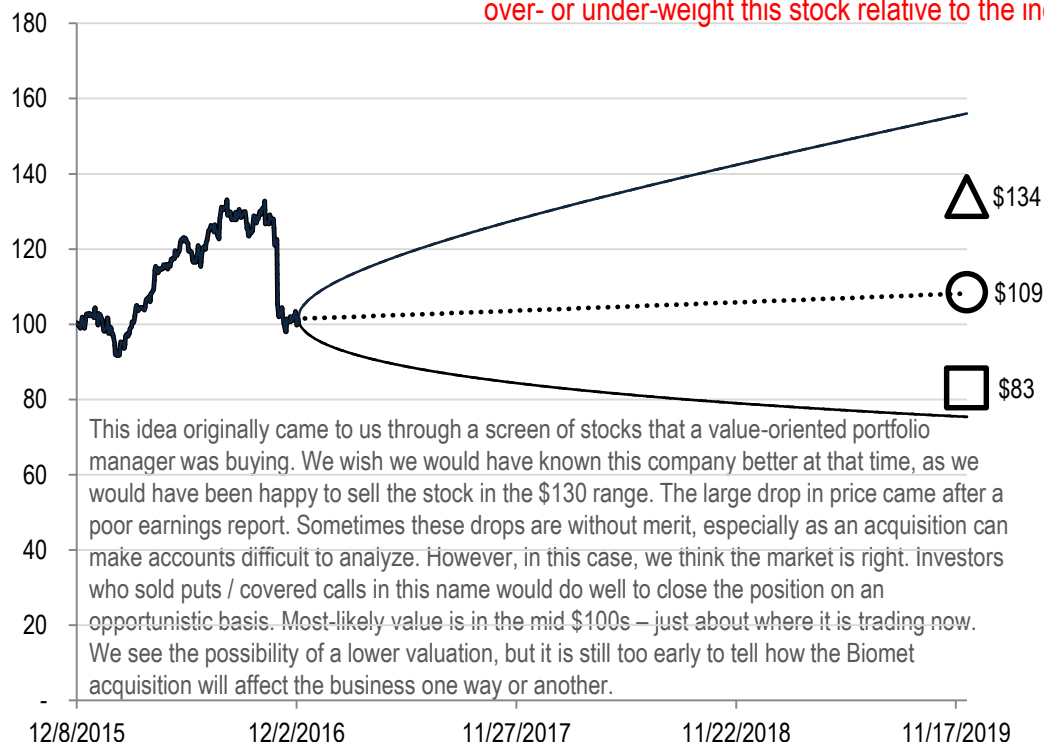


Uncertainty surrounding Biomet acquisition and a valuation range not that different from the option market price projection means we do not think there is a good reason to over- or under-weight this stock relative to the index.

# IOI Tear Sheet : Zimmer Biomet (ZBH)

**Valuation Only**

Data as of 5 December 2016



## IOI's Take

Zimmer bet the farm on Biomet and bought its way to the second place market share behind J&J's DePuy. This is a business where scale matters, so we understand the desire to acquire. However, the firm displayed declining profits in the years leading up to the acquisition, and we think that the firm's management may have acquired to cover up a fading business / poor execution. #1 market share in artificial knees and hips. Knees especially have tailwind of aging + obesity. However, present Republican rumblings to kill Medicare would likely have a big effect on procedure #s. Volume increasing mid-single % in US, price decreasing as hospitals negotiate.

## Drivers

<b>S-T Revenue Growth</b>	US around 60% of revenue, but growing slowly. Asia around 14% of revenues, but growing quickly Proj: +11% (Best), +8% (Worst) <i>[Including acquired revs]</i>
<b>S-T Profitability</b>	Acctg profits dropped due to acquisition, and OCP did too. As low-profit Asia grows, profits will drop. Proj: +15% (B), +12% (W)
<b>Investment Level / Eff.</b>	20% of OCP spent on investments. Efficacy poor, but has a demographic tailwind so may see pick up. Proj (med-term growth): +7.5% (B), +5.0% (W)

**Balance Sheet** None found.

## Valuation & Return

**Valuation Uncertainty: Medium**

	Low	Likely	High
<b>Stock Fair Value (\$)</b>	83	109	134
<b>Stock Return (%)</b>	-18	8	33
<b>Option Period Return (%)</b>	NA	NA	NA
<b>Option Annual Return (%)</b>	NA	NA	NA

## Historical Metrics

	Historical Median	
	5-year	10-year
Revenue Growth (%)	3	3
Profit Margin (%)	14	18
Med-term Growth	-3%	-5%

## Market Risk

The rules of the road under the new administration are yet unknown. Artificial joints are expensive and US profit margins are highest, so if Medicare is cut or restricted, ZBH could bear the brunt. Its customers' average age is around 68 years.

Scenarios Key		
ST Rev Growth	ST OCP Margin	Med-Term Growth

Case / Scenario	Value
8%   12%   5%	83
252-day Low	92
8%   12%   8%	92
11%   12%   5%	97
PSR Implied Low	102
8%   15%   5%	104
11%   12%   8%	107
8%   15%   8%	115
11%   15%   5%	121
252-day High	133
11%   15%   8%	134
PSR Implied High	189

Probability / Materiality

0

38

75

113

151

189

Stock Price

113

151

189

1-year Trading Range

Potential Price Range Based on Historical Price-to-Sales