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ZIMMER BIOMET

Equity Research Division

ZIMMER BIOMET

The smart implants leader of the future

Target Price: \$150.83

Current Price: \$107.01

Upside Potential: **+40.90%**

Recommendation: BUY

Investment Horizon: 5 Years

Vienna, 26th June 2024

Team Overview

Equity Research



Christo Genchev

Senior Associate

- Task Distribution
- Story Guideline



BSc. (WU) – 8th Semester



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- Financial Analysis



MSc. (WU) – 2nd Semester



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MSc. (WU) – 2nd Semester



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- Strategy



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Maximilian Elser

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- Business Model
- Company Overview



BSc. (WU) – 4th Semester



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Fellow Analyst

- Strategy
- Company Overview

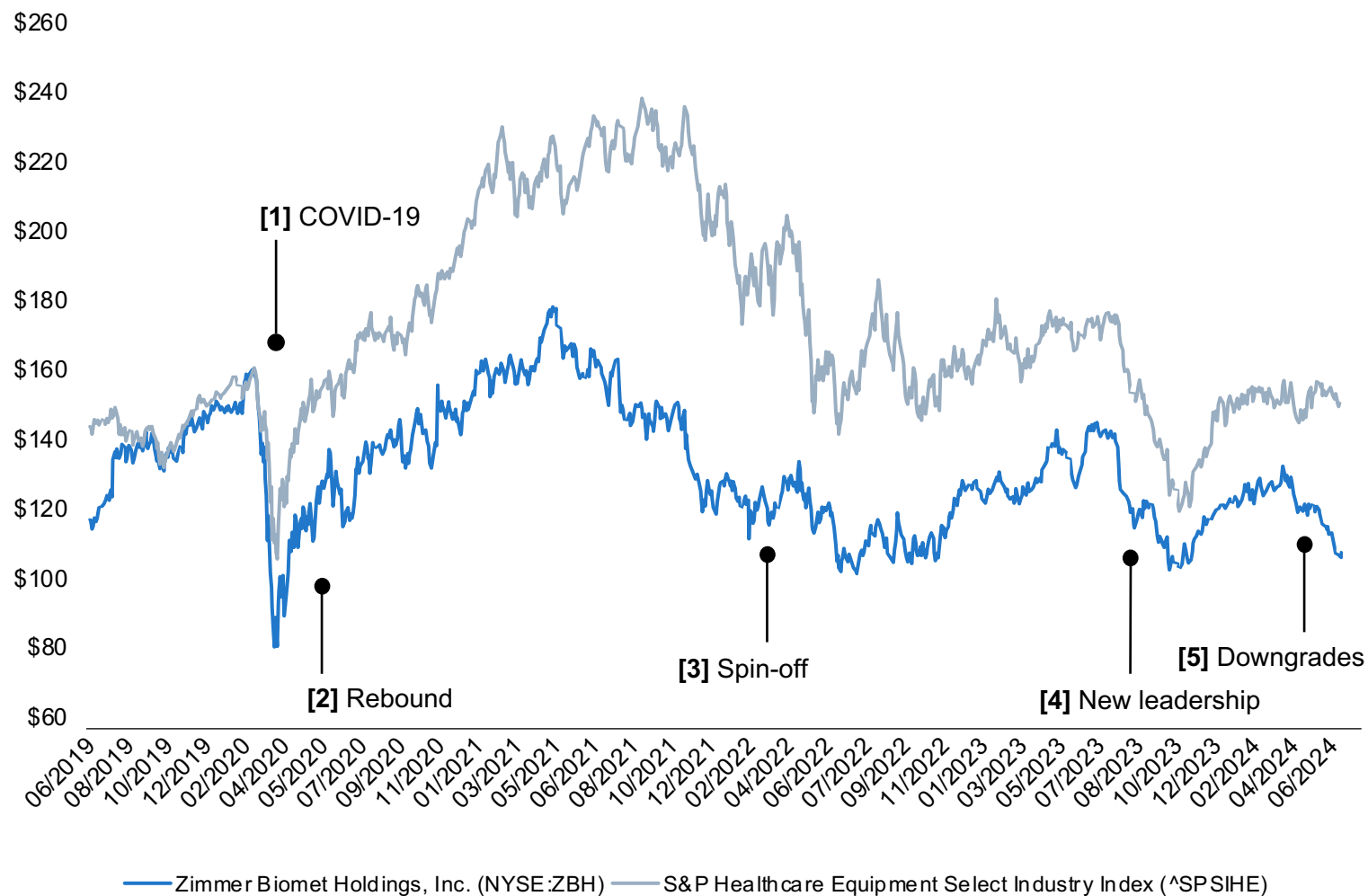


MSc. (WU) – 2nd Semester

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Share Price Performance

Past volatility and projected growth through leadership and innovation



Major Events

- [1] 17/02/2020 - 16/03/2020 (-45.03%) – **COVID-19** led to a **market downturn** and the **postponement of elective surgeries**.
- [2] 16/03/2020 - 13/04/2020 (+37.92%) – **Healthcare systems** began to **adapt** and **resume elective procedures**.
- [3] 01/03/2022 - 28/03/2022 (+6.05%) – The **ZimVie spin-off** (\$788M) positively impacted the share price.
- [4] 22/08/2023 - 30/08/2023 (+4.96%) – Appointment of **new CEO & CFO** led to an increase in investor confidence.
- [5] 28/05/2024 - 12/06/2024 (-7.63%) – Some **banks** (UBS, Barclays) **lowered their target prices** for ZB, citing its limited exposure to high-growth markets.

Key Stats

- **IPO:** 2001
- **Ticker:** ZBH (NYSE)
- **Market capitalization:** \$ 22,052 million
- **52-week range:** 147.50 / 102.00

Zimmer Biomet emerges as an innovative market leader poised for growth amid industry transformation



- 1 Innovation Leadership**
Zimmer is an industry **innovator**, introducing **world-first** technologies that drive growth and solidify its position as **market leader** in hips and knees.
- 2 Favorable Demographics**
Growth is supported by **demographic trends**: aging population, rising obesity, and an increasingly active populace, driving **sustained demand** for ZB's products.
- 3 Market Recovery**
The company is capitalizing on a shift towards **Ambulatory Surgical Centers** and post-COVID rebound in elective surgeries, enhancing both growth and profitability.
- 4 Valuation Upside**
ZB remains **undervalued** relative to peers, presenting an opportunity as the market catches up to the company's improved positioning and **growth potential**.
- 5 Transformation Risk**
The ongoing turnaround, while promising, is **not yet** complete. Success of this strategic shift towards higher growth and **innovation** remains to be fully realized.
- 6 Portfolio Rebalancing**
Zimmer Biomet's recent spin-off of its largest **spine** asset reduces its exposure to a promising submarket, potentially limiting **future growth** opportunities.



Zimmer Biomet

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Company Overview

Company Overview

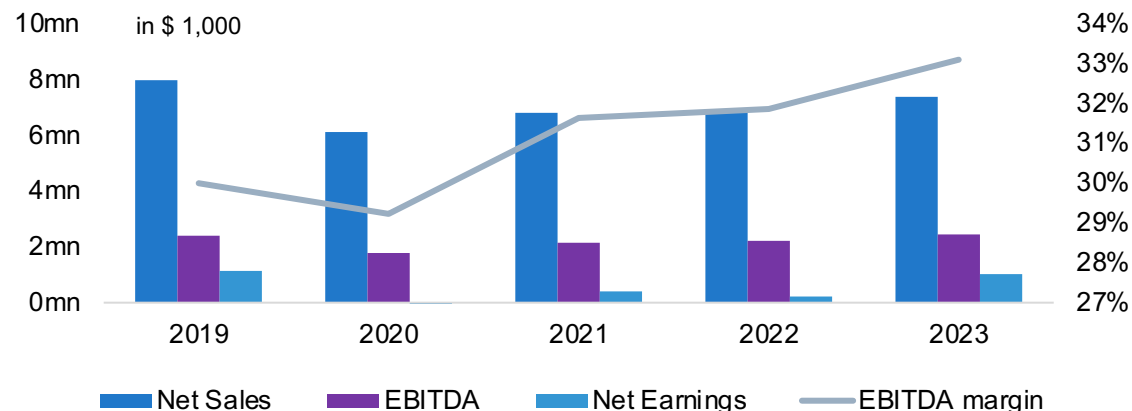
Seizing future success through strategic leadership and financial growth

Company Description

Zimmer Biomet Holdings, Inc., formed by the merger of Zimmer Holdings and Biomet in 2015, is a global **medical technology** company specializing in orthopedic products like **knees and hips**. Since August 2023, **CEO Ivan Tornos has been refocusing the company** on innovation, high-growth markets, and operational excellence.

1927 Foundation
Warsaw, USA Headquarters
18,000+ Employees
+50 Products until 2027

Financials



Management Team



Ivan Tornos
 President & CEO
 Since August 2023



Suketu Upadhyay
 CFO & Executive VP
 Since August 2023



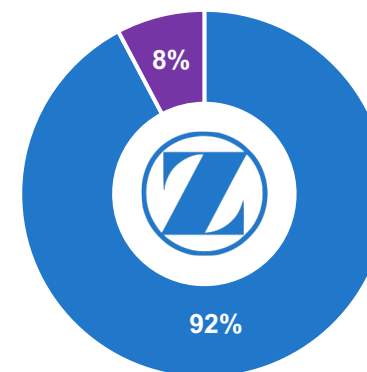
Rachel Ellingson
 SVP & Chief Strategy Officer
 Since April 2018



Nitin Goyal
 Chief Science, Technology & Innovation Officer
 Since June 2021

▶ **New CEO and CFO** bring fresh perspectives to an **experienced leadership team**

Shareholder Structure



Top Holders

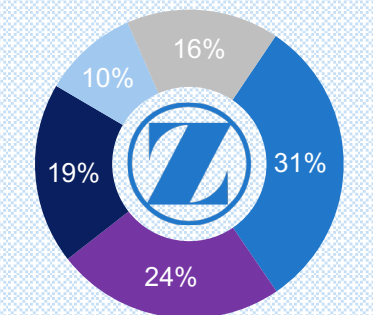
Vanguard Group Inc.	11.56%
BlackRock Inc.	8.40%
Dodge & Cox	7.98%
T. Rowe Price Group Inc.	5.17%
State Street Global Advisors Inc.	4.52%

Company Overview – Strengths

ZB differentiates itself globally as a pioneer in orthopedic innovations with a superior product portfolio

Segment Leadership & Product Performance

Global Hip & Knee Market 2023

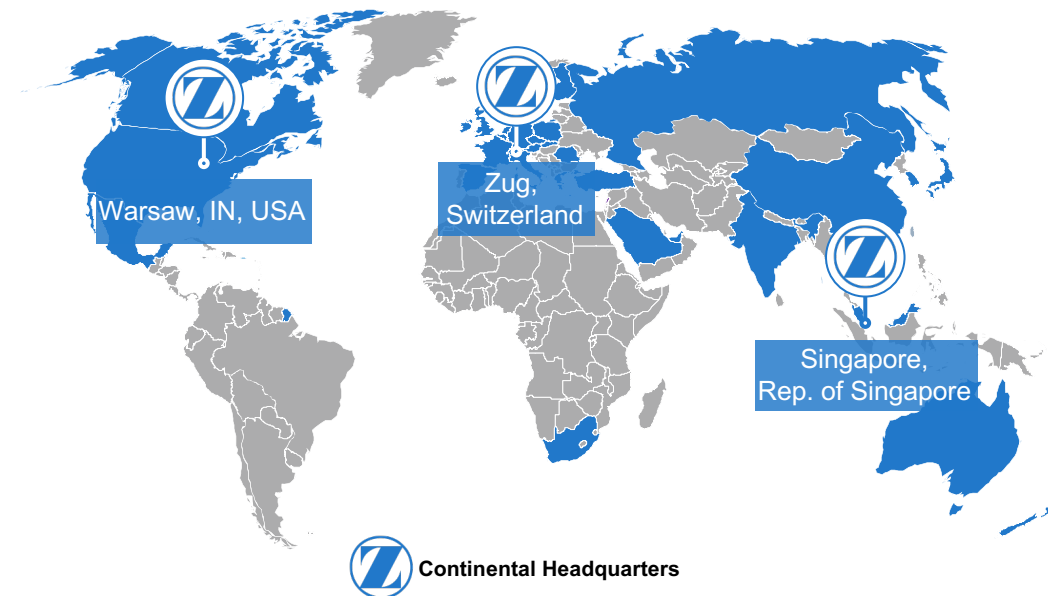


■ Zimmer Biomet ■ Smith & Nephew
■ Stryker ■ Other
■ DePuy Synthes

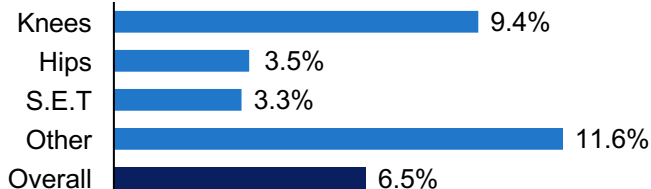
Zimmer Biomet as Market Leader

- **Extensive Product Portfolio**
 Zimmer Biomet's extensive product range meets diverse patient needs, driving significant market share growth
- **Innovation and R&D**
 Focus on developing advanced materials and techniques to improve patient outcomes and surgical efficiency
- **Strong Brand Reputation**
 Since 1927, Zimmer Biomet has built a strong reputation for quality and reliability in the medical community

Zimmer Biomet as a Global Player



Main products and performance (Net sales increase 2022 to 2023)



- High growth despite maturity in the knee segment
- "Other" includes robotics and other electronics

Zimmer Biomet as Global Player



- **Operations:** in 25 countries and clients in over 100 countries (>50% of the world)
- **Strategic Partnerships and Collaborations:** Zimmer Biomet engages in strategic partnerships and collaborations with healthcare providers, research institutions and other industry players
- **Diverse Workforce:** Employment of a diverse and skilled workforce from different cultural and professional backgrounds



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Business Model and Products

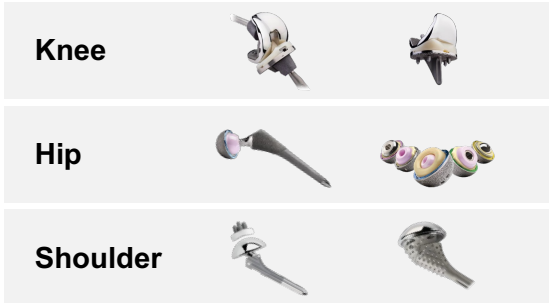
Business Model I – Product Portfolio

ZB holds the market leadership in orthopedic reconstructive products through a diverse product portfolio

Orthopedic Reconstructive Products (ORP)

Orthopedic reconstructive products include **implants** and devices used to **repair** or **replace** damaged bones and joints, such as **knees, hips, and shoulders**

#1 in Knees Hips

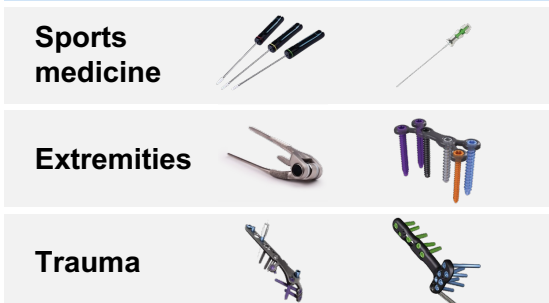


ZB holds a **major market share** in the **knees & hips**, with the **Persona IQ®** knee being the **most advanced** product of ZB

68% of Sales

Sports Medicine, Extremities & Trauma (S.E.T.)

