reclassification adjustments on cash flow hedges	5.0	0.9	4.1	26.9	3.9	23.0
Adjustments to prior service cost and unrecognized actuarial assumptions	1.0	(1.0)	2.0	1.0	(3.0)	4.0
Total Other Comprehensive Loss	\$ (1.3)	\$ 3.8	\$ (5.1)	\$ (40.4)	\$ 1.6	\$ (42.0)

	Three Months Ended September 30, 2017			Nine Months Ended September 30, 2017		
	Before Tax	Tax	Net of Tax	Before Tax	Tax	Net of Tax
Foreign currency cumulative translation adjustments	\$ 145.0	\$ 15.3	\$ 129.7	\$ 414.6	\$ 46.7	\$ 367.9
Unrealized cash flow hedge (losses)	(35.9)	(7.6)	(28.3)	(99.0)	(19.6)	(79.4)
Reclassification adjustments on cash flow hedges	5.2	1.1	4.1	(11.6)	(2.2)	(9.4)
Adjustments to prior service cost and unrecognized actuarial assumptions	0.5	1.5	(1.0)	(2.9)	2.1	(5.0)
Total Other Comprehensive Income	\$ 114.8	\$ 10.3	\$ 104.5	\$ 301.1	\$ 27.0	\$ 274.1

## 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 September 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	\$ 38.1	\$ -	\$ 38.1	\$ -
Interest rate swaps	35.3	-	35.3	-
Total Assets	<u>\$ 73.4</u>	<u>\$ -</u>	<u>\$ 73.4</u>	<u>\$ -</u>
<b>Liabilities</b>				
Derivatives, current and long-term				
Foreign currency forward contracts	\$ 1.3	\$ -	\$ 1.3	\$ -
Interest rate swaps	4.0	-	4.0	-
Contingent payments related to acquisitions	21.2	-	-	21.2
Total Liabilities	<u>\$ 26.5</u>	<u>\$ -</u>	<u>\$ 5.3</u>	<u>\$ 21.2</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):

	<u>Level 3 - Liabilities</u>	
Contingent payments related to acquisitions		
Beginning balance December 31, 2017	\$	41.0
Change in estimate		(2.0)
Settlements		(17.8)
Ending balance September 30, 2018	\$	<u>21.2</u>

Changes in estimates are recognized in Acquisition, integration and related on our condensed consolidated statements 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 September 30, 2018 related to these discontinued hedges was \$16.7 million, which will be recognized using the effective interest rate method over the remaining maturity period of the hedged notes. As of September 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>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2018</u>	<u>December 31, 2017</u>
Long-term debt	\$ 566.5	\$ 572.8	\$ 16.7	\$ 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 September 30, 2018 was \$27.2 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. In the third quarter of 2018, we initiated additional receive-fixed-rate, pay-fixed-rate cross-currency interest rate swaps with a notional amount of €250.0 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 nine month periods ended September 30, 2018, we recognized foreign exchange gains of \$2.1 million and \$66.7 million, respectively, in AOCI in foreign currency translation adjustments on our net investment hedges. In the three and nine month periods ended September 30, 2017, we recognized foreign exchange losses of \$41.7 million and \$127.5 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 nine month periods ended September 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. 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 September 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 October 2018 through March 2020. As of September 30, 2018, the notional amounts of outstanding forward contracts and options entered into with third parties to purchase U.S. Dollars were \$1,620.7 million. As of September 30, 2018, the notional amounts of outstanding forward contracts and options entered into with third parties to purchase Swiss Francs were \$270.9 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 September 30,		Nine Months Ended September 30,			Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017		2018	2017	2018	2017
Foreign exchange forward contracts	\$ 38.8	\$ (35.6)	\$ 68.3	\$ (98.7)	Cost of products sold	\$ (4.9)	\$ (5.1)	\$ (26.5)	\$ 12.0
Interest rate swaps	(0.7)	(0.3)	(0.6)	(0.3)	Interest expense	-	-	-	-
Forward starting interest rate swaps	-	-	-	-	Interest expense	(0.1)	(0.1)	(0.4)	(0.4)
	<u>\$ 38.1</u>	<u>\$ (35.9)</u>	<u>\$ 67.7</u>	<u>\$ (99.0)</u>		<u>\$ (5.0)</u>	<u>\$ (5.2)</u>	<u>\$ (26.9)</u>	<u>\$ 11.6</u>

The net amounts recognized in earnings during the three and nine month periods ended September 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 September 30, 2018, together with settled derivatives where the hedged item has not yet affected earnings, was a net unrealized gain of \$10.2 million, or \$10.1 million after taxes, which is deferred in AOCI. A gain of \$8.7 million, or \$6.8 million after taxes, is expected to be reclassified to earnings in cost of products sold and a loss of \$0.6 million, or \$0.5 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 September 30, 2018		Three Months Ended September 30, 2017		Nine Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
	Cost of		Cost of		Cost of		Cost of	
	Goods Sold	Interest Expense	Goods Sold	Interest Expense	Goods Sold	Interest Expense	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>	\$ 529.0	\$ (68.3)	\$ 500.9	\$ (82.3)	\$ 1,688.5	\$ (223.1)	\$ 1,541.5	\$ (247.5)
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	-	6.3	-	6.2
<b>Gain (loss) on cash flow hedging relationships</b>								
Forward starting interest rate swaps	-	(0.1)	-	(0.1)	-	(0.4)	-	(0.4)
Foreign exchange forward contracts	(4.9)	-	(5.1)	-	(26.5)	-	12.0	-

*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 September 30,		Nine Months Ended September 30,	
		2018	2017	2018	2017
Foreign exchange forward contracts	Other expense, net	\$ 5.5	\$ (16.3)	\$ 23.4	\$ (54.9)

These gains and losses do not reflect offsetting losses of \$10.2 million and \$39.2 million in the three and nine month periods ended September 30, 2018, respectively, and offsetting gains of \$11.1 million and \$43.0 million in the three and nine month periods ended September 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 September 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 September 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	\$ 31.3	Other current assets	\$ 14.5
Foreign exchange forward contracts	Other assets	21.1	Other assets	4.8
Interest rate swaps	Other assets	3.9	Other assets	4.5
Cross-currency interest rate swaps	Other assets	31.4	Other assets	-
<b>Total asset derivatives</b>		<u>\$ 87.7</u>		<u>\$ 23.8</u>
<b>Liability Derivatives</b>				
Foreign exchange forward contracts	Other current liabilities	\$ 13.0	Other current liabilities	\$ 45.8
Foreign exchange forward contracts	Other long-term liabilities	2.6	Other long-term liabilities	22.8
Cross-currency interest rate swaps	Other long-term liabilities	4.0	Other long-term liabilities	-
<b>Total liability derivatives</b>		<u>\$ 19.6</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 September 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	\$ 31.3	\$ 11.7	\$ 19.6	\$ 14.5	\$ 13.4	\$ 1.1
Cash flow hedges	Other assets	21.1	2.6	18.5	4.8	4.3	0.5
<b>Liability Derivatives</b>							
Cash flow hedges	Other current liabilities	13.0	11.7	1.3	45.8	13.4	32.4
Cash flow hedges	Other long-term liabilities	2.6	2.6	-	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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Euro Notes	\$ 6.1	\$ (41.7)	\$ 39.3	\$ (127.5)
Cross-currency interest rate swaps	(4.0)	-	27.4	-
	<u>\$ 2.1</u>	<u>\$ (41.7)</u>	<u>\$ 66.7</u>	<u>\$ (127.5)</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 2008-2012, 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. As of September 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 nine month periods ended September 30, 2018, our effective tax rate ("ETR") was negative 5.5 percent and positive 12.1 percent, respectively. In the three and nine month periods ended September 30, 2018, we recognized tax benefits resulting from return to provision adjustments related to changes in estimated tax rates on deferred tax liabilities recorded on acquisition-related intangible assets. The change in estimates from these adjustments resulted in tax benefits of \$16.9 million in the three and nine month periods ended September 30, 2018. In the prior year periods, we had certain discrete adjustments that significantly impacted our ETR. In the nine month period ended September 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 acquisition-related accounting. In the three and nine month periods ended September 30, 2017, we recognized tax benefits of \$39.8 million and \$128.6 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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Service cost	\$ 6.8	\$ 7.1	\$ 21.3	\$ 21.0
Interest cost	5.6	4.6	16.7	13.9
Expected return on plan assets	(11.6)	(10.1)	(35.1)	(30.3)
Curtailement loss	-	0.2	-	0.4
Amortization of prior service cost	(2.4)	(2.6)	(7.4)	(7.7)
Amortization of unrecognized actuarial loss	6.7	5.4	19.5	16.2
Net periodic pension expense	\$ 5.1	\$ 4.6	\$ 15.0	\$ 13.5

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 \$14.5 million to our foreign-based defined benefit pension plans in the nine month period ended September 30, 2018, and we expect to contribute \$4.8 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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Weighted average shares outstanding for basic net earnings per share	203.7	202.3	203.3	201.7
Effect of dilutive stock options and other equity awards	1.7	1.7	1.6	1.9
Weighted average shares outstanding for diluted net earnings per share	205.4	204.0	204.9	203.6

During the three and nine month periods ended September 30, 2018, an average of 0.7 million options and 1.8 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 nine month periods ended September 30, 2017, an average of 0.9 million and 0.8 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 and CMF products; 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 in cludes 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, goodwill and 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):

	<b>Net Sales</b>		<b>Operating Profit</b>	
	<b>Three Months Ended</b>		<b>Three Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Americas	\$ 934.5	\$ 916.7	\$ 479.8	\$ 501.4
EMEA	326.8	335.4	85.5	96.4
Asia Pacific	295.9	281.7	94.8	98.3
Product Category Operating Segments	279.5	279.3	43.3	49.0
Global Operations and Corporate Functions	-	-	(232.4)	(205.4)
Total	<u>\$ 1,836.7</u>	<u>\$ 1,813.1</u>		
Inventory step-up and other inventory and manufacturing related charges			(5.0)	(11.5)
Intangible asset amortization			(147.6)	(152.7)
Goodwill and intangible asset impairment			(3.8)	(32.7)
Acquisition, integration and related			(17.4)	(61.6)
Quality remediation			(34.2)	(50.0)
Litigation			(14.0)	(8.0)
Other charges			(25.7)	(12.0)
Operating profit			<u>\$ 223.3</u>	<u>\$ 211.2</u>

	Net Sales		Operating Profit	
	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Americas	\$ 2,904.7	\$ 2,886.5	\$ 1,515.0	\$ 1,566.6
EMEA	1,159.4	1,108.5	344.5	345.0
Asia Pacific	914.1	850.5	309.7	308.7
Product Category Operating Segments	883.7	889.5	136.6	191.4
Global Operations and Corporate Functions	-	-	(701.5)	(627.3)
Total	\$ 5,861.9	\$ 5,735.0		
Inventory step-up and other inventory and manufacturing related charges			(24.7)	(52.7)
Intangible asset amortization			(447.9)	(452.4)
Goodwill and intangible asset impairment			(3.8)	(59.5)
Acquisition, integration and related			(113.9)	(192.3)
Quality remediation			(125.8)	(141.2)
Litigation			(15.5)	(15.0)
Other charges			(48.4)	(31.9)
Operating profit			\$ 824.3	\$ 839.4

## 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*). 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 nine month periods ended September 30, 2018, with no additional gain or expense recorded in the three month period ended September 30, 2018. In the three and nine month periods ended September 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 September 30, 2018 for any possible future insurance recoveries for these claims.

