Stryker Corporation (SYK)

Updated November 1st, 2022 by Nathan Parsh

Key Metrics

Current Price:	$217	**5 Year CAGR Estimate:**	14.0%	**Market Cap:**	$87 B
Fair Value Price:	$225	**5 Year Growth Estimate:**	12.0%	**Ex-Dividend Date:**	12/29/22[1]
% Fair Value:	96%	**5 Year Valuation Multiple Estimate:**	0.8%	**Dividend Payment Date:**	01/31/23[2]
Dividend Yield:	1.3%	**5 Year Price Target**	$397	**Years Of Dividend Growth:**	28
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Rating:**	Buy

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 46,000 people worldwide. In November of 2021, Stryker reorganized its businesses into two reporting segments: MedSurg and Neurotechnology, and Orthopaedics and Spine.

On October 31st, 2022, Stryker reported third quarter earnings results for the period ending September 30th, 2022. Revenue grew 7.1% to $4.5 billion, beating estimates by $40 million. Adjusted earnings-per-share of $2.12, which compared to $2.20 in the prior year and was $0.11 less than expected.

Organic revenue was up 9.9% from the prior year. MedSurg and Neurotechnology had organic growth of 10.8%. Mako installations were weaker during the period due to demand, but the order book remains very strong. Orthopaedics and Spine grew 8.7% due to gains in the hip, knee, trauma and extremities businesses.

Stryker provided updated guidance for 2022 as well. The company now expects organic revenue growth of 8.5% to 9% for the year, up from 8% to 9% and 6% to 8% previously. Unfavorable currency exchange is now expected to be a $0.35 to $0.40 headwind to adjusted earnings-per-share for the year, up from $0.25 to $0.30 and $0.10 to $0.15 previously. Coupled with supply chain issues, Stryker now projects adjusted earnings-per-share will be in a range of $9.15 to $9.25 per share, down from $9.30 to $9.50 for the year and $9.60 to $10.00 previously. We have updated our estimates 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	***$9.20***	***$16.21***
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[3]	381	378	379	373	375	374	373	380	376	377	***382***	***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 January 31st, 2022 payment. We see the payout rising to $4.90 per share by 2027, up from the current $2.78.

[1] Estimated ex-dividend date
[2] Estimated dividend payment date
[3] 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	***23.6***	***24.5***
Avg. Yld.	1.7%	1.6%	1.5%	1.5%	1.4%	1.3%	1.2%	1.0%	1.1%	0.9%	***1.3%***	***1.2%***

Shares of Stryker have increased $9, or 4.3%, since our May 2nd, 2022 report. Based off of estimates for 2022, shares trade at 23.6 times earnings. We reaffirm our 2027 target P/E of 24.5 to be more in-line with the average valuation since 2012. If shares reverted to our target price-to-earnings ratio by 2027, then valuation would be 0.8% tailwind to annual returns over this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

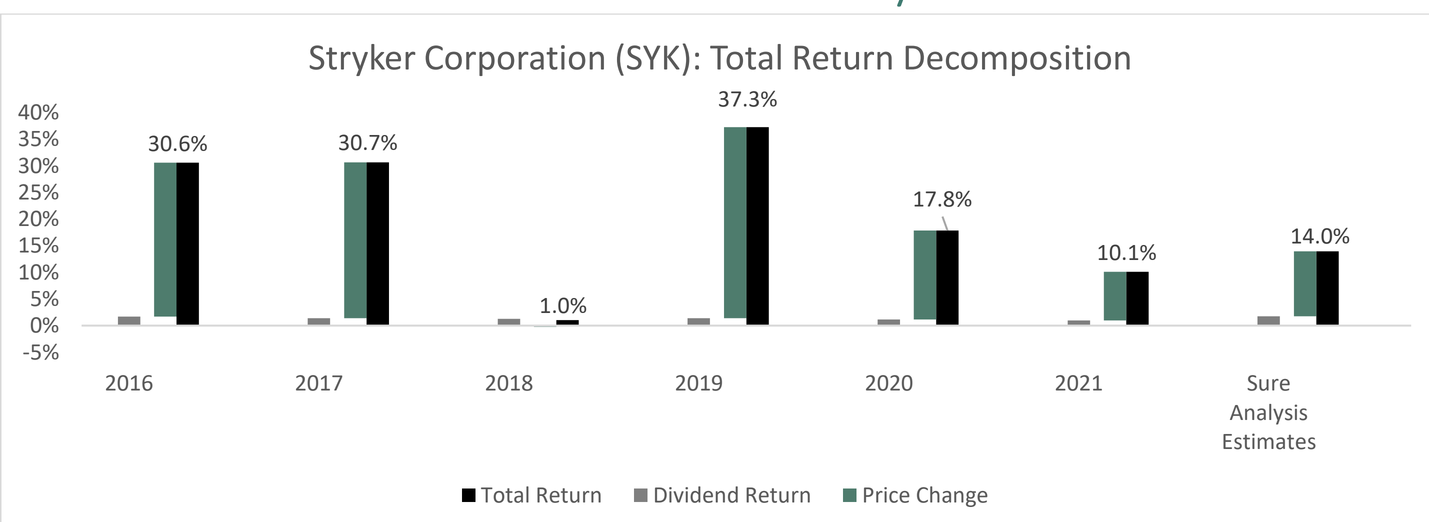
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	27%	42%	53%	38%	36%	35%	27%	25%	32%	28%	***30%***	***30%***

