

## Message to Our Shareholders

### FIRST QUARTER REPORT

We are pleased to report the results for the first quarter of fiscal year 2001. Sales in the first quarter were \$230,257,000 compared to \$212,709,000 for the same period last fiscal year, resulting in an 8% increase. Operating income increased 10% from \$63,995,000 to \$70,168,000, while net income increased 18% to \$48,427,000 from \$41,172,000. Diluted earnings per share increased 17% to \$.27 from \$.23. Excluding the impact of foreign currency and discontinued products, which reduced first quarter sales by \$7 million and \$2 million respectively, net sales increased 12.4% during the first quarter. Additionally, foreign currency reduced operating income by approximately \$1 million. The discontinued product line, which did not meaningfully contribute to Biomet's operating income, is associated with Biomet's 3i subsidiary and its June 1, 2000 termination of a distribution agreement with W. L. Gore & Associates. The product line represented regenerative and non-regenerative membranes utilized in dental reconstructive procedures. Internal development opportunities with regenerative membranes are being explored, as well as alternative distribution arrangements.

Sales in the United States increased 10% during the first quarter to \$157,614,000 from \$143,190,000, principally as a result of continued market penetration in the reconstructive device, spinal and arthroscopy market segments. International sales increased 4% to \$72,643,000 from \$69,519,000. On a currency neutral basis, foreign sales increased 15% during the first quarter, driven by increased penetration in the reconstructive device and fixation market segments.

Reconstructive device sales increased 7% during the first quarter to \$142,092,000. Excluding the impact of foreign currency and discontinued products, reconstructive device sales increased approximately 12% during the first quarter. Biomet's Ascent Total Knee System and the Repicci II Unicondylar Knee System propelled knee sales growth in the United States to the low double-digit range. Biomet initiated marketing and distribution of the M2a Metal-on-Metal Hip Articulation System, which was cleared by the FDA on May 22, 2000, during the recently completed quarter. Biomet recently received FDA clearance on the M2a Ringloc Acetabular System which consists of a metal-poly-metal acetabular system and offers the orthopedic surgeon yet another high-technology acetabular articulation system to choose from. Additionally, the Progressive Hip System and the Stanmore Hip System continue to experience increased market acceptance in the United States. On June 1, 2000, Biomet commenced the distribution of Palacos Bone Cement in the United States, along with the patented Optivac Cement Preparation System. These products allow Biomet, for the first time, to compete in the \$140 million domestic market for bone cement materials and accessories. Led by its flagship product, the Osseotite Dental Reconstructive Implant System, 3i's revenues grew approximately 20% during the first quarter of fiscal 2001 excluding discontinued product sales.

Fixation sales experienced 11% growth during the first quarter to \$46,531,000. On a currency neutral basis, fixation sales increased 12% during the first quarter. Electrical stimulation (bone healing) sales increased in the mid-teens range during the first quarter principally as a result of the continued market acceptance of the Model 2001 Bone Healing System. The Company's Lorenz Surgical division benefited from the continued rollout of the Mimix bone substitute material for craniofacial indications which propelled domestic craniomaxillofacial sales growth to the upper-teens range and worldwide sales growth of craniomaxillofacial products to the mid-teens range during the quarter. External fixation sales increased in the mid single-digit range during the first quarter. EBI launched a disposable Colles fixator during the first quarter which is experiencing strong surgeon demand in the United States.

Spinal product sales increased 16% to \$14,109,000 during the first quarter. On a currency neutral basis, spinal product sales would have increased 18% during the quarter. In the United States, spinal product sales were led by a low 40% increase in EBI's spinal fixation sales and an upper single-digit increase in EBI's SpF spinal fusion stimulation product line. EBI recently launched the SpineLink Anterior Cervical Fixation System which will complement the SpineLink Spinal Fixation System and the Omega 21 Spinal Fixation System. Additionally, clinical validation was initiated on the Vue-Lok Cervical Plating System during the first quarter, with anticipated rollout to EBI's salesforce throughout the remainder of fiscal 2001.

The Company's other product sales increased 8% to \$27,525,000 during the first quarter. Without the effect of foreign currency, other product sales would have increased 12% during the quarter. The AOA line of softgoods products increased in the mid-teens range during the quarter, while Arthrotek's arthroscopy products increased in the low 30% range in the United States and low 20% range on a worldwide basis. Arthrotek's growth continues to be led by traditional procedure-specific arthroscopy products as well as the

LactoSorb line of resorbable fixation products.