Our estimate as of September 30, 2018 of the remaining liability for all Durom Cup-related claims is \$112.3 million, of which \$48.9 million is classified as short-term in “Other current liabilities” and \$63.4 million is classified as long-term in “Other long-term

liabilities” on our condensed consolidated balance sheet. We expect to pay the majority of the Durom Cup-related claims within the next few years.

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

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

*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.

*Zimmer M/L Taper, M/L Taper with Kinectiv Technology, and Versys Femoral Head-related claims* : We are a defendant in a number of product liability lawsuits relating to our M/L Taper and M/L Taper with Kinectiv Technology hip stems, and Versys Femoral Head implants. The plaintiffs seek damages for personal injury, alleging that defects in the products lead to corrosion at the

head /stem junction resulting in , among other things, pain, inflammation and revision surgery. The majority of the cases were recently consolidated in an MDL in the United States District Court for the Southern District of New York ( *In Re: Zimmer M/L Taper Hip Prosthesis or M/L Taper Hip Prosthesis with Kinectiv Technology and Versys Femoral Head Products Liability Litigation* ). Other related cases are pending in various state courts, with the majority of state court cases pending in Oregon, New Mexico, Indiana and Florida. Additional lawsuits are likely to be filed. 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. In light of recent litigation developments, our estimate as of September 30, 2018 of the remaining liability for all Biomet metal-on-metal hip implant claims has increased to \$62.1 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 September 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, which it later increased to € 125.9 million. In September 2017, Heraeus filed an enforcement action in the Darmstadt court against Biomet Europe, requesting that a fine be imposed against Biomet Europe for failure to disclose the amount of the European Cements which Biomet Orthopaedics Switzerland had ordered to be manufactured in Germany (e.g., for the Chinese market). In June 2018, the Darmstadt court dismissed Heraeus’ request. Heraeus appealed the decision. 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 on the grounds that the same request had already been decided upon by the Frankfurt Decision which became final and binding. 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, which heard oral argument on the appeal on October 23, 2018.

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. On October 2, 2018, the Belgian Court of Appeal of Mons issued a judgment in favor of Heraeus relating to its request for past damages caused by the alleged misappropriation of its trade secrets, and an injunction preventing future sales of certain European Cements in Belgium. We intend to appeal this judgment to the Belgian Supreme Court.

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. Oral argument before the Federal Circuit is scheduled for December 3, 2018. 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 Securities 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, one of our officers and two 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. We and our current and former officers and Board

members named as defendants are sometimes hereinafter referred to as the “Zimmer Biomet Defendant group”. The former stockholders of ours who sold shares of our common stock in secondary public offerings in 2016 are sometimes hereinafter referred to as the “Private Equity Fund Defendant group”. 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. On September 27, 2018, the court denied the Zimmer Biomet Defendant group’s motion to dismiss in its entirety. The court granted the Private Equity Fund Defendant group’s motion to dismiss, without prejudice. On October 9, 2018, the Zimmer Biomet Defendant group filed a motion to amend the court’s order on the motion to certify two issues for interlocutory appeal, and a motion to stay proceedings pending appeal. That motion remains pending. 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 August 2018, we 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) (“QSR”) at our legacy Biomet manufacturing facility in Warsaw, Indiana (this facility is sometimes referred to in this report as the “Warsaw North Campus”). In May 2016, we received a warning letter from the FDA related to observed non-conformities with current good manufacturing practice requirements of the QSR at our facility in Montreal, Quebec, Canada. In September 2012, we received a warning letter from the FDA citing concerns relating to certain processes pertaining to products manufactured at our Ponce, Puerto Rico manufacturing facility. 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 Warsaw, Montreal and Ponce. As of November 1, 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 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, (i) 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 Nine Month Periods ended September 30, 2018

Net sales increased by 1.3 percent and 2.2 percent in the three and nine month periods ended September 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 continued strong performance in our Asia Pacific operating segment. We continue to make progress addressing our ongoing supply and quality remediation challenges at our Warsaw North Campus facility. In the three month period ended September 30, 2018, our net sales also benefited from the timing of capital equipment sales in the Americas in our S.E.T. product category and customer tenders in EMEA.

Our net earnings increased in the three month period ended September 30, 2018 compared to the same prior year period and declined in the nine month period ended September 30, 2018 compared to the same prior year period. In the three month period ended September 30, 2018, sales increases and lower acquisition, integration and related expenses, goodwill and intangible asset impairment and quality remediation expenses were partially offset by 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"). The decline in net earnings in the nine month period ended September 30, 2018 was primarily due to the same reasons, as well as tax benefits recognized in the nine month period ended September 30, 2017 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 acquisition-related accounting and \$128.6 million related to resolution of certain tax matters.

#### 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 slightly less than 1.0 percent. Beginning in the fourth quarter of 2018, our revenues will be impacted by disruption related to the pending termination of our U.S. distribution agreement with a bone cement supplier. We are actively working to mitigate this issue by transitioning customers to our internally-produced bone cement, but at this time, we anticipate the termination of this distribution agreement may have a negative impact of between \$10 million and \$15 million per quarter on our Other product category revenue.

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 2018 compared to 2017 as we complete our integration activities related to the Biomet merger and other 2016 acquisitions. We expect quality remediation expense to remain consistent in 2018 compared to 2017 as we continue our quality remediation at our Warsaw North Campus facility. We expect interest expense to be lower in 2018 compared to 2017 due to lower debt levels.

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 nine month periods ended September 30, 2018, we have refined our estimate of the impacts of the 2017 Tax Act and have reduced the income tax benefit by \$12.0 million. 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 September 30,		% Inc / (Dec)	Volume / Mix		Price	Foreign Exchange
	2018	2017					
Americas	\$ 1,153.6	\$ 1,137.0	1.5 %	4.1 %	(2.4) %	(0.2) %	
EMEA	372.1	381.1	(2.3)	2.0	(2.0)	(2.3)	
Asia Pacific	311.0	295.0	5.4	10.8	(3.2)	(2.2)	
Total	\$ 1,836.7	\$ 1,813.1	1.3	4.7	(2.4)	(1.0)	

	Nine Months Ended September 30,		% Inc	Volume / Mix		Price	Foreign Exchange
	2018	2017					
Americas	\$ 3,578.0	\$ 3,570.8	0.2 %	2.5 %	(2.4) %	0.1 %	
EMEA	1,326.3	1,272.5	4.2	0.6	(2.3)	5.9	
Asia Pacific	957.6	891.7	7.4	8.8	(3.6)	2.2	
Total	\$ 5,861.9	\$ 5,735.0	2.2	3.0	(2.5)	1.7	

“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
	September 30,					
	2018	2017				
Knees	\$ 627.9	\$ 622.9	0.8 %	5.0 %	(2.9) %	(1.3) %
Hips	444.8	432.8	2.8	7.2	(3.3)	(1.1)
S.E.T.	414.6	404.8	2.4	4.9	(1.8)	(0.7)
Dental	92.3	92.9	(0.6)	-	(0.2)	(0.4)
Spine & CMF	184.9	184.5	0.2	2.1	(1.4)	(0.5)
Other	72.2	75.2	(4.0)	(1.4)	(1.9)	(0.7)
<b>Total</b>	<b>\$ 1,836.7</b>	<b>\$ 1,813.1</b>	<b>1.3</b>	<b>4.7</b>	<b>(2.4)</b>	<b>(1.0)</b>

	Nine Months Ended		% Inc / (Dec)	Volume / Mix	Price	Foreign Exchange
	September 30,					
	2018	2017				
Knees	\$ 2,044.2	\$ 2,003.7	2.0 %	3.3 %	(2.9) %	1.6 %
Hips	1,423.7	1,374.6	3.6	4.4	(3.0)	2.2
S.E.T.	1,290.7	1,249.4	3.3	4.0	(2.2)	1.5
Dental	306.8	311.1	(1.4)	(2.6)	(1.1)	2.3
Spine & CMF	566.2	564.1	0.4	1.2	(1.8)	1.0
Other	230.3	232.1	(0.8)	(0.6)	(1.5)	1.3
<b>Total</b>	<b>\$ 5,861.9</b>	<b>\$ 5,735.0</b>	<b>2.2</b>	<b>3.0</b>	<b>(2.5)</b>	<b>1.7</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		% Inc / (Dec)	Nine Months Ended		% Inc / (Dec)
	September 30,			September 30,		
	2018	2017		2018	2017	
<b>Knees</b>						
<i>Americas</i>	\$ 384.6	\$ 381.5	0.8 %	\$ 1,209.9	\$ 1,214.9	(0.4) %
<i>EMEA</i>	134.3	135.1	(0.6)	494.0	462.8	6.8
<i>Asia Pacific</i>	109.0	106.3	2.5	340.3	326.0	4.4
<b>Total</b>	<b>\$ 627.9</b>	<b>\$ 622.9</b>	<b>0.8</b>	<b>\$ 2,044.2</b>	<b>\$ 2,003.7</b>	<b>2.0</b>
<b>Hips</b>						
<i>Americas</i>	\$ 240.0	\$ 226.6	5.9 %	\$ 737.8	\$ 714.5	3.3 %
<i>EMEA</i>	107.6	115.1	(6.4)	383.6	382.0	0.4
<i>Asia Pacific</i>	97.2	91.1	6.7	302.3	278.1	8.7
<b>Total</b>	<b>\$ 444.8</b>	<b>\$ 432.8</b>	<b>2.8</b>	<b>\$ 1,423.7</b>	<b>\$ 1,374.6</b>	<b>3.6</b>

### Demand (Volume and Mix) Trends

Increased volume and changes in the mix of product sales had a positive effect of 4.7 percent and 3.0 percent on year-over-year sales during the three and nine month periods ended September 30, 2018, respectively. Volume/mix growth was driven by recent product introductions, sales in key emerging markets and an aging population. In the three month period, we also had additional growth driven by the timing of capital equipment sales in the Americas in our S.E.T. product category and customer tenders in EMEA.

