

# Full Year Results 2010

Media / Financial Analyst Presentation

February 16, 2011



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## Agenda

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<b>Review 2010</b>	Michel Orsinger, President & CEO
<b>Financials 2010</b>	Bob Donohue, CFO
<b>Outlook 2011</b>	Michel Orsinger, President & CEO
<b>Q&amp;A</b>	All

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# Review 2010

**Michel Orsinger**  
**President & CEO**

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## Review 2010

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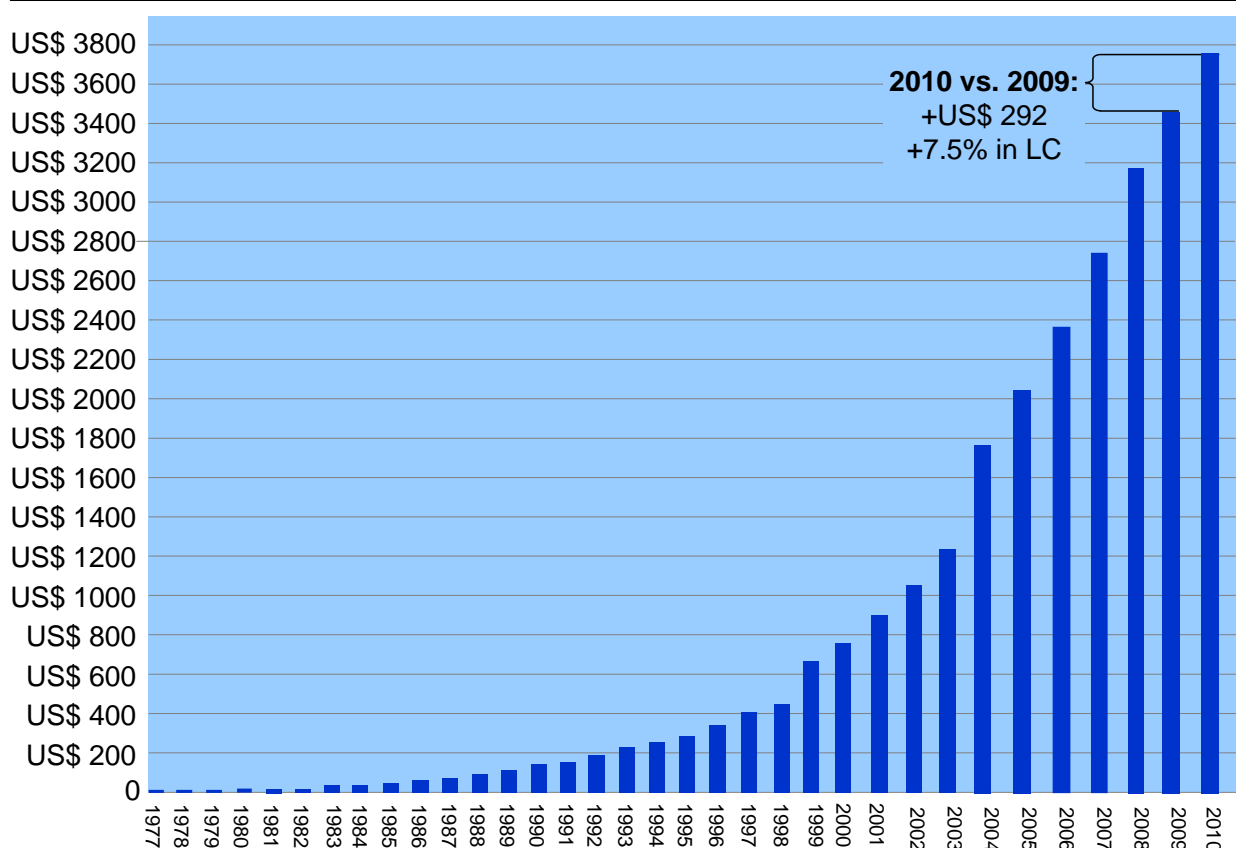
### 1. Financial Highlights

### 2. Market Dynamics

### 3. Business Highlights

Sales	3,687 mio. US\$
Sales growth	+8.6% in US\$ (7.5% in LC)
Gross margin	82.6%
Operating profit margin	34.8%
Net earnings	908 mio. US\$
Net earnings growth	+10.2% in US\$ (8.5% in LC)

