Stryker Corporation (SYK)

Updated January 30th, 2019 by Nathan Parsh

Key Metrics

Current Price:	$179	**5 Year CAGR Estimate:**	11.6%	**Volatility Percentile:**	7.5%
Fair Value Price:	$181	**5 Year Growth Estimate:**	10.0%	**Momentum Percentile:**	74.5%
% Fair Value:	99%	**5 Year Valuation Multiple Estimate:**	0.3%	**Growth Percentile:**	89.7%
Dividend Yield:	1.3%	**5 Year Price Target**	$292	**Valuation Percentile:**	51.6%
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Total Return Percentile:**	64.3%

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 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. The company completed its $1.4 billion purchase of K2M in November. This acquisition will help Stryker take greater market share in the spinal surgery market.

Stryker released financial results for the fourth quarter and full year 2018 on January 29th. The company's Earnings-per-share (EPS) for the quarter were $2.18, $0.03 above estimates and an 11% increase from the previous year. Revenue grew 9.5% to $3.8 billion. Stryker's organic growth was 8.4%. For 2018, adjusted EPS was $7.31, above the company's guidance of $7.28. Revenue totaled $13.6 billion. Revenue and organic growth grew 9.3% and 7.9%, respectively, during the year. By division, Orthopedics grew 7% for the quarter and 5.9% for the year. Stryker installed 54 Mako robots worldwide during the quarter, giving the company a global install base of 642 robots. U.S. knee procedures grew 5.8%. Mako robots performed nearly 77,000 procedures during the year. Sales for the company's U.S. Trauma and Extremities division reached $1 billion for the first time in 2018. MedSurg saw 10.1% growth in the fourth quarter. This division had organic growth of 8.6%. U.S. organic growth was 12.3%, led by the company's bed, stricter, and Sage product lines. Endoscopy sales were higher by more than 5%. Sales for Neurotechnology and Spine were higher by 8.4% for the quarter. Neurovascular CMS and Interventional Spine had double-digit organic growth rates.

Stryker expects adjusted EPS for 2019 in the range of $8.00-$8.20. Organic growth should fall between 6.5% and 7.5%. Shares gained more than 11% following the results release.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$2.77	$3.33	$3.72	$3.39	$2.63	$2.36	$3.78	$4.35	$6.49	$7.28	***$8.10***	***$13.05***
DPS	$0.25	$0.63	$0.75	$0.90	$1.10	$1.26	$1.42	$1.57	$1.70	$1.93	***$2.08***	***$3.35***
Shares	397.9	391.1	381	380.5	377.9	378.8	373.0	375.0	374.4	373.3	***372***	***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.

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%.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	15.1	15.7	14.8	15.8	25.9	35.2	25.2	25.4	28.7	22	***22.1***	***22.4***
Avg. Yld.	0.6%	1.2%	1.4%	1.7%	1.6%	1.5%	1.5%	1.4%	1.2%	1.2%	***1.3%***	***1.2%***

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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. The stock has increased $19 since our October 27th update. Based off of guidance for 2019, shares trade with an earnings multiple of 22.1. If shares reverted to our target price-to-earnings ratio of 22.4, then the multiple could expand slightly (0.3% annually) through 2024. If the Stryker were able to return to its 10 year average EPS growth rate (14%), then shares would likely command a greater P/E multiple.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2024**
Payout	9%	18.9%	20.2%	26.5	41.8%	53.4%	37.6%	36.1%	34.9%	26.5%	***25.7%***	***25.7%***

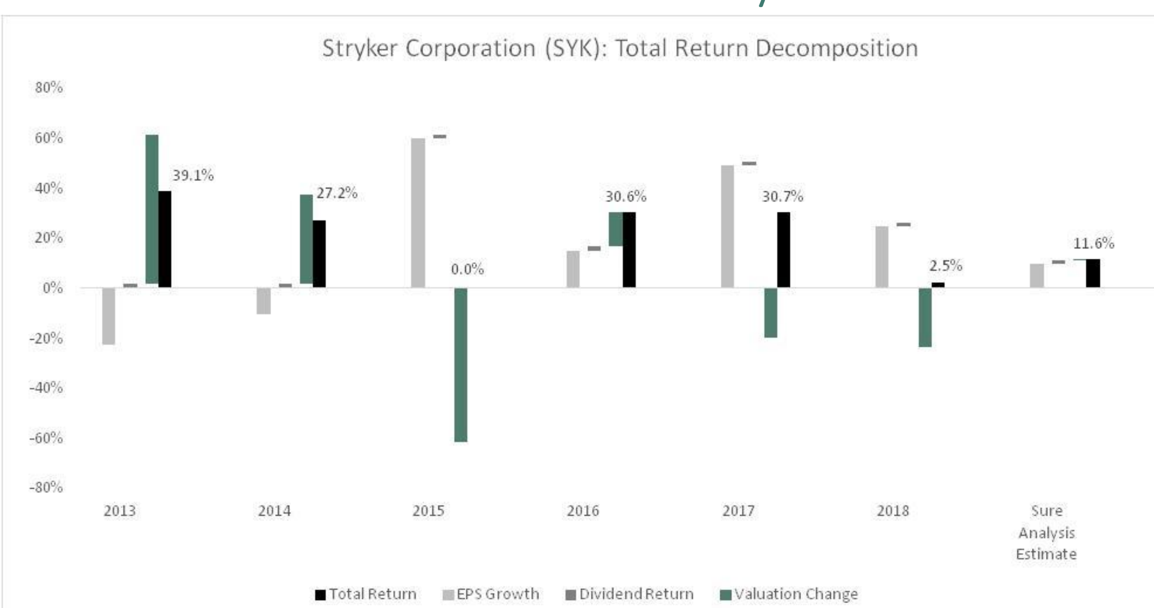
Stryker's strength during the most recent recession should give shareholders the confidence that the company can thrive in a difficult economic climate. As the leader in the medical device sector, Stryker's products are in demand around the world. For example, the company continues to see growth in its Mako robot installations as well as a higher number of procedures performed. In addition, Stryker trained ~1,600 surgeons on using its robot during 2018. These figures are likely to grow as more surgeons become comfortable with using a robot during surgery.