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 2.4 percent and 2.5 percent on year-over-year sales during the three and nine month periods ended September 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 nine month periods ended September 30, 2018, changes in foreign currency exchange rates had a negative effect of 1.0 percent and a positive effect of 1.7 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 of slightly less than 1.0 percent for the entire year.

### Sales by Product Category

#### *Knees*

Knee sales increased in the three and nine month periods ended September 30, 2018 when compared to the same prior year periods primarily due to 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 nine month periods ended September 30, 2018 when compared to the same prior year periods primarily due 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. Improved supply contributed positively to our results in the Hips product category.

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

Our S.E.T. product category sales increased in the three and nine month periods ended September 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 notable capital equipment sales in the third quarter.

#### *Dental*

Dental sales declined in the three and nine month periods ended September 30, 2018 when compared to the same prior year periods. The decline is due to ongoing competitive challenges in the U.S. and EMEA.

#### *Spine and CMF*

Spine and CMF sales increased in the three and nine month periods ended September 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 continuing U.S. distributor integration issues.

### Expenses as a Percentage of Net Sales

	Three Months Ended		% Inc / (Dec)	Nine Months Ended		% Inc / (Dec)
	September 30,			September 30,		
	2018	2017		2018	2017	
Cost of products sold, excluding intangible asset amortization	28.8 %	27.6 %	1.2 %	28.8 %	26.9 %	1.9 %
Intangible asset amortization	8.0	8.4	(0.4)	7.6	7.9	(0.3)
Research and development	5.2	5.0	0.2	5.0	4.8	0.2
Selling, general and administrative	42.9	39.3	3.6	40.6	39.1	1.5
Goodwill and intangible asset impairment	0.2	1.8	(1.6)	0.1	1.0	(0.9)
Acquisition, integration and related	0.9	3.4	(2.5)	1.9	3.4	(1.5)
Quality remediation	1.8	2.8	(1.0)	1.9	2.4	(0.5)
Operating profit	12.2	11.6	0.6	14.1	14.6	(0.5)

The increase in cost of products sold as a percentage of net sales for the three and nine month periods ended September 30, 2018 compared to the same prior year periods was primarily due to lower average selling prices, increased manufacturing costs at our Warsaw North Campus facility and higher excess and obsolete inventory charges. Additionally, the nine month period ended September 30, 2018 was negatively affected by our hedging program and positively affected by lower inventory step-up charges. We incurred hedge losses of \$26.5 million in the nine month period ended September 30, 2018 compared to hedge gains of \$12.0 million in the same prior year period. For derivatives which qualify as hedges of future cash flows, the effective portion of changes in fair value is temporarily recorded in other comprehensive income and then recognized in cost of products sold when the hedged items affect earnings. 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 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 nine month periods ended September 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 nine month periods ended September 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 nine month periods ended September 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, increased expenses related to our compliance with the DPA, increased incentive compensation due to better performance versus our operating budgets and various spending on other special business transformation initiatives.

We recognized \$3.8 million of goodwill and intangible asset impairment in the three and nine month periods ended September 30, 2018, respectively. The impairment was due to the termination of certain in-process research and development (“IPR&D”) projects. We recognized \$32.7 million and \$59.5 million of goodwill and intangible asset impairment in the three and nine month periods ended September 30, 2017, respectively. The \$32.7 million in the three month period of 2017 was goodwill impairment on our Office Based Technologies reporting unit. The reporting unit’s operating performance had been lower than expected due to integration issues, management turnover and poor execution of its operating plans, resulting in our decision to write off all goodwill on that reporting unit. In the nine month period of 2017, we also recognized \$26.8 million of intangible asset impairment that was primarily due to the termination of certain IPR&D projects.

Acquisition, integration and related expenses declined in the three and nine month periods ended September 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 nine month periods ended September 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.

Net interest expense decreased in the three and nine month periods ended September 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 and hedging strategies that have lowered our effective interest rate.

In the three and nine month periods ended September 30, 2018, our effective tax rate (“ETR”) was negative 5.5 percent and positive 12.1 percent, respectively. In the three and nine month periods ended September 30, 2018, we recognized tax benefits resulting from return to provision adjustments related to changes in estimated tax rates on deferred tax liabilities recorded on acquisition-related intangible assets. The change in estimates from these adjustments resulted in tax benefits of \$16.9 million in the

three and nine month periods ended September 30, 2018. In the prior year periods, we had certain discrete adjustments that significantly impacted our ETR. In the nine month period ended September 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 acquisition-related accounting. In the three and nine month periods ended September 30, 2017, we recognized tax benefits of \$39.8 million and \$128.6 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

(dollars in millions)	Net Sales		Operating Profit		Operating Profit as a Percentage of Net Sales	
	Three Months Ended		Three Months Ended		Three Months Ended	
	September 30,		September 30,		September 30,	
	2018	2017	2018	2017	2018	2017
Americas	\$ 934.5	\$ 916.7	\$ 479.8	\$ 501.4	51.3 %	54.7 %
EMEA	326.8	335.4	85.5	96.4	26.2	28.7
Asia Pacific	295.9	281.7	94.8	98.3	32.0	34.9

(dollars in millions)	Net Sales		Operating Profit		Operating Profit as a Percentage of Net Sales	
	Nine Months Ended		Nine Months Ended		Nine Months Ended	
	September 30,		September 30,		September 30,	
	2018	2017	2018	2017	2018	2017
Americas	\$ 2,904.7	\$ 2,886.5	\$ 1,515.0	\$ 1,566.6	52.2 %	54.3 %
EMEA	1,159.4	1,108.5	344.5	345.0	29.7	31.1
Asia Pacific	914.1	850.5	309.7	308.7	33.9	36.3

In the Americas, operating profit as a percentage of net sales decreased in the three and nine month periods ended September 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 nine month periods ended September 30, 2018 compared to the same prior year periods primarily due to price declines and higher excess and obsolete inventory charges.

### 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; goodwill and 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 earnings per share is used as a performance metric 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		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net Earnings of Zimmer Biomet Holdings, Inc.	\$ 162.2	\$ 98.8	\$ 521.9	\$ 582.4
Inventory step-up and other inventory and manufacturing-related charges (1)	5.0	11.5	24.7	52.7
Intangible asset amortization (2)	147.6	152.7	447.9	452.4
Goodwill and intangible asset impairment (3)	3.8	32.7	3.8	59.5
Acquisition, integration and related (4)	17.4	61.6	113.9	192.3
Quality remediation (5)	34.2	50.0	125.8	141.2
Litigation (6)	14.0	8.0	15.5	15.0
Other charges (7)	25.0	11.6	47.7	32.4
Taxes on above items (8)	(54.1)	(79.2)	(149.5)	(264.4)
Other certain tax adjustments (9)	(20.5)	2.2	(34.2)	(55.6)
Adjusted Net Earnings	\$ 334.6	\$ 349.9	\$ 1,117.5	\$ 1,207.9

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Diluted Earnings Per Share	\$ 0.79	\$ 0.48	\$ 2.55	\$ 2.86
Inventory step-up and other inventory and manufacturing-related charges (1)	0.02	0.06	0.12	0.26
Intangible asset amortization (2)	0.72	0.75	2.19	2.22
Goodwill and intangible asset impairment (3)	0.02	0.16	0.02	0.29
Acquisition, integration and related (4)	0.08	0.30	0.56	0.94
Quality remediation (5)	0.17	0.25	0.61	0.70
Litigation (6)	0.07	0.04	0.08	0.07
Other charges (7)	0.12	0.06	0.23	0.16
Taxes on above items (8)	(0.26)	(0.39)	(0.74)	(1.30)
Other certain tax adjustments (9)	(0.10)	0.01	(0.17)	(0.27)
Adjusted Diluted Earnings Per Share	\$ 1.63	\$ 1.72	\$ 5.45	\$ 5.93

- (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 2018 periods, we recognized \$3.8 million of intangible asset impairment. In the 2017 periods, we recognized \$32.7 million of goodwill impairment and \$26.8 million of intangible asset impairment.
- (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 and a warning letter 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 and intellectual property litigation. 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, which monitorship 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 nine month periods ended September 30, 2018 primarily related to changes in tax rates on deferred tax liabilities recorded on intangible assets recognized in acquisition-related accounting and adjustments from internal restructuring transactions that provide us access to offshore funds in a tax efficient manner. In the three and nine month periods ended September 30, 2017, other certain tax adjustments related to tax restructuring that lowered the tax rate on deferred tax liabilities recorded on intangible assets recognized in acquisition-related accounting, net favorable resolutions of various tax matters, and charges from internal restructuring transactions that provide us access to cash in a tax efficient manner.

### **Liquidity and Capital Resources**

Cash flows provided by operating activities were \$1,367.9 million in the nine month period ended September 30, 2018, compared to \$1,179.4 million in the same prior year period. The increase was driven by additional cash flows from our sale of accounts receivable in certain countries as well as certain significant payments made in the 2017 period. In the 2017 period, we made payments related to the U.S. Durom Cup Settlement Program, and we paid \$30.5 million in Settlement Payments to resolve previously-disclosed FCPA matters involving Biomet and certain of its subsidiaries as discussed in Note 15 to our interim condensed consolidated financial statements included in Part I, Item 1 of this report.

Cash flows used in investing activities were \$334.2 million in the nine month period ended September 30, 2018, compared to \$382.6 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 \$1,026.7 million in the nine month period ended September 30, 2018, compared to \$977.6 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 the \$400.0 million of Multicurrency Revolving Facility borrowings and also repaid \$425.0 million on U.S. Term Loan A and \$75.0 million on U.S. Term Loan B 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 2017 period, we also borrowed amounts under a new Japan Term Loan B and used the borrowings to pay down a portion of U.S. Term Loan A. In the 2018 period, we also had net cash outflows of \$54.6 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, May and August 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 September 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 September 30, 2018, a short-term liability of \$48.9 million and a long-term liability of \$63.4 million related to Durom Cup product liability claims were recorded on our condensed consolidated balance sheet. We expect to continue paying these claims over the next few years. We maintain insurance for product liability claims, subject to self-insurance retention requirements. We have recovered insurance proceeds from certain of our insurance carriers for Durom Cup-related claims. While we may recover additional insurance proceeds in the future for Durom Cup-related claims, we do not have a receivable recorded on our condensed consolidated balance sheet as of September 30, 2018 for any possible future insurance recoveries for these claims. As of September 30, 2018, we also had a short-term liability of \$62.1 million related to Biomet metal-on-metal hip implant claims.