## Sales Figures 1977-2010



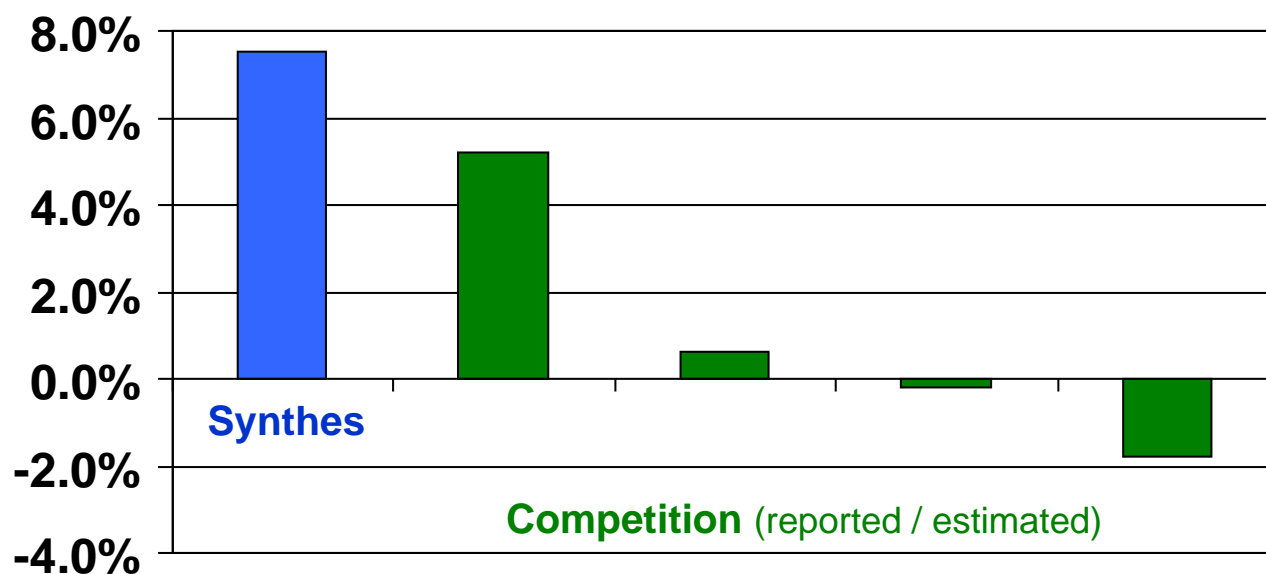
Note: Sales in US\$ million. Synthes USA without intercompany sales, Stratec Medical added 1999, Mathys in 2004

- ❑ Delivered **solid sales growth** in challenging market environments
- ❑ **High single-digit global sales growth** (+9.6% LC) absent Spine
- ❑ **Gained market share** in Trauma, CMF & Power Tools
- ❑ Delivered **double-digit growth** (LC) in all regions outside North America
  - Europe +11%
  - Asia Pacific +10% (+16% absent Japan)
  - ROW +25% (+14% absent Saudi tender)
- ❑ Maintained **strong gross & operating margins** despite price pressure
- ❑ Generated over \$750M in **free cash flow** (over \$570M net cash increase)

# Financial Highlights Q4 2010

- ❑ **Accelerated global sales growth** (LC) in Q4 vs. Q3 2010: +9.4% in Q4 2010 vs. +4.9% in Q3 2010
- ❑ Continued **market share gains** in Trauma, CMF & Power Tools via new products & conversion initiatives
- ❑ **Gained momentum in North America** vs. previous two quarters, fueled by important product launches in Trauma & Spine
- ❑ Delivered **strong sales growth in Europe** (14% LC) due to conversions in all segments & volume increases from early winter onset
- ❑ **Established dedicated Power Tools division** through acquisition of Anspach, offering surgeons & hospitals a complete portfolio

## FY 2010 Sales Growth (LC) in Trauma & Spine & CMF



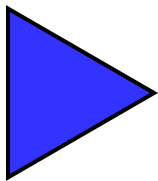
## Review 2010

1. Financial Highlights

2. Market Dynamics

3. Business Highlights

- ❑ Aging population
- ❑ Osteoporosis
- ❑ Emerging markets
- ❑ Growth in health coverage (US & emerging markets)
- ❑ Unmet clinical needs



### Opportunity for GROWTH & INNOVATION

## Market Dynamics 2010 & Actions

- ❑ Multiple decision makers, however surgeons still most important
  - ➔ Focus on surgeon service & relationships
  - ➔ Key account management & programs
- ❑ Pricing pressure
  - ➔ Innovative products & value added services
- ❑ Higher regulatory hurdles
  - ➔ Upgraded capability in regulatory organization
- ❑ Increasing reimbursement requirements for clinical & economic evidence
  - ➔ Earlier integration of reimbursement in PD process
- ❑ Compliance
  - ➔ Training, documentation, and Synthes' Values & Principles

## 1. Financial Highlights

## 2. Market Dynamics

## 3. Business Highlights

## Growth through New Products



### Trauma: Variable Angle Technology

- ❑ Locking technology & multiple screw options
- ❑ Successful for distal radius
- ❑ Developing further applications



### Spine: Cervical Portfolio

- ❑ Zero-P: Standalone implant for interbody fusion
- ❑ Synapse 4.0 for comprehensive posterior fusion
- ❑ Strong global performance in cervical segment



### CMF: Matrix Systems

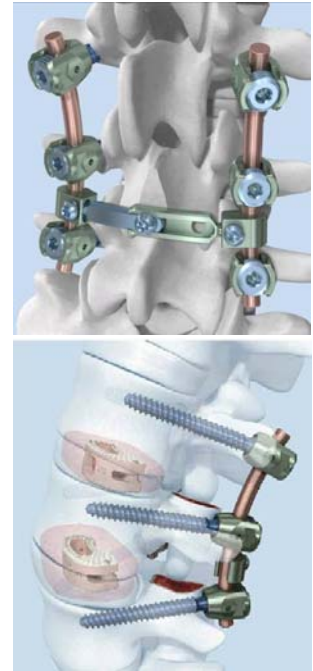
- ❑ Simple, effective & efficient systems for craniofacial trauma & reconstruction



