Stryker Corporation (SYK)

Updated February 4th, 2023 by Nathan Parsh

Key Metrics

Current Price:	$283	**5 Year CAGR Estimate:**	9.9%	**Market Cap:**	$107 B
Fair Value Price:	$245	**5 Year Growth Estimate:**	12.0%	**Ex-Dividend Date:**	03/30/23[1]
% Fair Value:	116%	**5 Year Valuation Multiple Estimate:**	-2.8%	**Dividend Payment Date:**	04/28/23[2]
Dividend Yield:	1.1%	**5 Year Price Target**	$432	**Years Of Dividend Growth:**	29
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 January 31st, 2023, Stryker reported fourth quarter and full year earnings results for the period ending December 31st, 2022. For the quarter, revenue grew 10.6% to $5.2 billion, beating estimates by $230 million. Adjusted earnings-per-share of $3.00, which compared to $2.71 in the prior year and was $0.16 above expectations. For 2022, revenue grew 7.8% to $18.4 billion while adjusted earnings-per-share of $9.34 was up slightly from $9.09 in the prior year.

Organic revenue was 13.2% for the quarter and 9.7% for the year. For the quarter, MedSurg and Neurotechnology had organic growth of 16.9% while Orthopaedics and Spine grew 8.4%. Results for both businesses were driven by strong demand in volume even as the company had slightly lower realized prices.

Stryker provided guidance for 2023 as well. The company expects organic revenue growth of 7% to 8.5% for the year. Adjusted earnings-per-share are forecasted to be in a range of $9.85 to $10.15, which would represent growth of 7.1% at the midpoint. We have initiated our estimates accordingly.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$2.63	$2.36	$3.78	$4.35	$6.49	$7.28	$8.26	$7.43	$9.09	$9.34	***$10.00***	***$17.62***
DPS	$1.10	$1.26	$1.42	$1.57	$1.70	$1.93	$2.14	$2.36	$2.52	$2.78	***$3.00***	***$5.29***
Shares[3]	378	379	373	375	374	373	380	376	377	382	***382***	***368***

Stryker has grown earnings-per-share at a rate of 15.1% per year since 2013. 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 7.9% for the January 31st, 2023 payment. We see the payout rising to $5.29 per share by 2028, up from the current $3.00.

[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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	25.9	35.2	25.2	25.4	28.7	22.8	24	26.9	29.4	26.2	***28.3***	***24.5***
Avg. Yld.	1.6%	1.5%	1.5%	1.4%	1.3%	1.2%	1.0%	1.1%	0.9%	1.1%	***1.1%***	***1.2%***

Shares of Stryker have increased $66, or 30.4%, since our November 1st, 2022 report. Based off of estimates for 2023, shares trade at 28.3 times earnings. We reaffirm our 2028 target P/E of 24.5 to be more in-line with the average valuation since 2013. If shares reverted to our target price-to-earnings ratio by 2028, then multiple contraction would be 2.8% headwind to annual returns over this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

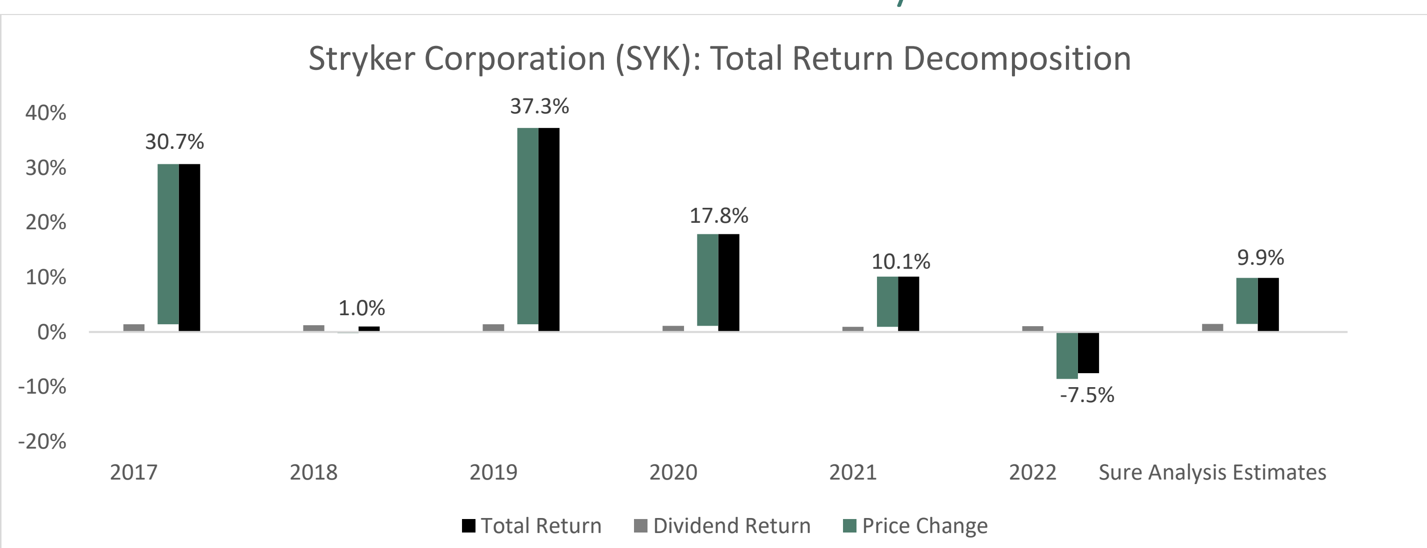
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	42%	53%	38%	36%	35%	27%	25%	32%	28%	30%	***30%***	***30%***

