

# Zimmer Biomet Holdings, Inc. 4th Quarter 2017 Earnings Call Presentation

January 30, 2018

# Cautionary Note on Forward-Looking Statements and Non-GAAP Financial Measures

- *Our discussions during this presentation will include forward-looking statements concerning, among other things, our anticipated future operating and financial performance, business plans and prospects, product and service offerings, including new product launches and potential clinical successes, capital allocation plans and priorities, business development plans and priorities and the benefits expected from our acquisitions and other business development activities. Such statements are based upon the current beliefs and expectations of management and are subject to significant risks, uncertainties and changes in circumstances that could cause actual outcomes and results to differ materially. For a list and description of some of such risks and uncertainties, see our Annual Report on Form 10-K for the year ended December 31, 2016, including in the section thereof captioned "Risk Factors", as well as our subsequent reports on Form 8-K and Form 10-Q, all of which are available at [www.sec.gov](http://www.sec.gov) and [www.zimmerbiomet.com](http://www.zimmerbiomet.com). The forward-looking statements in this presentation speak only as of the original date of this presentation and we undertake no obligation to update or revise any of these statements.*
- *Also, this presentation refers to certain financial measures that differ from financial measures calculated in accordance with U.S. generally accepted accounting principles (GAAP). Reconciliations of these non-GAAP financial measures to the most directly comparable GAAP financial measures can be found in the Appendix to this presentation. Investors and other readers should consider non-GAAP financial measures only as supplements to, and not as substitutes for or superior to, the measures of financial performance prepared in accordance with GAAP.*

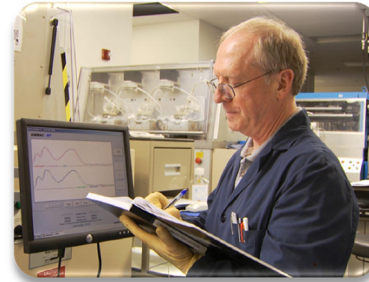
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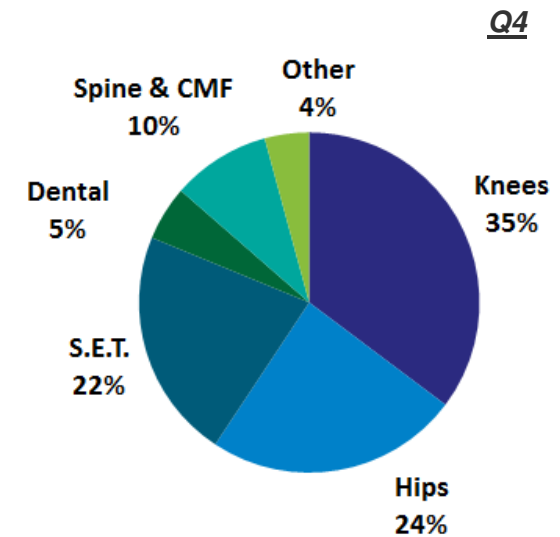


# 2017 Q4 Financial Summary

# 4<sup>th</sup> Quarter 2017 Net Sales Results

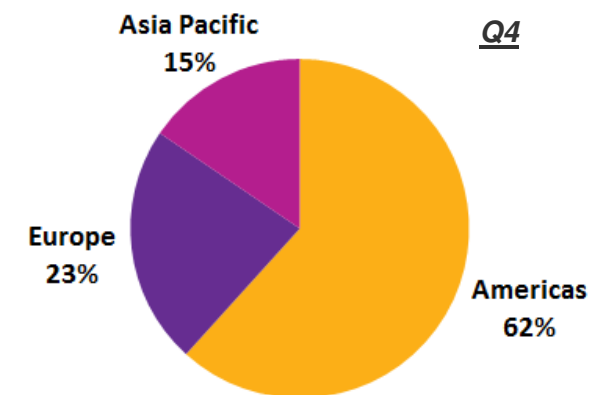
## Product Category Performance

Product	Q4		2017	
	Net Sales (in millions)	Constant Currency % Change <sup>(3)</sup>	Net Sales (in millions)	Constant Currency % Change <sup>(3)</sup>
Knees	\$731	-0.1%	\$2,737	-0.6%
Hips	499	1.6%	1,879	0.6%
S.E.T.	454	4.6%	1,709	4.0%
Dental	108	-0.4%	419	-2.6%
Spine & CMF	194	0.5%	759	14.4%
Other	88	2.9%	321	-2.6%
<b>Total</b>	<b>\$2,074</b>	<b>1.5%</b>	<b>\$7,824</b>	<b>1.8%</b>
<b>Ex LDR, Billing Day Adjusted</b>		<b>1.3%<sup>(1)</sup></b>	<b>0.9%<sup>(2)</sup></b>	



## Geographic Region Performance

Region	Q4		2017	
	Net Sales (in millions)	Constant Currency % Change <sup>(3)</sup>	Net Sales (in millions)	Constant Currency % Change <sup>(3)</sup>
Americas	\$1,280	0.8%	\$4,866	1.2%
Europe	473	-0.3%	1,745	0.2%
Asia Pacific	321	7.2%	1,213	6.3%
<b>Total</b>	<b>\$2,074</b>	<b>1.5%</b>	<b>\$7,824</b>	<b>1.8%</b>



(1) Excludes a positive impact of approximately 20 basis points as a result of a billing day difference during the quarter.