Another competitive advantage Stryker has over its peers is its organic growth. Over the past 4 years, Stryker has averaged 6.4% organic 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 in recent years.

Final Thoughts & Recommendation

After reviewing fourth quarter and full year results, we forecast that Stryker can offer a total annual return of 11.6% through 2024. Stryker's businesses performed very well during 2018 with high rates of organic growth. The company's Mako robot continues to take market share. This device has a long runway for growth as more and more surgeons and patients become comfortable with the robot performing procedures. While the company's dividend yield may not attract income seeking investors, Stryker's long history of dividend growth should do so. Growth investors are encouraged to consider adding Stryker as well due to the company's performance in past years. We maintain our buy rating on Stryker and have raised our 2024 price target $29 due to 2019 guidance.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	6723	7320	8307	8657	9021	9675	9946	11325	12444	13601
Gross Profit	4539	5034	5496	5876	6019	6356	6602	7495	8173	8938
Gross Margin	67.5%	68.8%	66.2%	67.9%	66.7%	65.7%	66.4%	66.2%	65.7%	65.7%
SG&A Exp.	2506	2707	3150	3367	3467	3547	3610	4137	4552	5099
D&A Exp.	385	223	282	277	307	378	397	546	642	723
Operating Profit	1661	1875	1762	1915	1878	2007	2157	2324	2463	2560
Operating Margin	24.7%	25.6%	21.2%	22.1%	20.8%	20.7%	21.7%	20.5%	19.8%	18.8%
Net Profit	1107	1273	1345	1298	1006	515	1439	1647	1020	3553
Net Margin	16.5%	17.4%	16.2%	15.0%	11.2%	5.3%	14.5%	14.5%	8.2%	26.1%
Free Cash Flow	1329	1365	1208	1447	1691	1549	711	1425	961	2038
Income Tax	517	456	341	407	206	645	296	274	1043	-1197

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	9071	10895	12146	13206	15743	17279	16223	20435	22197	27229
Cash & Equivalents	659	1758	905	1395	1339	1795	3379	3316	2542	3616
Accounts Receivable	1147	1252	1417	1430	1518	1572	1662	1967	2198	2332
Inventories	943	1057	1283	1265	1422	1588	1639	2030	2465	2955
Goodwill & Int. Ass.	1592	1775	3514	3566	5833	6204	5930	9864	10645	12726
Total Liabilities	2476	3721	4463	4609	6696	8684	7712	10885	12217	15499
Accounts Payable	200	292	345	288	314	329	410	437	487	N/A
Long-Term Debt	18	1021	1768	1762	2764	3973	3998	6914	7222	8486
Shareholder's Equity	6595	7174	7683	8597	9047	8595	8511	9550	9966	11730
D/E Ratio	0.00	0.14	0.23	0.21	0.31	0.46	0.47	0.72	0.72	0.72

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	13.3%	12.8%	11.7%	10.2%	7.0%	3.1%	8.6%	9.0%	4.8%	14.4%
Return on Equity	18.5%	18.5%	18.1%	15.9%	11.4%	5.8%	16.8%	18.2%	10.5%	32.8%
ROIC	18.4%	17.2%	15.2%	13.1%	9.1%	4.2%	11.5%	11.4%	6.1%	19.0%
Shares Out.	397.9	391.1	381	380.5	377.9	378.8	373.0	375.0	374.4	373.3
Revenue/Share	16.83	18.32	21.33	22.60	23.61	25.27	26.11	29.92	32.74	35.76
FCF/Share	3.33	3.42	3.10	3.78	4.43	4.05	1.87	3.76	2.53	5.36

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