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 decade years, Stryker has consistently outperformed in peer group in the medical device sector in terms of organic growth. 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 fourth quarter results, Stryker Corporation is now projected to return 9.9% annually over the next five years, down from our prior estimate of 14.0%. Our projected return stems from a 12% earnings growth rate and a starting yield of 1.1%, offset by a small headwind from multiple expansion. Organic growth was solid as Stryker saw strength in most areas. Guidance for 2023 was also positive. We have raised our 2028 price target $35 to $432 to reflect earnings estimates and 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	9,021	9,675	9,946	11,325	12,444	13,601	14,884	14,351	17,108	18,449
Gross Profit	6,019	6,356	6,602	7,504	8,180	8,938	9,696	9,057	10,968	11,578
Gross Margin	66.7%	65.7%	66.4%	66.3%	65.7%	65.7%	65.1%	63.1%	64.1%	62.8%
SG&A Exp.	3,467	3,547	3,610	4,137	4,552	5,099	5,356	5,361	6,427	6,455
D&A Exp.	307	378	397	546	642	723	778	812	990	998
Operating Profit	1,878	2,007	2,157	2,333	2,470	2,560	2,905	2,240	2,687	3,042
Operating Margin	20.8%	20.7%	21.7%	20.6%	19.8%	18.8%	19.5%	15.6%	15.7%	16.5%
Net Profit	1,006	515	1,439	1,647	1,020	3,553	2,083	1,599	1,994	2,358
Net Margin	11.2%	5.3%	14.5%	14.5%	8.2%	26.1%	14.0%	11.1%	11.7%	12.8%
Free Cash Flow	1,691	1,549	711	1,425	961	2,038	1,542	2,790	2,738	2,036
Income Tax	206	645	296	274	1,043	(1,197)	479	355	287	325

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	15,743	17,279	16,223	20,435	22,197	27,229	30,167	34,330	34,631	36,884
Cash & Equivalents	1,339	1,795	3,379	3,316	2,542	3,616	4,337	2,943	2,944	1,844
Accounts Receivable	1,518	1,572	1,662	1,967	2,198	2,332	2,893	2,701	3,022	3,565
Inventories	1,422	1,588	1,639	2,030	2,465	2,955	2,980	3,494	3,314	3,995
Goodwill & Int. Ass.	5,833	6,204	5,930	9,864	10,645	12,726	13,296	18,332	17,758	19,765
Total Liabilities	6,696	8,684	7,712	10,885	12,217	15,499	17,360	21,246	19,754	20,268
Accounts Payable	314	329	410	437	487	646	675	810	1,129	
Long-Term Debt	2,764	3,973	3,998	6,914	7,222	9,859	11,090	13,991	12,479	11,857
Shareholder's Equity	9,047	8,595	8,511	9,550	9,966	11,730	12,807	13,084	14,877	16,616
LTD/E Ratio	0.31	0.46	0.47	0.72	0.72	0.84	0.87	1.07	0.84	0.71

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	7.0%	3.1%	8.6%	9.0%	4.8%	14.4%	7.3%	5.0%	5.8%	6.6%
Return on Equity	11.4%	5.8%	16.8%	18.2%	10.5%	32.8%	17.0%	12.4%	14.3%	15.0%
ROIC	9.1%	4.2%	11.5%	11.4%	6.1%	18.3%	9.2%	6.3%	7.3%	8.4%
Shares Out.	378	379	373	375	374	373	380	376	377	382
Revenue/Share	23.61	25.27	26.11	29.92	32.74	35.76	39.18	37.74	44.75	48.27
FCF/Share	4.43	4.05	1.87	3.76	2.53	5.36	4.06	7.34	7.16	5.33

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