S.E.T. products include **surgical instruments**, **sports medicine implants**, and **trauma fixation devices** designed to treat injuries and conditions related to surgery, sports, and traumatic events



ZB is also **competitive in the SM business**, actively catering to **athletes** and sporty individuals

24% of Sales



CMF, TP & PM Implants (CMFT)

CMFT include **implants, devices**, and **instruments** used in the surgical treatment of conditions affecting the **skull, face, jaw, and thoracic cavity**



Zimmer Biomet's PM implants drive **market leadership** by offering **personalized, anatomically tailored** solutions

2% of Sales

Other Products

Other products include all kind of **supportive products** for surgeons and patients, from **surgical procedures** to **patient recovery**



The ROSA® robotic system **solidifies ZB's leadership** in modern joint replacement technology




6% of Sales

Product Deep Dive I – Persona IQ® & mymobility® with Apple Watch

Powerful synergy ensuring effective recovery process and providing extra information

▶ Persona IQ® – world's first smart knee implant

Features

-  Knee performance monitoring
-  Pain levels monitoring
-  Data sharing with clinic

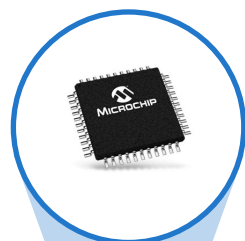
Benefits

Benefits for Doctors:

- Early detection of complications
- Predictive analytics

Benefits for Patients:

- Improved recovery



▶ mymobility® – digital platform, providing personalized recovery support and progress tracking

Features

-  Telehealth consultation support
-  Customizable exercise plans
-  Nutrition and wellness tracking
-  Gamification of recovery

Benefits

Benefits for Doctors:

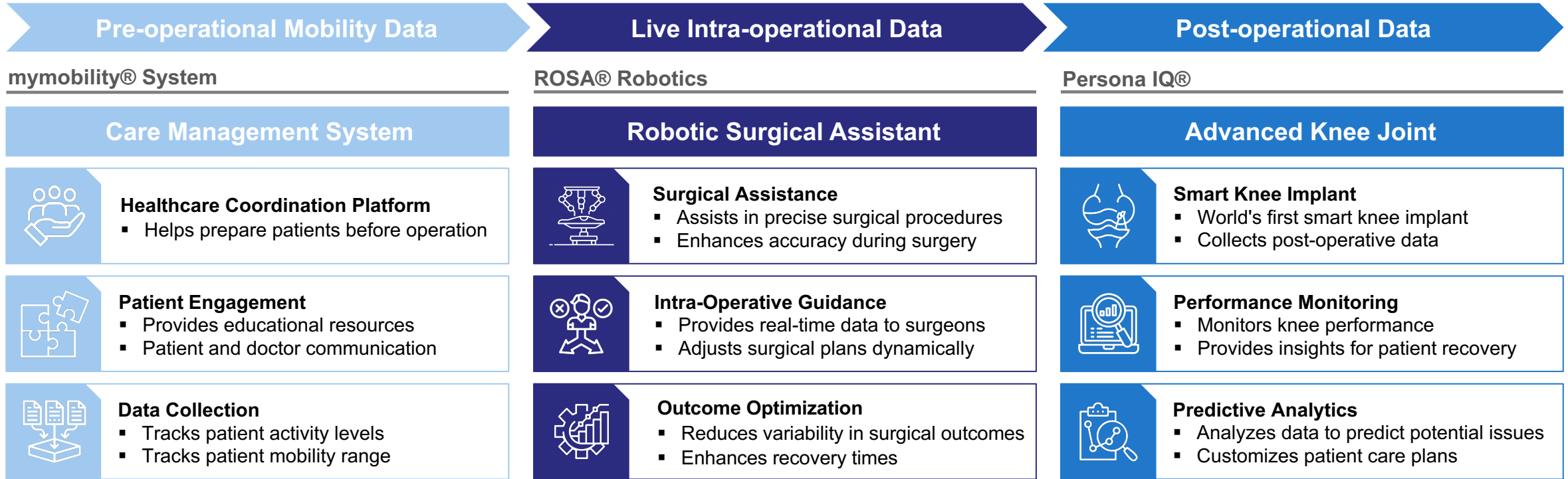
- Reduced workflow
- Improved outcomes

Benefits for Patients:

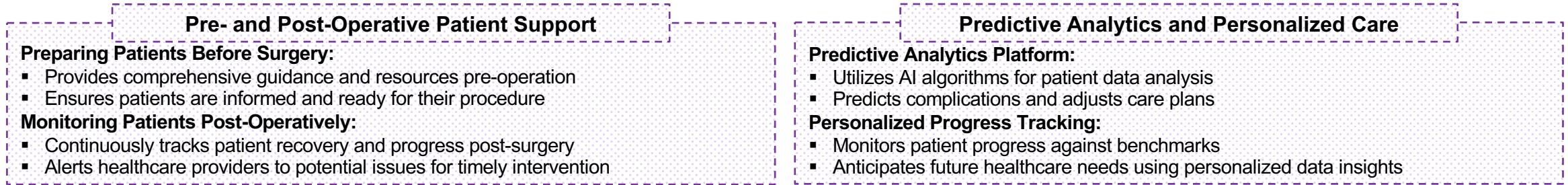
- Recovery support
- Increased motivation

Product Deep Dive II – ZBEdge™ – Supporting Evidence Ecosystem

Ecosystem, seamlessly connecting products, services and technologies to elevate patient care



ZBEdge™: Comprehensive Care Coordination Software





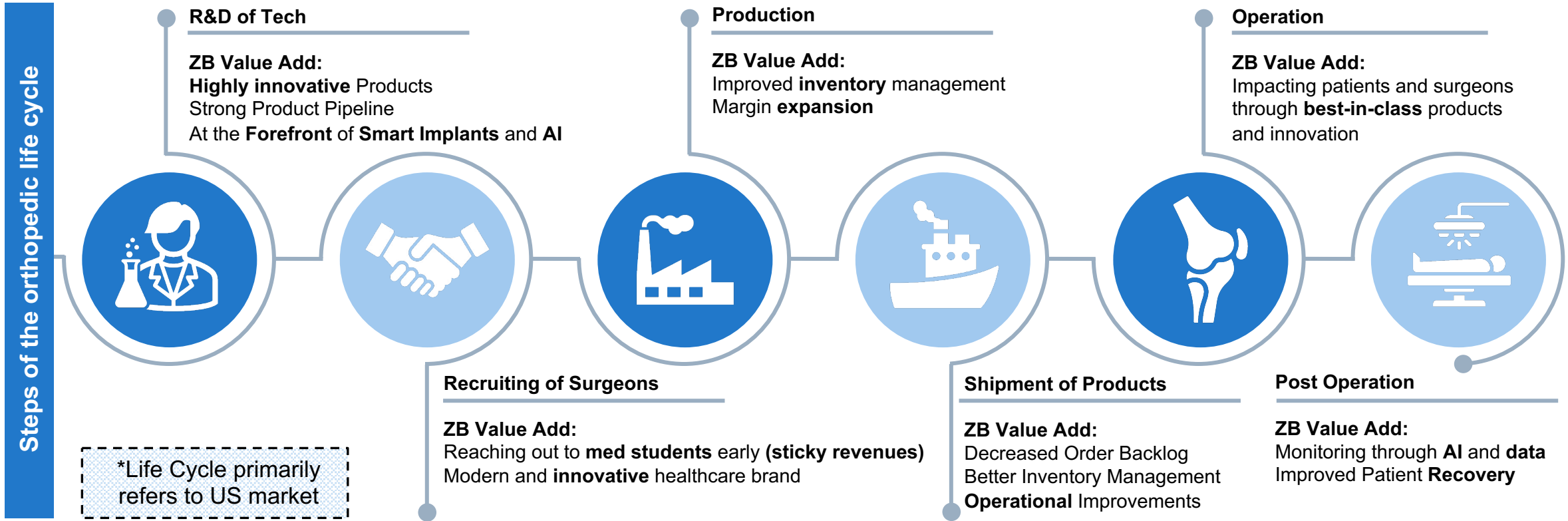
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Strategy

Life Cycle of the Entire Implantation Process – From Start to Finish*

Zimmer Biomet is gaining an edge every step of the way through innovation and operational excellence



Excerpts

Examples of unique innovations, ZB add value to client and patient experience

Persona IQ®

HAMMR™

Revel AI HEALTH
AI partnerships




ROSA® shoulder

ZBEdge™


Strategy I – Vision, Restructuring and M&A

After implementing restructuring plan, new management focuses on three core growth pillars

New Management Vision and Restructuring

-  **Improved Financial Management – Restructuring** aimed to save up to \$150 million over 2 years
-  **Mergers & Acquisitions** targeting mainly **sports medicine** and **personalized implants** markets
-  **Becoming Innovation Leader** – 50+ new products in pipeline for 2024-2027
-  **Focus on High-Growth Markets** aiming to capitalize on attractive sub-markets with 20%+ top-line growth rate


Restructuring




- Cash charges of **\$125 million to \$150 million** over the next two years
- Anticipated **run rate savings of up to \$200 million** by the end of 2025

Financial Expectations

- Company will **cut about 3%** of its **global workforce**
- Equivalent of about **540 positions** from 18,000 total employees



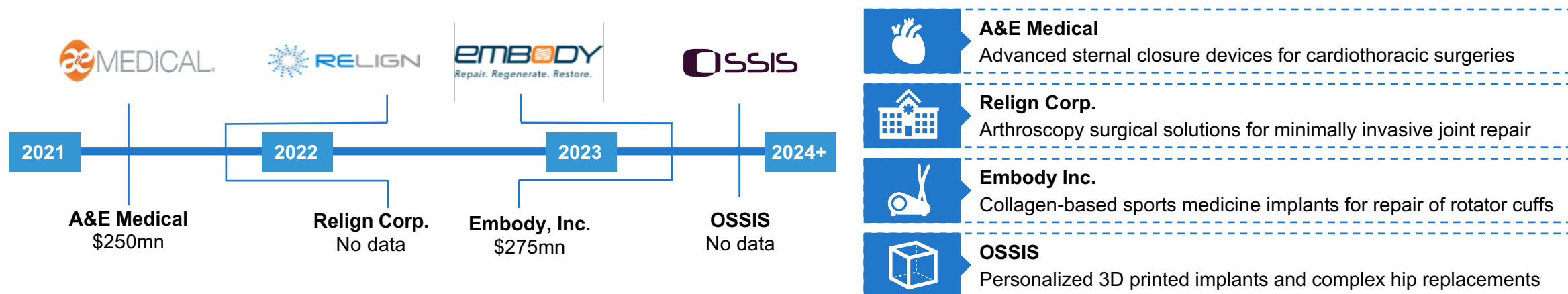
Lay-Offs



- **Implemented almost entirely** with no major disruptions to report
- Gets delivered **slightly ahead of schedule** as of Q1 2024

Current Performance

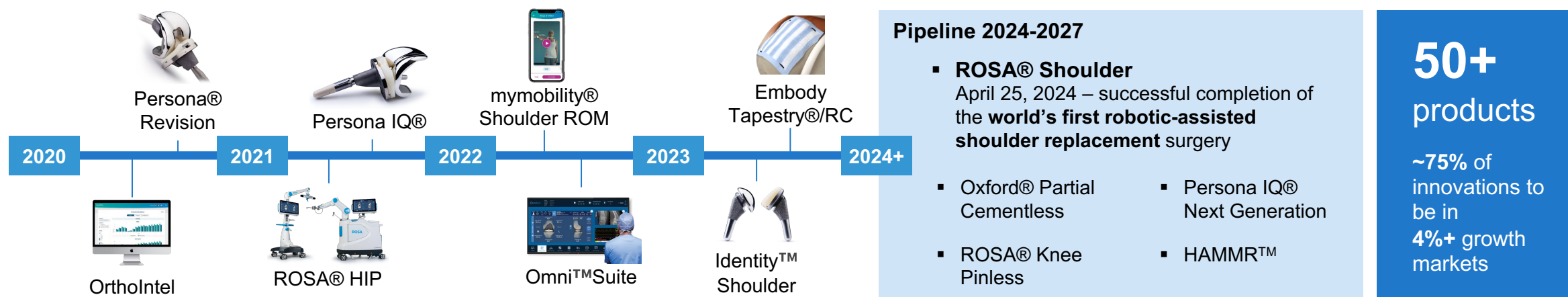
Mergers & Acquisitions



Strategy II – Innovation and High Growth Markets

Innovating beyond competition: Focused on advancement and improvement

Becoming Innovation Leader



Focusing on High Growth Markets

Investment in the thoracic market to:

- Capitalize on attractive sub-markets (sternal closure & rib repair)
- Enhance growth rates
- Increase market share by leveraging innovation

Thoracic business performance 2019-2023

10%+ Driver of WAMGR	2x Total revenue
20%+ Top-line growth	4x Growth rate increase



Improving Operational Efficiency

ZBH 2018

8 Product launches	>3 days Supply chain (backorders)
3 FDA warnings Compliance	\$8.9B USD Total debt

ZBH 2024

20+ Product launches	<1 day Supply chain (backorders)
100% compliant Compliance	\$5.8B Total debt



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Market and Industry Analysis

Market Segments and Outlook

ZB leads the market with strong prospects for expansion

Knee Market \$10 billion <small>'23 Market</small>		Market Position #1	CAGR 3-5%
Hip Market \$8.5 billion <small>'23 Market</small>		Market Position #1	CAGR 2-4%
S.E.T. \$10 billion <small>'23 Market</small>		Market Position #2 Upper Extremities #6 Sports Medicine	CAGR 4-7%
CMFT \$5 billion <small>'23 Market</small>		Market Position #1 Sternal Closure #2 Rib Trauma	CAGR 5-7%
Spine \$11.2 billion <small>'23 Market</small>		Market Position Spun Off Spinal Division ZimVie in 2022	CAGR 5-7%