At September 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
	580.8 *	1.414	December 13, 2022
	300.0	3.700	March 19, 2023
	2,000.0	3.550	April 1, 2025
	580.8 *	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 \$1,301.9 million outstanding as of September 30, 2018.

We have a \$1.5 billion Multicurrency Revolving Facility that will mature on September 30, 2021. There were no outstanding borrowings under this facility as of September 30, 2018. We also have other available uncommitted credit facilities totaling \$55.8 million as of September 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 September 30, 2018, \$329.0 million of our cash and cash equivalents were held in jurisdictions outside of the U.S. Of this amount, \$71.0 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 nine month periods ended September 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.

Due to declining sales and operating profits below our expectations, we performed an impairment assessment on our Dental reporting unit goodwill in the third quarter of 2018, with a balance of \$389.1 million at the time of assessment. We estimated the fair value of the reporting unit based on income and market approaches. Our assessment concluded the goodwill was not impaired. However, the estimated fair value of the reporting unit only exceeded its carrying value by less than 5 percent. If our future operating results are below the estimations used for our impairment assessment, then we may have to recognize goodwill impairment charges in the future.

We have four other reporting units that have goodwill assigned to them. As of the date of our last goodwill impairment test, each of the four 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 and this report contain 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 September 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**

Except as set forth below, 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.

The risk factor set forth below replaces in its entirety the risk factor with the same title:

*We are subject to various governmental regulations relating to the manufacturing, labeling and marketing of our products, non-compliance with which could adversely affect our business, financial condition and results of operations.*

The products we design, develop, manufacture and market are subject to rigorous regulation by the FDA and numerous other federal, state and foreign governmental authorities. The process of obtaining regulatory approvals to market these products can be costly and time consuming and approvals might not be granted for future products on a timely basis, if at all. Delays in receipt of, or failure to obtain, approvals for future products could result in delayed realization of product revenues or in substantial additional costs.

Both before and after a product is commercially released, we have ongoing responsibilities under FDA regulations and other local, state and foreign requirements. Compliance with these requirements, including the QSR, recordkeeping regulations, labeling and promotional requirements and adverse event reporting regulations, is subject to continual review and is monitored rigorously through periodic inspections by the FDA and other regulators, which may result in observations (such as on Form 483), and in some cases warning letters, that require corrective action, or other forms of enforcement. If the FDA or another regulator were to conclude that we are not in compliance with applicable laws or regulations, or that any of our products are ineffective or pose an unreasonable health risk, they could ban such products, detain or seize adulterated or misbranded products, order a recall, repair, replacement, or refund of payment of such products, refuse to grant pending premarket approval applications, refuse to provide certificates for exports, and/or require us to notify healthcare professionals and others that the products present unreasonable risks of substantial harm to the public health. The FDA or other regulators may also impose operating restrictions, including a ceasing of operations, on one or more facilities, enjoin and restrain certain violations of applicable law pertaining to our products and assess civil or criminal penalties against our officers, employees or us. The FDA or other regulators could also issue a corporate warning letter, a recidivist warning letter, a consent decree of permanent injunction, and/or recommend prosecution. 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.

In 2012, we 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, we received a warning letter from the FDA related to observed non-conformities with current good manufacturing practice requirements of the QSR at our facility in Montreal, Quebec, Canada. In August 2018, we received a warning letter from the FDA related to observed non-conformities with current good manufacturing practice requirements of the QSR at our Warsaw North Campus manufacturing facility. As of November 1, 2018, these warning letters remained pending. Until the violations are corrected, we may become subject to additional regulatory action by the FDA as described above, the FDA may refuse to grant premarket approval applications and/or the FDA may refuse to grant export certificates, any of which could have a material adverse effect on our business, financial condition and results of operations. Additional information regarding these and other FDA regulatory matters can be found in Note 15 to our interim condensed consolidated financial statements included in Part I, Item 1 of this report.

Our products and operations are also often subject to the rules of industrial standards bodies, such as the International Standards Organization. If we fail to adequately address any of these regulations, our business could be harmed.

### **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 September 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\* [Swiss Employment Agreement by and between Zimmer GmbH and Didier Deltort dated as of June 28, 2018](#)
- 10.2\* [Offer Letter by and between Zimmer Biomet Holdings, Inc. and Didier Deltort dated as of June 28, 2018](#)
- 10.3\* [Confidentiality, Non-Competition and Non-Solicitation Agreement by and between Zimmer GmbH and Didier Deltort dated as of June 28, 2018](#)
- 10.4\* [Change in Control Severance Agreement by and between Zimmer GmbH and Didier Deltort dated as of October 9, 2018](#)
- 21 [List of Subsidiaries of Zimmer Biomet Holdings, Inc.](#)
- 31.1 [Certification pursuant to Rule 13a-14\(a\)/15d-14\(a\) of the Securities Exchange Act of 1934 of the Chief Executive Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- 31.2 [Certification pursuant to Rule 13a-14\(a\)/15d-14\(a\) of the Securities Exchange Act of 1934 of the Chief Financial Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- 32 [Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document

\* Management contract or compensatory plan or arrangement

SIGNATURES

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

ZIMMER BIOMET HOLDINGS, INC.

(Registrant)

Date: November 1, 2018

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

Date: November 1, 2018

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

# Employment Agreement

between

**Zimmer GmbH**  
Sulzerallee 8, 8404 Winterthur

and

**Mr Didier Deltort, born on ●, in ●**  
(hereinafter referred as „Mr. **Deltort** “)

will be hired in terms of Art. 319ff. OR.

## **1. Hire date, position and work location**

- 1.1 Mr. Deltort (“you”) will be employed effective August 20, 2018, as President EMEA, Level Z04. In this function you will report directly to Bryan C. Hanson, the President and Chief Executive Officer of Zimmer Biomet Holdings, Inc. (the “Company” and together with Zimmer GmbH and its other subsidiaries, the “Zimmer Biomet Group”). You will also be a member of the Company’s global Leadership Team.
- 1.2 The position will be based in Winterthur, Switzerland and will be entered into Commercial Register as President EMEA.

## **2. Contract duration, probationary period, notice period and severance**

- 2.1 This Agreement shall be valid for an indefinite time period. The probationary period months has been waived as per agreement but would be normally 6 months according to the Contractual Employment Conditions (Swiss terms and conditions of employment, hereinafter referred as the “AVB”).
  - 2.2 The employment may be terminated in writing by either party with a notice period of 6 months from the end of the month in which the notice is given. This term of notice deviates from the AVB.
  - 2.3 In this role, you will be eligible to participate in the Company’s Executive Severance Plan, as amended. As an eligible Leadership Team member, in the event of your involuntary separation without Cause as defined under the plan, your severance benefit offer would include the sum of your final base salary and final target bonus. Payment would be made in lump-sum form, less applicable tax withholdings, subject to your entering into a general release in the form provided by the Company. There would be no duplication of benefits provided under the Change in Control (“CIC”) Severance Agreement or otherwise. Your continued eligibility for participation in this plan will be in accordance with terms of the plan as defined and administered by the Company, and
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taking into account your then-current job Z-grade, role and responsibilities in the Company.

- 2.4 In your role, you will be eligible to receive a CIC Severance Agreement, subject to execution of the enclosed Confidentiality, Non-Competition, and Non-Solicitation Agreement. The agreement would provide you with certain severance benefits following a change in control of Zimmer Biomet Holdings, Inc. and related termination of your employment. Once you return the Confidentiality, Non-Competition, and Non-Solicitation Agreement, we will prepare the CIC Severance Agreement along with a cover memo outlining the benefits under the agreement. Your continued eligibility for potential CIC severance benefits in the event of a change in control would be in accordance with terms of the agreement.

### **3. Salary and bonus**

- 3.1 The annual base salary amounts to CHF 500'000 gross. It will be paid in twelve monthly installments and is subject to all social securities, tax and other mandatory deductions. Remittance is made at the end of each month via bank transfer to a Swiss Bank Account.

- 3.2 You will be eligible to participate in the 2018 Executive Performance Incentive Plan ("EPIP") upon your hire date. Your target bonus will be eighty percent (80%) of your eligible earnings (which will consist primarily of base salary payments) for the year. Payout may be more or less than this target percentage, depending on actual year-end results for the established performance measures. Payment will occur in or around March of the year following the bonus period after annual performance measures upon which the bonus is based have been determined. You must remain employed by the Zimmer Biomet Group at the time of bonus payout to receive the bonus.

You will participate in the EPIP based upon the financial EMEA metric group and an individual bonus component. Your bonus will be determined based 90% on the financial EMEA metric and 10% on evaluated accomplishment of your goals and objectives. Your 2018 bonus will be prorated for a partial year of service by applying the earned bonus percentage to your eligible Zimmer Biomet Group earnings for the year.

### **4. Long Term Incentive Plan (LTI) Plan Award**

- 4.1 You will be eligible to be considered for participation in the Zimmer Biomet Holdings, Inc. equity award program in effect at the time.

- 4.2 We anticipate that the Company's 2019 LTI Plan grants will have two components:

- Stock options and
- Performance-based Restricted Stock Units ("PRSUs").

The LTI structure currently offers participants a diversified award of 50% stock options and 50% PRSUs that can provide more consistent value than an award of stock options alone. Further, we believe this structure assists the Company in remaining competitive within the global labor market and creates a compelling and valuable long-term incentive for participants. For 2019, we anticipate two performance metrics for the PRSUs, and that payouts will be determined based 50% on the Company's relative total shareholder return against the S&P 500 Health Care Index constituents and 50% on the Company's constant currency revenue growth. We will provide additional details and information on this PRSU design in or around March 2019.

We will review the performance metrics, equity award types and value mix in conjunction with the 2019 annual grant and will communicate when the Compensation and Management Development Committee of the Company's Board of Directors ("Compensation Committee") has made these determinations. Thereafter, the applicable performance metrics, equity award types and value mix will be subject to annual review and approval by the Compensation Committee.

For 2019, your estimated LTI grant date fair value in this role will be approximately \$1,200,000 (USD). We anticipate the grant date of the 2019 award will be in or around March 2019, subject to the Compensation Committee's approval.

LTI grant values are based upon our compensation philosophy, which is reviewed annually by the Compensation Committee and adjusted as warranted. Please keep in mind that your job responsibilities, performance against your goals and objectives, the overall financial results of the Company and peer group / market compensation practices also impact LTI grant values each year. All eligible equity awards are made in USD.