(2) Excludes approximately 130 basis points of contribution from the LDR acquisition and a negative impact of approximately 40 basis points as a result of billing day difference during the year.

(3) Non-GAAP financial measure; see reconciliation.

# Knees & Hips Product Categories

Persona®  
Personalized Knee System



Persona®  
Partial Knee System



## KNEES

Z	Q4		2017	
	Revenue (in millions)	Constant Currency % Change <sup>(1)</sup>	Revenue (in millions)	Constant Currency % Change <sup>(1)</sup>
Americas	\$ 443	-0.5%	\$ 1,660	-1.7%
EMEA	181	3.9%	644	0.9%
APAC	107	-4.4%	433	1.6%
<b>Total Knees</b>	<b>\$ 731</b>	<b>-0.1%</b>	<b>\$ 2,737</b>	<b>-0.6%</b>

- Continued growth of Persona® The Personalized Knee System
- The Persona® Partial Knee receiving positive feedback following H2 2017 global launch
- Addition of cementless and revision systems to the Persona® Knee family in H2 2018
- Limited launch of the ROSA® robotics application for total knee procedures in H2 2018

Taperloc® Complete  
Hip System



Arcos® Modular  
Femoral Revision System




## HIPS

Z	Q4		2017	
	Revenue (in millions)	Constant Currency % Change <sup>(1)</sup>	Revenue (in millions)	Constant Currency % Change <sup>(1)</sup>
Americas	\$ 256	0.5%	\$ 975	-1.3%
EMEA	137	-5.3%	519	-1.8%
APAC	106	14.6%	385	9.1%
<b>Total Hips</b>	<b>\$ 499</b>	<b>1.6%</b>	<b>\$ 1,879</b>	<b>0.6%</b>

- Improved sales of the Taperloc® Complete Hip System and G7® Acetabular System
- Sales of Arcos® Modular Femoral Revision System also improved
- Warsaw North Campus supply constraints continued to impact growth
- Mid-teens growth in Asia Pacific region due to demand for products that are not supply constrained

# S.E.T. Product Category

## S.E.T. GLOBAL REVENUE

	Q4		2017	
	Revenue (in millions)	Constant Currency % Change <sup>(1)</sup>	Revenue (in millions)	Constant Currency % Change <sup>(1)</sup>
S.E.T.	\$454	4.6%	\$1,709	4.0%

### SURGICAL

#### IntelliCart™ System



- Continued market acceptance of the IntelliCart™ System
- Strong demand for the VasoPress® Compression Therapy Pumps
- Increased sales of our Universal Power System surgical instruments

### SPORTS MEDICINE

#### Gel-One® Cross-Linked Hyaluronate



- Specialized sales representatives focused on driving growth
- Warsaw North Campus supply constraints continued to impact sales
- Continued strong demand for Gel-One® Cross-Linked Hyaluronate

### EXTREMITIES

#### Comprehensive® Total Shoulder System



- Increased sales of Comprehensive® Total Shoulder System
- Received several FDA 510(k) clearances including Sidus® Stem-Free Shoulder and Comprehensive® Augmented Baseplate

### FOOT & ANKLE

#### A.L.P.S.® Total Foot System



- Continued buildout of specialized sales force
- Nextremity alliance continues to benefit portfolio
- Strong demand for Subchondroplasty® Procedures

### TRAUMA


#### NCB® Periprosthetic Femur Plating System



- Strong sales of the NCB® Plating System Portfolio
- Steady demand for the Zimmer® Natural Nail® System Portfolio
- Performance impacted by supply constraints

# Spine, CMF & Thoracic and Dental Product Categories

## SPINE & CMF GLOBAL REVENUE

	Q4		2017	
	Revenue (in millions)	Constant Currency % Change <sup>(1)</sup>	Revenue (in millions)	Constant Currency % Change <sup>(1)</sup>
Spine & CMF	\$194	0.5%	\$759	14.4%

### SPINE

Mobi-C<sup>®</sup> Cervical Disc



- Recent senior leadership changes
- Strong demand for Mobi-C<sup>®</sup> Cervical Disc
- Focused on resolution of U.S. salesforce integration dis-synergies
- Future cross-sell opportunities expected to provide benefit


### CMF & THORACIC



SternaLock<sup>®</sup>  
Blu Closure  
System

- Continued strong demand for the SternaLock<sup>®</sup> Blu Primary Closure System and SternaLock<sup>®</sup> 360 Sternal Closure System, as well as the RibFix Blu<sup>™</sup> Thoracic Fixation System

## DENTAL GLOBAL REVENUE

	Q4		2017	
	Revenue (in millions)	Constant Currency % Change <sup>(1)</sup>	Revenue (in millions)	Constant Currency % Change <sup>(1)</sup>
Dental	\$108	-0.4%	\$419	-2.6%

### DENTAL



Osseotite<sup>®</sup>  
Implant

- Realigning portfolio to meet market needs
- Continued challenges from restructuring of sales organization in certain key Western European markets



# Innovative Solutions Across the Continuum of Care

## Innovating to:

- ✓ Minimize Complications
- ✓ Reduce Surgery Times
- ✓ Improve Efficiencies
- ✓ Optimize Outcomes
- ✓ Enhance Patient Experiences