Zimmer Biomet is operating in a growing market, mainly located in the US

Global Implants Market

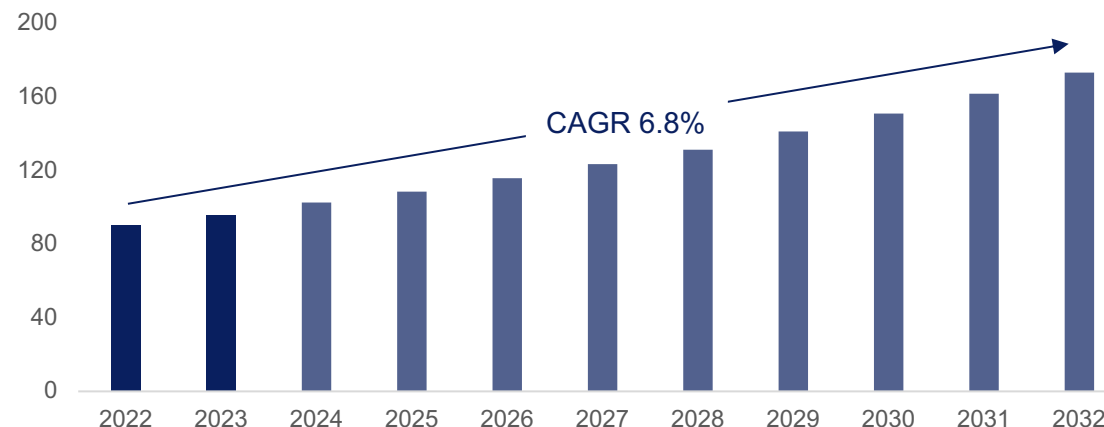
North America

- **Largest Global Market**
with a total of \$41bn revenue in 2023
- **That makes a 47%**
of the entire medical implant market
- **Tech Leader**
The US is a tech leader with ZBH and most of its peers located here

EU & Asia

- **Despite being smaller**
Asia and Europe are also important markets
- **Asia Pacific**
is the fastest growing market in this field
- **Threat of Cheaper Technology**
and Start Ups in the Asian market

Medical Implants Market Size (in bn \$)



Ambulatory Surgery Centers & Resurgence of Elective Surgeries

Ambulatory Surgical Centers (ASCs) are specialized facilities for same-day surgical care and procedures gaining popularity due to their efficiency.

Demand for Robotics



New ASCs frequently open, creating a demand for advanced technologies like robotics to equip these centers effectively.

Consumer Convenience



The convenience and shorter duration of procedures at ASCs drive higher consumer demand for surgeries, contributing to the overall market growth.

Growth Strategies of Players in the Industry

M&A

- Enhance the product portfolio
- Gain/Keep competitive advantage

Market Presence

- Continuous product launches & improvements
- Broad product portfolio

Tech Leadership

- Comp. Adv. through tech advancements
- Implement state-of-the-art technologies

Global Expansion

- Broad geographical scope
- Aim for emerging markets

Several trends in the population indicate a higher demand for medical implants in the future

Current Trends Influencing the Market

Aging Population

Demographic shifts are driving **increased demand for medical implants** such as knee, hip, and replacements, positioning Zimmer Biomet for future growth.



Expanding Middle Class

The growing global middle class boosts Zimmer Biomet, as increased wealth **allows more access to advanced medical implants**.

Rising Obesity Rates

Rising obesity, with 42% of US adults obese in 2020, **harms joint health** and will boost demand for Zimmer's implants.

More Active Older Population

More sports injuries in an **increasingly active** older population of 65+ year olds indicate growth in hip & knee implants.

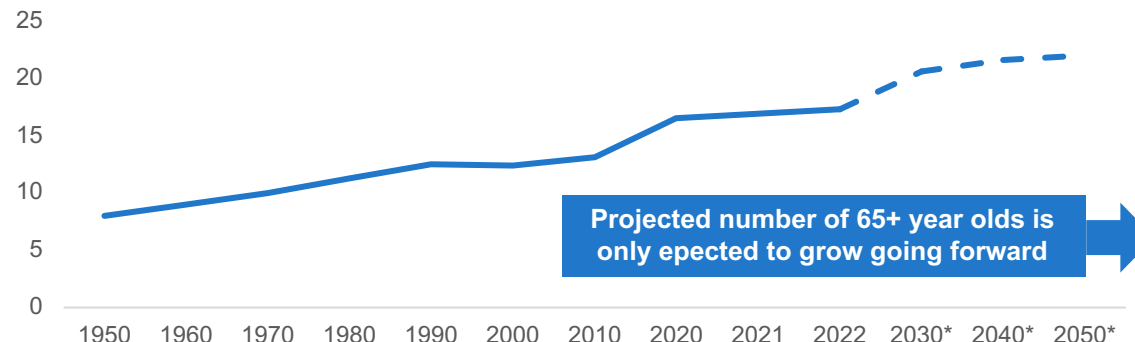
AI in the Health Care Industry

AI's **rapid adoption** in healthcare offers a key opportunity. Zimmer's use of this technology to gain **market share** is crucial for future growth.

Medical Trends

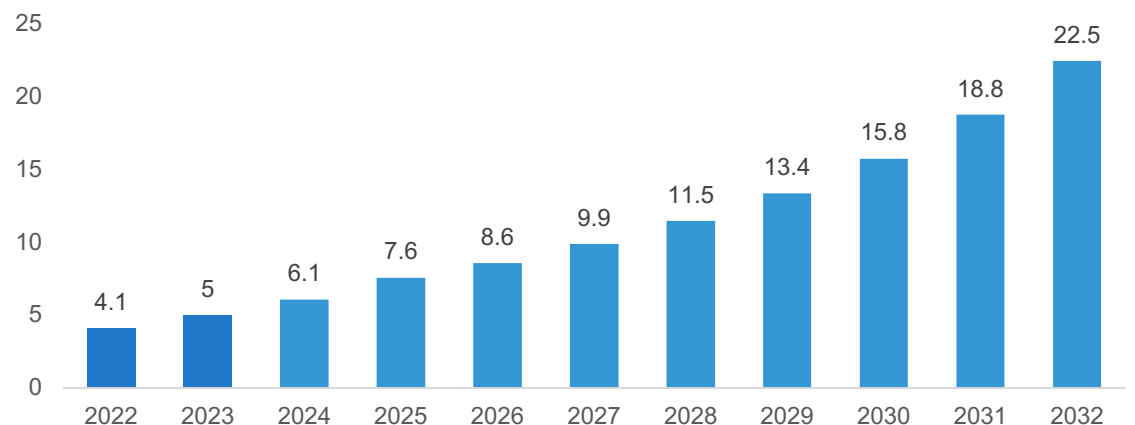
GLP-1 treatments may impact the implant market by **reducing obesity and improving surgical access**. Zimmer Biomet must adapt to these trends.

Percentage of Seniors in the US (65+ years)



By 2050, over 20% of the population of the United States will be 65 years old or older

Smart Implants Market Size in billion \$



A person is seen from behind, working at a large whiteboard. The whiteboard is covered with various diagrams, sketches, and physical models. On the left, there are several blue and white anatomical models of joints and bones. In the center, there are several sheets of paper with hand-drawn diagrams and sketches. On the right, there are more sketches, a set of colored markers, and a roll of paper. The person's hands are visible, reaching up to the board. The overall scene is dimly lit, with the whiteboard providing the main source of light.

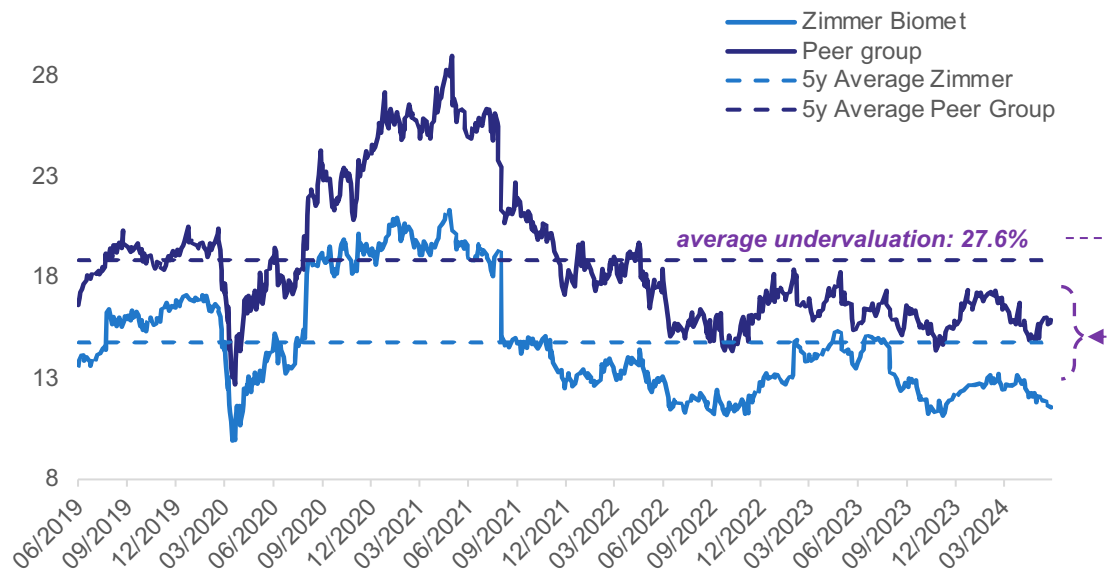
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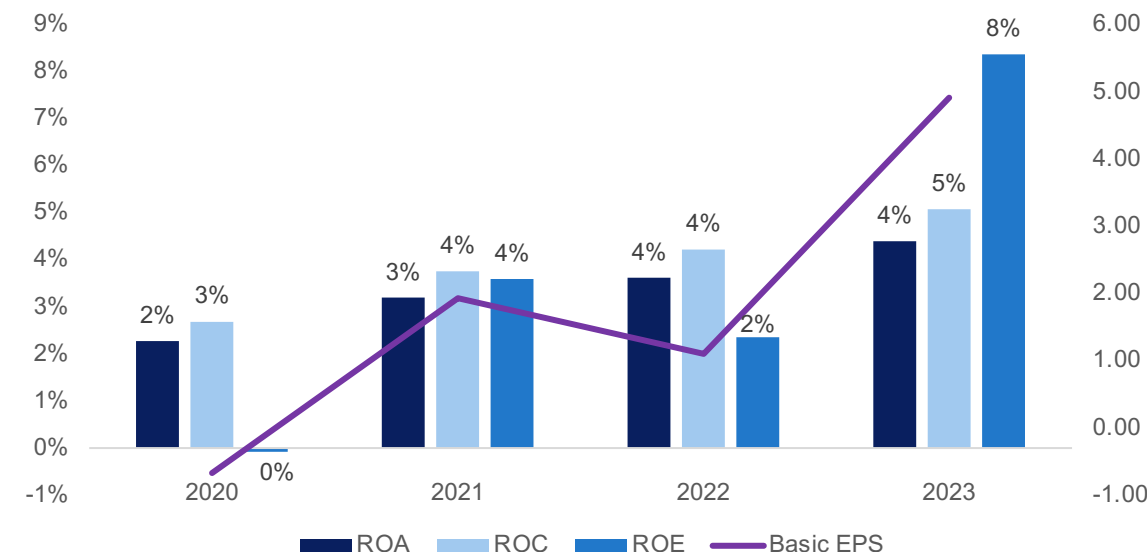
Financials & Valuation

Why now? Undervaluation in combination with unpriced optimization of profitability

Peer Group EV / EBITDA Development



Profitability



Why Zimmer right now?



Fundamentally Undervalued

Fundamentally under-valuation, compared to the peers, offering **significant growth potential**, compared to its market price due to robust financial health.



Unpriced Increasing Operating Profitability

Consistent increase in operating profitability through **strategic cost management** and enhancing operational efficiencies across its global operations.



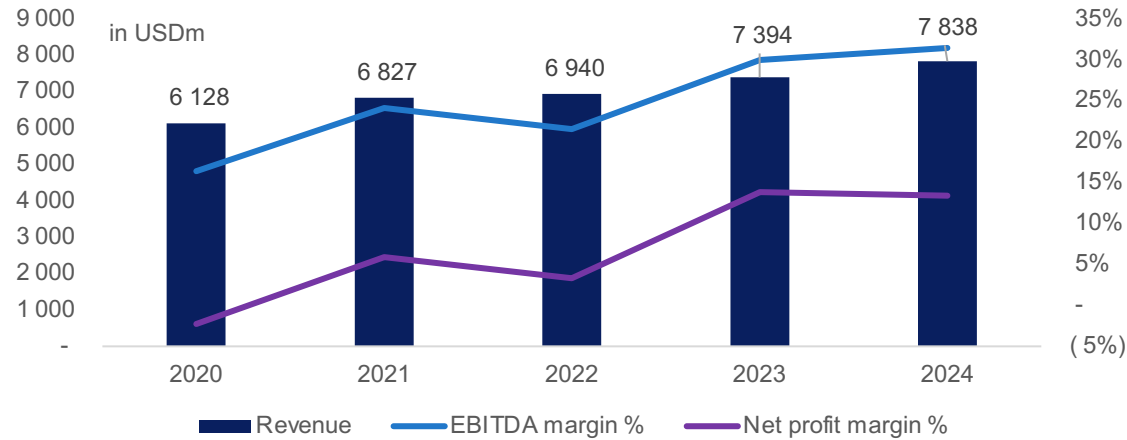
Growth by technological advantage

Growth through its technological advantage by **continuously innovating** and integrating advanced technologies in core growth markets.