All equity awards are subject to Compensation Committee approval and other terms and conditions of the 2009 Stock Incentive Plan, as amended from time to time; award agreements; and your execution of a non-compete agreement in the form provided by the Company.

## **5. Company Car**

You will be entitled for a Company Car, according to the European Car Policy, as amended from time to time. It has been agreed that in this instance, it will be an Audi A7.

## **6. Working time and holiday**

- 6.1 The working hours result from the requirements of the function, and you will not be eligible for paid overtime. To compensate overtime, you will be entitled to 5 additional vacation days per calendar year.
- 6.2 The annual holiday entitlement is according to the Collective Employment Agreement of the Engineering Industry (hereinafter referred to as the "GAV"); depending on your age, it would be at least 30 days + 5 additional days as referenced in 6.1 above.

## **7. Relocation**

- 7.1 The Company is offering you relocation from your home location to Winterthur, Switzerland (according to the Zimmer Biomet "Cross Border Local Hire Policy").
- 7.2 In case of contract cancellation by the employee within 12 (twelve) months of effective hire date, all relocation payments will have to be repaid on a pro-rata-temporis basis.
- 7.3 All benefits and lump sum payments according to the policy rules paid through payroll regarding the relocation are taxable according to the Swiss law.

**8 . Pension plan**

For pension purposes, you will be covered under the terms and conditions of the following two schemes: "Sulzer Vorsorgeeinrichtung (SVE)" and "Johann Jakob Sulzer Stiftung (JJS).

**9. Confidentiality, Non-Competition, and Non-Solicitation Agreement**

You commit to sign as an attachment to this Employment Contract a Confidentiality, Non-Competition, and Non-Solicitation Agreement.

**10. Applicable Law and Place of Jurisdiction**

The Employment Contract takes effect when signed by both parties. Employment is subject to Swiss Law and the GAV. The courts of law in the Canton of Zurich have jurisdiction.

**11 . Contract supplement**

11 .1 You must treat in absolute confidence all information acquired in the course of employment, which is not public knowledge. This obligation continues to apply after the employment relationship has ended.

The collection, supply and forwarding of information to third parties, as well as publications in word, text, image or sound in respect of technical matters and other issues concerning the Zimmer Biomet Group, require the express consent of the Company.

In connection with your employment with Zimmer GmbH, relevant personal data will be collected and processed. The details relating to the collection and processing of these data are contained in the EEA and Switzerland Employee Privacy Policy and Notice (the "Privacy Policy", which is available on the Company's intranet site, The Circle, on the Privacy page. In particular, the Privacy Policy provides information on the specific categories of personal data collected, the reasons for collection of the data, how the data is processed and shared, how it is safeguarded, how it is transferred within the Zimmer Biomet Group as well as to authorized third parties, and how it may be transferred outside of the EEA and Switzerland. The Privacy Policy also contains information on how to exercise the right to access, amend, or rectify the data, as well as who to contact in case of questions or in cases where the rights might have been violated.

1 1 .2 The following documents build an integral part of this employment contract, if not otherwise specified in this contract:

- Collective Employment Agreement of the Engineering Industry (GAV)
- Contractual Employment Conditions Zimmer (Arbeitsvertragliche Bestimmungen Zimmer, AVB)
- Terms and conditions of the "Sulzer Vorsorgeeinrichtung (SVE)" and terms and conditions of the "Johann Jakob Sulzer Stiftung (JJS)
- Zimmer Biomet Code of Business Conduct and Ethics
- Confidentiality, Non-Competition, and Non-Solicitation Agreement
- Zimmer Biomet "Cross Border Local Hire Policy"

- European Car Policy
- Privacy Policy
- HR Conflicts of Interest Policy
- Compliance-related Policies

1.1.3 In the event of any discrepancies between this contract of employment and the general contract terms, the contract of employment shall take precedence over the general contract terms.

Mr. Deltort confirms the receipt of the before mentioned documents and his agreement with the contents.

Winterthur, June 28, 2018

Zimmer GmbH

/s/ Asif Hussain

Asif Hussain

VP, Human Resources, EMEA

Agreed:

Place and Date: Venerque, July 2, 2018

Employee: /s/ Didier Deltort  
Didier Deltort



## **Confidential**

June 28, 2018

Didier Deltort

Dear Didier:

We are pleased to offer you the role of President, EMEA of Zimmer Biomet Holdings, Inc. ("Zimmer Biomet" or the "Company") reporting to Bryan C. Hanson, President and Chief Executive Officer. Your salary grade will be level Z04. We will mutually agree on your start date, which we expect would be no later than August 20, 2018. You will also be a member of the Company's global Leadership Team.

This will be an addendum to your Swiss-based contract dated June 28, 2018.

### **Position Location**

This position will be based in Winterthur, Switzerland (address/physical location). Your tax home will be in Winterthur and business meetings and activities will occur in Winterthur.

### **Annual Merit Adjustment**

Zimmer Biomet's annual merit review process involves base pay adjustments consistent with job performance. Merit adjustments are based on performance during the calendar year. You will be eligible for a merit increase beginning in 2019.

### **Former Employer Bonus Forfeiture**

Since you will forfeit eligibility to receive a bonus payment for this fiscal year from your current employer due to your separation to accept this role with Zimmer Biomet, we will pay you a one-time bonus forfeiture amount to approximate your foregone bonus for January 1, 2018 through July 31, 2018. We estimated your pro-rata bonus forfeiture at CHF 95,132. Please provide the appropriate documentation to support this amount as soon as you are able. Upon acceptance of the documentation and your commencement of employment, we will process payment within 90 days of your start date. This bonus forfeiture payment will not be included as income for purposes of calculating any other bonus or determining compensation for any benefit plan purposes, and will be subject to applicable tax withholdings. As a condition to receipt of this payment, you must agree by your signature below that you will repay to Zimmer Biomet the entire gross amount paid to you of CHF 95,132 if you voluntarily leave employment with Zimmer Biomet within 12 months of the payment date.

### **Sign-On Bonus**

In connection with your commencement of employment, Zimmer Biomet will provide you a one-time cash sign-on bonus for consideration of your relocation to the Winterthur area and potential higher cost of living in the amount of CHF 50,000. This payment will not be included as income for purposes of calculating any other bonus or determining compensation for any benefit plan purposes, and will be subject to applicable tax withholdings. This payment will be processed within 90 days of your start date. As a condition to receipt of this payment, you must agree by your signature below that you will repay to Zimmer Biomet the entire gross amount paid to you if you voluntarily leave employment with Zimmer Biomet within 12 months of the payment date.

**Sign-On and Equity Replacement Grants**

In connection with your commencement of employment, Zimmer Biomet will provide you a one-time long-term incentive grant with a grant date fair value of approximately \$1,200,000 (USD).

**Equity Replacement Grant**

Approximately \$750,000 (USD) will consist of time-vested restricted stock units ("RSUs"). The grant date will be the first business day of the month following your commencement of employment. These RSUs will vest at the rate of 25% per year over four years beginning on the first anniversary of the grant date, again assuming your continued employment with Zimmer Biomet.

**Sign-On Equity Grant**

Approximately \$450,000 (USD) will consist of stock options. The grant date will be the first business day of the month following your commencement of employment. The stock options will vest at the rate of 25% per year over four years beginning on the first anniversary of the grant date (assuming your continued employment with Zimmer Biomet) and will expire on the tenth anniversary of the grant date.

All equity awards are subject to Compensation and Management Development Committee ("Compensation Committee") approval and other terms and conditions of the 2009 Stock Incentive Plan, as amended from time to time; award agreements; and your execution of a non-compete agreement in the form provided by the Company.

**Executive Officer (Section 16)**

We expect that you will be designated by the Board of Directors as an "officer" of Zimmer Biomet for purposes of Rule 16a-1(f) and as an "executive officer" for purposes of Rule 3b-7 under the Securities Exchange Act of 1934, as amended.

As an executive officer, you will be subject to stock ownership guidelines established by the Board of Directors in order to align the interests of executive officers more closely with those of stockholders. The guidelines will require you to own shares with a value equal to at least three (3) times your base salary. Under the guidelines, all shares you hold, including RSUs and PRSUs (at the target award level), will count toward this ownership requirement. In addition, one-half of any gain on vested stock options will count toward this requirement. You will have up to five (5) years to achieve the required level of stock ownership. Further, every executive officer must obtain clearance prior to selling any shares of Company common stock, in part to ensure that all officers remain in compliance with the stock ownership guidelines.

**Contractual Obligations**

It is our understanding that you do not have any contractual obligations (such as a non-competition or non-solicitation agreement) with a former or current employer that you would violate by accepting this role. If our understanding is incorrect, please notify me immediately. If you have a confidentiality obligation with a former or current employer, it is your responsibility to refrain from using or disclosing confidential information. If you have any questions about this responsibility, please let us know.

**Section 409A**

To the extent that any payments or benefits under this letter are deemed to be subject to Section 409A of the Internal Revenue Code of 1986, as amended ("Code"), this letter will be interpreted in accordance with Section 409A of the Code and Department of Treasury regulations and other interpretive guidance issued thereunder in order to (a) preserve the intended tax treatment of the benefits provided with respect to such payments and (b)

comply with the requirements of Section 409A of the Code. A termination of employment shall not be deemed to have occurred for purposes of any provision of this letter providing for the payment of any amounts or benefits upon or following a termination of employment unless such termination is also a "separation from service" within the meaning of Section 409A. Nothing in this letter shall be construed as a guarantee by the Company of any particular tax effect. The Company shall not be liable to you for any tax, penalty, or interest imposed on any amount paid or payable hereunder by reason of Section 409A, or for reporting in good faith any payment made under this letter as an amount includible in gross income under Section 409A.

If there is any discrepancy between this letter and/or the Swiss contract and the plan documents, the plan documents will govern. While Zimmer Biomet intends to continue benefits referenced in this offer, we reserve the right to change or discontinue them at any time for any reason. Please note in particular that any amount payable or paid to you pursuant to the Company EPIP or LTI Plan or any other similar performance-based compensation may be subject to forfeiture or repayment in accordance with the Company's Executive Compensation Recoupment Policy or applicable plan document or award agreement as approved, adopted and/or revised by the Board or Committee from time to time, and/or subject to recoupment as required by any other provisions of any law (including, without limitation, Section 10D of the Securities Exchange Act of 1934, as amended), governmental regulation or stock exchange listing requirement. By signing below you acknowledge your understanding that any such repayment obligation will apply notwithstanding anything else stated in this letter.

We are very excited to have you join us and are looking forward to receiving your signed offer letter. We believe you will make a valuable contribution and find your career with Zimmer Biomet challenging and rewarding.