On September 25, 2000, Biomet announced that it had acquired Bioelectron, Inc. for \$90 million in cash. Founded in 1977, Bioelectron is a private company with annualized sales of approximately \$45 million and recorded \$26 million in sales during calendar year 1999. We believe that Bioelectron's products compete effectively in high growth segments of the musculoskeletal products market such as spinal fusion, fracture healing and arthroscopy market segments. Bioelectron's non-invasive spinal fusion stimulator, SpinalPak, was approved through a PMA supplement in September 1999 as an adjunct to spinal fusion surgery for one or two levels. SpinalPak's superior clinical success rates further complement EBI's implantable spinal fusion stimulation product, the SpF System, which has the highest spinal fusion success rates in the industry. Biomet's EBI subsidiary will now be able to offer its customers spinal fusion stimulation technology for use in either inpatient or outpatient settings. Bioelectron's OrthoPak, which was approved by the FDA in 1986, is a small and lightweight bone growth stimulation product approved for use in connection with treating non-union fractures. Combining Bioelectron's salesforce with EBI's will enable the EBI expanded sales team to provide greater services and product offerings to its customers. Bioelectron also manufactures and markets CurvTek, a proprietary instrument for use in the re-attachment of soft tissue to bone, which will be merged into Arthrotek, Biomet's arthroscopy subsidiary. Bioelectron's CurvTek product received clearance from the FDA in October 1997 and will augment Arthrotek's arthroscopic product portfolio.

Biomet will account for this acquisition as a purchase and will record approximately \$83 million of intangibles, which includes all acquisition expenditures. Management has not completed its final analysis of the allocation of the purchase price, but anticipates that the average life expectancy of these intangibles will be approximately 18 years. We believe that this acquisition will be accretive to Biomet's earnings during fiscal year 2001 and beyond.

Biomet held its Annual Meeting of Shareholders on September 16, 2000 at its headquarters in Warsaw, Indiana. Tours of the main facility and the Company's Biomaterials Research Center were provided to shareholders both before and after the meeting. Dr. John A. Repicci gave a presentation on the Repicci II Unicondylar Knee System, while Dane Miller provided a corporate overview of Biomet's six strategic business units. The Company's shareholders approved the election of Dane A. Miller, Ph. D., Jerry L. Ferguson, Thomas F. Kearns, Jr. and Daniel P. Hann to the Board of Directors for a three year term expiring in 2003. Shareholders also voted to ratify the selection of PriceWaterHouseCoopers LLP as independent accountants for the fiscal year ending May 31, 2001.

We appreciate your continued support and confidence in Biomet. We believe that the Company is well positioned to continue to gain market share in the \$12 billion worldwide market for musculoskeletal products. The Story behind Biomet's numbers, as described in our Annual Report, continues to demonstrate our strong commitment to the principles of unparalleled product innovation, quality, customer responsiveness and strategic growth that have been a cornerstone of our operating philosophy since 1977. We look forward to sharing with you strong results through the balance of fiscal year 2001.

Respectfully,



Dane A. Miller, Ph.D.  
President and Chief Executive Officer



Niles L. Noblitt  
Chairman of the Board

**Consolidated Statements of Income**for the three months ended August 31, 2000 and 1999  
(in thousands, except per share amounts)

	2000	1999	% Change
Net sales	<b>\$230,257</b>	\$212,709	8
Cost of sales	<b>67,291</b>	64,466	4
Gross profit	<b>162,966</b>	148,243	10
Selling, general and administrative expenses	<b>82,934</b>	74,821	11
Research and development expense	<b>9,864</b>	9,427	5
Operating income	<b>70,168</b>	63,995	10
Other income, net	<b>5,470</b>	2,618	109
Income before income taxes and minority interest	<b>75,638</b>	66,613	14
Provision for income taxes	<b>25,950</b>	24,025	8
Income before minority interest	<b>49,688</b>	42,588	17
Minority interest	<b>1,261</b>	1,416	(11)
Net Income	<b>\$48,427</b>	\$41,172	18
Earnings per share:			
Basic	<b>\$.27</b>	\$.24	13
Diluted	<b>\$.27</b>	\$.23	17
Shares used in the computation of earnings per share:			
Basic	<b>177,970</b>	175,041	
Diluted	<b>179,908</b>	177,861	
Cash dividends per common share	<b>\$.11</b>	\$.09	

## Sales Analysis

for the three months ended August 31, 2000 and 1999 (in thousands)