## Recently Launched

### Persona® Partial Knee (Introduced September 2017)

- Fixed bearing partial knee
- Clearance received in major markets across the globe



Persona®  
Partial Knee System

## Product Pipeline

### Persona® TM Tibia Knee (2H 2018)

- Cementless knee utilizing clinically proven Trabecular Metal™ Technology

### Persona® Revision Knee (2H 2018 Limited Launch)

- Adds revision offering to Persona portfolio

### Medtech ROSA® (2H 2018 Limited Launch)

- Fully functional demo complete for Knee application
- ROSA cadaver lab held in Warsaw
- Key Design Principles: X-Ray based, time net neutral, soft tissue balancing

### Sidus® Stem-free Shoulder System (US - 2018)

- Available in EMEA since 2012, excellent clinical study results

### X-Ray Based Knee PSI Guides (1H 2018 Limited Launch)

- Received CE mark and received FDA clearance for full launch

# Key 4<sup>th</sup> Quarter Financials

Metric (in millions)	2017 Q4	2016 Q4	Y/Y Change
Net Sales	\$2,074.3	\$2,013.1	3.0% <sup>(1)</sup>
Adj. Gross Profit <sup>(2)</sup>	72.7%	74.6%	-
R&D (% of sales)	4.6%	4.8%	-
SG&A (% of sales) <sup>(3)</sup>	37.1%	37.6%	-
Adj. Operating Margin <sup>(2)</sup>	31.0%	32.3%	-
Adj. Net Earnings <sup>(2)</sup>	\$428.5	\$434.1	-1.3%
Adj. Diluted EPS <sup>(2)</sup>	\$2.10	\$2.14	-1.9%
Free Cash Flow <sup>(2)</sup>	\$275.4	\$478.4	-

- (1) Includes a positive impact of approximately 20 basis points as a result of a billing day difference during the quarter and a positive 150 basis points of currency impact  
(2) Non-GAAP financial measure; see reconciliation  
(3) Includes instrument depreciation

# Free Cash Flow

(in millions)	2017	2016	Inc/(Dec) vs PY
<b>Operating Cash Flow</b>	<b>\$1,582</b>	<b>\$1,632</b>	<b>(50)</b>
<b>CapEx</b>			
Instruments	(337)	(345)	
Traditional PP&E	(156)	(185)	
<b>Total CapEx</b>	<b>(493)</b>	<b>(530)</b>	
<b>Free Cash Flow <sup>(1)</sup></b>	<b>\$1,089</b>	<b>\$1,102</b>	<b>(13)</b>
<b>Beginning Cash Balance</b> (12/31/2016)	<b>\$634</b>		
<b>Ending Cash Balance</b> (12/31/2017)	<b>\$524</b>		
<b>Beginning Debt Balance</b> (12/31/2016)	<b>\$11,241</b>		
<b>Ending Debt Balance</b> (12/31/2017)	<b>\$10,142</b>		

# 2018 Q1 Guidance and Outlook

# Q1 2018 Guidance

<b>Metric</b> <i>(in millions, excluding EPS data)</i>	<b>Q1 2018</b>
<b>Constant Currency Revenue Growth <sup>(1)(2)</sup></b>	<b>(4.0)% to (2.0)%</b>
<b>Revenue</b>	<b>\$1,955 to \$1,995</b>
<b>Free Cash Flow <sup>(3)</sup></b>	<b>\$250 to \$300</b>
<b>GAAP EPS</b>	<b>\$0.73 to \$0.88</b>
<b>Adj. Diluted EPS <sup>(2)</sup></b>	<b>\$1.84 to \$1.91</b>

(1) Includes a negative impact of approximately 130 basis points as a result of having one less billing day during the quarter.

(2) Non-GAAP financial measure; see reconciliation

(3) Free cash flow is defined as net cash provided by operating activities less additions to instruments and other property, plant and equipment

# Company Overview

# Broad Portfolio of Musculoskeletal Solutions

**Spine & CMF**  
*Innovative products and solutions*  
**\$10B MARKET**

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Spine: 6% share  
CMF: 15% share

**Dental**  
*Complete implant and regenerative portfolio*  
**\$4B MARKET**

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10% share

**Hip & Knee**  
*Global market share leader*  
**\$14B MARKET**

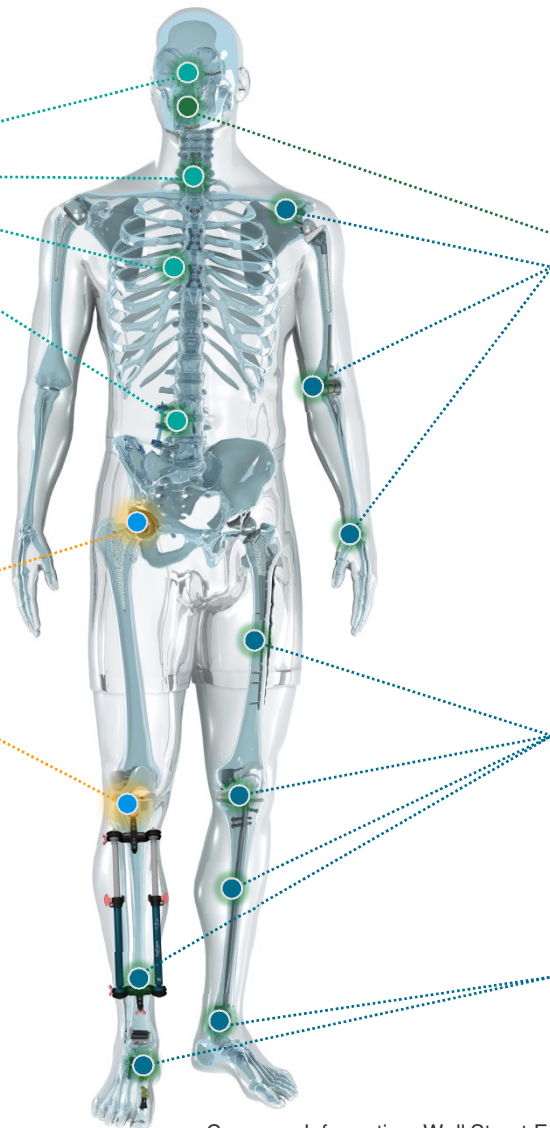
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Hip: 32% share  
Knee: 37% share

