Stryker Corporation (SYK)

Updated January 29th, 2020 by Nathan Parsh

Key Metrics

Current Price:	$211	**5 Year CAGR Estimate:**	10.7%	**Market Cap:**	$80 billion
Fair Value Price:	$209	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	12/30/2019
% Fair Value:	101%	**5 Year Valuation Multiple Estimate:**	-0.2%	**Dividend Payment Date:**	1/31/2020
Dividend Yield:	1.0%	**5 Year Price Target**	$337	**Years Of Dividend Growth:**	26
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	10.6%

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 of 2018. This acquisition will help Stryker take greater market share in the spinal surgery market.

Stryker reported earnings results for the fourth quarter and full year on 1/28/2020. The company's adjusted earnings-per-share was $2.49 for the quarter, topping estimates by $0.03 and growing 14% from the previous year. Revenue increased 9% to $4.1 billion, topping estimates by $20 million. For the year, adjusted earnings-per-share improved 13.5% to $8.26, $0.01 below the midpoint for guidance. Revenue grew 9.4% to $14.9 billion. This marks 40 consecutive years of annual sales growth for the company.

Stryker had had 8% organic growth for the quarter and 8.1% for the year. For the quarter, Orthopedics grew 8.8% (8% organic growth) as improvements in unit volumes offset slightly lower prices. The company sold 89 Mako robots during the quarter, an increase of 35 from the previous year. Stryker now has an install base of 860 robots, with ~700 in the U.S. Total U.S. procedures. increased 50% to 36,600 in the quarter. Knee procedures increased 59% during the quarter and 66% for the year. Hip procedures were up 40% for 2019. MedSurg improved 6.7% (7.3% organic growth) led by a 15.4% organic growth in endoscopy. Instruments, waste management, and smoke evacuation also contributed to growth. Neurotechnology and Spine had 18% growth (12.5% organic growth). U.S Neurotech sales were up 16.5% due to hemorrhagic, stroke and neuro-powered instrument products. Adjusted gross margins improved 60 bps to 66.3% for the quarter, but declined 20 bps to 65.9% for the full year. Adjusted operating margins were up 80 bps to 28.3% for the fourth quarter and higher by 40 bps to 26.3% for 2019.

For 2020, Stryker expects organic growth of 6.5% to 7.5% with adjusted earnings-per-share in a range of $9.00 to $9.20. The midpoint of guidance for adjusted earnings-per-share would represent a 10% increase from results for 2019.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$3.33	$3.72	$3.39	$2.63	$2.36	$3.78	$4.35	$6.49	$7.28	$8.26	***$9.10***	***$14.66***
DPS	$0.63	$0.75	$0.90	$1.10	$1.26	$1.42	$1.57	$1.70	$1.93	$2.14	***$2.14***	***$3.45***
Shares[1]	39	381	381	378	379	373	375	374	373	380	***380***	***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 2025 due to revenue gains throughout the company's businesses. This growth rate is a slight discount to the company's historical growth rate.

[1] Share count in millions

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

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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 $3.45 per share by 2025, up from the current $2.08.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018	Now	2025
Avg. P/E	15.7	14.8	15.8	25.9	35.2	25.2	25.4	28.7	22	25.4	***23.2***	***23.0***
Avg. Yld.	1.2%	1.4%	1.7%	1.6%	1.5%	1.5%	1.4%	1.2%	1.2%	1.0%	***1.0%***	***1.0%***

Shares of Stryker have decreased $6, or 2.8%, since our 10/30/2019 update. Based off of guidance for 2020, shares trade with an earnings multiple of 23.2. Given the organic growth that the company is producing and the benefit from acquisitions, we are reaffirming our 2025 target P/E of 23. If shares reverted to our new target price-to-earnings ratio by 2025, then valuation would be a 0.2% 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

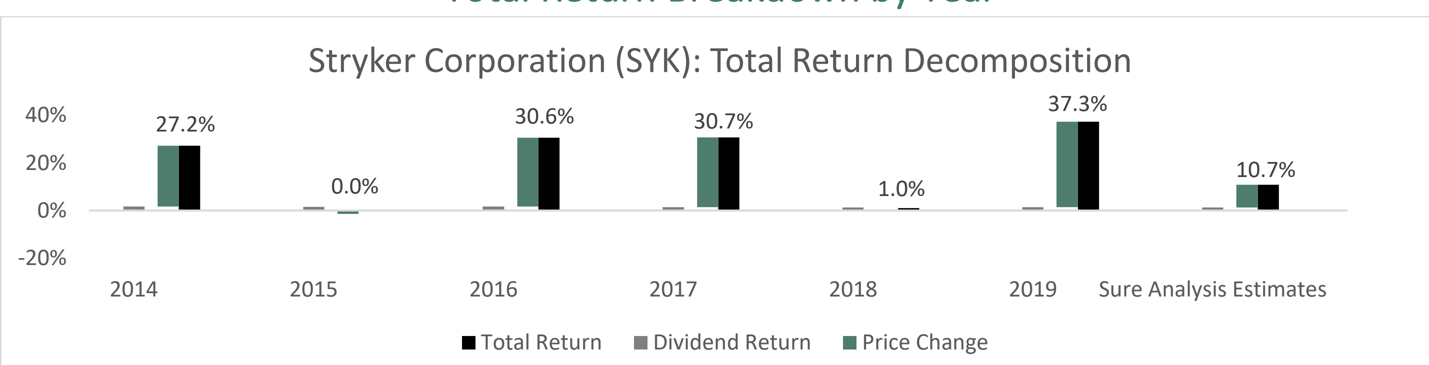
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	19%	20%	27%	42%	53%	38%	36%	35%	27%	25%	***24%***	***24%***

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

Following fourth quarter and full year results, Stryker Corporation is now expected to return 10.7% annually over the next five years, up from our prior estimate of 8.1%. Stryker continues to demonstrate strong growth rates in all of its businesses. The company's Mako robot continues to increase its market share and showed strong year-over-year growth again. Stryker's other divisions also continue to perform well. Shares may offer a low yield, but the company has more than a quarter century of dividend increases. Due to projected returns, Stryker now receives a buy recommendation from Sure Dividend. We have increased out 2025 price target $31 to $337 due to guidance for earnings for 2020.

Total Return Breakdown by Year



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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.