**➔ 70% of 2010 sales growth via new products**

## Launched Matrix Spine

- ❑ Comprehensive pedicle screw system for open & minimally invasive spine surgery
- ❑ Used in over 1000 surgeries globally since launch
- ❑ Vast majority of Matrix cases performed by surgeons that use competitive products
- ❑ Surgeon feedback has been very positive



- **Strong opportunity to improve performance in largest (\$2.7B) segment of global spine market**

## Growth in Emerging Markets

### Investment

- ❑ New product launches
- ❑ Sales force expansion
- ❑ Education

### Priorities

- ❑ China
- ❑ India
- ❑ Southeast Asia
- ❑ Latin America
- ❑ Eastern Europe



- **Emerging markets delivered ~12% of global sales and strong double-digit growth in 2010**



## Manufacturing

- ❑ Local plant fully operational
- ❑ Strategic base for future domestic & export growth



## Product Development

- ❑ Asia Pacific / China specific PD efforts
- ❑ First project: Universal Trauma System
- ❑ Stronger surgeon engagement



➤ **Maintained momentum in China:  
+27% revenue growth**

# Established Power Tools Division

## Synthes Power Tools gained market share

- ❑ Double-digit growth in all regions
- ❑ Important new product launches



## Acquired Anspach

- ❑ Innovative & complementary portfolio
- ❑ Cultural fit
- ❑ Experienced management
- ❑ State-of-the-art manufacturing, education & service facilities





## Synthes Air Line



## Synthes Battery Line



## Synthes Electric Line



# Value Added Programs

## Geriatric Fracture Program (GFP)

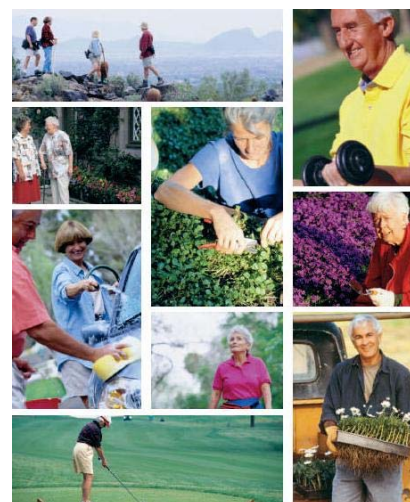
### Why?

- ❑ Increasing incidence of fragility fractures (aging population, osteoporosis)
- ❑ Care traditionally not well-coordinated
- ❑ High rate of adverse events (e.g. infections & preventable post-op falls)

### What?

- ❑ Quality improvement program
- ❑ Specific, multi-disciplinary processes from admission through discharge for patients with fragility fractures

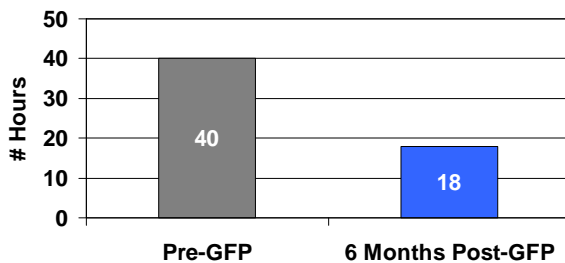
➤ **GFP optimizes treatment to improve clinical & economic outcomes**



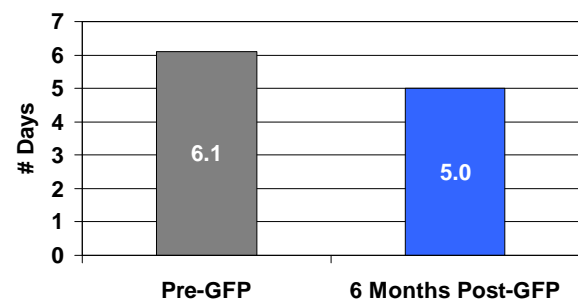
## Geriatric Fracture Program

- ❑ Improves clinical outcomes
- ❑ Generates cost savings for Hospitals
- ❑ Differentiates Synthes as “Total Solution Provider”

Avg. Time: ER to Surgery  
(Hip Fractures)



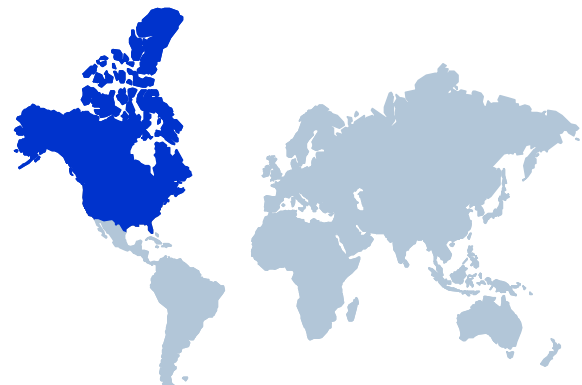
Avg. Length of Stay (Hip Fractures)



