# Stryker Corporation (SYK)

*Updated April 25th, 2019 by Nathan Parsh*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $185 | **5 Year CAGR Estimate:** | 10.7% | **Volatility Percentile:** | 17.4% |
| **Fair Value Price:** | $182 | **5 Year Growth Estimate:** | 10.0% | **Momentum Percentile:** | 62.5% |
| **% Fair Value:** | 102% | **5 Year Valuation Multiple Estimate:** | -0.4% | **Growth Percentile:** | 91.3% |
| **Dividend Yield:** | 1.1% | **5 Year Price Target** | $293 | **Valuation Percentile:** | 50.1% |
| **Dividend Risk Score:** | B | **Retirement Suitability Score:** | D | **Total Return Percentile:** | 62.4% |

## 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 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 trades with a market capitalization of $70 billion and generates more than $14 billion in annual revenues.

The company completed its $1.4 billion purchase of K2M in November of 2018. This acquisition will help Stryker take greater market share in the spinal surgery market.

Stryker reported financial results for the first quarter on 4/23/2019. The company earned $1.88 per share, which was $0.04 above estimates and a 12% improvement from the previous year. Revenue increased 8.5% to $3.5 billion, which was slightly higher than expected. The negative impact from currency exchange reduced revenues by 2.1%.

The company's organic growth reached 7.3% during the quarter. Orthopedics grew 2.8% during the quarter, with 5% organic growth. The company installed 35 Mako robots in the quarter, of which 27 were in the U.S. Stryker now has an install base of nearly 700 Mako robots around the world. Mako total knee procedures increased 80% year-over-year to more than 15,000 procedures. Sales for the MedSurg segment were higher by 8.2%, with 8.9% organic growth. Instruments grew nearly 18% in the U.S. due largely to gains in power tool and waste management products. Strength across sports medicine, communications and procare led to a 7.5% organic growth rate for the Endoscopy business. Neurotechnology & Spine grew 20.7%, with 7.8% organic growth. Acquisitions, such as K2M, contributed 15.4% to this division's growth. For 2019, the company expects organic growth to fall in the range of 6.8% to 7.5%, up from 6.5% to 7.5% previously. Earnings-per-share should fall in the range of $8.05 to $8.20, up from initial guidance of $8.00 to $8.20. We have adjusted our earnings-per-share forecast accordingly.

## 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 | ***$8.13*** | ***$13.09*** |
| **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** | 398 | 39 | 381 | 381 | 378 | 379 | 373 | 375 | 374 | 373 | ***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 2024 due to revenue gains throughout the company's businesses. 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. The company increased its dividend by 10.6% for the 1/31/2019 payment. We see the payout rising to $3.35 per share by 2024, up from the current $2.08.

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## 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 | ***22.8*** | ***22.4*** |
| **Avg. Yld.** | 0.6% | 1.2% | 1.4% | 1.7% | 1.6% | 1.5% | 1.5% | 1.4% | 1.2% | 1.2% | ***1.1%*** | ***1.1%*** |

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 $6 since our 1/30/2019 update. Based off of updated guidance for 2019, shares trade with an earnings multiple of 22.8. If shares reverted to our target price-to-earnings ratio of 22.4 by 2024, then valuation would be a 0.4% headwind to annual returns over this time period. If Stryker were able to return to its average growth rate (14%), then shares would likely command a greater multiple.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Payout** | 9% | 19% | 20% | 27% | 42% | 53% | 38% | 36% | 35% | 27% | ***26%*** | ***26%*** |

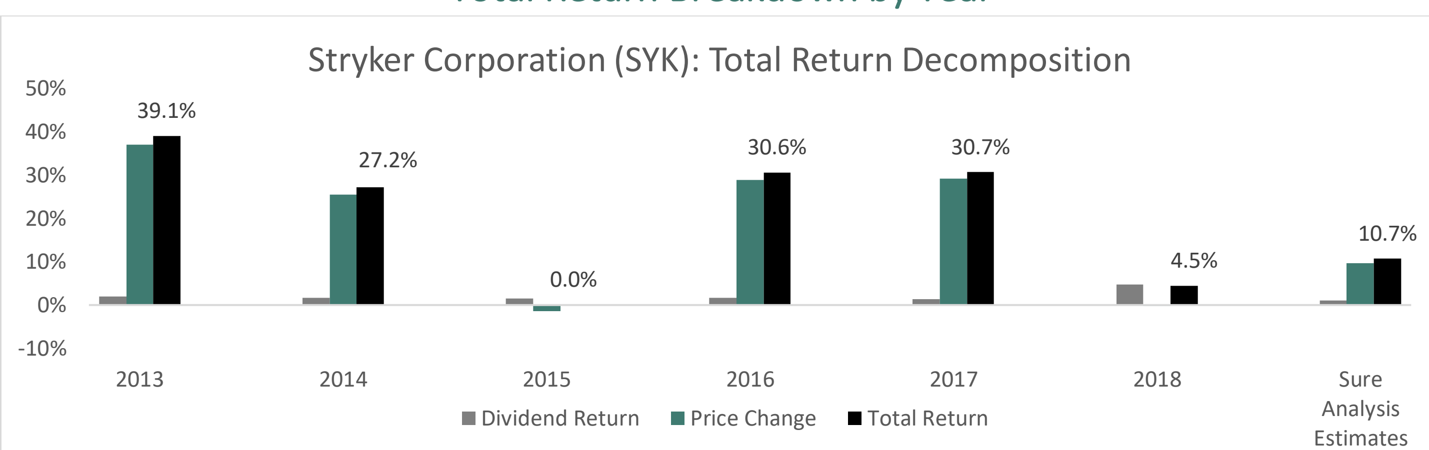
Stryker's strength during the most recent recession should give shareholders the confidence that the company can thrive in a difficult economic climate. As the leader in the medical device sector, Stryker's products are in demand around the world. For example, the company continues to see growth in its 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

We expect Stryker to offer a total annual return of 10.7% through 2024, down slightly from our previous estimate of 11.6%. Currency was a sizeable headwind during the first quarter, but Stryker raised the low end of its earnings-per-share estimate for the year. The company also produced double-digit earnings-per-share growth and increased revenue by high single-digits despite with a currency headwind. Stryker is also showing growth in every segment of the company. The Mako robot continues to take market share as more and more surgeons become comfortable using the product. Due to expected growth over the next five years, Stryker receives a buy recommendation from Sure Dividend at this time. We have raised our 2024 price target $1 to $293 due to earnings revisions.

## Total Return Breakdown by Year

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

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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.*