**CONFIRMATION OF ACCEPTANCE**

Please indicate your acceptance of this offer by signing below and returning the signed letter to me.

Sincerely,



Bill P. Fisher  
Senior Vice President, Global Human Resources

**Accepted:**

/s/ Didier Deltort  
Didier Deltort

July 2, 2018  
Date



## Confidentiality, Non-Competition, and Non-Solicitation Agreement

This Confidentiality, Non-Competition and Non-Solicitation Agreement (" **Agreement** ") is made by and between Zimmer GmbH (" **Employer** ") and Didier Deltort (" **Employee** ").

### Recitals

- (A) For purposes of this Agreement, " **Parent** " means an entity which is a holding company of or holds a controlling interest in Zimmer, Inc. ("Company" or "ZINC"); " **Affiliate** " means a subsidiary of Company or the Parent of Company or a company over which Company or any holding company of Company has control, including but not limited to Employer; and the definition of each of Company; Parent and Affiliates, includes any of their successors-in-interest, including, but not limited to, ZINC.
  - (B) Company, Parent and the Affiliates (collectively, and each individually " **Zimmer Biomet Group** ") are part of the global holdings of Zimmer Biomet Holdings, Inc., a publicly traded corporation incorporated under the laws of the state of Delaware, U.S.A., the primary purpose of which is to serve as the umbrella entity for ZINC. Zimmer Biomet Group is engaged in the design, development, manufacture, distribution, and sale of musculoskeletal healthcare products and solutions, including orthopedic medical and/or oral rehabilitation devices, products, and services.
  - (C) By virtue of his position as President EMEA and General Manager of the Employer and his particular responsibilities for the markets of Germany, UK, France, Italy, Spain and Switzerland and the overall responsibility for the EMEA Regions, the Employee has been and will be granted access and introduced to major customers of Zimmer Biomet Group in Europe, Middle East and Africa and will be prominently involved in strategic decision making processes, including but not limited to strategic acquisitions, product development, business and marketing strategies as well as price strategies and similar measures, restructuring projects, etc. Therefore, Zimmer Biomet Group has an imminent interest to protect this information, know-how and its business secrets throughout the term of the Employee's employment and for a certain period after its termination has taken effect.
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## 1. Confidentiality

- 1.1 As used herein, " **Confidential Information** " shall include, but not be limited to, all business, trade, and technical information of Zimmer Biomet Group, and of any third party, whether patentable or not, which is of a confidential, trade secret and/or proprietary character and which is either developed by Employee (alone or with others) or to which Employee has had access during his employment with the Zimmer Biomet Group.
- 1.2 Confidential Information includes, without limitation, the following:
- (a) Marketing, sales, and advertising information such as lists of actual or potential customers; customer preference data, marketing and sales techniques, strategies, efforts, and data; merchandising systems and plans; confidential customer information including identification of purchasing personnel, account status, needs and ability to pay; business plans, product development and delivery schedules; market research and forecasts; marketing and advertising plans, techniques, and budgets; overall pricing strategies; the specific advertising programs and strategies utilized, and the success or lack of success of those programs and strategies;
  - (b) Organizational information such as personnel and salary data; merger, acquisition and expansion information; restructuring plan information, information concerning methods of operation; and divestiture information;
  - (c) Financial information such as product costs; supplier information; overhead costs; profit margins; banking and financing information; and pricing policy practices;
  - (d) Technical information such as product specifications, compounds, formulas, improvements, discoveries, developments, designs, inventions, techniques, new products and surgical training methods;
  - (e) Information disclosed to Employee as part of a training process;
  - (f) Information of third parties provided to Employee subject to non-disclosure restrictions for use in Employee's business for the Zimmer Biomet Group; and
  - (g) Any work product created by Employee in rendering services for the Zimmer Biomet Group.
- 1.3 Employee shall not at any time during the continuance of his employment with the Zimmer Biomet Group or at any time thereafter directly or indirectly use for his own purposes or for any purposes other than those of the Zimmer Biomet Group, record, divulge, disclose or communicate to any person, company, business entity or other organization or, through any failure to exercise due care and diligence, cause any unauthorized disclosure of, any trade secrets or Confidential Information except as may be necessary for the proper performance of Employee's duties or as may be specifically authorized in writing by the Employer.
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- 1.4 Employee will notify Employer in writing of any circumstances which may constitute unauthorized disclosure, transfer, or use of Confidential Information. Employee will use best efforts to protect Confidential Information from unauthorized disclosure, transfer, or use. Employee will implement and abide by all procedures adopted by the Zimmer Biomet Group to prevent unauthorized disclosure, transfer, or use of Confidential Information.
- 1.5 Upon termination of his employment with the Zimmer Biomet Group (for whatever reason), and at any other time at Employer's request, Employee shall, without retaining any copies or other record thereof, deliver to Employer or any person Employer may nominate each and every document and all other material of whatever nature in the possession or under the control of Employee containing or relating directly or indirectly to any Confidential Information.
- 1.6 The confidentiality undertaking set forth in this Section 1 shall cease to apply to any information which shall become available to the public generally otherwise than through the default of Employee.

## **2. Non-Competition, Non-Solicitation**

- 2.1 Employee shall not, for as long as he remains an employee of the Zimmer Biomet Group and during a period of 18 months from the taking effect of the termination of his employment with the Zimmer Biomet Group ("**Non-Competition Period**"), alone, or jointly with, or as manager, agent for, or employee of any person or as a shareholder, directly or indirectly carry on or be engaged, concerned or interested in any business competitive to the business of Zimmer Biomet Group with an effect in Switzerland, the European Community and the EFTA States or any other country for which Employee possesses and will possess knowledge of Confidential Information. Without limiting the generality of the foregoing, the non-compete undertaking set forth in this Section 2.1 shall apply to any product competing with the Zimmer Biomet Group's product lines and in particular but not limited to products of Johnson & Johnson (DePuy, Synthes), Stryker, Smith & Nephew, Mathys, Lima, Wright Medical, Tornier and Exactech, including their respective affiliates and subsidiaries, assignees, and successors (also as a consequence of de-mergers or spin-offs). The Employee acknowledges and agrees that the making available of Confidential Information to competitors of Zimmer Biomet Group will considerably harm Zimmer Biomet Group's business.
- 2.2 Employee shall not during the Non-Competition Period (i) solicit, induce or attempt to induce any person who is an employee of the Zimmer Biomet Group to leave the Zimmer Biomet Group or to engage in any business that competes with the Zimmer Biomet Group; (ii) hire or assist in the hiring of any person who is an employee of the Zimmer Biomet Group to work for any business that competes with the Zimmer Biomet Group, or (iii) solicit, induce or attempt to induce any person or company that is a customer of the Zimmer Biomet Group to discontinue or modify its customer relationship with the Zimmer Biomet Group.
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### 3. Non-Competition Period Payments

- 3.1 To the extent Employee is unable to obtain employment consistent with Employee's training and education solely because of the provisions of this Agreement, the following terms will apply upon expiration of any severance benefits to which Employee is otherwise eligible to receive ("**Non-Competition Period Payments**"):
- (a) Employer will make payments to Employee equal to Employee's monthly base pay at the time of Employee's termination (exclusive of bonus, extra compensation and any other employee benefits) for each month of such unemployment through the end of the Non-Competition Period which shall in no event be less than 50% of the Employees pro-rated annual income on a monthly basis (inclusive of bonus, extra compensation and any other employee benefits);
  - (b) to the extent Employee is able to obtain employment which does not violate this Agreement, but solely because of this Agreement, the monthly base pay for the replacement employment is less than Employee's monthly base pay at the time of Employee's termination (as calculated in accordance with 3.1(a) above), Employer agrees to pay the difference for each such month through the end of the Non-Competition Period. A reduction of the Non-Competition Period Payments shall only take place to the extent the aggregate compensation exceeds 110% of the Employee's former monthly income (inclusive of bonus, extra compensation and any other employee benefits);
  - (c) on the 15<sup>th</sup> day of each month of such unemployment, Employee will give Employer a detailed written account of Employee's efforts to obtain employment and an explanation exclusively attributing Employee's inability to obtain replacement employment to the provisions of this Agreement.
- 3.2 In the event of Employee's breach, Employee agrees that Employee will still be bound by all of the provisions set forth in this Agreement, including, but not limited to, the non-competition, non-solicitation, non-disparagement and non-disclosure covenants, until the end of the Non-Competition Period. Zimmer Biomet Group reserves the right to release Employee from Employee's non-competition obligations set forth in this Agreement during the Non-Competition Period respecting a notice period of six (6) months after which Employer's payment obligations under this Section 3 shall cease immediately and Employee shall not be entitled to any Non-Competition Period Payment or other compensation.

### 4. Remedies

- 4.1 For each violation of the covenants set forth in Section 1 and/or 2, Employee shall pay to Employer or, at Employer's instruction, any other affiliate of the Zimmer Biomet Group, an amount corresponding to 50% of the Employee's last annual salary at the time of Employee's termination (inclusive of bonus payments, extra compensation and any other employee benefits) as liquidated damages, plus such additional damages as may be incurred by Employer and/or any other affiliate of
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the Zimmer Biomet Group. The payment of this sum shall not operate as a waiver of the above obligations. Employer and/or any other affiliate of the Zimmer Biomet Group shall, in addition to all other damages, be entitled to obtain a court's order for specific performance, as well as adequate injunctive relief or any other adequate judicial measure, to immediately stop such violation.

- 4.2 To the extent that Employee breaches any provision of this Agreement during the Non-Competition Period and/or fails to timely submit the written account required by Section 3, Employer reserves, in addition to all other relief to which Employer shall be entitled, the right to cease making any Non-Competition Period Payments.

## **5. Miscellaneous**

- 5.1 This Agreement constitutes and expresses the entire agreement between the Parties pertaining to the subject matter contained herein and supersedes all prior and contemporaneous oral or written agreements, representations, understandings and the like between the Parties.
- 5.2 This Agreement may not be modified, amended, altered or supplemented, in whole or in part, except by a written agreement signed by the Parties.
- 5.3 If any provision of this Agreement is found by any competent authority to be void, invalid or unenforceable, such provision shall be deemed to be deleted from this Agreement and the remaining provisions of this Agreement shall continue in full force. In this event, the Agreement shall be construed, and, if necessary, amended in a way to give effect to, or to approximate, or to achieve a result which is as close as legally possible to the result intended by the provision hereof determined to be void, illegal or unenforceable.

## **6. Waiver**

The Employer may at its sole discretion waive all or certain of the restrictions under this Agreement within 2 weeks after it has received or issued the notice of termination by/to the Employee. In case the Non-Competition restriction is waived, the Employee is aware that there will be no entitlements to Non-Competition Period Payments under clause 3 of this Agreement.