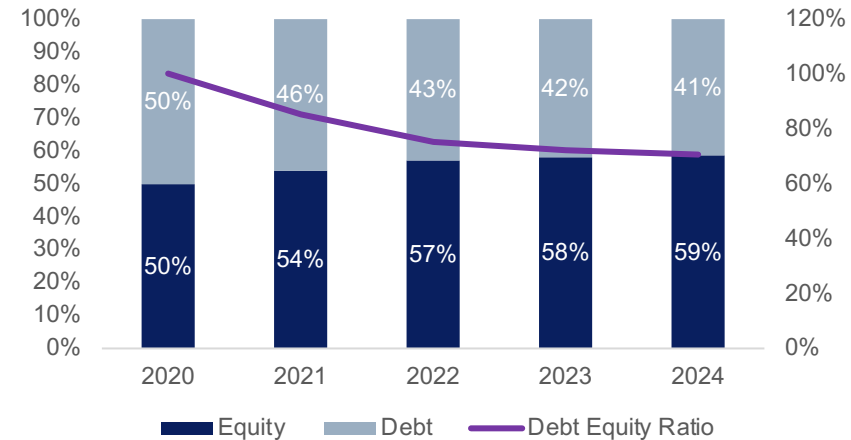
Historical Financial Analysis

Growth in sales and margin combined with an improved capital structure lay the foundations for the future

Revenue/Margin Development

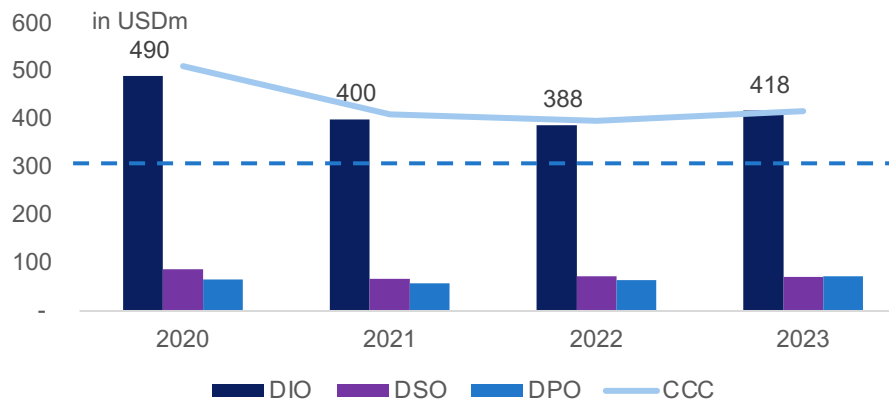


Capital Structure



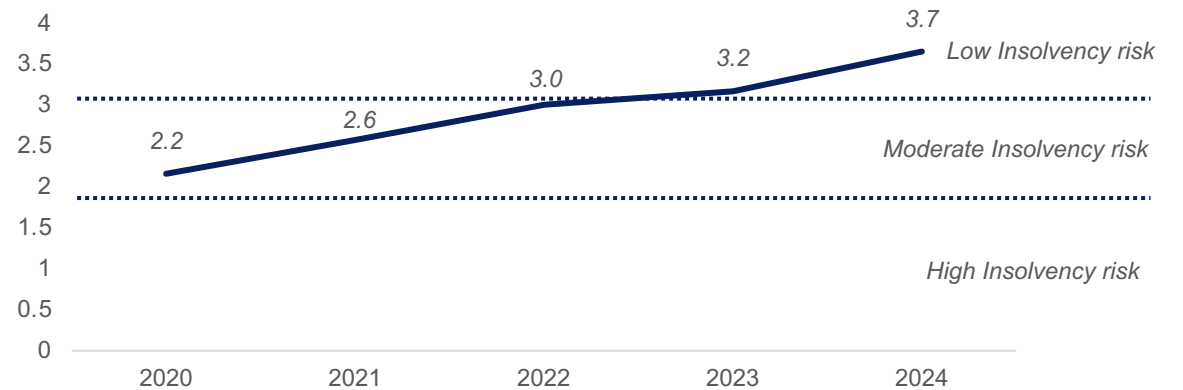
More financial stability through disciplined repayment of debt

Working Capital



Key priority of internal restructuring: reducing the DIO to 300

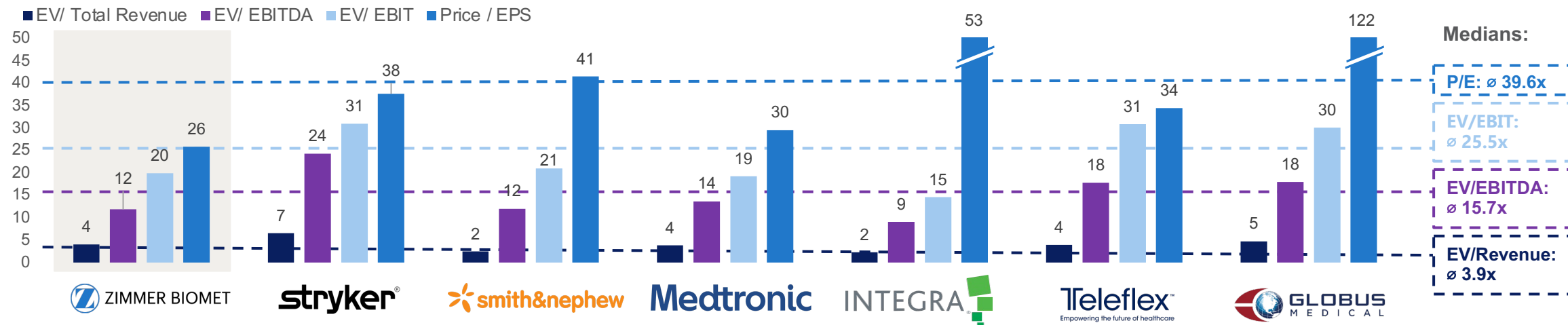
Altman Z-Score



Trading Multiples

Undervaluation in all the current peer multiples leads to fundamental growth potential

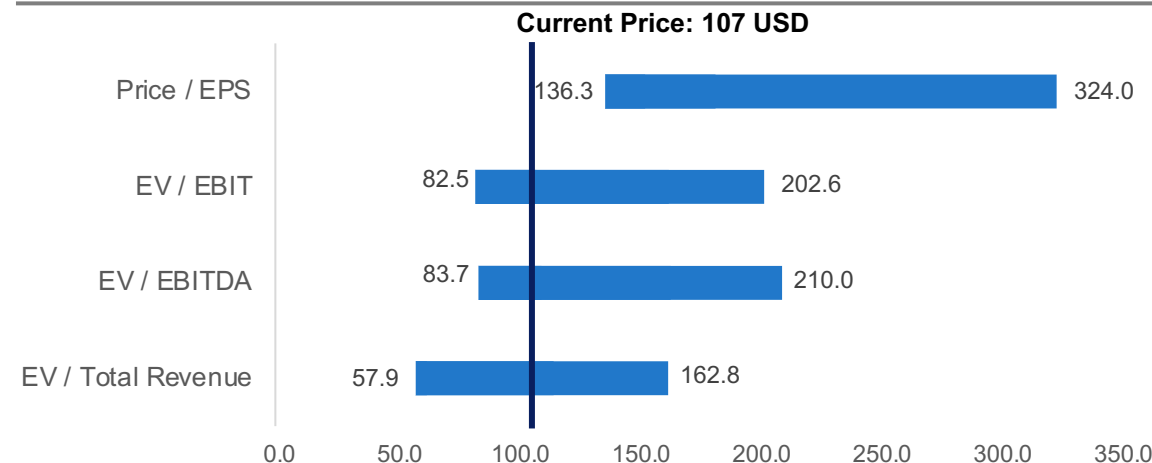
Trading Multiples



Analysis

- Consistent undervaluation**
 All trading multiples are **consistently lower than those of peer companies**: Zimmer Biomet is trading at a **discount**.
- Operating excellence**
 With an **EBITDA margin of 33%** and **EPS of 4,6**, Zimmer is significantly better than the peer group.
- Upside Potential**
 Potential **upside of 44,9%** regarding the multiple valuation, suggesting significant growth opportunities.

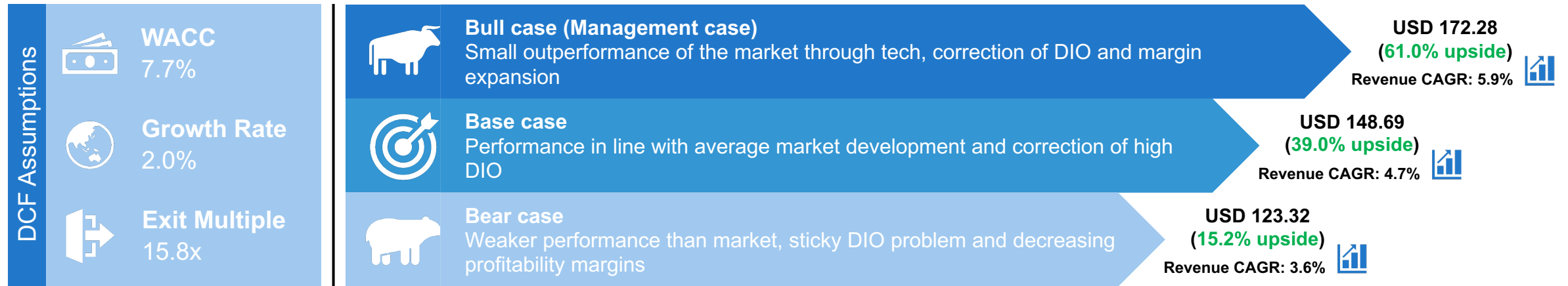
Implied Share Price Ranges



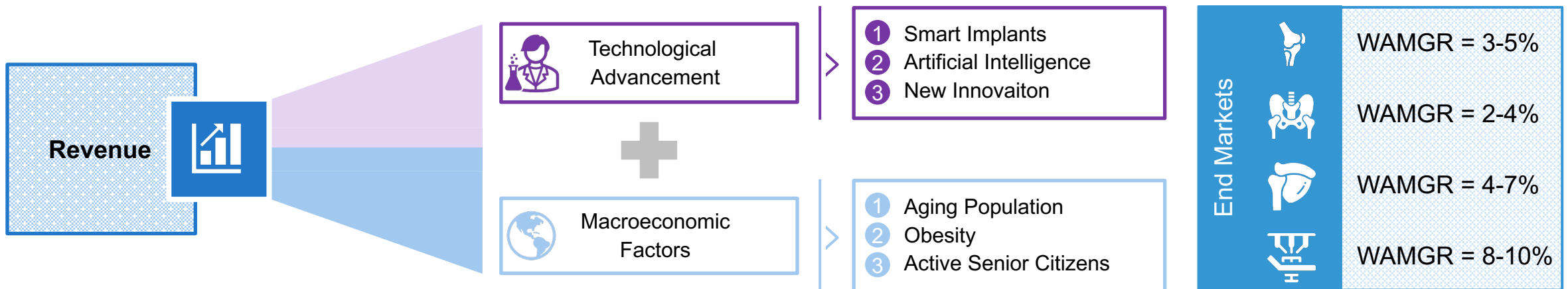
Valuation – DCF I

Valuation scenarios differ through different revenue growth expectation, margin development and DIO management

DCF: Key Assumptions & Scenarios



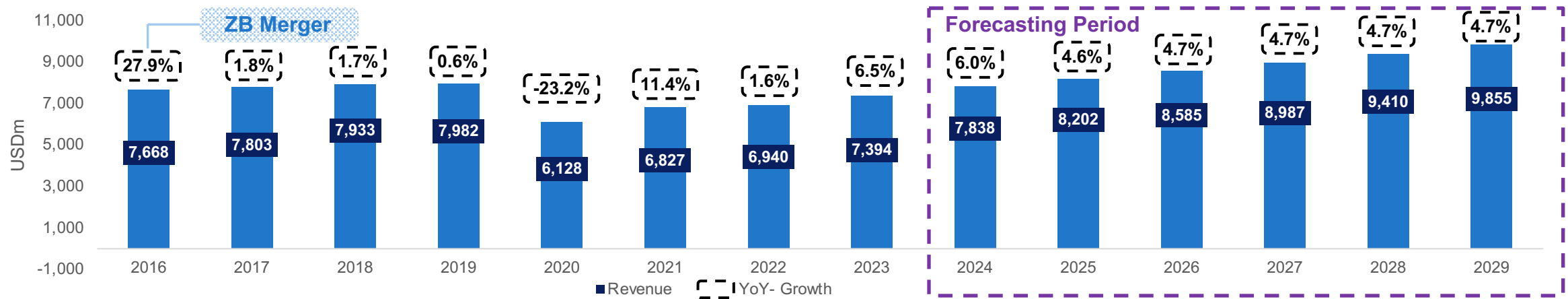
Revenue Forecast Approach and WAMGR of End Markets



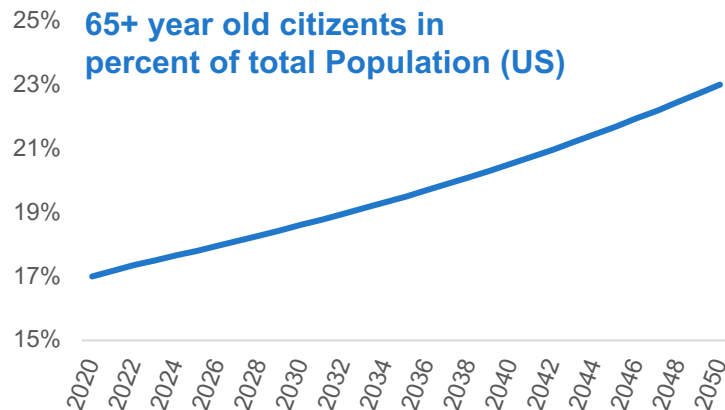
Valuation – DCF II

Undervaluation is caused through stagnation of long time revenue, the turnaround however is about to start

Long time Revenue of Zimmer Biomet and YoY-Growth



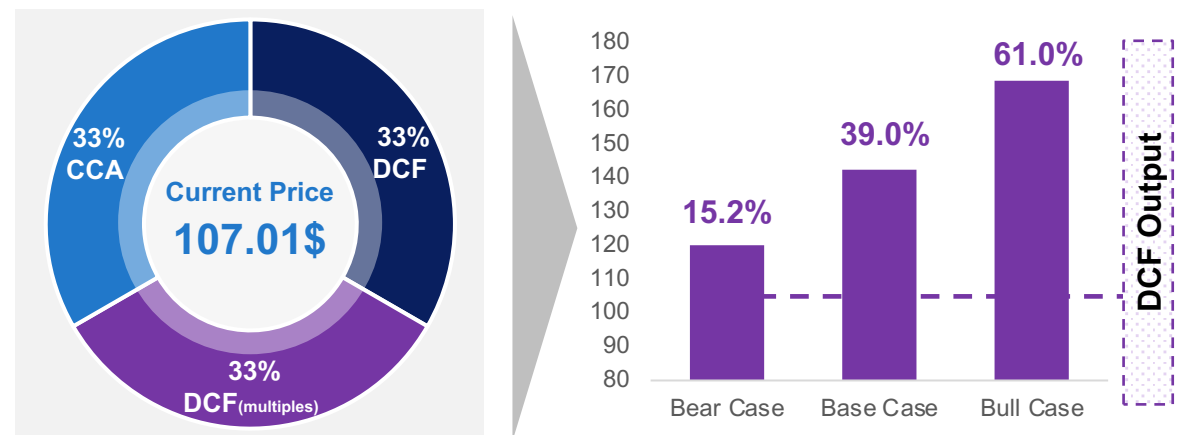
Macroeconomic and Industry-specific Drivers of the Industry



