Stryker Corporation (SYK)

Updated April 28th, 2021 by Nathan Parsh

Key Metrics

Current Price:	$261	**5 Year CAGR Estimate:**	9.7%	**Market Cap:**	$98 billion
Fair Value Price:	$225	**5 Year Growth Estimate:**	12.0%	**Ex-Dividend Date:**	3/30/2021
% Fair Value:	116%	**5 Year Valuation Multiple Estimate:**	-2.9%	**Dividend Payment Date:**	4/30/2021
Dividend Yield:	1.0%	**5 Year Price Target**	$396	**Years Of Dividend Growth:**	27
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	9.6%

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 43,000 people worldwide.

Stryker released earnings results for the first quarter on 4/27/2021. Revenue grew 10% to $3.95 billion, which was $10 million more than expected. Adjusted earnings-per-share of $1.93 was a 4.9% increase from the prior year, but $0.05 lower than expected.

Organic revenue grew 1.8% year-over-year and 4.7% compared to Q1 2020. This follows a difficult 2020, where organic growth fell 3.3%, 8.6%, 24% and 1.1% over the first, second, third and fourth quarters, respectively, as the COVID-19 pandemic led to the cancelation or postponement of many elective procedures. International was a bright spot, with sales growing 15% year-over-year. Lower prices reduced results by 0.9%, but volumes increased 2.7% and acquisitions added 6.2%. Currency exchange was a 2.2% tailwind to results. Orthopaedics had an organic sales growth rate of 0.5% due to the slowdown in elective procedures. Mako continues to perform well due to higher installations in international markets, but also saw pickup in procedures in the U.S. MedSurg declined 1.6% as gains in waste management, smoke evacuation and services were offset by weakness in power tools. Neurotechnology & Spine was the best performer as organic sales improved 11.3%. Interventional spine, neurosurgical and ear-nose-and-throat businesses all had double-digit growth. The adjusted operating margin was lower by 50 basis points to 23.5%.

Stryker reaffirmed its organic revenue growth target of 8% to 10% in 2021, more in-line with the company's long-term growth rate. The company now expects adjusted earnings-per-share of $9.05 to $9.30 for the year, up from $8.80 to $9.20 previously. We have updated our estimates for the current year accordingly.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$3.72	$3.39	$2.63	$2.36	$3.78	$4.35	$6.49	$7.28	$8.26	$7.43	***$9.18***	***$16.18***
DPS	$0.75	$0.90	$1.10	$1.26	$1.42	$1.57	$1.70	$1.93	$2.14	$2.36	***$2.52***	***$4.44***
Shares[1]	381	381	378	379	373	375	374	373	380	376	***376***	***368***

Stryker has grown earnings-per-share at a rate of 8% per year since 2011, but 16.1% over the last five-years. We reaffirm our earnings growth rate of 12% as it strikes a balance between the long-term and medium-term growth rates while also taking into account our expectations for increased demand for Stryker's products during the recovery from the pandemic. 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 has increased its dividend at an average rate of almost 15% per year over the past 10 years, though that growth has

[1] Share count in millions

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

slowed recently. The company raised its dividend by 9.6% for the 1/31/2021 payment. We see the payout rising to $4.44 per share by 2026, up from the current $2.52.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	14.8	15.8	25.9	35.2	25.2	25.4	28.7	22.8	24	26.9	***28.4***	***24.5***
Avg. Yld.	1.4%	1.7%	1.6%	1.5%	1.5%	1.4%	1.3%	1.2%	1.0%	1.1%	***1.0%***	***1.1%***

Shares of Stryker have increased $36, or 16%, since our 2/1/2021 update. Based off of updated estimates for 2021, shares trade with an earnings multiple of 28.4. Given the organic growth that the company produces under normal conditions and the benefit from acquisitions, we are raising our 2026 target P/E to 24.5 to match the average valuation since 2011. If shares reverted to our target price-to-earnings ratio by 2026, then valuation would be a 2.9% headwind to annual returns over this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