**S.E.T.**  
*Diverse and fast growing category*  
**\$20B MARKET**

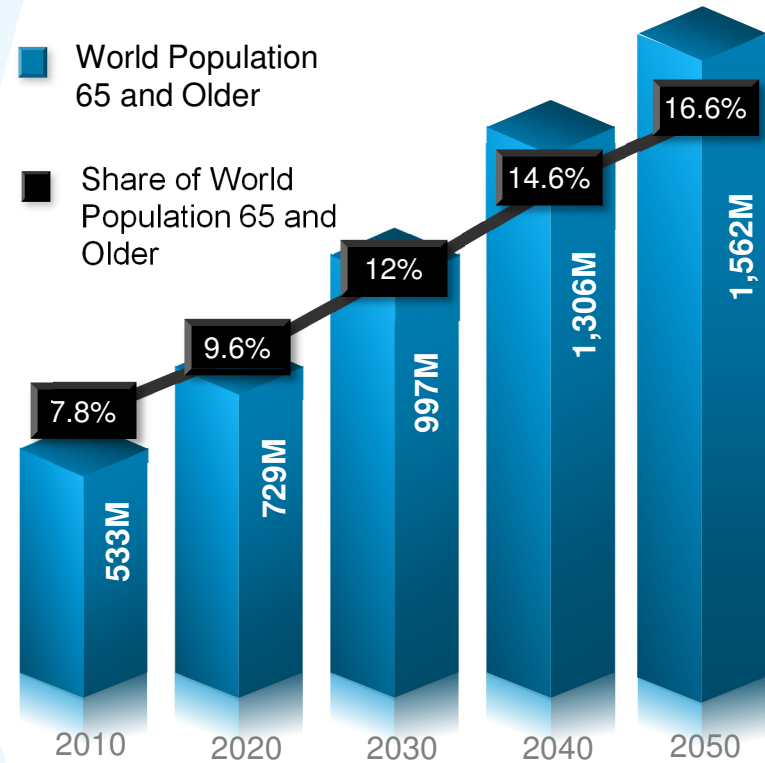
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11% share



# Drivers of Sustainable Market Growth

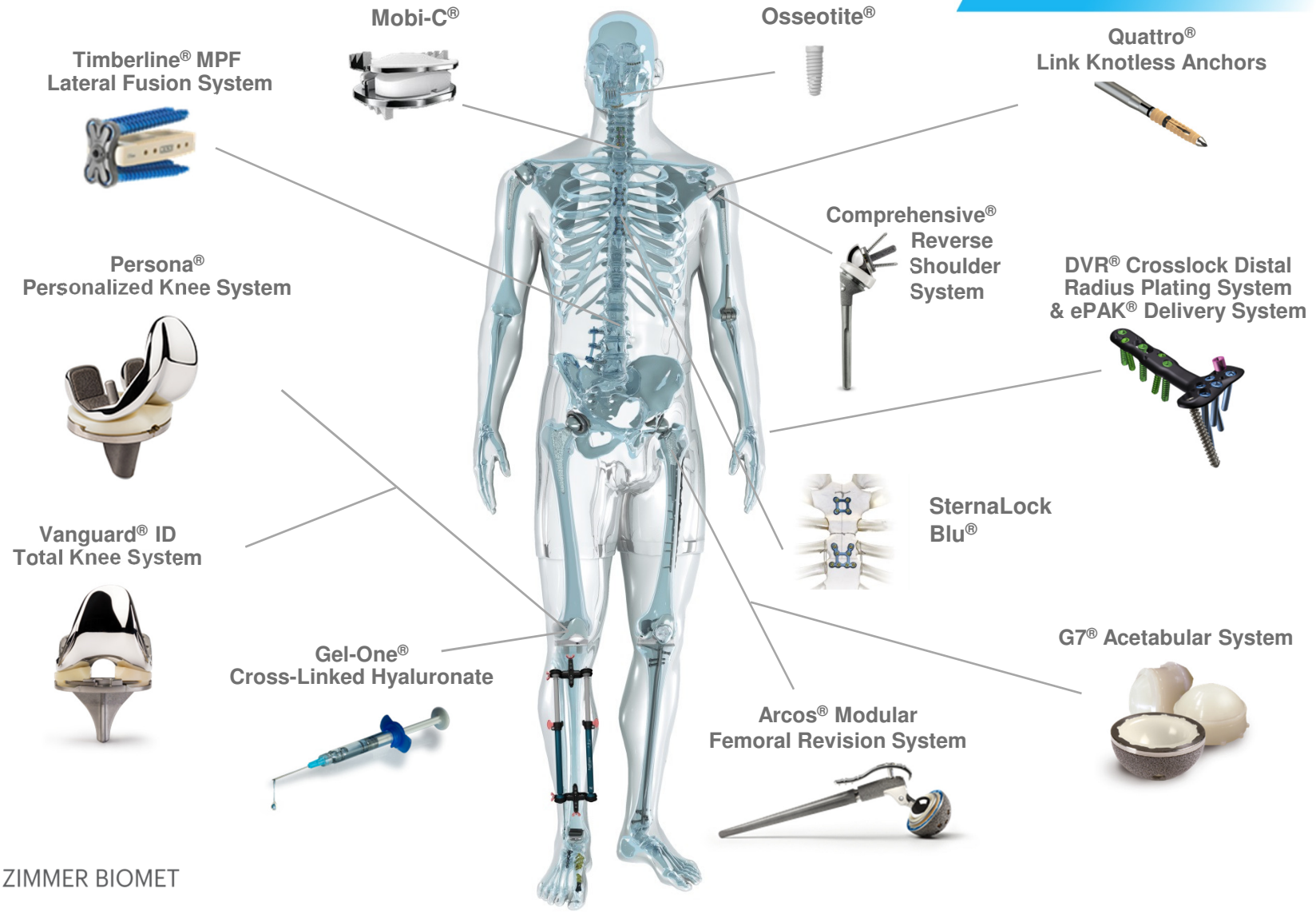
- **Favorable global demographics**
  - Increasing percentage of population 65 and older
- **Penetration opportunity in developed markets**
  - Utilization trends and underserved populations
- **Expanding access to healthcare in emerging markets**
  - Utilization at a fraction of developed market rates
- **Accelerating innovation**
  - Robotics and patient-focused clinical services