Drivers

- **Ageing Population** across all core markets
- Increasing **Obesity** in the USA
- **Technological advancement**

Valuation Methods and Target Price [USD]





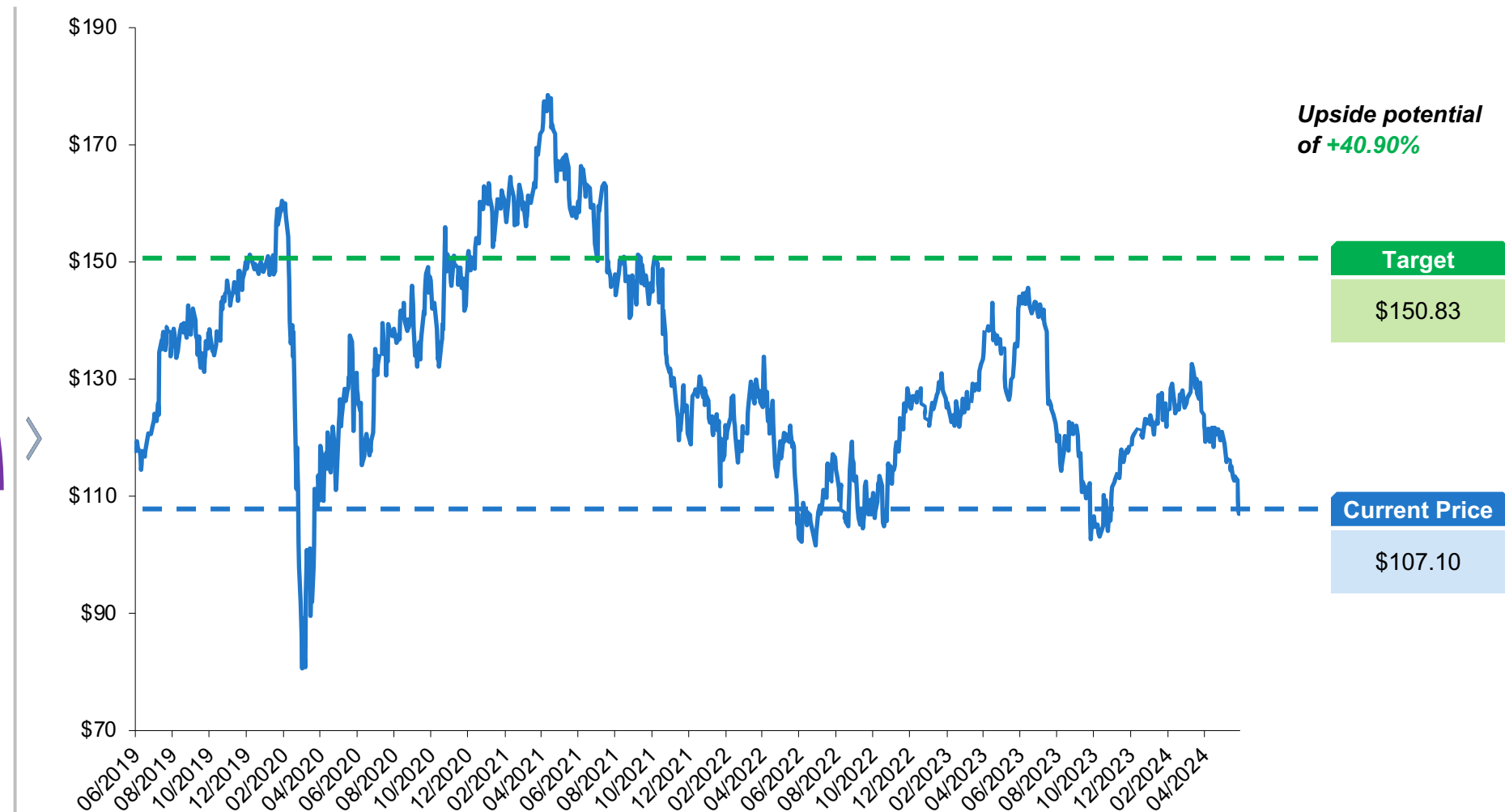
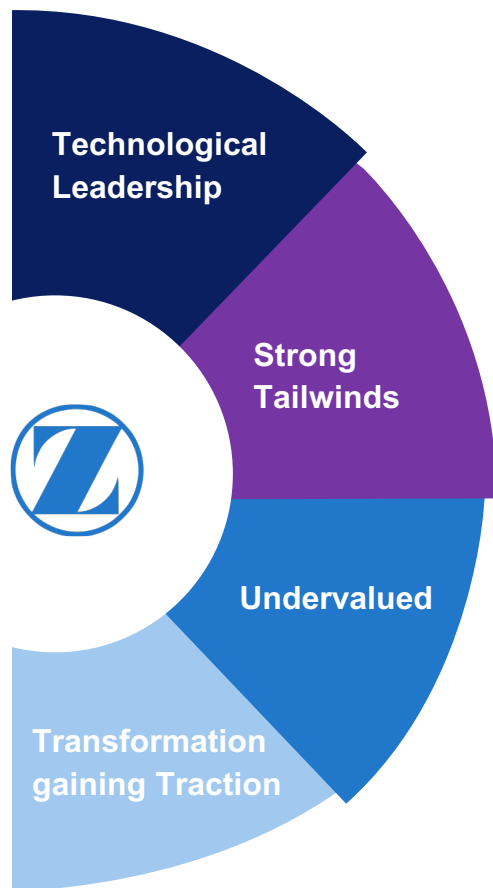
Zimmer Biomet

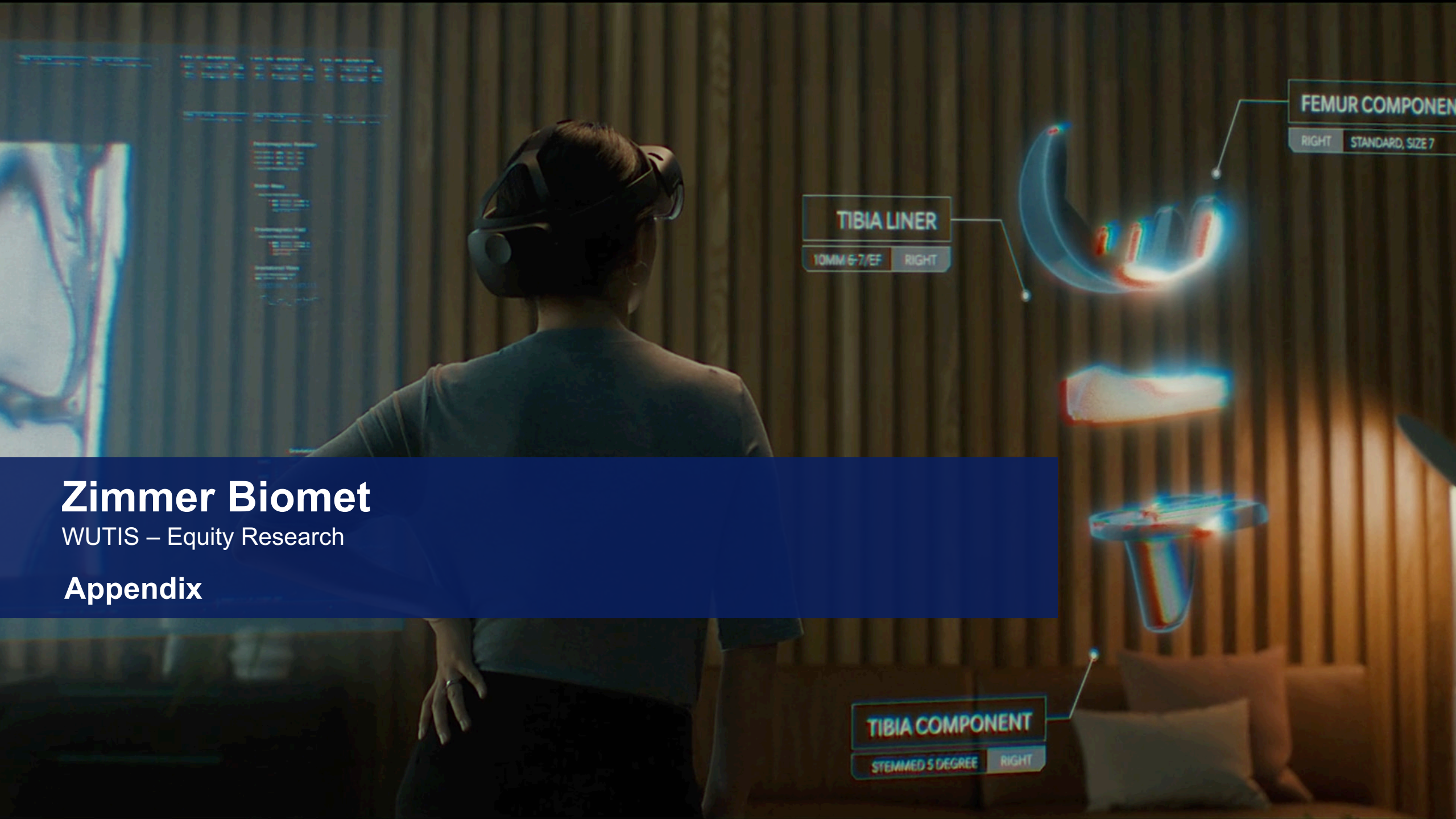
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Conclusion

Conclusion

Zimmer Biomet stands as the spine of innovation, realigning value through transformation





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Appendix

Competitive Landscape

The technological advantage in the medical equipment industry is crucial for future market leadership

Technological Leadership



Technological Edge

Growth in the industry depends on companies' technological advantage and innovation



Patent Strength

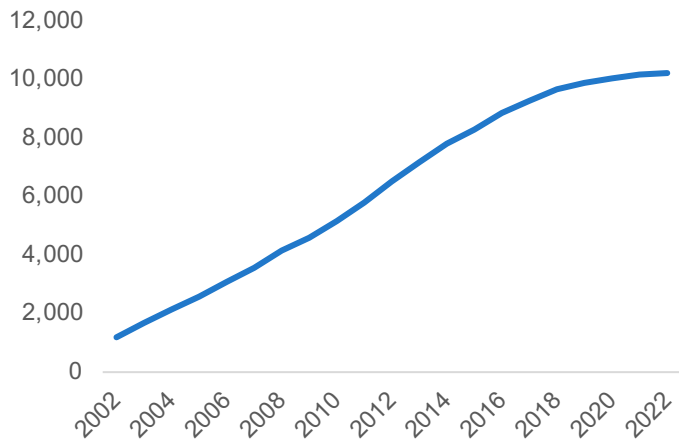
A strong patent portfolio signifies ZB's commitment to technological advancement



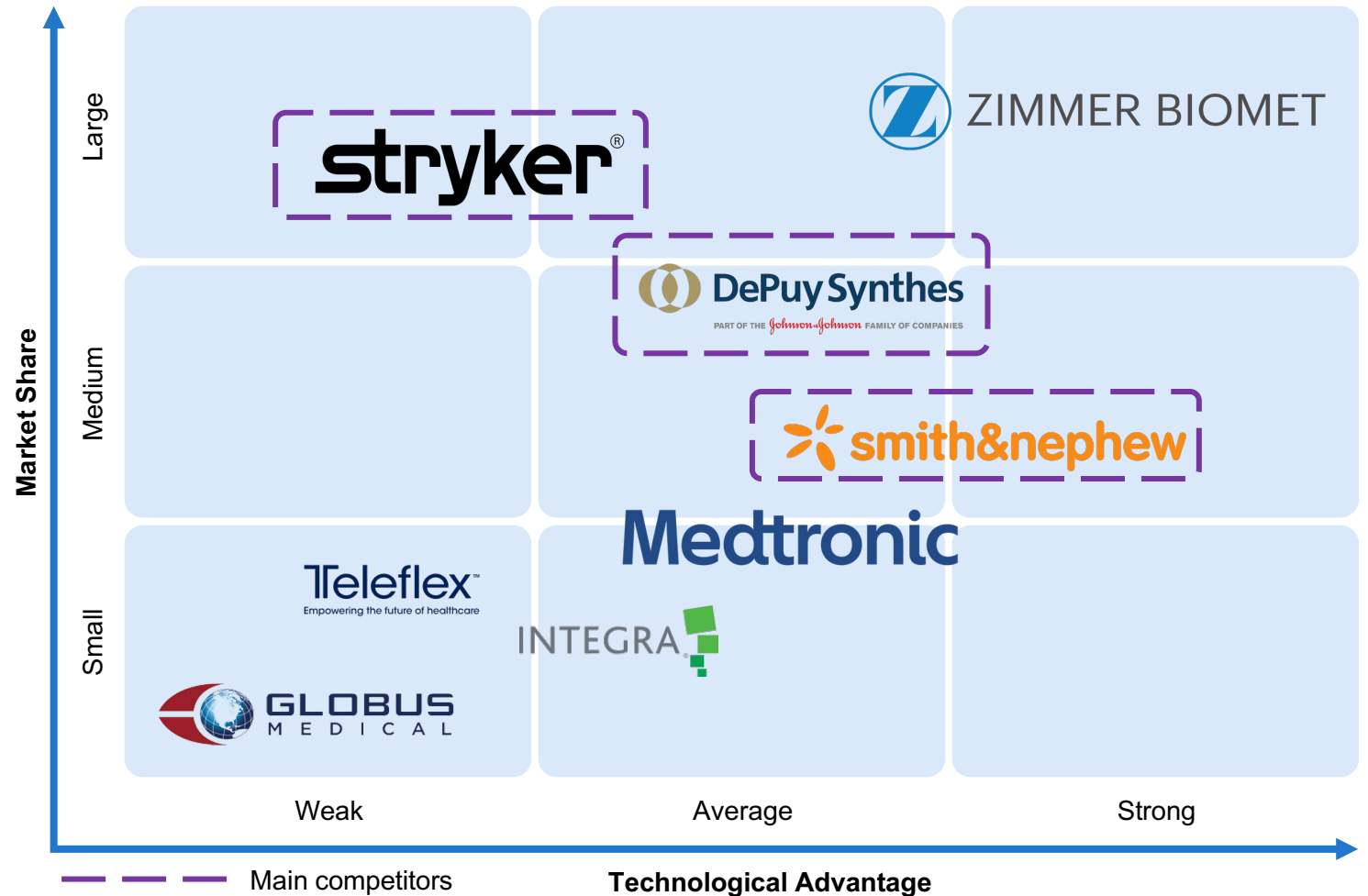
Extensive Patents

Zimmer Biomet holds over 10,000 patents, with more than 5,000 globally active patents

Total Number of Patents Zimmer Biomet



Competitive Landscape



Comparable Company Analysis

Strongly consolidated markets lead to a narrow selection of peers

Company	Tier 1: most comparable companies			Tier 2: peer group, but broader focus			
	ZIMMER BIOMET	stryker®	smith&nephew	Medtronic	INTEGRA	Teleflex™ Empowering the future of healthcare	GLOBUS MEDICAL
Country	United States	United States	United Kingdom	Ireland	United States	United States	United States
Revenue EBITDA EBITDA-Margin	7,452 m 2,473 m 33.2%	20,963 m 5,438 m 25.0%	5,549 m 1,117 m 20.1%	32,364 m 9,107 m 28.1%	1,154 m 383 m 24.9%	3,001 m 629 m 21.0%	1,898 m 480 m 25.3%
Products	ORP¹ 	ORP¹ 	ORP¹ 	ORP¹ 	ORP¹ 	Surgical products 	ORP¹
	SET² 	SET² 	SET² 	SET² 	Other Products 	Other Products 	SET²
	CMF & PM³ 	CMF & PM³ 	Other Products 	CMF & PM³ 	Other Products 	Other Products 	Other Products

¹ ORP: Orthopedic Reconstructive Products
² SET: Sports Medicine, Extremities & Trauma
³ CMF & PM: CMF & PM Implants

“World’s First” Products by Zimmer Biomet

Zimmer Biomet produces world’s first in technology and leverage products to achieve unique use cases

World Firsts

Best in class products...