# Regional Highlights 2010

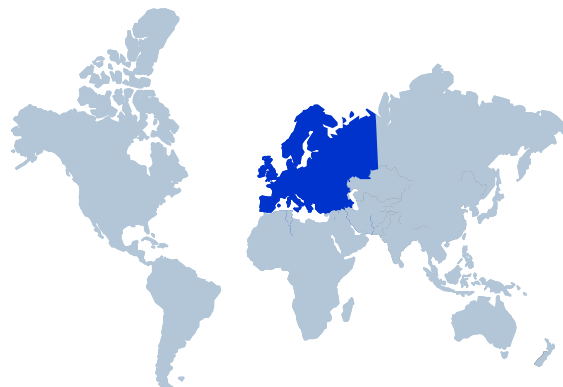
## North America

- ❑ 58% of 2010 consolidated net sales
- ❑ Market share gains in Trauma, CMF & Power Tools
- ❑ +8.2% sales growth absent Spine
- ❑ Market dynamics and delayed Matrix launch impacted Spine performance
- ❑ Sales force effectiveness initiatives resulted in competitive conversions



## Europe

- ❑ 23% of 2010 consolidated net sales
- ❑ Sales growth exceeded market growth rates in all divisions
- ❑ Early onset of winter positively impacted Trauma performance
- ❑ +9% in largest market (Germany), double-digit growth in important markets (e.g. France & Italy)
- ❑ Successful launches:  
Vertebral Body Stent line extension  
LCP Clavicle Plates



# Regional Highlights 2010

## Asia Pacific

- ❑ 12% of 2010 consolidated net sales
- ❑ +16% regional sales growth excluding Japan
- ❑ China, Korea, Singapore & Malaysia all exceeded 25% growth
- ❑ Significant sales force expansion
- ❑ Strengthened operations



## Rest of World (Latin America & Middle East)

- 7% of 2010 consolidated net sales

### LAT:

- Sales growth exceeded 20% in Brazil, Mexico, and Argentina
- Continued investment in education & sales force expansion
- Prepared direct presence in Chile

### Middle East:

- Saudi Arabia tender



# Financial Results 2010

**Bob Donohue**  
**CFO**

# 2010 - Strong Revenue & Profitability



(US\$ millions, except earnings per share)

	2010	2009	% Change	
			in US\$	in LC*
Net Sales	3,687	3,395	8.6%	7.5%
Gross Profit	3,047	2,802	8.7%	7.2%
% of Net Sales	82.6%	82.6%		
Operating Expenses	1,763	1,640	7.5%	5.8%
% of Net Sales	47.8%	48.3%		
Operating Income	1,283	1,163	10.4%	9.2%
% of Net Sales	34.8%	34.3%		
Net Earnings	908	824	10.2%	8.5%
% of Net Sales	24.6%	24.3%		
Earnings per Share	\$ 7.65	\$6.94		

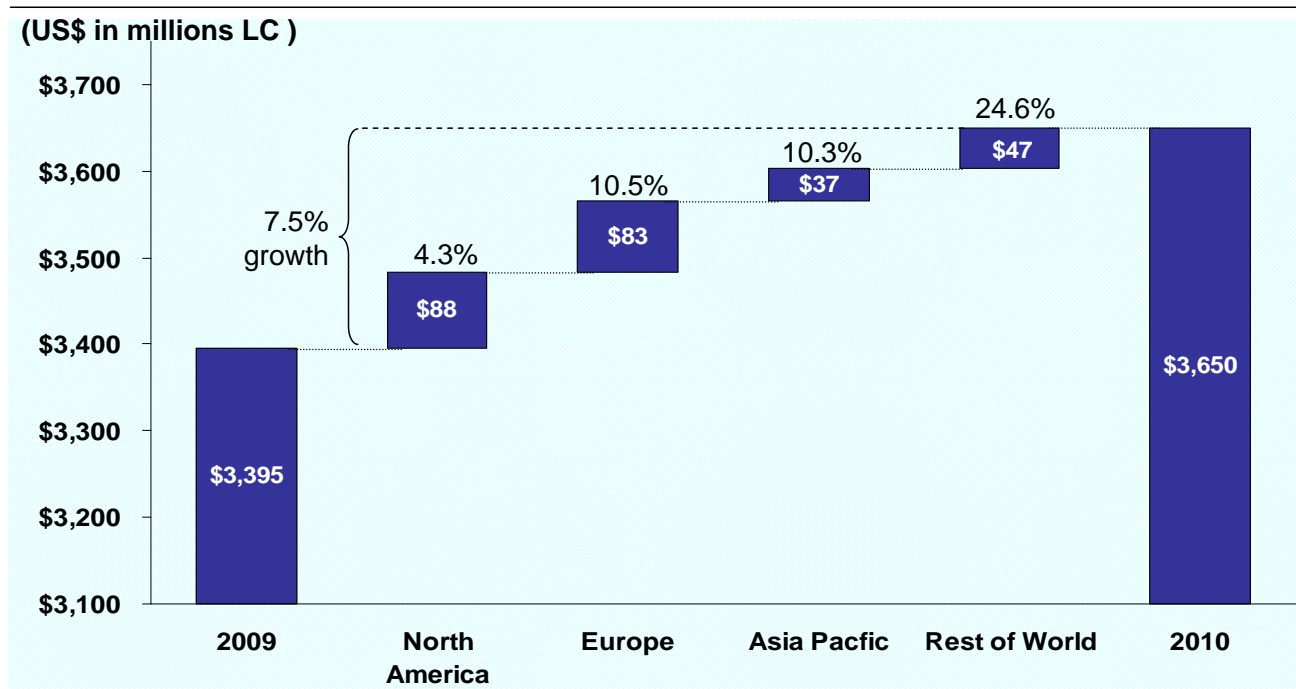
\*LC = Local Currency

- Good sales performance in spite of a difficult economy
- Maintain gross profit in spite of pricing pressures
- Profit growth at 8.5% exceeded solid sales growth of 7.5% (in LC) due to:
  - (+) Improved OPEX performance (as % of sales)
  - (+) Improved tax rate