Source: United Nations Population Division



# Broad Portfolio



# Focus Areas to Improve Execution and Address Near-Term Challenges

## Execute Quality Remediation

- Significant investment in remediation activities
- Making progress toward key milestones
- Third party consultation
- Open dialogue with FDA

## Enhance Commercial Execution

- Embrace the commercial organization and enhance culture
- Resolve supply issues
- Investments into specialized sales forces
- Introduce new products

## Restore Full Supply

- Dual-sourcing strategy for complex manufacturing processes
- Continuous engineering process improvements
- Targeted investments into equipment and key technical expertise

## Deliver Key Product Pipeline

- 50 products scheduled to launch in 2018
- Opportunity to leverage diversified portfolio and category leadership
- 2018 product launches focused on fast-growing product segments and advanced technologies

# Global Footprint: Operating Locations

Making a Global Impact In Patients' Lives

- 39 Manufacturing sites globally
- Sales in 100+ countries



# Appendix

# Reconciliation of Reported Net Sales % Change to Constant Currency % Change and % Change (unaudited)

	For the Three Months Ended December 31, 2017		
	<u>% Change</u>	<u>Foreign Exchange Impact</u>	<u>Constant Currency % Change</u>
<b>Geographic Results</b>			
Americas	0.9 %	0.1 %	0.8 %
EMEA	6.4	6.7	(0.3)
Asia Pacific	7.0	(0.2)	7.2
<b>Total</b>	<b>3.0 %</b>	<b>1.5 %</b>	<b>1.5 %</b>
<b>Product Categories</b>			
<b>Knees</b>			
Americas	(0.3) %	0.2 %	(0.5) %
EMEA	10.0	6.1	3.9
Asia Pacific	(4.1)	0.3	(4.4)
<b>Total</b>	<b>1.4</b>	<b>1.5</b>	<b>(0.1)</b>
<b>Hips</b>			
Americas	0.8	0.3	0.5
EMEA	1.5	6.8	(5.3)
Asia Pacific	13.8	(0.8)	14.6
<b>Total</b>	<b>3.5</b>	<b>1.9</b>	<b>1.6</b>
<b>S.E.T</b>	<b>5.9</b>	<b>1.3</b>	<b>4.6</b>
<b>Dental</b>	<b>2.1</b>	<b>2.5</b>	<b>(0.4)</b>
<b>Spine &amp; CMF</b>	<b>1.5</b>	<b>1.0</b>	<b>0.5</b>
<b>Other</b>	<b>4.3</b>	<b>1.4</b>	<b>2.9</b>
<b>Total</b>	<b>3.0 %</b>	<b>1.5 %</b>	<b>1.5 %</b>

# Reconciliation of Reported Net Sales % Change to Constant Currency % Change and % Change Excluding LDR Holding Corporation (unaudited)