## **7. Governing Law and Jurisdiction**

- 7.1 This Agreement shall be governed by, interpreted and construed in accordance with the substantive laws of Switzerland.
- 7.2 The ordinary courts and the domicile of Employer competent shall have exclusive jurisdiction of all disputes arising out of or in connection with this Agreement.

Employee's signature below indicates that Employee has read the entire Agreement, Employee understands what Employee is signing, and is signing it voluntarily. Employee agrees that Zimmer Biomet Group advised Employee to consult with an attorney prior to signing the Agreement.

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This Agreement enters into force on the later date set-out below.

Winterthur, June 28, 2018

**Zimmer GmbH**

/s/ Guillaume Génin  
**Guillaume Génin**  
Vice President,  
Associate General Counsel,  
EMEA

/s/ Asif Hussain  
**Asif Hussain**  
Vice President,  
Human Resources, EMEA

**"Employee"**

/s/ Didier Deltort  
**Didier Deltort**

Date: June 28, 2018



## Change in Control Severance Agreement

This Change in Control Severance Agreement (" **Agreement** ") is made by and between Zimmer GmbH (" **Employer** " or " **Company** " as case may be) and Didier Deltort (" **Executive** ").

### Recitals

- (A) The Company considers it essential to the best interests of its ultimate shareholders to foster the continuous employment of key management personnel.
- (B) The Company and the Board recognize that, as is the case with many publicly held corporations, the possibility of a Change in Control in the Ultimate Parent Company exists and that such a possibility, and the uncertainty and questions that it may raise among management, may result in the departure or distraction of management personnel to the detriment of the Company and its shareholders.
- (C) The Board has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the Company's management, including the Executive, to their assigned duties without distraction in the face of potentially disturbing circumstances arising from the possibility of a Change in Control.
- (D) The parties intend that no amount or benefit will be payable under this Agreement unless a termination of the Executive's employment with the Company occurs following a Change in Control, or is deemed to have occurred following a Change in Control, as provided in this Agreement.

Defined terms as used herein and not defined elsewhere in this Agreement, shall have the meaning ascribed to them in **Annex 1** to this Agreement.

### 1. Term of Agreement

This Agreement will commence on the date stated below and will continue in effect through December 31, 2018. Beginning on January 1, 2019, and each subsequent January 1, the term of this Agreement will automatically be extended for one additional year, unless either party gives the other party written notice not to extend this Agreement at least 30 days before the extension would otherwise become effective or unless a Change in Control occurs. If a Change in Control occurs during the term of this Agreement, this Agreement will continue in effect for a period of 24 months from the end of the month in which the Change in Control occurs. Notwithstanding the foregoing provisions of this Article, this Agreement will terminate on the Executive's retirement date, as defined under Swiss law.

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## **2. Compensation other than Severance Payments**

### **2.1 Compensation Previously Earned**

If the Executive's employment is terminated for any reason following a Change in Control and during the term of this Agreement, the Company will pay the Executive's salary accrued through the Date of Termination, at the rate in effect at the time the Notice of Termination is given, together with all other compensation and benefits payable to the Executive through the Date of Termination under the terms of any compensation or benefit plan, program, or arrangement maintained by the Company during that period.

### **2.2 Normal Post-Termination Compensation and Benefits.**

Except as provided in Section 3.1, if the Executive's employment is terminated for any reason following a Change in Control and during the term of this Agreement, the Company will pay the Executive the normal compensation and benefits payable to the Executive under the terms of the Company's compensation or benefit plans, programs, and arrangements, as in effect immediately prior to the Change in Control, including but not limited to the Non-Competition Period Payments (if any). This provision does not restrict the Company's right to amend, modify, or terminate any plan, program, or arrangement prior to a Change in Control.

### **2.3 No Duplication.**

Notwithstanding any other provision of this Agreement to the contrary, the Executive will not be entitled to duplicate benefits or compensation under this Agreement and the terms of any other plan, program, or arrangement maintained by the Company or any affiliate.

## **3. Severance Payments**

### **3.1 Payment Triggers**

In addition to the payments as set out in Section 2 above, but in lieu of any other severance compensation or benefits to which the Executive may otherwise be entitled under any plan, program, policy, or arrangement of the Company or by law in particular due to abusive termination under Art. 336a Swiss Code of Obligations (and which the Executive hereby expressly waives), the Company will pay the Executive the Severance Payments described in Section 3.2 upon termination of the Executive's employment following a Change in Control and during the term of this Agreement, unless the termination is (1) by the Company for Cause, (2) by reason of the Executive's death, or (3) by the Executive without Good Reason.

For purposes of this Section 3.1, the Executive's employment will be deemed to have been terminated following a Change in Control by the Company without

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Cause or by the Executive with Good Reason if (1) the Executive's employment is terminated without Cause prior to a Change in Control at the direction of a Person who has entered into an agreement with the Ultimate Parent Company, the consummation of which will constitute a Change in Control; or (2) the Executive terminates his employment with Good Reason prior to a Change in Control (determined by treating a Potential Change in Control as a Change in Control in applying the definition of Good Reason), if the circumstance or event that constitutes Good Reason occurs at the direction of such a Person.

The Severance Payments described in this Article 3 are subject to the conditions stated in Section 4 below and shall be reduced in part or in their totality if and to the extent the Severance Payments were, at the time of their payment, to be deemed a golden parachute or similar arrangement prohibited under the laws where the Company is incorporated and has its registered office or the costs associated with the Severance Payments could no longer be booked as expenditures in the Company's profit and loss statement.

### **3.2 Severance Payments.**

The following are the Severance Payments referenced in Section 3.1:

#### **(a) Lump Sum Severance Payment**

In lieu of any further salary payments to the Executive for periods after the Date of Termination, and in lieu of any severance benefits otherwise payable to the Executive, the Company will pay to the Executive, in accordance with Section 3.3, a lump sum severance payment, in cash, equal to (a) two times the sum of (1) the higher of the Executive's annual base salary in effect immediately prior to the event or circumstance upon which the Notice of Termination is based or in effect immediately prior to the Change in Control, plus (2) the amount of the Executive's target annual bonus entitlement under the Cash Incentive Plan (or any other bonus plan of the Company then in effect) as in effect immediately prior to the event or circumstance giving rise to the Notice of Termination, less (b) the amount of any statutory payment to which the Executive is entitled related to any statutory notice period. If the Board determines that it is not workable to determine the amount that the Executive's target bonus would have been for the year in which the Notice of Termination was given, then, for purposes of this paragraph (a), the Executive's target annual bonus entitlement will be the average of annual bonus paid to the Executive with respect to the three years immediately prior to the year in which the Notice of Termination was given.

#### **(b) Options and Restricted Shares**

All outstanding Options will become immediately vested and exercisable (to the extent not yet vested and exercisable as of the Date of Termination). To the extent

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not otherwise provided under the written agreement evidencing the grant of any restricted Shares to the Executive, all outstanding Shares that have been granted to the Executive subject to restrictions that, as of the Date of Termination, have not yet lapsed will lapse automatically upon the Date of Termination, and the Executive will own those Shares free and clear of all such restrictions. Notwithstanding the foregoing, Options and restricted Shares remain subject to any forfeiture or clawback claims under the applicable option plan or award agreement.

### **3.3 Time of Payment**

Except as otherwise expressly provided in Section 3.2, payments provided for in that Section will be made as follows:

No later than the fifth business day following the Date of Termination, the Company will pay to the Executive an estimate, as determined by the Company in good faith, of 90% of the payments under Section 3.2 (a) to which the Executive is clearly entitled.

The Company will pay to the Executive the remainder of the payments due to the Executive under Section 3.2 not later than 90 business days after the Date of Termination.

At the time that payment is made under this Section 3.3, the Company will provide the Executive with a written statement setting forth the manner in which all of the payments to him under this Agreement were calculated and the basis for the calculations.

### **3.4 Outplacement Services**

For a period not to exceed six (6) months following the Date of Termination, the Company will provide the Executive with reasonable outplacement services consistent with past practices of the Company prior to the Change in Control or, if no past practice has been established prior to the Change in Control, consistent with the prevailing practice in the medical device manufacturing industry.

## **4. The Executive's Covenants**

### **4.1 Confidentiality, Non-Competition and Non-Solicitation Agreement**

The Executive herewith acknowledges and affirms his continuing obligations under the existing Confidentiality, Non-Competition and Non-Solicitation Agreement dated 28 June 2018 and re-affirms his agreement to honor the obligations as set forth therein.

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## 4.2 General Release

The Executive agrees that, notwithstanding any other provision of this Agreement, the Executive will not be eligible for any Severance Payments under this Agreement unless the Executive timely signs a General Release in substantially the form attached to this Agreement as Annex 2. The Executive will be given 30 days to consider the terms of the General Release. If the Executive does not return the executed General Release to the Company by the end of the 30 day period that failure will be deemed a refusal to sign, and the Executive will not be entitled to receive any Severance Payments under this Agreement.

## 5. Notices

For the purpose of this Agreement, notices and all other communications provided for in the Agreement will be in writing and will be deemed to have been duly given when delivered or mailed by Swiss registered mail, return receipt requested, addressed to the respective addresses set forth below, or to such other address as either party may furnish to the other in writing in accordance with this Article 5, except that notice of change of address will be effective only upon actual receipt:

To the Company:

Zimmer GmbH.  
Attention: Vice President EMEA Counsel  
Sulzer-Allee 8  
8404 Winterthur

To the Executive:

The Executive's principal residence as reflected in the records of the Company.

## 6. Miscellaneous

This Agreement constitutes and expresses the entire agreement between the Parties pertaining to the subject matter contained herein and supersedes all prior and contemporaneous oral or written agreements, representations, understandings and the like between the Parties.

This Agreement may not be modified, amended, altered or supplemented, in whole or in part, except by a written agreement signed by the Parties.

If any provision of this Agreement is found by any competent authority to be void, invalid or unenforceable, such provision shall be deemed to be deleted from this Agreement and the remaining provisions of this Agreement shall continue in full force. In this event, the Agreement shall be construed, and, if necessary, amended in a way to give effect to, or to approximate, or to achieve a result which is as close

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as legally possible to the result intended by the provision hereof determined to be void, illegal or unenforceable.

**7. Governing Law and Jurisdiction**

This Agreement shall be governed by, interpreted and construed in accordance with the substantive laws of Switzerland.

The ordinary courts and at the registered office of the Company shall have exclusive jurisdiction for all disputes arising out of or in connection with this Agreement.