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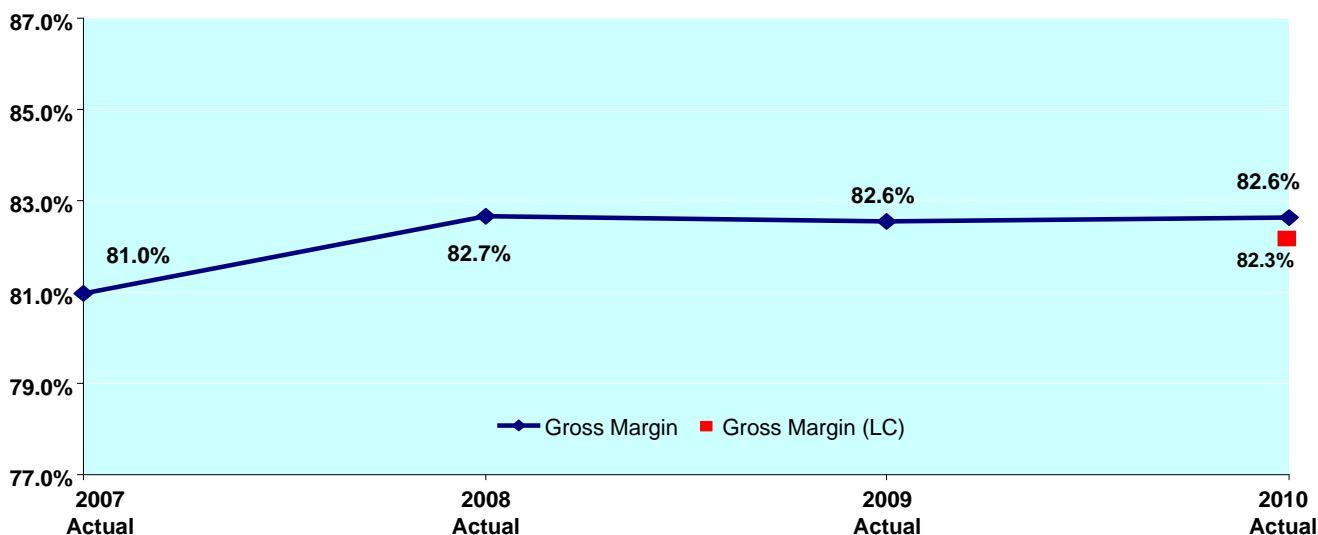
# 2010 Sales Growth in Local Currency



- Double-digit growth in Europe, Asia Pacific & ROW
- North America: growth in spite of external challenges
- New products, sales force expansion and selling investments major contributors to global growth

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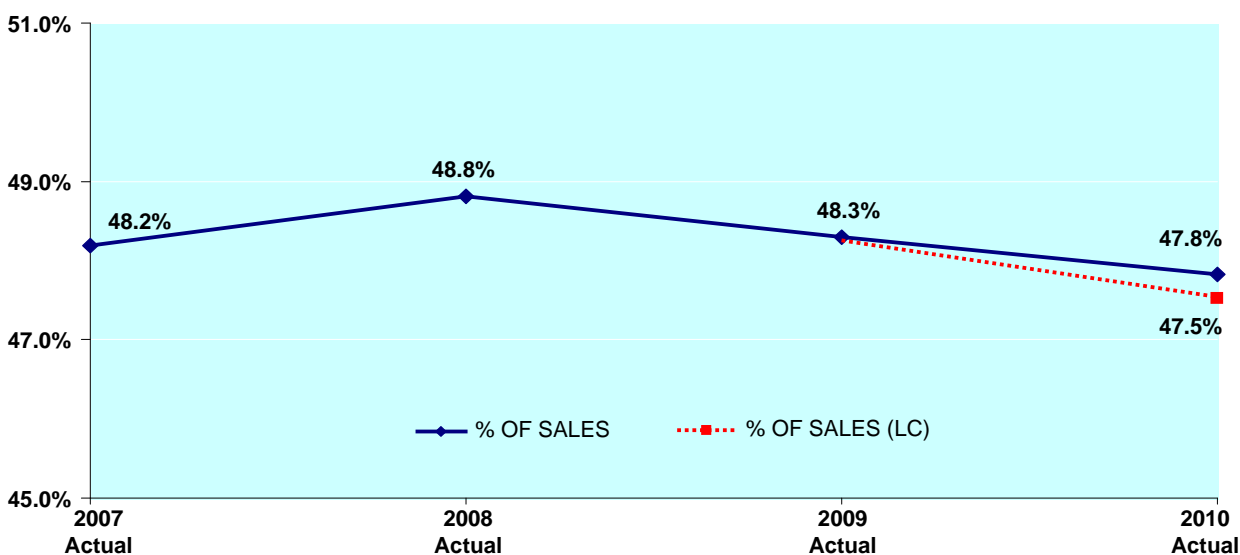
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Gross Margin (reported in USD) flat vs. PY

