Stryker Corporation (SYK)

Updated October 27th, 2018 by Nate Parsh

Key Metrics

Current Price:	$160	**5 Year CAGR Estimate:**	11.6%	**Volatility Percentile:**	6.2%
Fair Value Price:	$163	**5 Year Growth Estimate:**	10.0%	**Momentum Percentile:**	69.8%
% Fair Value:	98%	**5 Year Valuation Multiple Estimate:**	0.4%	**Growth Percentile:**	88.6%
Dividend Yield:	1.2%	**5 Year Price Target**	$263	**Valuation Percentile:**	48.7%
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Total Return Percentile:**	60.5%

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 were not 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 3rd quarter earnings results on October 25th. Stryker earned $1.69 per share, $0.01 ahead of estimates and a 11.2% improvement from the prior year. Revenue grew 7.6% to $3.24 billion, missing estimates by $20 million.

Stryker saw growth in all of its businesses. Orthopedic revenues grew 3.4%. Knee surgeries in the U.S. increased 8.4%, easily topping competitor Johnson & Johnson (JNJ), which saw procedures fall 2.3%. Recent studies imply that patients who undergo a Mako procedure see decreased pain and faster recovery than those that use more traditional methods. Stryker has installed nearly 600 robots worldwide, with usage rates up 40% year over year. MedSurg sales increased 8% as the company's Sage, Patient Care and Physio businesses contributed to growth. Neurotech & Spine sales climbed 16.7% as products such as coils, catheters and stent retrievers saw higher demand. Organic sales grew nearly 8% during the quarter. Stryker increased its midpoint for earnings-per-share to $7.28, up from $7.22 previously.

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	***$7.28***	***$11.72***
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***
Shares	396.4	397.9	391.1	381	380.5	377.9	378.8	373.0	375.0	374.4	***373.3***	***368***

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. 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	***22***	***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%***	***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 as the market has been willing to pay more for shares. The stock has decreased $14 since our July 26th update. Based off of updated guidance, shares trade with an earnings multiple of

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

22, down from 23.7 previously. If shares reverted to our target price-to-earnings ratio of 22.4, then the multiple could expand slightly (0.4% annually) 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

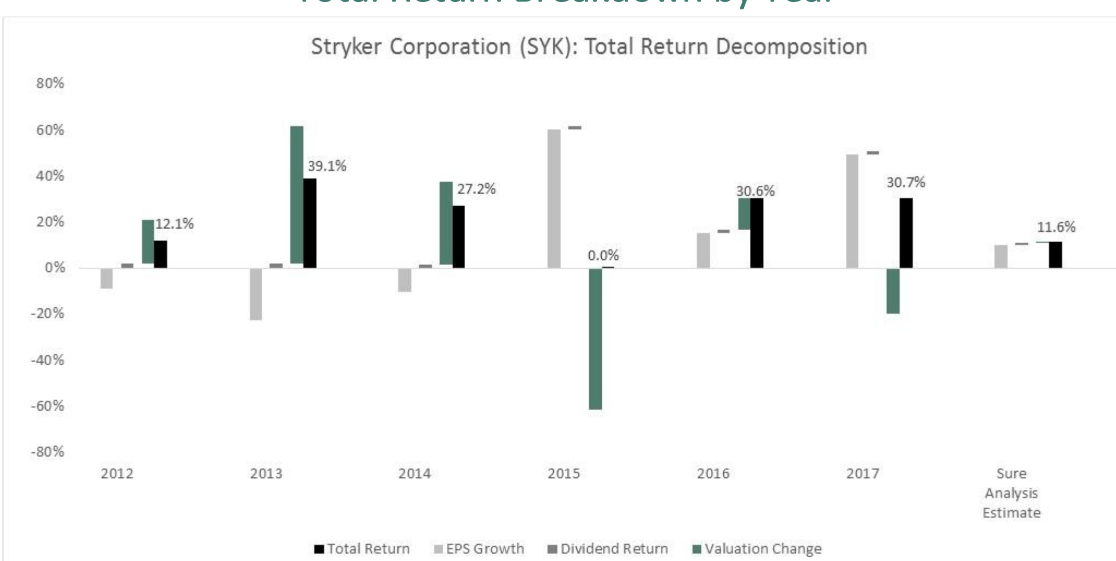
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	60.3%	50%	46.2%	45.2%	44.5%	38.2%	36.8%	40.7%	36.7%	36.8%	***36.7%***	***37.8%***
Debt/A	28.9%	27.3%	34.2%	36.7%	34.9%	42.5%	50.3%	47.5%	53.3%	55.1%	***54.2%***	***49.7%***
Payout	14.4%	9%	18.9%	20.2%	26.5	41.8%	53.4%	37.6%	36.1%	34.9%	***25.8%***	***25.9%***
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