This Agreement enters into force effective as of October 9, 2018.

**Zimmer GmbH**

/s/ Guillaume Génin  
Guillaume Génin  
Vice President EMEA Counsel

/s/ Asif Hussain  
Asif Hussain  
Vice President Human Resources EMEA

**Executive**

/s/ Didier Deltort  
Didier Deltort

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**Annex 1: Definitions**

" **Beneficial Owner** " has the meaning stated in Rule 13d-3 under the Exchange Act.

" **Board** " means the Board of Directors of the Ultimate Parent Company.

" **Cash Incentive Plan** " means the Ultimate Parent Company's Executive Performance Incentive Plan.

" **Cause** " for termination by the Company of the Executive's employment, after any Change in Control, means (1) any reason being deemed good reason in the sense of Art. 336d Swiss Code of Obligations; (2) the willful and continued failure by the Executive to substantially perform the Executive's duties with the Company (other than any such failure resulting from the Executive's incapacity due to physical or mental illness or any such actual or anticipated failure after the issuance of a Notice of Termination for Good Reason by the Executive) for a period of at least 10 consecutive days after a written demand for substantial performance is delivered to the Executive by the Company, which demand specifically identifies the manner in which the Company believes that the Executive has not substantially performed the Executive's duties; or (3) the Executive willfully engages in conduct that is demonstrably and materially injurious to the Company, the Ultimate Parent Company or its subsidiaries, monetarily or otherwise.

A " **Change in Control** " will be deemed to have occurred if any of the following events occur:

- (a) any Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Ultimate Parent Company (not including in the securities beneficially owned by that Person any securities acquired directly from the Ultimate Parent Company or its affiliates) representing 20% or more of the combined voting power of the Ultimate Parent Company's then outstanding securities; or
  - (b) during any period of two consecutive years (not including any period prior to the execution of this Agreement), individuals who at the beginning of the period constitute the Board and any new director (other than a director designated by a Person who has entered into an agreement with the Ultimate Parent Company to effect a transaction described in clause (a), (c) or (d) of this paragraph whose election by the Board or nomination for election by the Ultimate Parent Company's stockholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously approved), cease for any reason to constitute a majority of the Board; or
  - (c) the shareholders of the Ultimate Parent Company approve a merger or consolidation of the Ultimate Parent Company with any other corporation, other
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than (A) a merger or consolidation that would result in the voting securities of the Ultimate Parent Company outstanding immediately prior to the merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Ultimate Parent Company, at least 75% of the combined voting power of the voting securities of the Ultimate Parent Company or the surviving entity outstanding immediately after the merger or consolidation; or (B) a merger or consolidation effected to implement a recapitalization of the Ultimate Parent Company (or similar transaction) in which no Person acquires more than 50% of the combined voting power of the Ultimate Parent Company's then outstanding securities; or

- (d) the shareholders of the Ultimate Parent Company approve a plan of complete liquidation of the Ultimate Parent Company or an agreement for the sale or disposition by the Ultimate Parent Company of all or substantially all the Ultimate Parent Company's assets.

Notwithstanding the foregoing, a Change in Control will not include any event, circumstance, or transaction occurring during the six-month period following a Potential Change in Control that results from the action of any entity or group that includes, is affiliated with, or is wholly or partly controlled by the Executive; provided, further, that such an action will not be taken into account for this purpose if it occurs within a six-month period following a Potential Change in Control resulting from the action of any entity or group that does not include the Executive.

" **Date of Termination** " means the date on which the Notice of Termination under the Employment Agreement has lapsed.

" **Employment Agreement** " means the employment agreement between the Executive and the Company dated 28 June 2018 as further modified.

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

" **Good Reason** " for termination by the Executive of the Executive's employment means the occurrence (without the Executive's express written consent) of any one of the following acts by the Company, or failures by the Company to act following a Change in Control:

- (a) the assignment to the Executive of any duties inconsistent with the Executive's status as an executive officer of the Company or a substantial adverse alteration in the nature or status of the Executive's responsibilities from those in effect immediately prior to a Change in Control;
  - (b) the Company's failure, without the Executive's consent, to pay to the Executive any portion of the Executive's current compensation (which means, for
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purposes of this paragraph (b ), the Executive's annual base salary as in effect on the date of this Agreement, or as it may be increased from time to time, and the awards earned pursuant to the Cash Incentive Plan) or to pay to the Executive any portion of an installment of deferred compensation under any deferred compensation program of the Company, within 30 days of the date the compensation is due;

- (c) the Company's failure to continue in effect any compensation plan in which the Executive participates immediately prior to a Change in Control, which plan is material to the Executive's total compensation, including, but not limited to, the Cash Incentive Plan and the Ultimate Parent Company's 2009 Stock Incentive Plan as amended from time to time or any substitute plans adopted prior to the Change in Control, unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to that plan, or the Company's failure to continue the Executive's participation in such a plan (or in a substitute or alternative plan) on a basis not materially less favorable, both in terms of the amount of benefits provided and the level of the Executive's participation relative to other participants, as existed at the time of the Change in Control.

Notwithstanding the foregoing, the occurrence of an event that would otherwise constitute Good Reason will cease to be an event constituting Good Reason if the Executive does not timely provide a Notice of Termination to the Company within 120 days of the date on which the Executive first becomes aware (or reasonably should have become aware) of the occurrence of that event.

" **Non-Competition Period Payments** " has the meaning as defined in the Confidentiality, Non-Competition and Non-Solicitation Agreement dated 28 June 2018, between the Company and the Executive.

"**Notice of Termination**" has the meaning as defined in section 2.2 of the Employment Agreement (i.e., notice period of 6 months from the end of the month in which the notice is given).

" **Options** " means options to purchase Shares awarded to the Executive during his employment with the Company.

" **Person** " has the meaning stated in section 3(a)(9) of the Exchange Act, as modified and used in sections 13(d) and 14(d) of the Exchange Act; however, a Person will not include (1) the Ultimate Parent Company or any of its subsidiaries, (2) a trustee or other fiduciary holding securities under an employee benefit plan of the Ultimate Parent Company or any of its subsidiaries, (3) an underwriter temporarily holding securities pursuant to an offering of those securities, or (4) a corporation owned, directly or indirectly, by the stockholders of the Ultimate Parent Company in substantially the same proportions as their ownership of stock of the Ultimate Parent Company.

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" **Potential Change in Control** " will be deemed to have occurred if any one of the following events occurs:

- (a) the Ultimate Parent Company enters into an agreement, the consummation of which would result in the occurrence of a Change in Control;
- (b) the Ultimate Parent Company or any Person publicly announces an intention to take or to consider taking actions that, if consummated, would constitute a Change in Control;
- (c) any Person who is or becomes the Beneficial Owner, directly or indirectly, of securities of the Ultimate Parent Company representing 10% or more of the combined voting power of the Ultimate Parent Company's then outstanding securities, increases that Person's beneficial ownership of those securities by 5% or more over the percentage so owned by that Person on the date of this Agreement; or
- (d) the Board adopts a resolution to the effect that, for purposes of this Agreement, a Potential Change in Control has occurred.

" **Shares** " means shares of the common stock, \$0.01 par value, of the Ultimate Parent Company.

" **Severance Payments** " means the payments described in Section 3.2.

" **Ultimate Parent Company** " means Zimmer Biomet Holdings, Inc., a Delaware corporation, and any successor to its business and/or assets.

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**Annex 2****GENERAL RELEASE**

Name: \_\_\_\_\_ Notification Date: \_\_\_\_\_

Zimmer GmbH. (the "Company") has offered me certain severance benefits (the "Severance Benefits") pursuant to a Change in Control Severance Agreement ("Agreement") between the Company and me. I will only be able to receive the Severance Benefits in consideration for my signing this General Release.

The Company has advised me of, and I acknowledge the following:

I have 30 days from the date I receive this General Release to consider and sign it. If I do not return this signed General Release in 30 days (INSERT DATE), the Company will consider this my refusal to sign, and I will not receive the Severance Benefits. If I do sign this General Release, it will become immediately effective.

By signing this General Release I am giving up my right to sue the Company, and any affiliates, parent companies and subsidiaries, and their past, present and future officers, directors, employees, and agents (collectively, the "Released Parties") based upon any act or event occurring prior to my signing this General Release, to the fullest extent permitted by law. Without limitation, and again to the fullest extent permitted by law, I specifically release the Company from any and all claims arising out of my employment and termination, including claims based on the Swiss Code of Obligations, the Labour Act and all applicable federal, cantonal and local laws.

For the sake of clarification, I acknowledge that this General Release shall not affect my legal obligation to protect the confidentiality of the Company's information or any of my existing obligations under the Confidentiality, Non-Competition and Non-Solicitation Agreement that I executed during my employment with the Company (the "Non-Competition Agreement"), and I hereby reaffirm my covenants and obligations under the Non-Competition Agreement.

By signing this General Release, none of my benefits will be affected to which I am entitled under the Agreement or any claim arising out of the enforcement of the Agreement.

My signature below acknowledges that I have read the above, understand what I am signing, and am acting of my own free will. The Company has advised me to consult with an attorney and any other advisors of my choice prior to signing this General Release.

SIGNATURE \_\_\_\_\_  
PRINT NAME \_\_\_\_\_

DATE \_\_\_\_\_

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

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

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**Name of Subsidiary 1**

dba Zimmer Biomet  
dba Zimmer Biomet Corporate Services ( *Forced* )  
dba Z Hotel

**Jurisdiction of Formation****Foreign subsidiaries :**

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

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**Name of Subsidiary 1****Jurisdiction of Formation**

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 dba JERDS LLC	Luxembourg
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
Representaciones Zimmer Inc., S. de R.L. de C.V.	Mexico
Biomet 3i Netherlands B.V.	Netherlands

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**Name of Subsidiary 1****Jurisdiction of Formation**

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 Biomet Romania S.R.L.	Romania
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
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
Biomet 3i UK Ltd.	United Kingdom
Biomet Acquisitions (Unlimited)	United Kingdom

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

Biomet UK Ltd.

United Kingdom

Biomet UK Healthcare Ltd.

United Kingdom

CelgenTek UK Limited

United Kingdom

Centerpulse (UK) Ltd.

United Kingdom

Zimmer Biomet UK Ltd.

United Kingdom

Zimmer Trustee Ltd.

United Kingdom

Zimmer UK Limited

United Kingdom

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<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: November 1, 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: November 1, 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 September 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

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Bryan C. Hanson  
*President and Chief Executive Officer*  
November 1, 2018

/s/ Daniel P. Florin

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Daniel P. Florin  
*Executive Vice President and Chief Financial Officer*  
November 1, 2018