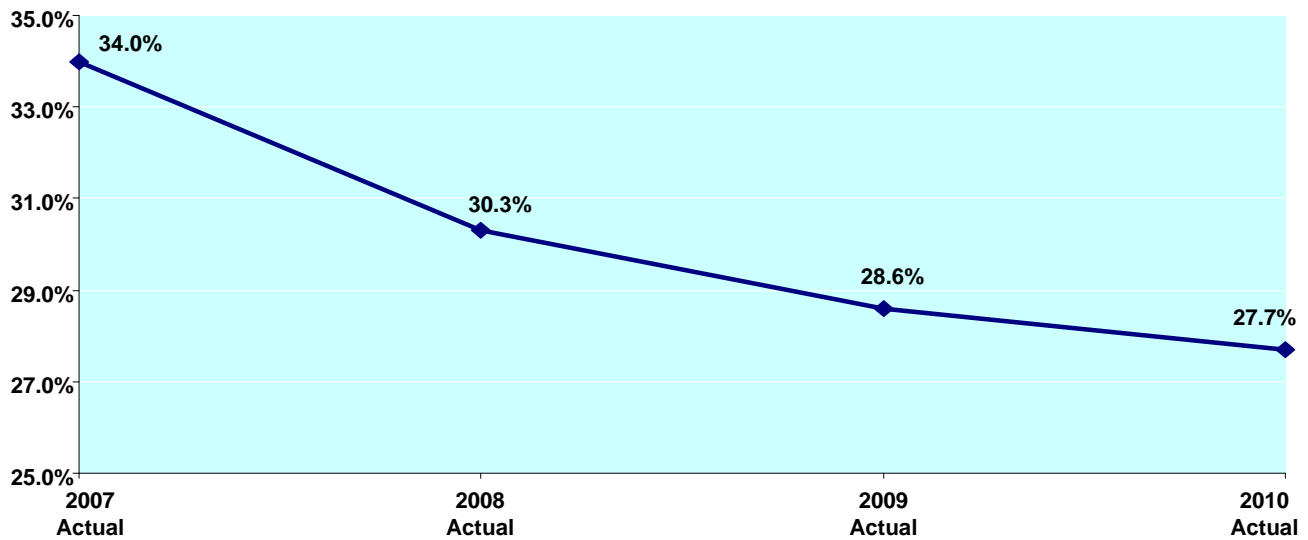
- In line with recent past year trends (continuation of productivity improvement benefits)
- Industry leading gross margin

# Operating Expense as % of Sales



2010 OPEX (as a % of sales) improved (in local currency), OPEX at 47.5%

- Continued positive trend downward
- 2010 included:
  - Continued productivity improvement program impact
  - Lower legal expense
  - Slower hiring pace (except high growth in regions)

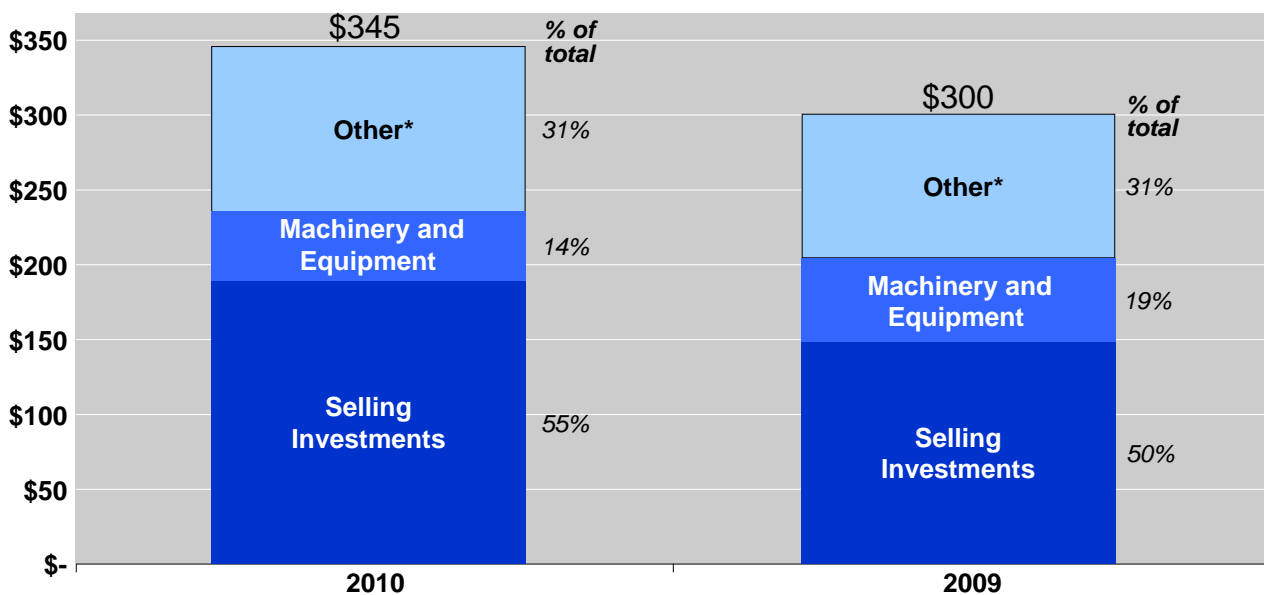


2010 tax rate reduction due to:

- Ongoing tax planning
- Favorable settlement of contingencies

# Capital Investments

(US\$ millions)



\* Other includes Land, Building, Computer Equipment and Office Furniture

Continued high level of investments

- CAPEX at 135% of depreciation
- Selling investments - 55% of total capital spending



(US\$ millions)	2010	2009	Change	
			\$	%
Current Ratio	6.2	4.9		27% +
DSO	65	63		3% -
Inventory Turns	1.2	1.2		0% +
Net Working Capital	\$2,860	\$2,148	\$712	33% +
Cash & Investments*	\$1,991	\$1,419	\$572	40% +
Debt**	\$176	\$119	\$57	48% -
Debt** to Equity Ratio	2.6%	2.1%		24% -

\* Includes Marketable Securities of \$1.3 billion as of December 31, 2010

\*\* Includes acquisition-related liabilities

- Strong balance sheet
- Cash balance at record levels; secure investments
- Net Working Capital Increase primarily due to higher cash levels

## 2010 Working Capital

(US\$ millions)	2010	2009	Change	
			\$	%
<b>Net Working Capital</b>	<b>\$2,860</b>	<b>\$2,148</b>	<b>\$712</b>	<b>33%</b>
Cash (includes Marketable Securities in Dec '10)	1,991	1,419	572	40%
Accounts Receivable	805	691	114	17%
Inventories, net	521	525	(4)	0%
Other Current Assets	98	69	29	42%
<b>Current Assets</b>	<b>3,415</b>	<b>2,704</b>	<b>711</b>	<b>26%</b>
<b>Current Liabilities</b>	<b>\$555</b>	<b>\$556</b>	<b>(\$1)</b>	<b>0%</b>

2010 Working Capital change due to:

- Significant cash generation – increased profits - (80% of the increase)
- Higher DSO vs. PY, primarily due to struggling economies in Europe and Latin America

(US\$ millions)	2010	2009
Cash Provided by Operating Activities	<b>\$1,166</b>	<b>\$1,054</b>
Capital Expenditures	(345)	(300)
Other Expenditures	(62)	(16)
Free Cash Flow	<b>759</b>	<b>738</b>
Financing / Investing / Other	(187)	(190)
Net Cash Flow*	<b>\$572</b>	<b>\$548</b>

\* Absent investments in marketable securities

Net cash flow improved vs. PY due to:

- Increased earnings
- Lower tax payments vs. PY

## 2011 Outlook

**Michel Orsinger**  
**President & CEO**

Strategy	Goals	Results
I. Product Innovation	<b>Clear benefit for <u>Customers / Surgeons</u></b>  <b>Better clinical results for <u>patients</u></b>	<b>Growth</b>  <b>Market Share Gains</b>  <b>Attractive Financials</b>
II. Sales Force		
III. Education & Training		
IV. Geographical Expansion / Penetration		
V. Productivity Gains		
VI. People & Organizational Development		

## Outlook 2011 – Priorities

### 1. Growth:

- New product launches
- Under-penetrated markets

### 2. Productivity initiatives to:

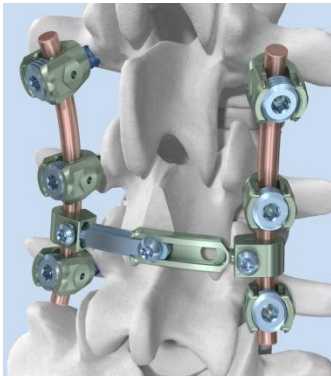
- offset market dynamics
- secure strategic investments &
- protect our high profitability

## Posterior Lumbar: Largest segment of market

- ❑ Synthes has strong opportunity to grow in \$2.7B segment
- ❑ Product line expanding through 2011

