# Stryker Corporation (SYK)

*Updated January 29th, 2022 by Nathan Parsh*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $248 | **5 Year CAGR Estimate:** | 12.3% | **Market Cap:** | $94 billion |
| **Fair Value Price:** | $240 | **5 Year Growth Estimate:** | 12.0% | **Ex-Dividend Date:** | 12/30/2021 |
| **% Fair Value:** | 103% | **5 Year Valuation Multiple Estimate:** | -0.6% | **Dividend Payment Date:** | 1/31/2022 |
| **Dividend Yield:** | 1.1% | **5 Year Price Target** | $423 | **Years Of Dividend Growth:** | 28 |
| **Dividend Risk Score:** | A | **Retirement Suitability Score:** | C | **Last Dividend Increase:** | 10.3% |

## 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 43,000 people worldwide. In November of 2021, Stryker reorganized its businesses into two reporting segments: MedSurg and Neurotechnology and Orthopaedics and Spine.

Stryker reported earnings results for the fourth quarter and full year on 1/27/2022. For the quarter, revenue increased more than 10% to $4.7 billion, beating estimates by $50 million. Adjusted earnings-per-share of $2.71 compared unfavorably to adjusted earnings-per-share of $2.81 in the prior year and was $0.01 lower than expected. For the year, revenue grew 19.2% to $17.1 billion while adjusted earnings-per-share of $9.09 compared very favorably to adjusted earnings-per-share of $7.43 in the prior year. Revenue and adjusted earnings-per-share also outperformed pre-pandemic 2019.

Organic revenue was up 9% from last year and 6.2% from Q4 2019. MedSurg and Neurotechnology had 9.2% organic growth. Mako continues to perform well. Orthopaedics and Spine grew 8.7% has strength in instruments, power tools, waste management, smoke evacuation, and Steri-Shield products. This was offset by postponement of elective surgical procedures due to COVID-19 constraints on the healthcare system.

Stryker also provided guidance for 2022. The company expects organic revenue growth of 6% to 8% for the year, with adjusted earnings-per-share in the range of $9.60 to $10.00. At the midpoint, this would be a nearly 8% improvement from 2021. We have initiated our estimates for the current year accordingly.

## Growth on a Per-Share Basis

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EPS** | $3.39 | $2.63 | $2.36 | $3.78 | $4.35 | $6.49 | $7.28 | $8.26 | $7.43 | $9.09 | ***$9.80*** | ***$17.27*** |
| **DPS** | $0.90 | $1.10 | $1.26 | $1.42 | $1.57 | $1.70 | $1.93 | $2.14 | $2.36 | $2.52 | ***$2.78*** | ***$4.90*** |
| **Shares[1]** | 381 | 378 | 379 | 373 | 375 | 374 | 373 | 380 | 376 | 377 | ***376*** | ***368*** |

Stryker has grown earnings-per-share at a rate of 11.6% per year since 2012. 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 12% per year over the past 10 years, though that growth has slowed somewhat in the medium-term. The company raised its dividend by 10.3% for the 1/31/2022 payment. We see the payout rising to $4.90 per share by 2027, up from the current $2.78.

[1] Share count in millions

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

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## Valuation Analysis

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Now | 2027 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Avg. P/E** | 15.8 | 25.9 | 35.2 | 25.2 | 25.4 | 28.7 | 22.8 | 24 | 26.9 | 29.4 | ***25.3*** | ***24.5*** |
| **Avg. Yld.** | 1.7% | 1.6% | 1.5% | 1.5% | 1.4% | 1.3% | 1.2% | 1.0% | 1.1% | 0.9% | ***1.1%*** | ***1.2%*** |

Shares of Stryker have decreased $18, or 6.8%, since our 10/31/2021 update. Based off of estimates for 2022, shares trade with an earnings multiple of 25.3. We reaffirm our 2027 target P/E of 24.5 to match the average valuation since 2011. If shares reverted to our target price-to-earnings ratio by 2027, then valuation would be a 0.6% headwind to annual returns over this time period.

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

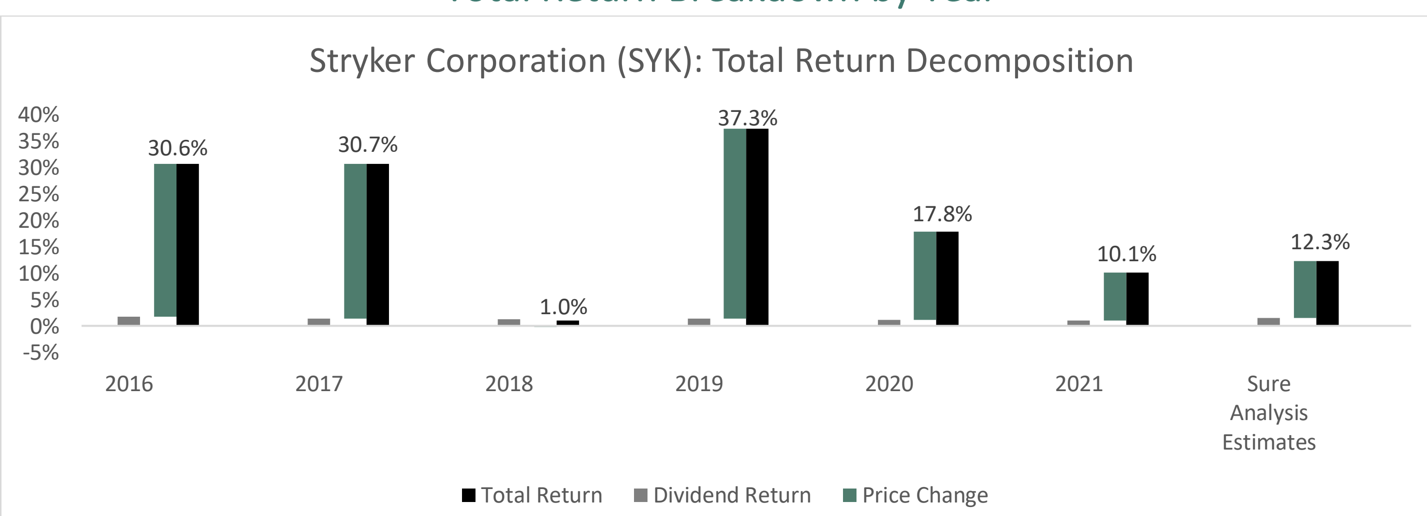
| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Payout** | 27% | 42% | 53% | 38% | 36% | 35% | 27% | 25% | 32% | 28% | ***28%*** | ***28%*** |

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

Following fourth quarter results, Stryker Corporation is now projected to return 12.3% annually over the next five years, up from our prior estimate of 9.1%. Our projected return stems from a 12% earnings growth rate and starting yield of 1.1% partially offset by a slight headwind from valuation reversion. Stryker delivered strong organic growth for the year and reached a new record for annual sales. In fact, annual sales had never topped $15 billion prior to last year. COVID-19 does remain an issue, but we feel confident that the company will be able to overcome this challenge once again. We have raised our five-year price target $29 to $423 and now rate shares as a buy due to projected returns.

## 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 | 4,463 | 4,609 | 6,696 | 8,684 | 7,712 | 10,885 | 12,217 | 15,499 | 17,360 | 21,246 |
| 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 |
| LTD/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.*