	For the Year Ended December 31, 2017		
	<u>% Change</u>	<u>Foreign Exchange Impact</u>	<u>Constant Currency % Change</u>
<b>Geographic Results</b>			
Americas	1.3 %	0.1 %	1.2 %
EMEA	0.9	0.7	0.2
Asia Pacific	5.4	(0.9)	6.3
<b>Total</b>	1.8 %	- %	1.8 %
<b>Product Categories</b>			
<b>Knees</b>			
Americas	(1.7) %	- %	(1.7) %
EMEA	1.0	0.1	0.9
Asia Pacific	1.5	(0.1)	1.6
<b>Total</b>	(0.6)	-	(0.6)
<b>Hips</b>			
Americas	(1.2)	0.1	(1.3)
EMEA	(0.7)	1.1	(1.8)
Asia Pacific	7.5	(1.6)	9.1
<b>Total</b>	0.6	-	0.6
<b>S.E.T</b>	3.9	(0.1)	4.0
<b>Dental</b>	(2.2)	0.4	(2.6)
<b>Spine &amp; CMF</b>	14.7	0.3	14.4
<b>Other</b>	(2.5)	0.1	(2.6)
<b>Total</b>	1.8 %	- %	1.8 %
Impact of LDR Holding Corporation	(1.3)	-	(1.3)
<b>% Change excluding LDR Holding Corporation</b>	<u>0.5 %</u>	<u>- %</u>	<u>0.5 %</u>

# Reconciliation of Cash Flow from Operating Activities to Free Cash Flow

## For the Quarterly and Year-to-Date Periods in Calendar Year Ending December 31, 2017 (in millions, unaudited)

	<u>Three Months Ended March 31, 2017</u>	<u>Three Months Ended June 30, 2017</u>	<u>Three Months Ended September 30, 2017</u>	<u>Three Months Ended December 31, 2017</u>	<u>Year Ended December 31, 2017</u>
Net cash provided by operating activities	\$ 275.4	\$ 440.5	\$ 463.5	\$ 402.9	\$ 1,582.3
Additions to instruments	(86.4)	(86.2)	(83.1)	(81.3)	(337.0)
Additions to other property, plant and equipment	(43.1)	(30.7)	(36.0)	(46.2)	(156.0)
Free cash flow	<u>\$ 145.9</u>	<u>\$ 323.6</u>	<u>\$ 344.4</u>	<u>\$ 275.4</u>	<u>\$ 1,089.3</u>

## For the Quarterly and Year-to-Date Periods in Calendar Year Ending December 31, 2016 (in millions, unaudited)

	<u>Three Months Ended March 31, 2016</u>	<u>Three Months Ended June 30, 2016</u>	<u>Three Months Ended September 30, 2016</u>	<u>Three Months Ended December 31, 2016</u>	<u>Year Ended December 31, 2016</u>
Net cash provided by operating activities	\$ 272.8	\$ 379.6	\$ 352.6	\$ 627.2	\$ 1,632.2
Additions to instruments	(85.1)	(72.2)	(94.0)	(94.2)	(345.5)
Additions to other property, plant and equipment	(27.6)	(46.1)	(56.4)	(54.6)	(184.7)
Free cash flow	<u>\$ 160.1</u>	<u>\$ 261.3</u>	<u>\$ 202.2</u>	<u>\$ 478.4</u>	<u>\$ 1,102.0</u>

# Reconciliation of Gross Profit & Margin to Adjusted Gross Profit & Margin

For the Quarterly and Year-to-Date Periods in Calendar Year Ending December 31, 2017  
(in millions, unaudited)

	<u>Three Months Ended March 31, 2017</u>	<u>Three Months Ended June 30, 2017</u>	<u>Three Months Ended September 30, 2017</u>	<u>Three Months Ended December 31, 2017</u>	<u>Year Ended December 31, 2017</u>
Net Sales	\$ 1,977.3	\$ 1,954.4	\$ 1,818.1	\$ 2,074.3	\$ 7,824.1
Cost of products sold, excluding intangible asset amortization	512.9	527.7	500.9	591.4	2,132.9
Intangible asset amortization	<u>152.0</u>	<u>147.7</u>	<u>152.7</u>	<u>151.5</u>	<u>603.9</u>
Gross profit	\$ 1,312.4	\$ 1,279.0	\$ 1,164.5	\$ 1,331.4	\$ 5,087.3
Inventory step-up and other inventory and manufacturing related charges	23.2	24.9	10.4	26.1	84.6
Intangible asset amortization	<u>152.0</u>	<u>147.7</u>	<u>152.7</u>	<u>151.5</u>	<u>603.9</u>
Adjusted gross profit	<u>\$ 1,487.6</u>	<u>\$ 1,451.6</u>	<u>\$ 1,327.6</u>	<u>\$ 1,509.0</u>	<u>\$ 5,775.8</u>
Gross margin	66.4 %	65.4 %	64.1 %	64.2 %	65.0 %
Inventory step-up and other inventory and manufacturing related charges	1.1	1.3	0.5	1.2	1.1
Intangible asset amortization	<u>7.7</u>	<u>7.6</u>	<u>8.4</u>	<u>7.3</u>	<u>7.7</u>
Adjusted gross margin	<u>75.2 %</u>	<u>74.3 %</u>	<u>73.0 %</u>	<u>72.7 %</u>	<u>73.8 %</u>



# Reconciliation of Gross Profit & Margin to Adjusted Gross Profit & Margin

For the Quarterly and Year-to-Date Periods in Calendar Year Ending December 31, 2016  
(in millions, unaudited)