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 third quarter results, Stryker Corporation is now projected to return 14.0% annually over the next five years, down from our prior estimate of 15.4%. Our projected return stems from a 12% earnings growth rate, a starting yield of 1.3%, and a small contribution from multiple expansion. Organic growth was solid as Stryker saw strength in most areas. Unfavorable currency exchange, higher expenses, and supply chain headwinds remain an issue, which is why the company again lowered its earnings guidance for the year. We have lowered our 2027 price target $9 to $397 to reflect this change, but continue to view shares of Stryker as a buy due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	8,657	9,021	9,675	9,946	11,325	12,444	13,601	14,884	14,351	17,108
Gross Profit	5,876	6,019	6,356	6,602	7,504	8,180	8,938	9,696	9,057	10,968
Gross Margin	67.9%	66.7%	65.7%	66.4%	66.3%	65.7%	65.7%	65.1%	63.1%	64.1%
SG&A Exp.	3,367	3,467	3,547	3,610	4,137	4,552	5,099	5,356	5,361	6,427
D&A Exp.	277	307	378	397	546	642	723	778	812	990
Operating Profit	1,915	1,878	2,007	2,157	2,333	2,470	2,560	2,905	2,240	2,687
Operating Margin	22.1%	20.8%	20.7%	21.7%	20.6%	19.8%	18.8%	19.5%	15.6%	15.7%
Net Profit	1,298	1,006	515	1,439	1,647	1,020	3,553	2,083	1,599	1,994
Net Margin	15.0%	11.2%	5.3%	14.5%	14.5%	8.2%	26.1%	14.0%	11.1%	11.7%
Free Cash Flow	1,447	1,691	1,549	711	1,425	961	2,038	1,542	2,790	2,738
Income Tax	407	206	645	296	274	1,043	(1,197)	479	355	287

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	13,206	15,743	17,279	16,223	20,435	22,197	27,229	30,167	34,330	34,631
Cash & Equivalents	1,395	1,339	1,795	3,379	3,316	2,542	3,616	4,337	2,943	2,944
Accounts Receivable	1,430	1,518	1,572	1,662	1,967	2,198	2,332	2,893	2,701	3,022
Inventories	1,265	1,422	1,588	1,639	2,030	2,465	2,955	2,980	3,494	3,314
Goodwill & Int. Ass.	3,566	5,833	6,204	5,930	9,864	10,645	12,726	13,296	18,332	17,758
Total Liabilities	4,609	6,696	8,684	7,712	10,885	12,217	15,499	17,360	21,246	19,754
Accounts Payable	288	314	329	410	437	487	646	675	810	1,129
Long-Term Debt	1,762	2,764	3,973	3,998	6,914	7,222	9,859	11,090	13,991	12,479
Shareholder's Equity	8,597	9,047	8,595	8,511	9,550	9,966	11,730	12,807	13,084	14,877
LTD/E Ratio	0.21	0.31	0.46	0.47	0.72	0.72	0.84	0.87	1.07	0.84

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	10.2%	7.0%	3.1%	8.6%	9.0%	4.8%	14.4%	7.3%	5.0%	5.8%
Return on Equity	15.9%	11.4%	5.8%	16.8%	18.2%	10.5%	32.8%	17.0%	12.4%	14.3%
ROIC	13.1%	9.1%	4.2%	11.5%	11.4%	6.1%	18.3%	9.2%	6.3%	7.3%
Shares Out.	381	378	379	373	375	374	373	380	376	377
Revenue/Share	22.60	23.61	25.27	26.11	29.92	32.74	35.76	39.18	37.74	44.75
FCF/Share	3.78	4.43	4.05	1.87	3.76	2.53	5.36	4.06	7.34	7.16

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