Stryker Corporation (SYK)

Updated July 26th, 2018 by Nate Parsh

Key Metrics

Current Price:	$171	**5 Year CAGR Estimate:**	10.0%	**Volatility Percentile:**	4.2%
Fair Value Price:	$162	**5 Year Growth Estimate:**	10.0%	**Momentum Percentile:**	68.5%
% Fair Value:	106%	**5 Year Valuation Multiple Estimate:**	-1.1%	**Valuation Percentile:**	54.9%
Dividend Yield:	1.1%	**5 Year Price Target**	$261	**Total Return Percentile:**	67.4%

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 generated sales of more than $12 billion in 2017.

Stryker released 2nd quarter earnings results on July 24th. Stryker earned $1.76 per share, $0.03 above estimates and a 15% improvement from the 2nd quarter 2017. Revenue grew 10.3% to $3.32 billion, topping estimates by $10 million.

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 saw organic sales grow by 7.9% during the quarter, after growing 7% in the 1st quarter. Neurotechnology & Spine led the way with 12% organic growth. MedSurg had 7% organic growth due to the company's power tools receiving heavy demand. Orthopedics grew 7% organically as the Mako robot is allowing Stryker to outperform its competitors. Growth in hip procedures was 4.3% while knee procedures grew 8.5% for Stryker. By comparison, Johnson & Johnson (JNJ) saw growth of just 1.2% in hip procedures and a 2.2% decline in knee procedures. There are more than 550 Mako robots installed around the world. Stryker installed 39 robots this quarter, up from 26 a year ago. Almost half of the robots were installed in locations that do not yet have one or where Stryker has below average penetration. Clearly, the Mako robot is taking market share. Clinical data will be released in the spring of 2019 that may show that Mako is able to improve patient outcomes. Positive data from this study could drive Mako sales even higher.

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.

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. Last December's raise was 10.6%. Because Stryker has such a low payout ratio, the company has plenty of room to continue to grow its dividend.

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	***23.7***	***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%***

Disclosure: This analyst has a long position in the security discussed in this research report

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 as the market has been willing to pay more for shares. The stock has increased $2 since our June 30th update. Based off of updated guidance, shares trade with an earnings multiple of 23.7, up from 23.4 previously. If shares reverted to our target price-to-earnings ratio of 22.4, then the multiple could contract 1.1% per year through 2023. If the Stryker were able to return to its 10 year average EPS growth rate (14%), then shares would be undervalued to its historical multiple.

Safety, Quality, Competitive Advantage, & Recession Resiliency

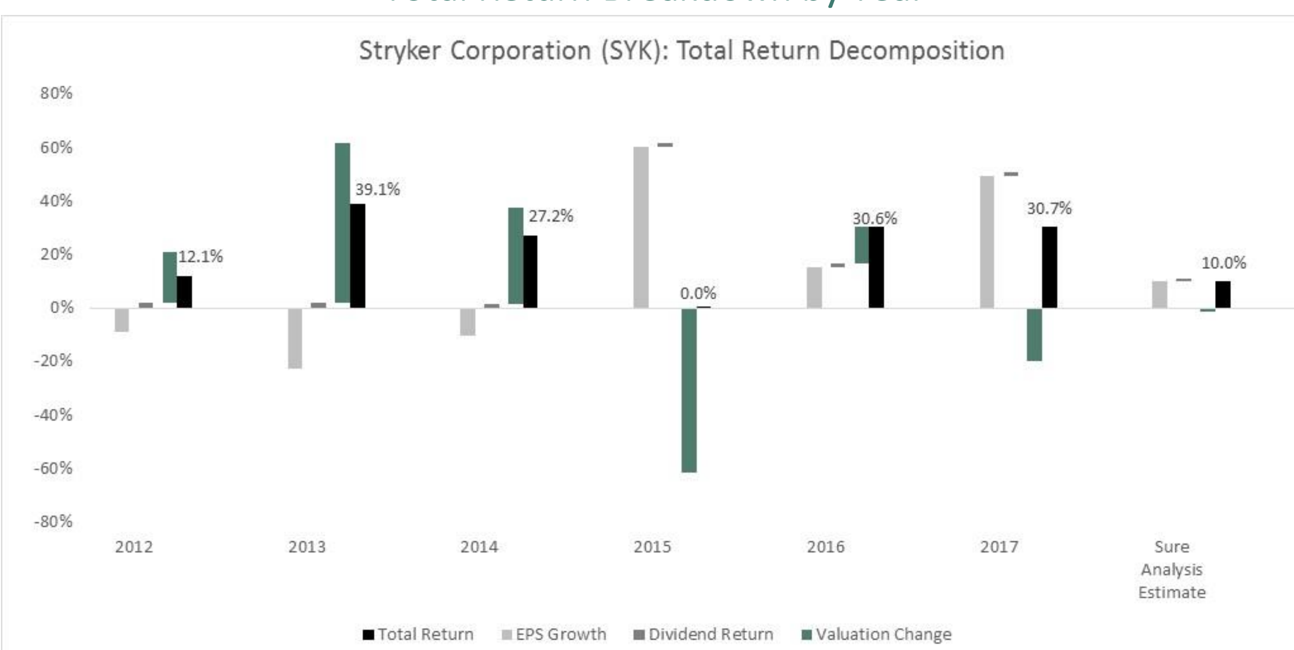
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	60.3%	50%	46.2%	45.2%	44.5%	38.2%	36.8%	40.7%	36.7%	36.8%	***36.7%***	***37.8%***
Debt/A	28.9%	27.3%	34.2%	36.7%	34.9%	42.5%	50.3%	47.5%	53.3%	55.1%	***54.2%***	***49.7%***
Payout	14.4%	9%	18.9%	20.2%	26.5	41.8%	53.4%	37.6%	36.1%	34.9%	***26%***	***26.1%***
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

Stryker had another strong quarter, with robust organic sales. All three divisions showed at least mid-single digit growth and the Mako robot is taking market share from its competitors. Due to 2nd quarter results, the company increased its earnings-per-share forecast for the year. We expect that Stryker's stock can offer annual returns of 10% per year, down slightly from our earlier forecast of 10.2%. This is based off of earnings growth (10%), dividends (1.1%) and a slight multiple reversion (1.1%). We now have a 2023 price target of $261, a $4 increase due to updated earnings guidance. We continue to encourage investors to consider adding Stryker to their portfolio.

Total Return Breakdown by Year



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