While the company may have posted slightly lower than expected revenues, Stryker produced another very solid quarter. All divisions of the company saw sales increase and the Mako robot continues to prove to be the market leader in knee procedures. After updated guidance, we now estimate that Stryker can offer annual returns of 11.6%, up from 10% previously. This is based off of earnings growth (10%), dividends (1.2%) and a slight multiple expansion (0.4%). We have increased our price target $2 to $263 due to update EPS guidance. We reiterate our buy recommendation as shares currently trade below fair value. Investors looking for exposure to the medical device industry are encourage to consider purchasing shares of Stryker.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

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

Stryker Corporation (SYK)

Updated October 27th, 2018 by Nate Parsh

Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	6718.2	6723.1	7320	8307	8657	9021	9675	9946	11325	12444
Gross Profit	4586.8	4539.4	5034	5496	5876	6019	6356	6602	7495	8173
Gross Margin	68.3%	67.5%	68.8%	66.2%	67.9%	66.7%	65.7%	66.4%	66.2%	65.7%
SG&A Exp.	2625.1	2506.3	2707	3150	3367	3467	3547	3610	4137	4552
D&A Exp.	387.6	385.3	223	282	277	307	378	397	546	642
Operating Profit	1553.9	1661.4	1875	1762	1915	1878	2007	2157	2324	2463
Op. Margin	23.1%	24.7%	25.6%	21.2%	22.1%	20.8%	20.7%	21.7%	20.5%	19.8%
Net Profit	1147.8	1107.4	1273	1345	1298	1006	515	1439	1647	1020
Net Margin	17.1%	16.5%	17.4%	16.2%	15.0%	11.2%	5.3%	14.5%	14.5%	8.2%
Free Cash Flow	1020.7	1329.4	1365	1208	1447	1691	1549	711	1425	961
Income Tax	432.4	516.5	456	341	407	206	645	296	274	1043

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	7603.3	9071.3	10895	12146	13206	15743	17279	16223	20435	22197
Cash & Equivalents	701.1	658.7	1758	905	1395	1339	1795	3379	3316	2542
Acc. Receivable	1129.5	1147.1	1252	1417	1430	1518	1572	1662	1967	2198
Inventories	952.7	943	1057	1283	1265	1422	1588	1639	2030	2465
Goodwill & Int.	935.5	1591.5	1775	3514	3566	5833	6204	5930	9864	10645
Total Liabilities	2196.6	2476.2	3721	4463	4609	6696	8684	7712	10885	12217
Accounts Payable	274.3	200.2	292	345	288	314	329	410	437	487
Long-Term Debt	20.5	18	1021	1768	1762	2764	3973	3998	6914	7222
Total Equity	5406.7	6595.1	7174	7683	8597	9047	8595	8511	9550	9966
D/E Ratio	0.00	0.00	0.14	0.23	0.21	0.31	0.46	0.47	0.72	0.72

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	15.3%	13.3%	12.8%	11.7%	10.2%	7.0%	3.1%	8.6%	9.0%	4.8%
Return on Equity	21.3%	18.5%	18.5%	18.1%	15.9%	11.4%	5.8%	16.8%	18.2%	10.5%
ROIC	21.2%	18.4%	17.2%	15.2%	13.1%	9.1%	4.2%	11.5%	11.4%	6.1%
Shares Out.	396.4	397.9	391.1	381	380.5	377.9	378.8	373.0	375.0	374.4
Revenue/Share	16.24	16.83	18.32	21.33	22.60	23.61	25.27	26.11	29.92	32.74
FCF/Share	2.47	3.33	3.42	3.10	3.78	4.43	4.05	1.87	3.76	2.53

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.