...translate into world’s first use cases and unique healthcare opportunities



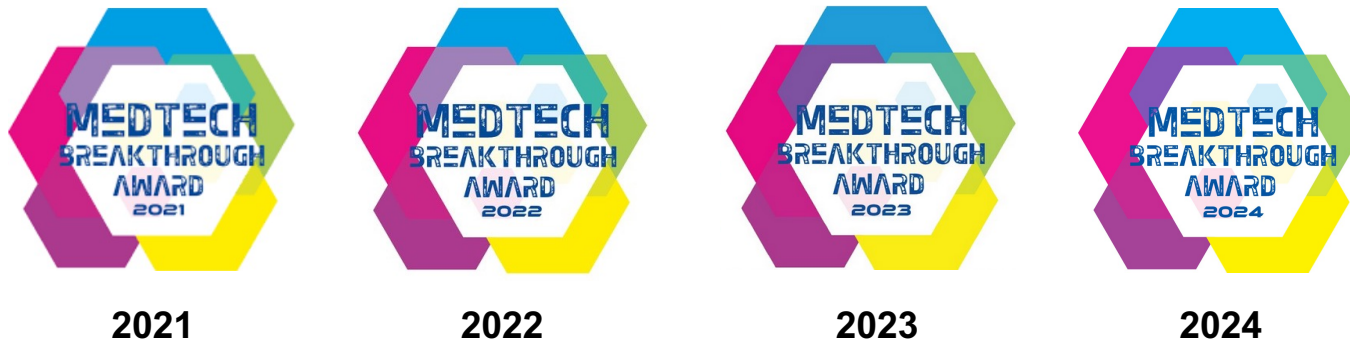
1.3 million operations annually in USA
 Infection rate of **1%** equals to **13 thousand people**
 Persona IQ® can detect infections early



World’s first robotic-assisted shoulder replacement by Dr. John W. Sperling using **ROSA® Shoulder**
April 25, 2024

Innovation Awards

Outstanding and consistent track record of prestigious awards recognizing their technology



Solving Real Problems

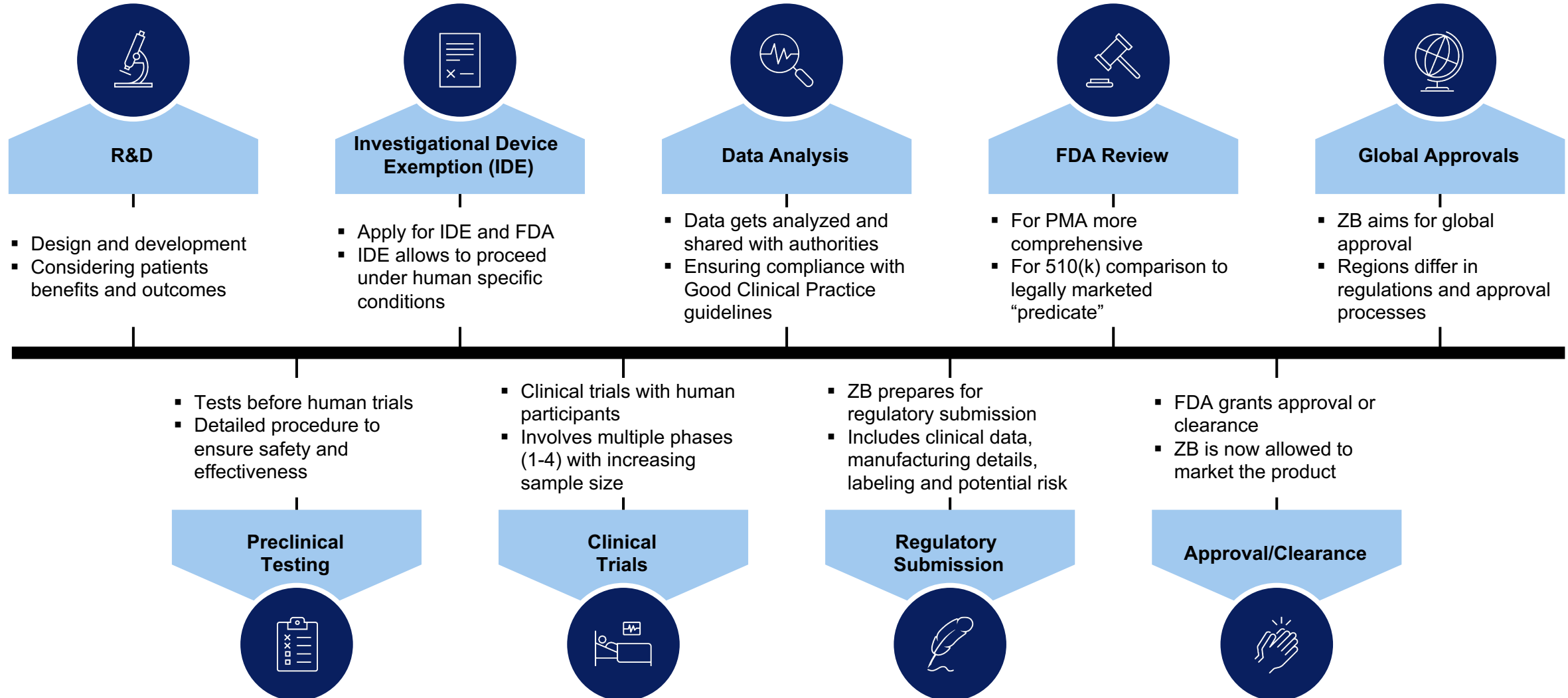
Customer-centric products



HAMMR™
 Supports surgeons by taking away the strain usual tools inflict

Regulatory Environment and Approval Process

When launching a new product, ZB passes a detailed approval process



Valuation

Operating model – P&L Statement

Income Statement	Units:	Historical Period					Forecasting Period				
		2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Revenue	USDm	6,128	6,827	6,940	7,394	7,838	8,202	8,585	8,987	9,410	9,855
COGS	USDm	(1,824)	(1,960)	(2,020)	(2,084)	(2,268)	(2,374)	(2,485)	(2,601)	(2,723)	(2,852)
Gross profit	USDm	4,303	4,867	4,920	5,310	5,569	5,828	6,100	6,386	6,687	7,003
SG&A expenses	USDm	(2,138)	(2,218)	(2,268)	(2,403)	(2,597)	(2,718)	(2,845)	(2,978)	(3,118)	(3,266)
<i>in % of revenue</i>	%	(35%)	(32%)	(33%)	(32%)	(33%)	(33.1%)	(33.1%)	(33.1%)	(33.1%)	(33.1%)
R&D and Engineering	USDm	(323)	(436)	(406)	(459)	(464)	(410)	(429)	(449)	(471)	(493)
Quality remediation	USDm	(51)	(53)	(34)	-	-	-	-	-	-	-
Currency Exchange Gains (Loss)	USDm	(12)	(6)	(21)	26	-	-	-	-	-	-
Other Non-Operating Inc. (Exp.)	USDm	14	2	(135)	(60)	-	-	-	-	-	-
Unusual items	USDm	(788)	(511)	(562)	(195)	-	-	-	-	-	-
EBITDA	USDm	1,005	1,645	1,495	2,220	2,507	2,700	2,826	2,958	3,098	3,244
D&A	USDm	(386)	(408)	(400)	(390)	(422)	(463)	(505)	(548)	(592)	(638)
Amort. of Goodwill and Intangibles	USDm	(512)	(530)	(527)	(562)	(532)	(532)	(532)	(532)	(532)	(532)
EBIT	USDm	107	707	568	1,269	1,553	1,704	1,788	1,878	1,973	2,074
Interest expense	USDm	(212)	(208)	(165)	(201)	(201)	(211)	(222)	(233)	(245)	(257)
Interest income	USDm	-	-	-	-	-	-	-	-	-	-
EBT	USDm	(105)	499	403	1,067	1,352	1,493	1,566	1,645	1,728	1,817
Income tax	USDm	96	(54)	(112)	(42)	(238)	(250)	(263)	(276)	(289)	(304)
Earnings from Cont. Ops.	USDm	(9)	445	291	1,025	1,085	1,243	1,304	1,369	1,439	1,513
Earnings of Discontinued Ops.	USDm	(128)	(43)	(59)	-	-	-	-	-	-	-
Net Income to Company	USDm	(137)	402	232	1,025	1,085	1,243	1,304	1,369	1,439	1,513
Minority Int. in Earnings	USDm	(2)	(1)	(1)	(1)	-	-	-	-	-	-
Net Income	USDm	(139)	402	231	1,024	1,085	1,243	1,304	1,369	1,439	1,513
<i>Net profit margin</i>	%	(2%)	6%	3%	14%	14%	15%	15%	15%	15%	15%

Valuation

Operating model – Balance sheet

Balance Sheet	Units:	Historical Period					Forecasting Period				
		2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Cash and cash equivalents	USDm	802	378	376	416	557	849	1,076	1,323	1,512	1,716
Trading Asset Securities	USDm	-	16	7	-	-	-	-	-	-	-
Accounts receivable	USDm	1,453	1,260	1,382	1,442	1,598	1,673	1,751	1,833	1,919	2,010
Inventory	USDm	2,451	2,148	2,147	2,385	2,635	2,489	2,324	2,138	2,238	2,344
Prepaid expenses	USDm	364	538	439	307	307	307	307	307	307	307
Other current assets	USDm	14	545	77	60	63	66	69	72	76	79
Total current assets	USDm	5,083	4,885	4,427	4,610	5,161	5,383	5,526	5,672	6,052	6,456
Property, plant & equipment	USDm	2,322	2,056	2,069	2,264	2,488	2,714	2,943	3,179	3,424	3,678
Long-term Investments	USDm	-	7	-	5	5	5	5	5	5	5
Goodwill	USDm	9,262	8,919	8,580	8,819	8,819	8,819	8,819	8,819	8,819	8,819
Other Intangibles	USDm	7,056	5,534	5,064	4,856	4,324	3,791	3,259	2,727	2,194	1,662
Other Long-Term Assets	USDm	695	2,056	926	943	943	943	943	943	943	943
Total non-current assets	USDm	19,334	18,571	16,639	16,887	16,579	16,272	15,969	15,672	15,384	15,107
Total assets	USDm	24,418	23,456	21,066	21,497	21,740	21,655	21,495	21,345	21,437	21,563
Accounts payable	USDm	330	307	354	411	402	421	441	461	483	506
Accrued expenses	USDm	1,021	786	850	942	942	942	942	942	942	942
Curr. Port. of LT Debt	USDm	555	1,605	548	933	933	933	933	933	933	933
Current portion of leases	USDm	75	57	53	53	53	53	53	53	53	53
Current income taxes payable	USDm	60	62	39	61	61	61	61	61	61	61
Other current liabilities	USDm	516	652	515	457	457	457	457	457	457	457
Total current liabilities	USDm	2,557	3,468	2,358	2,857	2,849	2,868	2,888	2,908	2,930	2,953
Long-Term Debt	USDm	7,655	5,478	5,371	5,047	5,047	5,047	5,047	5,047	5,047	5,047
Long term leases	USDm	218	175	167	174	174	174	174	174	174	174
Def. Tax liabilities	USDm	790	559	475	358	358	358	358	358	358	358
Other non-current liabilities	USDm	998	1,111	668	572	572	572	572	572	572	572
Total liabilities	USDm	12,218	10,790	9,039	9,009	9,001	9,019	9,039	9,060	9,081	9,104
Common stock	USDm	3	3	3	3	3	3	3	3	3	3
Additional paid in capital	USDm	9,122	9,315	9,504	9,846	9,212	8,066	6,783	5,443	4,274	3,064
Retained earnings	USDm	10,087	10,292	9,559	10,385	11,269	12,312	13,416	14,585	15,824	17,137
Treasury stock	USDm	(6,720)	(6,718)	(6,867)	(7,562)	(7,562)	(7,562)	(7,562)	(7,562)	(7,562)	(7,562)
Comprehensive income	USDm	(298)	(232)	(179)	(191)	(191)	(191)	(191)	(191)	(191)	(191)
Minority Interest	USDm	5	6	7	8	8	8	8	8	8	8
Total common equity	USDm	12,199	12,666	12,027	12,488	12,739	12,635	12,456	12,285	12,355	12,458
Total liabilities and equity	USDm	24,418	23,456	21,066	21,497	21,740	21,655	21,495	21,345	21,437	21,563