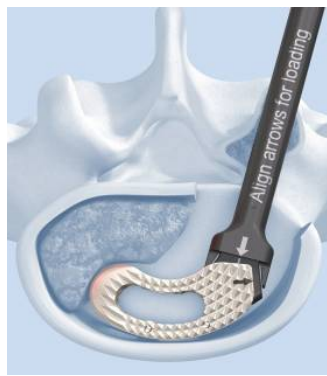
### Matrix

Comprehensive pedicle screw system



### T-PAL

Minimally invasive interbody fusion



### MIRS

Minimally invasive pedicle screws



# Trauma Growth

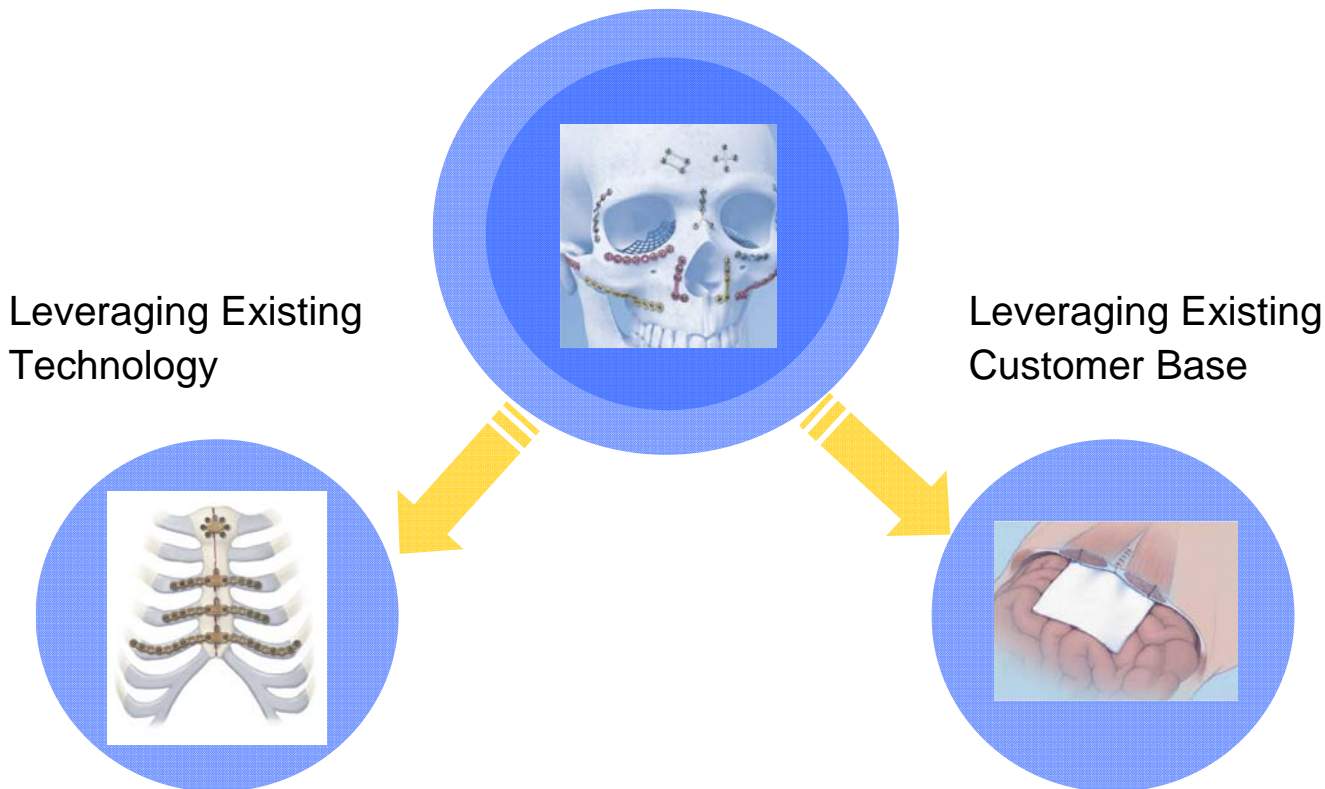
## “The Specialist for the Specialists”

### Forefoot / Midfoot System

- ❑ Comprehensive system for trauma & reconstruction
- ❑ A new indication for Variable Angle & Locking Compression Plate technology
- ❑ Most procedures performed in surgery centers  
➔ growth in new channel

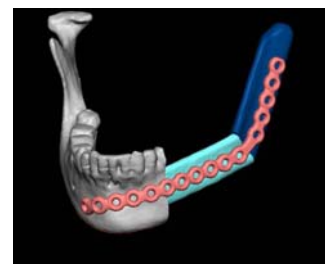


**Core**



**Cross-Divisional Initiatives**

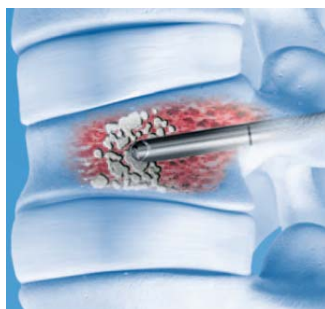
□ **Patient Specific Implants**  
Integration of technology



□ **Specialized Regional Products**  
“Glocalized” Product Development



□ **Combination of implants & biomaterials**  
More complete clinical solutions



## 1. Growth:

- New product launches
- Under-penetrated markets

## 2. Productivity initiatives to:

- offset market dynamics
- secure strategic investments &
- protect our high profitability

## Improvement through Re-engineered Processes & Technology

### Global ERP Implementation

- Harmonizing business processes
- Improving efficiency through automation

- **Optimizing the way Synthes does business globally**

 **SYNTHES** *One*



## Besides industry-leading product training:

- ❑ Customer segmentation & targeting
- ❑ Asset utilization
- ❑ New sales support tools



## In Summary

**Global:** 2010: Successful year in challenging times  
 2011: Focused initiatives aimed at:  
 Revenue growth  
 Productivity improvement

**Trauma:** The specialist for the specialists  
 Providing value-added programs

**Spine:** New product launches to drive growth  
 Sales force focused on conversions

**CMF:** Further expansion of customer base  
 Maintain momentum in core business

**Power Tools:** Establish dedicated sales force

- 
- **We do not expect major changes in short-term market dynamics**
  
  - **Despite market challenges,**  
**Synthes is well-positioned moving forward:**
    - Trauma: solid leading position
    - Spine: low market share = opportunity
    - CMF: diversification & momentum
    - Power Tools: focus and complete portfolio
    - Emerging Markets: investment and growth