	<u>Three Months Ended</u> <u>March 31, 2016</u>	<u>Three Months Ended</u> <u>June 30, 2016</u>	<u>Three Months Ended</u> <u>September 30, 2016</u>	<u>Three Months Ended</u> <u>December 31, 2016</u>	<u>Year Ended</u> <u>December 31, 2016</u>
Net Sales	\$ 1,904.0	\$ 1,934.0	\$ 1,832.8	\$ 2,013.1	\$ 7,683.9
Cost of products sold, excluding intangible asset amortization	640.6	640.1	479.3	621.8	2,381.8
Intangible asset amortization	<u>126.6</u>	<u>133.8</u>	<u>164.3</u>	<u>141.2</u>	<u>565.9</u>
Gross profit	\$ 1,136.8	\$ 1,160.1	\$ 1,189.2	\$ 1,250.1	\$ 4,736.2
Inventory step-up and other inventory and manufacturing related charges	178.3	156.6	22.8	111.4	469.1
Intangible asset amortization	<u>126.6</u>	<u>133.8</u>	<u>164.3</u>	<u>141.2</u>	<u>565.9</u>
Adjusted gross profit	<u>\$ 1,441.7</u>	<u>\$ 1,450.5</u>	<u>\$ 1,376.3</u>	<u>\$ 1,502.7</u>	<u>\$ 5,771.2</u>
Gross margin	59.7 %	60.0 %	64.9 %	62.1 %	61.6 %
Inventory step-up and other inventory and manufacturing related charges	9.4	8.1	1.2	5.5	6.1
Intangible asset amortization	<u>6.6</u>	<u>6.9</u>	<u>9.0</u>	<u>7.0</u>	<u>7.4</u>
Adjusted gross margin	<u><u>75.7 %</u></u>	<u><u>75.0 %</u></u>	<u><u>75.1 %</u></u>	<u><u>74.6 %</u></u>	<u><u>75.1 %</u></u>

# Reconciliation of Operating Profit & Margin to Adjusted Operating Profit & Margin

For the Quarterly and Year-to-Date Periods in Calendar Year Ending December 31, 2017  
(in millions, unaudited)

	<u>Three Months Ended March 31, 2017</u>	<u>Three Months Ended June 30, 2017</u>	<u>Three Months Ended September 30, 2017</u>	<u>Three Months Ended December 31, 2017</u>	<u>Year Ended December 31, 2017</u>
Operating profit (loss)	\$ 350.4	\$ 282.3	\$ 213.4	\$ (22.9)	\$ 823.2
Inventory step-up and other inventory and manufacturing related charges	23.2	24.9	10.4	26.1	84.6
Intangible asset amortization	152.0	147.7	152.7	151.5	603.9
Certain claims	-	-	-	10.3	10.3
Goodwill impairment	-	-	32.7	272.0	304.7
Special items	110.1	158.6	132.7	206.4	607.8
Adjusted operating profit	<u>\$ 635.7</u>	<u>\$ 613.5</u>	<u>\$ 541.9</u>	<u>\$ 643.4</u>	<u>\$ 2,434.5</u>
Operating profit margin	17.7 %	14.4 %	11.7 %	(1.1) %	10.5 %
Inventory step-up and other inventory and manufacturing related charges	1.1	1.3	0.5	1.2	1.1
Intangible asset amortization	7.7	7.6	8.4	7.3	7.7
Certain claims	-	-	-	0.5	0.1
Goodwill impairment	-	-	1.8	13.1	3.9
Special items	5.6	8.1	7.4	10.0	7.8
Adjusted operating profit margin	<u>32.1 %</u>	<u>31.4 %</u>	<u>29.8 %</u>	<u>31.0 %</u>	<u>31.1 %</u>

# Reconciliation of Operating Profit & Margin to Adjusted Operating Profit & Margin

For the Quarterly and Year-to-Date Periods in Calendar Year Ending December 31, 2016  
(in millions, unaudited)

	<u>Three Months Ended</u> <u>March 31, 2016</u>	<u>Three Months Ended</u> <u>June 30, 2016</u>	<u>Three Months Ended</u> <u>September 30, 2016</u>	<u>Three Months Ended</u> <u>December 31, 2016</u>	<u>Year Ended</u> <u>December 31, 2016</u>
Operating profit (loss)	\$ 245.5	\$ 201.6	\$ 195.5	\$ 183.3	\$ 825.9
Inventory step-up and other inventory and manufacturing related charges	178.3	156.6	22.8	111.4	469.1
Intangible asset amortization	126.6	133.8	164.3	141.2	565.9
Special items	88.7	137.9	170.4	214.8	611.8
Adjusted operating profit	<u>\$ 639.1</u>	<u>\$ 629.9</u>	<u>\$ 553.0</u>	<u>\$ 650.7</u>	<u>\$ 2,472.7</u>
Operating profit (loss) margin	12.9 %	10.4 %	10.7 %	9.1 %	10.7 %
Inventory step-up and other inventory and manufacturing related charges	9.4	8.1	1.2	5.5	6.1
Intangible asset amortization	6.6	6.9	9.0	7.0	7.4
Special items	4.7	7.2	9.3	10.7	8.0
Adjusted operating profit margin	<u>33.6 %</u>	<u>32.6 %</u>	<u>30.2 %</u>	<u>32.3 %</u>	<u>32.2 %</u>

# Reconciliation of Net Earnings to Adjusted Net Earnings

FOR THE THREE MONTHS ENDED DECEMBER 31, 2017 and 2016  
(in millions, unaudited)