Operating model – Cash flow statement

Cashflow statement	Units:	Historical Period					Forecasting Period				
		2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Net income	USDm	(139)	402	231	1,024	1,085	1,243	1,304	1,369	1,439	1,513
Depreciation	USDm	386.3	408.2	399.6	390	422	463.4	505.4	548.2	592.1	637.6
Amortization of intangible assets	USDm	512	530	527	562	532	532	532	532	532	532
(Gain) Loss On Sale Of Invest.	USDm	-	-	117	(3)	-	-	-	-	-	-
Asset Writedown & Restructuring	USDm	503	16	293	-	-	-	-	-	-	-
Stock-Based Compensation	USDm	74	76	105	100	-	-	-	-	-	-
Net Cash From Discontinued Ops.	USDm	129	95	(72)	-	-	-	-	-	-	-
Other Operating Activities	USDm	169	107	(5)	(95)	-	-	-	-	-	-
Change in Acc. Receivable	USDm	(66)	(41)	(185)	(52)	(156)	(74)	(78)	(82)	(86)	(91)
Change In Inventories	USDm	(35)	(8)	(76)	(240)	(250)	146	165	186	(101)	(106)
Change in Acc. Payable	USDm	(96)	87	103	(55)	(8)	19	20	21	22	23
Change in Inc. Taxes	USDm	(294)	(124)	(153)	(74)	-	-	-	-	-	-
Changes in other operating assets	USDm	61	(48)	(1)	25	(4)	(3)	(3)	(3)	(3)	(4)
Cashflow from operating activities	USDm	1,205	1,499	1,285	1,582	1,621	2,327	2,445	2,571	2,395	2,506
Capital Expenditure	USDm	(371)	(417)	(446)	(603)	(646)	(689)	(735)	(784)	(837)	(892)
Cash Acquisitions	USDm	(227)	-	(100)	(135)	-	-	-	-	-	-
Sale (Purchase) of Intangible assets	USDm	-	(8)	-	(86)	-	-	-	-	-	-
Other Investing Activities	USDm	(16)	(78)	17	45	-	-	-	-	-	-
Cashflow investing activities	USDm	(614)	(504)	(529)	(779)	(646)	(689)	(735)	(784)	(837)	(892)
Issuance of Common Stock	USDm	130	123	78	101	-	-	-	-	-	-
Repurchase of Common Stock	USDm	-	-	(126)	(692)	(634)	(1,146)	(1,283)	(1,340)	(1,169)	(1,210)
in % of FCF	%	n/a	n/a	(17%)	(86%)	(65%)	(70%)	(75%)	(75%)	(75%)	(75%)
Common Dividends Paid	USDm	(199)	(200)	(201)	(201)	(200)	(200)	(200)	(200)	(200)	(200)
Special Dividend Paid	USDm	-	-	-	-	-	-	-	-	-	-
Long-Term Debt Issued	USDm	1,497	1,600	458	500	-	-	-	-	-	-
Def. Tax liabilities	USDm	-	-	-	-	-	-	-	-	-	-
Long-Term Debt Repaid	USDm	(1,803)	(2,655)	(1,519)	(445)	-	-	-	-	-	-
Other Financing Activities	USDm	(47)	(173)	466	(26)	-	-	-	-	-	-
Cashflow from financing activities	USDm	(422)	(1,306)	(844)	(764)	(834)	(1,346)	(1,483)	(1,540)	(1,369)	(1,410)
Effect of exchange rates	USDm	15	(13)	(15)	1	-	-	-	-	-	-
Net increase (decrease) in cash	USDm	184	(324)	(103)	40	141	291	228	247	190	203

Valuation

DCF (1/2)

Free Cash Flow Calculation	Units:	Historical Period					Forecasting Period				
		2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
EBIT	USDm	107	707	568	1,269	1,553	1,704	1,788	1,878	1,973	2,074
Fictitious taxes on EBIT	USDm	(19)	(127)	(102)	(228)	(280)	(307)	(322)	(338)	(355)	(373)
NOPAT		88	580	466	1,040	1,274	1,397	1,466	1,540	1,618	1,701
+ D&A and impairments	USDm	898	938	926	952	954	996	1,038	1,081	1,125	1,170
- CAPEX	USDm	(371)	(417)	(446)	(603)	(646)	(689)	(735)	(784)	(837)	(892)
± Δ NWC	USDm	91	472	(74)	(242)	(414)	91	107	124	(165)	(174)
Unlevered FCF	USDm	706	1,573	873	1,147	1,168	1,795	1,876	1,961	1,741	1,805

WACC		7.7%
PV of FCFs	USDm	7,386

Equity Bridge & Share Price Calculation Units

Perpetuity Approach			
Long-term growth rate	%		2.00%
WACC	%		7.7%
Terminal value	USDm		32,098
WACC 2024-2027	%		
PV of TV	USDm	22,116	
% of EV	%	75.0%	
Enterprise value (26.06.2024)	USDm	29,502	
Net debt	USDm	6,171	
Equity value (26.06.2024)	USDm	23,331	
Shares outstanding (in millions)	millions	205	
Price per share as of 26.06.2024 (in USD)	USD	113.70	
Current share price as of 26.06.2024	USD	107.01	
Upside potential %	%	6.25%	

Key Valuation Assumptions	
Tax rate	18%
WACC	8%
Long-term growth rate	2%
EV/EBTDA exit multiple	15.5x
Current share price (26.06.2024) in USD	107.01

Valuation

DCF (2/2)

Exit Multiple Approach - Historical		
EBIT	USDm	2,074
D&A	USDm	1,170
EBITDA		3,244
EVEBITDA exit multiple		15.8x
Terminal value		51,256
WACC 2025-2029	%	7.7%
PV of TV	USDm	35,316
% of EV	%	
Enterprise value (26.06.2024)	USDm	42,702
Net debt	USDm	6,171
Equity value (26.06.2024)	USDm	48,874
Shares outstanding	Millions	205
Price per share as of 26.06.2024 (in USD)	USDm	238.41
Current share price as of 26.06.2024	USD	107.01
Upside potential %	%	122.79%

Average DCF Share Price

Share price (gordon growth approach)	USD	113.70
Share price (exit multiple approach)	USD	238.41
Average DCF share price	USD	176.05
Upside potential %	%	64.5%

Valuation

CCA

Financial Peer Group Overview in k-US\$		LTM	LTM	LTM	LTM	EV/ Total Revenue	EV/ EBITDA	EV/ EBIT	Price / EPS
		Total Revenue	EBITDA	EBIT	Net Income				
1. Stryker Corporation	United States	20,963,000	5,438,000	4,407,000	3,361,000	6.5	24.3	31.0	37.6
2. Globus Medical, Inc.	United States	1,898,454	480,823	298,937	66,627	4.7	17.9	30.1	121.8
3. Teleflex Incorporated	United States	3,001,406	629,050	380,715	294,869	3.9	17.8	30.9	34.4
4. Integra LifeSciences Holdings Corporation	United States	1,541,573	383,569	260,057	67,741	2.3	9.0	14.6	53.0
5. Medtronic plc	Ireland	32,364,000	9,107,000	6,460,000	3,704,000	3.8	13.6	19.2	29.5
6. Smith & Nephew plc	United Kingdom	5,549,000	1,117,000	682,000	263,000	2.5	12.0	21.0	41.5
Maximum		32,364,000	9,107,000	6,460,000	3,704,000	6.5	24.3	31.0	121.8
75th Percentile		23,813,250	6,355,250	4,920,250	3,446,750	5.2	19.5	30.9	70.2
Mean		10,886,239	2,859,240	2,081,452	1,292,873	4.0	15.8	24.4	53.0
Median		4,275,203	873,025	531,358	278,935	3.9	15.7	25.5	39.6
25th Percentile		1,809,234	456,510	289,217	67,463	2.4	11.2	18.1	33.2
Minimum		1,541,573	383,569	260,057	66,627	2.3	9.0	14.6	29.5
# Zimmer Biomet Holdings, Inc.	United States	7,452,400	2,473,400	1,514,900	965,200	4.0	11.9	19.9	25.8

Enterprise Value Calculation			Market Capitalization in m-US\$				Net Debt			Enterprise Value
# Peer Company	Country	Ticker	Currency	Share Price	Outstanding Shares	Market Cap	Total Debt	DCE & ST Investments	Minority Interest	Enterprise Value
1. Stryker Corporation	United States	NYSE:SYK	US\$	330	380,949,778	125,611	13,400,000			
2. Globus Medical, Inc.	United States	NYSE:GMEI	US\$	66	135,057,360	8,949	526,295			
3. Teleflex Incorporated	United States	NYSE:TFX	US\$	215	47,102,562	10,108	1,895,429			
4. Integra LifeSciences Holdings Corporation	United States	SDAQS:IA	US\$	27	78,799,694	2,126	1,683,511			
5. Medtronic plc	Ireland	NYSE:MDT	US\$	81	1,311,337,531	106,861	25,024,000			
6. Smith & Nephew plc	United Kingdom	LSE:SN.	UK-£	12	871,946,654	10,866	3,084,000			
# Zimmer Biomet Holdings, Inc.	United States	NYSE:ZBH	US\$	107	205,728,398	22,015	6,011	416	8.1	27,618

Multiple	Average Peer Group Multiples					Performance variables Zimmer					
	Minimum	25th Percentile	Median	75th Percentile	Maximum	Applicable Figure	Minimum	25th Percentile	Median	75th Percentile	Maximum
EV / Total Revenue	2.3	2.4	3.9	5.2	6.5	7,452,400	57.9	62.8	115.5	162.8	211.2
EV / EBITDA	9.0	11.2	15.7	19.5	24.3	2,473,400	83.7	110.3	164.0	210.0	267.4
EV / EBIT	14.6	18.1	25.5	30.9	31.0	1,514,900	82.5	108.1	163.1	202.6	203.4
Price / EPS	29.5	33.2	39.6	70.2	121.8	4.6	136.3	153.2	182.6	324.0	562.1
Average							90.1	108.6	156.3	224.9	311.0
Potential							-15.8%	1.5%	46.0%	110.1%	190.7%

Valuation

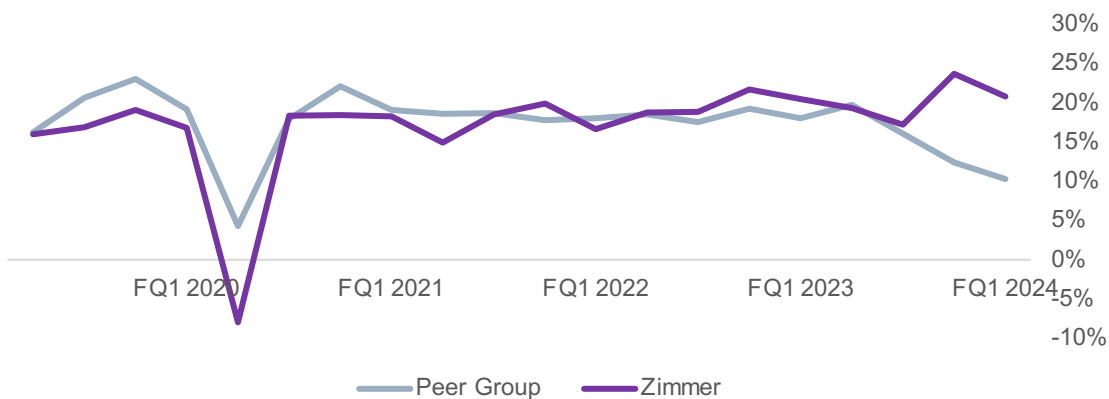
Target Share Price

Method	Weight	Share Price	Upside/ downside
DCF share price bull		172.28	61.0%
DCF share price base		148.69	39.0%
DCF share price bear		123.32	15.2%
Average DCF		148.10	
CCA		156.28	
Current price as of 26.06.2024		107.01	
Target Price		150.83	40.9%

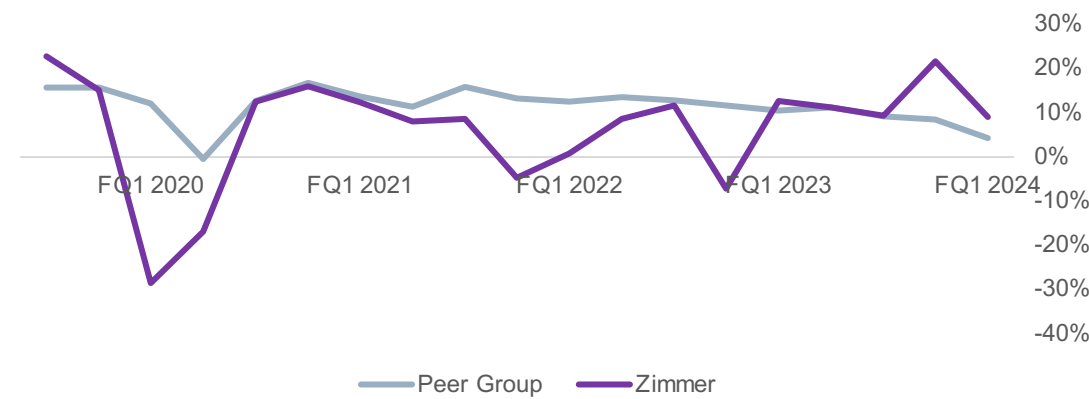
Peer Comparison

Peer group benchmarking of key performance indicators

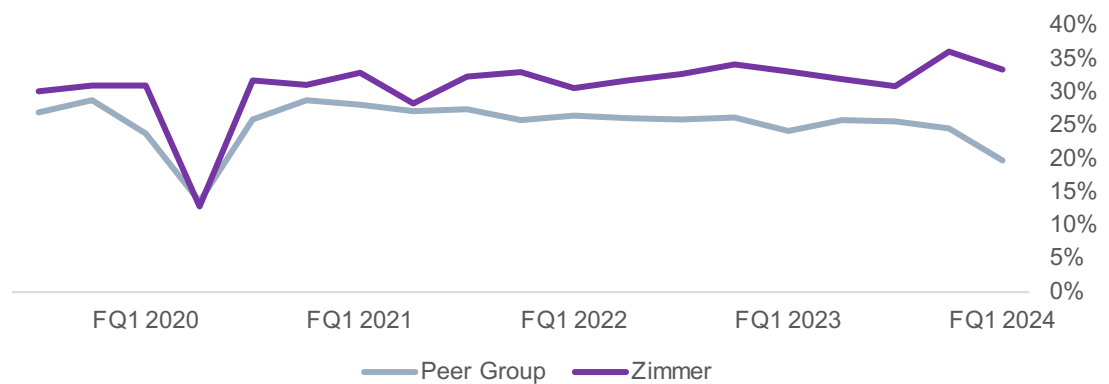
EBIT-Margin



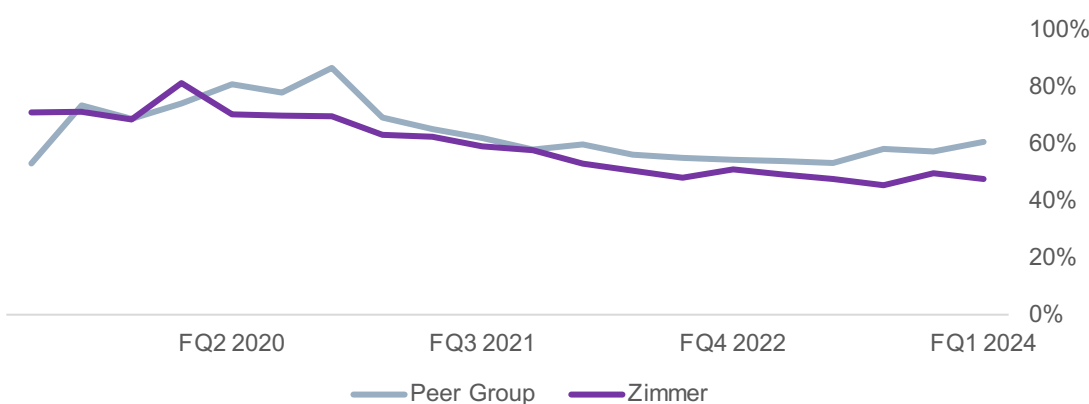
Net Income-Margin



EBITDA-Margin



Debt / Equity Ratio



About the Expert: John Doe

- The expert, John, has over 30 years of experience in the field of Orthopedics. He led **Business Development at Stryker in Europe**, focusing on trauma and reconstructive implants.
- He built up the **spinal business in Europe** and established major standpoints for Stryker and developed an innovative implant base for allowing **rapid market entry and market share acquisition**.



