Stryker Corporation (SYK)

Updated June 30th, 2018 by Nate Parsh

Key Metrics

Current Price:	$169	**5 Year CAGR Estimate:**	10.2%	**Volatility Percentile:**	4.1%
Fair Value Price:	$162	**5 Year Growth Estimate:**	10%	**Momentum Percentile:**	75.4%
% Fair Value:	104%	**5 Year Valuation Multiple Estimate:**	-0.9%	**Valuation Percentile:**	49.4%
Dividend Yield:	1.1%	**5 Year Price Target**	$261	**Total Return Percentile:**	64.9%

Overview & Current Events

Stryker is a global leader in the medical device sector. The company's product lines include surgical equipment, neurovascular products and orthopedic implants. The company was founded in 1941 by Dr. Homer Stryker because he felt that some products that the medical device industry offered weren't meeting the needs of his patients. Today the company employs more than 33,000 people worldwide. Stryker had sales of more than $12 billion in 2017.

Stryker released 1st quarter earnings on April 26th. The company earned $1.68 per share, an $0.08 beat of estimates and an improvement of 13.5% from Q1 2017. Revenue grew 9.5% to $3.24, topping estimates by $40 million.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$2.78	$2.77	$3.33	$3.72	$3.39	$2.63	$2.36	$3.78	$4.35	$6.49	***$7.22***	***$11.63***
DPS	$0.40	$0.25	$0.63	$0.75	$0.90	$1.10	$1.26	$1.42	$1.57	$1.70	***$1.88***	***$3.03***

Stryker has grown earnings per share at a rate of 14% per year since 2008. The company was very resilient during the last recession, only seeing a $0.01 decline in earnings in 2009. The company did see earnings declines in 2013 and 2014 as well, but growth quickly returned in the ensuing years. Stryker's management raised the midpoint of its guidance for 2018 to $7.22 from $7.12. We estimate that Stryker can continue to see earnings growth of 10% annually through 2023. This growth rate is a slight discount to the company's historical growth rate, but still very attractive. Due to the slight bump in EPS, we have added $4 to our price target.

Organic sales improved 7% during Q1 as higher unit volume (8.6%) was partially offset by lower prices (-1.6%). Stryker installed 28 of its Mako robotic-arm assisted devices during the quarter. Only ~10% of hospitals in Stryker's customer base have a Mako robot. Hip and knee reconstruction and replacements account for 85% of all orthopedic surgeries performed in the U.S. Knee and hip replacement surgeries are expected to grow 673% and 174%, respectively, through 2030. The market for joint replacement surgeries is expected to double from current levels to $35 billion by 2022. As a leader in both types of surgeries, Stryker has the potential for continued growth for the foreseeable future. While it was reported that the company was in talks to acquire Boston Scientific (BSX), Stryker announced on June 13th that it was not in discussion to do so. Shares had declined on the rumor, but accelerated once Stryker declared its true intentions.

Stryker has increased its dividend at an average rate of almost 15% per year over the past 10 years, though that growth has slowed recently. The company most recently raised its dividend 10.6% on December 6th. Because Stryker has such a low payout ratio, the company has plenty of room to continue to grow its dividend. This is especially true if Stryker performs more in line with its average EPS growth over the past decade. While there is the potential for the company to offer more substantial increases in the future, investors can expect that the company will continue to grow its dividend at the same rate that earnings grow. At that rate, Stryker's dividend would be $3.03 per share in 2023.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	21.8	15.1	15.7	14.8	15.8	25.9	35.2	25.2	25.4	28.7	***23.4***	***22.4***
Avg. Yld.	0.7%	0.6%	1.2%	1.4%	1.7%	1.6%	1.5%	1.5%	1.4%	1.2%	***1.1%***	***1.2%***

Stryker's price-to-earnings ratio has expanded considerably in recent years. Even as earnings have increased rapidly in the past few years, the stock's multiple has declined. Shares of the company have increased $10 since our initial report, causing the P/E multiple to expand to 23.4 from 22.3. The stock's 10-year average P/E is 22.4, meaning shares could experience a multiple contraction of 0.9% per year over the next five years. If the company is able to return to its 10 year average EPS growth rate (14%), then shares could be trading at a lower forward P/E than projected.

The stock's average yield over the past 10 years is just 1.3%, but investors should consider the company's earnings and dividend growth potential and not just the income portion of the stock.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	60.3%	50%	46.2%	45.2%	44.5%	38.2%	36.8%	40.7%	36.7%	36.8%	***36.7%***	***37.8%***
Debt/A	28.9%	27.3%	34.2%	36.7%	34.9%	42.5%	50.3%	47.5%	53.3%	55.1%	***54.2%***	***49.7%***
Payout	14.4%	9%	18.9%	20.2%	26.5	41.8%	53.4%	37.6%	36.1%	34.9%	***26.2%***	***26.4%***
Std. Dev.	38.9%	30.9%	23.8%	28.8%	17.4%	14.2%	15.3%	19.6%	18.4%	15%	***16.4%***	***22.2%***

Stryker's strength during the most recent recession should give shareholders the confidence that the company can thrive in a difficult economic climate. As the leader in the medical device sector, Stryker's products are in demand around the world. For example, while competitors saw year over year declines in orthopedic knee surgeries last year, Stryker saw 9% growth. With the expected future growth in knee surgeries, Stryker can take even more market share. Additionally, Stryker has both a low debt to assets ratio and low stock price standard deviation. The company scores high marks for safety. Over the past four years, Stryker has averaged 6.4% organic sales growth while the medical device sector has averaged 4.2%. Investors are willing to pay up for that type of growth, which is why the company's price-to-earnings ratio has been higher than normal over the recent years.

Final Thoughts & Recommendation

Due to the share price increase since our last update, we now forecast Stryker's stock to have an annual return 10.2%, down from 11.2%. This estimate is based off a combination of growth (10%), dividends (1.1%) and multiple mean revision (0.9%). 10% annual growth for a recession proof company that is posting high levels of organic sales is a very reasonable return. While the dividend yield isn't the highest, we remain very positive on shares of Stryker.

Total Return Breakdown by Year