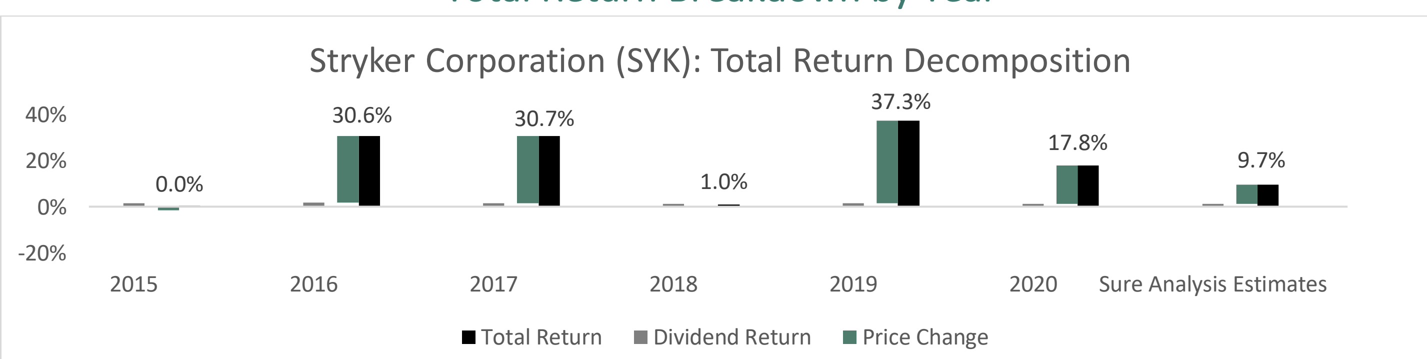
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	20%	27%	42%	53%	38%	36%	35%	27%	25%	32%	***27%***	***27%***

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. 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 first quarter results, Stryker Corporation is now projected to return 9.7% annually over the next five years, down from our prior estimate of 11.1%. Our projected return stems from a 12% earnings growth rate and starting yield of 1% partially offset by a slight headwind from valuation reversion. Stryker returned to positive organic growth in the first quarter and showed solid increases compared to Q1 2020. Two out of three business segments were up compared to the prior year. We believe Stryker to be one of the best names in the medical device sector, but note shares have had an excellent return since our last report. We have increased our 2026 price target $31 to $396 and view shares as a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	8,307	8,657	9,021	9,675	9,946	11,325	12,444	13,601	14,884	14,351
Gross Profit	5,496	5,876	6,019	6,356	6,602	7,504	8,180	8,938	9,696	9,057
Gross Margin	66.2%	67.9%	66.7%	65.7%	66.4%	66.3%	65.7%	65.7%	65.1%	63.1%
SG&A Exp.	3,150	3,367	3,467	3,547	3,610	4,137	4,552	5,099	5,356	5,361
D&A Exp.	282	277	307	378	397	546	642	723	778	812
Operating Profit	1,762	1,915	1,878	2,007	2,157	2,333	2,470	2,560	2,905	2,240
Operating Margin	21.2%	22.1%	20.8%	20.7%	21.7%	20.6%	19.8%	18.8%	19.5%	15.6%
Net Profit	1,345	1,298	1,006	515	1,439	1,647	1,020	3,553	2,083	1,599
Net Margin	16.2%	15.0%	11.2%	5.3%	14.5%	14.5%	8.2%	26.1%	14.0%	11.1%
Free Cash Flow	1,208	1,447	1,691	1,549	711	1,425	961	2,038	1,542	2,790
Income Tax	341	407	206	645	296	274	1,043	-1,197	479	355

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	12,146	13,206	15,743	17,279	16,223	20,435	22,197	27,229	30,167	34,330
Cash & Equivalents	905	1,395	1,339	1,795	3,379	3,316	2,542	3,616	4,337	2,943
Accounts Receivable	1,417	1,430	1,518	1,572	1,662	1,967	2,198	2,332	2,893	2,701
Inventories	1,283	1,265	1,422	1,588	1,639	2,030	2,465	2,955	3,282	3,494
Goodwill & Int. Ass.	3,514	3,566	5,833	6,204	5,930	9,864	10,645	12,726	13,296	18,332
Total Liabilities										
Accounts Payable	345	288	314	329	410	437	487	646	675	
Long-Term Debt	1,768	1,762	2,764	3,973	3,998	6,914	7,222	9,859	11,090	13,230
Shareholder's Equity	7,683	8,597	9,047	8,595	8,511	9,550	9,966	11,730	12,807	13,084
D/E Ratio	0.23	0.21	0.31	0.46	0.47	0.72	0.72	0.84	0.87	1.01

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	11.7%	10.2%	7.0%	3.1%	8.6%	9.0%	4.8%	14.4%	7.3%	5.0%
Return on Equity	18.1%	15.9%	11.4%	5.8%	16.8%	18.2%	10.5%	32.8%	17.0%	12.4%
ROIC	15.2%	13.1%	9.1%	4.2%	11.5%	11.4%	6.1%	18.3%	9.2%	6.4%
Shares Out.	381	381	378	379	373	375	374	373	380	376
Revenue/Share	21.33	22.60	23.61	25.27	26.11	29.92	32.74	35.76	39.18	37.74
FCF/Share	3.10	3.78	4.43	4.05	1.87	3.76	2.53	5.36	4.06	7.34

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