Stryker Corporation (SYK)

Updated April 4th, 2018 by Nate Parsh

Key Metrics

Current Price:	$159	**5 Year CAGR Estimate:**	11.2%	**Quality Percentile:**	N/A
Fair Value Price:	$160	**5 Year Growth Estimate:**	10%	**Momentum Percentile:**	N/A
% Fair Value:	99%	**5 Year Valuation Multiple Estimate:**	0%	**Total Return Percentile:**	N/A
Dividend Yield:	1.2%	**5 Year Price Target**	$257	**Valuation Percentile:**	N/A

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 4th quarter earnings on 1/30/2018. The company's adjusted earnings per share was $1.96, $0.01 above estimates and 10.1% higher from Q4 2016. Revenue topped expectations as well, growing 10% year over year to $3.5 billion. The company had organic growth of more than 8% while margins increased 2% to 66.4%. Stryker installed 112 of its Mako robotic-arm assisted devices during the year. Only about 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.

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	***$7.12***	***$11.47***
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 gave guidance for 2018 on the last conference call that points to continued growth going forward. Organic sales are expected to grow 6%-6.5% for the year. The midpoint of the company's estimates for the year is $7.12, almost 10% above EPS for 2017. Using this growth estimate (10%), Stryker is expected to see earnings of $11.47 per share in 2023.

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 12/6/2017. 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	***22.3***	***22.4***
Avg. Yld.	0.7%	0.6%	1.2%	1.4%	1.7%	1.6%	1.5%	1.5%	1.4%	1.2%	***1.2%***	***2.64%***

Stryker's P/E has expanded considerably in recent years. Even as earnings have increased rapidly in the past few years, the stock's multiple has declined. Stryker currently trades with a multiple of 22.3, almost in line with the stock's 10-year average P/E of 22.4. This may mean that Stryker is fairly valued compared to its history. 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, 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 P/E has been higher than normal over the recent years. If Stryker's earnings and dividends grow by 10% through 2023 and the multiple doesn't expand, the stock will yield 2.6%.

Final Thoughts & Recommendation

Shares of Stryker have the potential to return an average of 11.2% per year through 2023. This estimate is based off a combination of growth (10%), dividends (1.2%) and multiple mean revision (0%). Investors interested in dividend growth should consider purchasing Stryker as the company has an extremely low payout ratio and should be to offer at least low double digit growth over the next 5 years. While shares are fairly valued at this point, the company has growth potential going forward. Long term investors should consider buying Stryker for this potential.

Total Return Breakdown by Year