	Three Months Ended December 31,	
	2017	2016
Net Earnings of Zimmer Biomet Holdings, Inc.	\$ 1,257.2	\$ 69.6
Inventory step-up and other inventory and manufacturing-related charges	26.1	111.4
Intangible asset amortization	151.5	141.2
Certain claims	10.3	-
Goodwill impairment <sup>(2)</sup>	272.0	-
Special items		
Biomet merger-related	74.4	173.8
Other special items	132.0	41.0
Merger-related and other expense in other expense, net	2.1	4.7
Debt extinguishment	-	53.3
Taxes on above items <sup>(3)</sup>	(134.9)	(152.0)
U.S. tax reform <sup>(4)</sup>	(1,305.5)	-
Other certain tax adjustments <sup>(5)</sup>	(56.7)	(8.9)
Adjusted Net Earnings	\$ 428.5	\$ 434.1

(2) The Company recognized a \$272.0 million non-cash goodwill impairment charge in the fourth quarter of 2018 related to its Spine less Asia Pacific reporting unit during its annual goodwill impairment testing. The impairment was driven by integration issues between the legacy Zimmer, Biomet and LDR businesses. In the third quarter of 2018, the Company recognized a \$32.7 million non-cash goodwill impairment charge related to its Office Based Technologies reporting unit. Operating performance of this reporting unit has been lower than expected due to integration issues, management turnover and poor execution of its operating plans.

(3) 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 where the items were or are projected to be incurred. For jurisdictions outside the U.S., the tax effect is estimated based upon the statutory rates where the items were or are projected to be incurred.

(4) U.S. tax reform resulted in a net favorable provisional adjustment due to the reduction of certain deferred tax liabilities, which were partially offset by provisional tax charges related to the toll tax provision of U.S. tax reform.

(5) In 2017, other certain tax adjustments relate to a favorable tax rate change in a foreign jurisdiction and net favorable adjustments from internal restructuring transactions. The 2016 adjustment primarily includes a favorable resolution of certain tax matters with taxing authorities offset by internal restructuring transactions that provide the Company access to offshore funds in a tax efficient manner.

# Reconciliation of Diluted EPS to Adjusted EPS

FOR THE THREE MONTHS ENDED DECEMBER 31, 2017 and 2016  
(unaudited)

	Three Months Ended December 31,	
	2017	2016
Diluted EPS	\$ 6.16	\$ 0.34
Inventory step-up and other inventory and manufacturing-related charges	0.13	0.55
Intangible asset amortization	0.74	0.70
Certain claims	0.05	-
Goodwill impairment <sup>(2)</sup>	1.33	-
Special items		
Biomet merger-related	0.36	0.86
Other special items	0.65	0.20
Merger-related and other expense in other expense, net	0.01	0.02
Debt extinguishment	-	0.26
Taxes on above items <sup>(3)</sup>	(0.66)	(0.75)
U.S. tax reform <sup>(4)</sup>	(6.40)	-
Other certain tax adjustments <sup>(5)</sup>	(0.27)	(0.04)
Adjusted Diluted EPS	\$ 2.10	\$ 2.14

(2) The Company recognized a \$272.0 million non-cash goodwill impairment charge in the fourth quarter of 2018 related to its Spine less Asia Pacific reporting unit during its annual goodwill impairment testing. The impairment was driven by integration issues between the legacy Zimmer, Biomet and LDR businesses. In the third quarter of 2018, the Company recognized a \$32.7 million non-cash goodwill impairment charge related to its Office Based Technologies reporting unit. Operating performance of this reporting unit has been lower than expected due to integration issues, management turnover and poor execution of its operating plans.

(3) 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 where the items were or are projected to be incurred. For jurisdictions outside the U.S., the tax effect is estimated based upon the statutory rates where the items were or are projected to be incurred.

(4) U.S. tax reform resulted in a net favorable provisional adjustment due to the reduction of certain deferred tax liabilities, which were partially offset by provisional tax charges related to the toll tax provision of U.S. tax reform.

(5) In 2017, other certain tax adjustments relate to a favorable tax rate change in a foreign jurisdiction and net favorable adjustments from internal restructuring transactions. The 2016 adjustment primarily includes a favorable resolution of certain tax matters with taxing authorities offset by internal restructuring transactions that provide the Company access to offshore funds in a tax efficient manner.

## Reconciliation of First Quarter 2018 Projected Revenue % Change to Projected Constant Currency % Change (unaudited)

<b>Projected Three Months Ended March 31, 2018:</b>	<b>High</b>	<b>Low</b>
Revenue % change	1.0 %	(1.0) %
Foreign exchange impact	(3.0)	(3.0)
Constant currency % change	(2.0) %	(4.0) %

## Reconciliation of First Quarter 2018 Projected Diluted EPS to Projected Adjusted Diluted EPS (unaudited)

### Projected Three Months Ended March 31, 2018:

	<b>High</b>	<b>Low</b>
Diluted EPS	\$ 0.88	\$ 0.73
Inventory step-up and other inventory and manufacturing related charges, intangible asset amortization, special items and other expense	1.27	1.37
Taxes on above items <sup>(3)</sup> and other certain tax adjustments	(0.24)	(0.26)
Adjusted Diluted EPS	<u>\$ 1.91</u>	<u>\$ 1.84</u>



ZIMMER BIOMET



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