<b>Domestic/Foreign Sales</b>	<b>2000</b>	1999	% Change
U.S. sales	<b>\$157,614</b>	\$143,190	10
Foreign sales	<b>72,643</b>	69,519	4
<b>Segment Sales</b>			
Reconstructive	<b>\$142,092</b>	\$133,078	7
Fixation	<b>46,531</b>	42,034	11
Spinal products	<b>14,109</b>	12,168	16
Other	<b>27,525</b>	25,429	8

## Market Value of Common Shares

The following table shows the quarterly range of high and low sale prices for the Company's Common Shares as reported by Nasdaq Stock Market (Biomet's fiscal year commences on June 1 and ends on May 31.) Stock Symbol: BMET. The amount reflects inter-dealer prices, without retail mark-up, mark-down or commission. Record holders of outstanding Common Shares - August 31, 2000 - 7,391

	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
<b>2001</b>				
High	35.250			
Low	22.458			
2000				
High	29.083	25.167	26.792	26
Low	23.250	16.417	19.875	18.083
1999				
High	22.833	25.666	26.958	30.500
Low	18.666	17.333	21.541	23.375

**Consolidated Balance Sheets**  
at August 31, 2000 and May 31, 2000  
(in thousands)

**Assets**

	8/31/2000	5/31/2000
Current assets:		
Cash and cash equivalents	\$ 254,269	\$ 213,606
Investments	14,805	34,129
Accounts and notes receivable, net	244,696	249,792
Inventories	248,871	240,162
Deferred income taxes	25,811	25,811
Prepaid expenses and other	<u>29,610</u>	<u>26,128</u>
Total current assets	<u>818,062</u>	<u>789,628</u>
Property, plant and equipment, at cost	306,858	299,294
Less, Accumulated depreciation	<u>121,597</u>	<u>116,037</u>
Property, plant and equipment, net	<u>185,261</u>	<u>183,257</u>
Investments	179,581	159,533
Intangible assets, net	8,505	9,100
Excess acquisition costs over fair value of acquired net assets, net	59,764	60,654
Other assets	<u>18,633</u>	<u>16,276</u>
Total assets	<u>\$1,269,806</u>	<u>\$1,218,448</u>

**Liabilities and Shareholders' Equity**

	8/31/2000	5/31/2000
Current liabilities:		
Short-term borrowings	\$ 75,403	\$ 70,546
Accounts payable	19,265	25,612
Accrued income taxes	31,388	17,288
Accrued wages and commissions	22,319	24,224
Other accrued expenses	<u>42,078</u>	<u>43,773</u>
Total current liabilities	190,453	181,443
Long-term liabilities:		
Deferred federal income taxes	7,426	5,386
Other liabilities	<u>426</u>	<u>423</u>
Total liabilities	<u>198,305</u>	<u>187,252</u>
Minority interest	<u>89,134</u>	<u>87,873</u>
Contingencies (Note 7)		
Shareholders' equity:		
Common shares	92,270	85,086
Additional paid-in capital	41,451	41,451
Retained earnings	895,445	866,011
Accumulated other comprehensive income	<u>(46,799)</u>	<u>(49,225)</u>
Total shareholders' equity	<u>982,367</u>	<u>943,323</u>
Total liabilities and shareholders' equity	<u>\$1,269,806</u>	<u>\$1,218,448</u>

**Consolidated Statements of Cash Flow**for the three months ended August 31, 2000 and 1999  
(in thousands)

	2000	1999
Cash flows from (used in) investing activities:		
Proceeds from sales and maturities of investments	24,645	5,890
Purchases of investments	(20,512)	(5,965)
Capital expenditures	(8,621)	(11,117)
Acquisitions, net of cash acquired	--	(3,733)
Other	<u>(839)</u>	<u>(1,397)</u>
Net cash used in investing activities	<u>(5,327)</u>	<u>(16,322)</u>
Cash flows from (used in) financing activities:		
Increase in short-term borrowings, net	4,016	9,212
Issuance of common shares	7,184	2,092
Cash dividends	<u>(18,993)</u>	<u>(15,786)</u>
Net cash used in financing activities	<u>(7,793)</u>	<u>(4,482)</u>
Effect of exchange rate changes on cash	<u>754</u>	<u>(3,119)</u>
Increase in cash and cash equivalents	40,663	30,833
Cash and cash equivalents, beginning of year	<u>213,606</u>	<u>132,081</u>
Cash and cash equivalents, end of period	<u>\$254,269</u>	<u>\$162,914</u>

## Quarterly Graphs

for the periods ended August 31,