Opinion on the market

- John believes that **innovation is a crucial market driver**, but less so in Europe where product quality and price are more critical.
- John expects **AI to bring significant insights and benefits** to the business, enhancing both surgeon and patient experiences.
- He emphasizes the importance of **addressing the price challenges and conservative nature of the reconstructive implant industry** to stay competitive.

Advantages for Zimmer Biomet

- Zimmer Biomet has a **technological advantage** and can **develop innovative solutions**, especially in the field of reconstructive implants.
- Future integration of **AI** could provide **significant insights and benefits** for both surgeons and patients **by identifying the best implant for each patient**.
- The company has strengthened its position by **selling large orders to hospitals**, such as bulk orders for thousands of knee implants.

Risks for Zimmer Biomet

- ZB faces **challenges in competing on price**, especially with the high prices of reconstructive implants compared to the USA.
- The reconstructive implant sector is conservative, with products designed for long-term use (20+ years), making it **slow to introduce and adopt new innovations**.
- ZB previously has lost ground to competitors like Stryker due to a **lack of a complete product portfolio**, especially in spinal implants.

Despite lackluster past restructuring, new management is driving crucial changes for long-term success

2019 Restructuring



2021 Restructuring

↻ ZimVie

2023 Restructuring



- State of the Company**
Before this restructuring, Zimmer Biomet faced challenges with growth and profitability. The company aimed to reshape into a more proactive and results-driven organization.
- Reason for Initiation**
The restructuring aimed to reduce costs and reallocate resources towards higher priority growth opportunities. The primary focus was on streamlining operations and improving efficiency.
- Results**
The restructuring led to a slight increase in net sales and improved efficiency.
- Leadership**
Bryan Hanson (Appointed 2017)

- State of the Company**
Zimmer Biomet was preparing to spin off its Spine and Dental businesses into a new entity named ZimVie, adjusting its operations to ensure a smooth transition.
- Reason for Initiation**
This restructuring was intended to reorganize operations in preparation for the ZimVie spinoff and to reduce costs associated with the transition.
- Results**
The restructuring supported a successful spinoff of ZimVie and led to cost reductions that helped stabilize the financial performance of both companies.
- Leadership**
Bryan Hanson

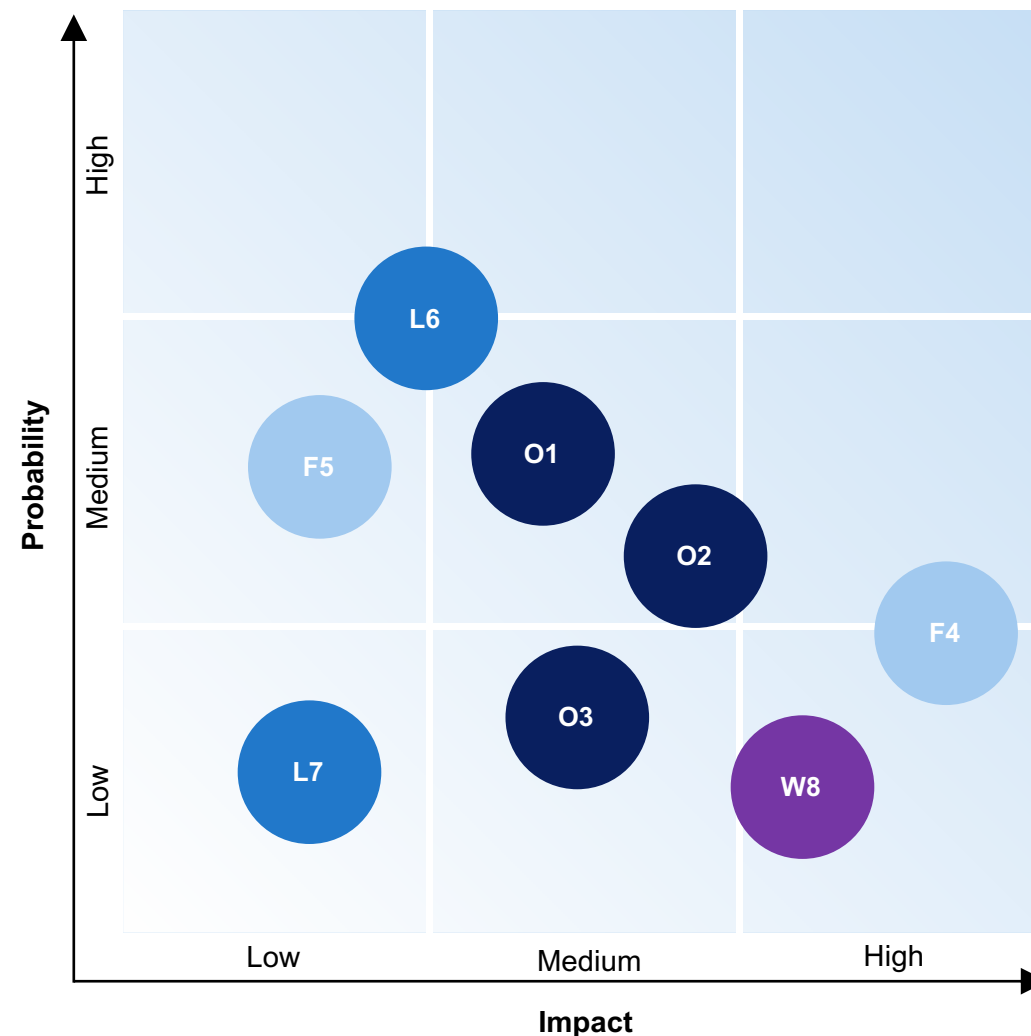
- State of the Company**
Ivan Tornos had just taken over as CEO in August 2023, launching this restructuring due to suboptimal growth over the past couple of years.
- Reason for Initiation**
The goal was to streamline the organization further, ensuring it aligns better with strategic objectives and reduces operational costs
- Results**
Almost fully implemented within 1Q, realizing significant cost-saving even earlier than expected
- Leadership**
Ivan Tornos (Appointed Aug 2023)

Risks

Supply chain disruptions, FDA regulatory challenges, and market competition are the biggest risks factors











- O1** **Manufacturing interruptions** could adversely affect business and finances.
- O2** **Supply disruptions** of materials/components could affect business and finances.
- O3** **Integration issues with acquired businesses** may hinder cost savings and profitability.
- F4** Impairments in **intangible assets** could negatively affect results.
- F5** **Currency fluctuations** could increase costs and reduce profitability.
- L6** **FDA-related legal proceedings** may result in adverse outcomes.
- L7** **Tax law changes** could negatively impact tax rate.
- W8** **Retention issues with employees/agents** may reduce revenue and profitability.

Operations **O** – Financial **F** – Legislation **L** – Workforce **W**



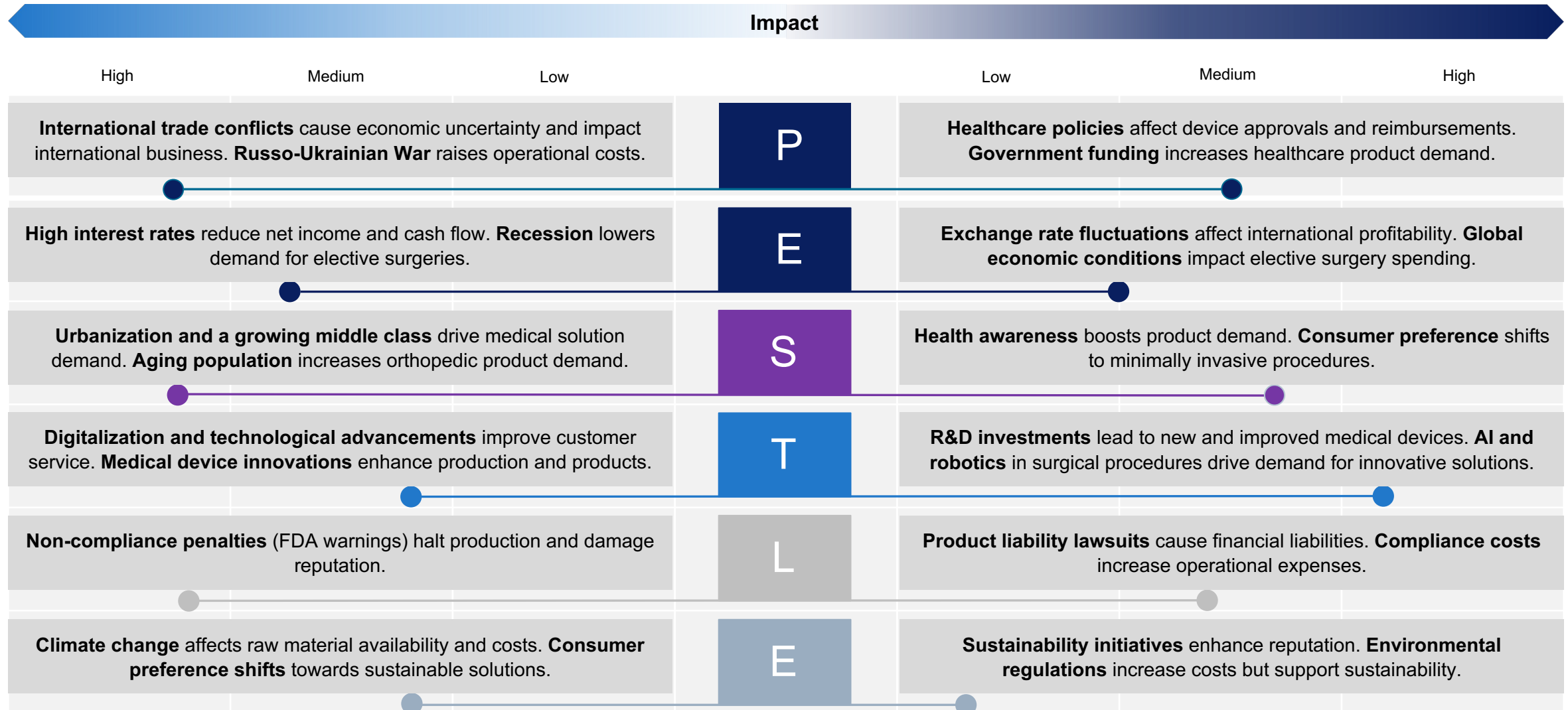
Catalysts

Innovation, market expansion, and regulatory challenges drive Zimmer Biomet's future performance

Catalyst	Type	Influenced factor	Estimated impact on share price
 Global Economic Recovery Post-Pandemic	Soft	Revenue	<ul style="list-style-type: none"> ▪ Weak ▪ As global economies recover from the pandemic, elective surgeries, which constitute a significant portion of Zimmer Biomet's revenue, are expected to increase, albeit gradually. 
 Focus on High-Growth Markets	Hard	Revenue	<ul style="list-style-type: none"> ▪ Medium ▪ Targeting high-growth sub-markets with over 20% top-line growth rates is anticipated to significantly boost Zimmer Biomet's revenue and market share in the coming years. 
 Improved Financial Management – Restructuring	Hard	Cost Management	<ul style="list-style-type: none"> ▪ Medium ▪ Strategic M&A activities focused on the sports medicine and personalized implants markets are projected to diversify Zimmer Biomet's product portfolio and strengthen its market position. 
 Becoming Innovation Leader	Hard	Revenue	<ul style="list-style-type: none"> ▪ High ▪ The development of over 50 new products by 2027 positions Zimmer Biomet as a leader in innovation, expected to drive substantial revenue growth and enhance competitive advantage. 
 Potential FDA Regulatory Challenges	Hard	Compliance and Market Approval	<ul style="list-style-type: none"> ▪ Medium ▪ FDA warning letters for quality control issues can lead to product recalls and reputational damage, resulting in decreased revenue and stock price. 

PESTLE Analysis

Political and technological factors have the highest impact on Zimmer Biomet's industry



SWOT Analysis

Capitalizing on strengths and opportunities while mitigating risks and weaknesses

STRENGTHS

- **Strong market position:** Zimmer Biomet is a global leader in musculoskeletal healthcare, with a significant share of the orthopedic market
- **Comprehensive product portfolio:** The company offers a wide range of products, including joint replacement implants, surgical products, and digital health solutions like the ROSA® Robotic System and mymobility® with Apple Watch®
- **Innovation and R&D:** Zimmer Biomet invests heavily in research and development, continuously introducing advanced technologies (AI, smart implants) and innovative solutions to the market



- **Cost cutting efforts:** Recent cost-cutting efforts have included layoffs, which can impact employee morale and productivity
- **Supply chain challenges:** Global supply chain disruptions have impacted the production and delivery of medical devices, leading to increased costs and logistical challenges
- **Competitive pressures:** Intense competition from other major players like Stryker, DePuy Synthes, and Smith & Nephew in the orthopedic and robotics market poses ongoing challenges

WEAKNESSES

OPPORTUNITIES

- **Aging population:** The global aging population is increasing the demand for joint replacement surgeries and other orthopedic treatments, providing a growing market for Zimmer Biomet's products
- **Technological advancements:** Continued advancements in robotics, artificial intelligence, and digital health provide opportunities for Zimmer Biomet to enhance its product offerings and improve patient outcomes
- **Strategic acquisitions:** Opportunities for strategic acquisitions and partnerships can help Zimmer Biomet enhance its capabilities, expand its product portfolio, and enter new markets

- **Regulatory changes:** Changes in healthcare regulations and reimbursement policies can impact Zimmer Biomet's operations and financial performance
- **Economic uncertainty:** Economic downturns and fluctuations can affect healthcare spending and investment in medical technologies, impacting Zimmer Biomet's revenue growth
- **Technological disruptions:** Rapid technological changes and the introduction of innovative solutions by competitors can pose a threat to Zimmer Biomet's market position

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