



Stryker Corporation (SYK)

Updated July 31st, 2024 by Nathan Parsh

Key Metrics

Current Price:	\$327	5 Year CAGR Estimate:	10.6%	Market Cap:	\$125 B
Fair Value Price:	\$294	5 Year Growth Estimate:	12.0%	Ex-Dividend Date:	09/27/24 ¹
% Fair Value:	111%	5 Year Valuation Multiple Estimate:	-2.1%	Dividend Payment Date:	10/31/24 ²
Dividend Yield:	1.0%	5 Year Price Target	\$518	Years Of Dividend Growth:	30
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 December 5th, 2023, Stryker announced that it was raising its quarterly dividend 6.7% to \$0.80 per share, extending the company's dividend growth streak to 30 consecutive years.

On July 30th, 2024, Stryker announced second quarter earnings results for the period ending June 30th, 2024. For the quarter, revenue improved 8% to \$5.4 billion, which was in-line with estimates. Adjusted earnings-per-share totaled \$2.81, which compared favorably to \$2.54 in the prior year and was \$0.02 better than expected.

Organic revenue was up 9% for the quarter. Volume grew 7.9% and higher prices added 1.1% to results. MedSurg and Neurotechnology had sales of \$3.1 billion, which represented 9.7% organic growth, while Orthopaedics and Spine was higher by 9.0% to \$2.3 billion. As with prior quarters, results for both businesses were driven by strong gains in volume. Prices were up 2.1% for MedSurg, but down by 0.4% for Orthopaedics and Spine.

Stryker provided updated guidance for 2024 as well. The company now expects organic revenue growth in a range of 9% to 10%, up from 8.5% to 9.5% and 7.5% to 9.0% previously. Adjusted earnings-per-share are now forecasted to be in a range of \$11.90 to \$12.10 for the year, up from \$11.85 to \$12.05 and \$11.70 to \$12.00 previously. At the midpoint, this would represent growth of 13.2% from 2023. We have set our estimates accordingly.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$2.36	\$3.78	\$4.35	\$6.49	\$7.28	\$8.26	\$7.43	\$9.09	\$9.34	\$10.60	\$12.00	\$21.15
DPS	\$1.26	\$1.42	\$1.57	\$1.70	\$1.93	\$2.14	\$2.36	\$2.52	\$2.78	\$3.00	\$3.20	\$5.64
Shares³	379	373	375	374	373	380	376	377	382	384	385	375

Stryker has grown earnings-per-share at a rate of 18.2% per year since 2014, but 7.5% 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 following the global recovery in elective procedures. 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, 2014, and 2020 as well, but growth quickly returned in the ensuing years in each situation.

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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Stryker has increased its dividend at an average rate of 10.1% per year over the past 10 years, though that growth has slowed somewhat in the medium-term to 8.4%.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	35.2	25.2	25.4	28.7	22.8	24	26.9	29.4	26.2	28.3	27.3	24.5
Avg. Yld.	1.5%	1.5%	1.4%	1.3%	1.2%	1.0%	1.1%	0.9%	1.1%	1.0%	1.0%	1.1%

Shares of Stryker have increased \$3, or 0.9%, since our May 1st, 2024 report. Based off revised estimates for 2024, shares trade at 27.3 times earnings. We reaffirm our 2029 target P/E of 24.5 to be more in-line with the long-term average valuation. If shares reverted to our target price-to-earnings ratio by 2029, then multiple compression would be a 2.1% headwind to annual returns over this period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

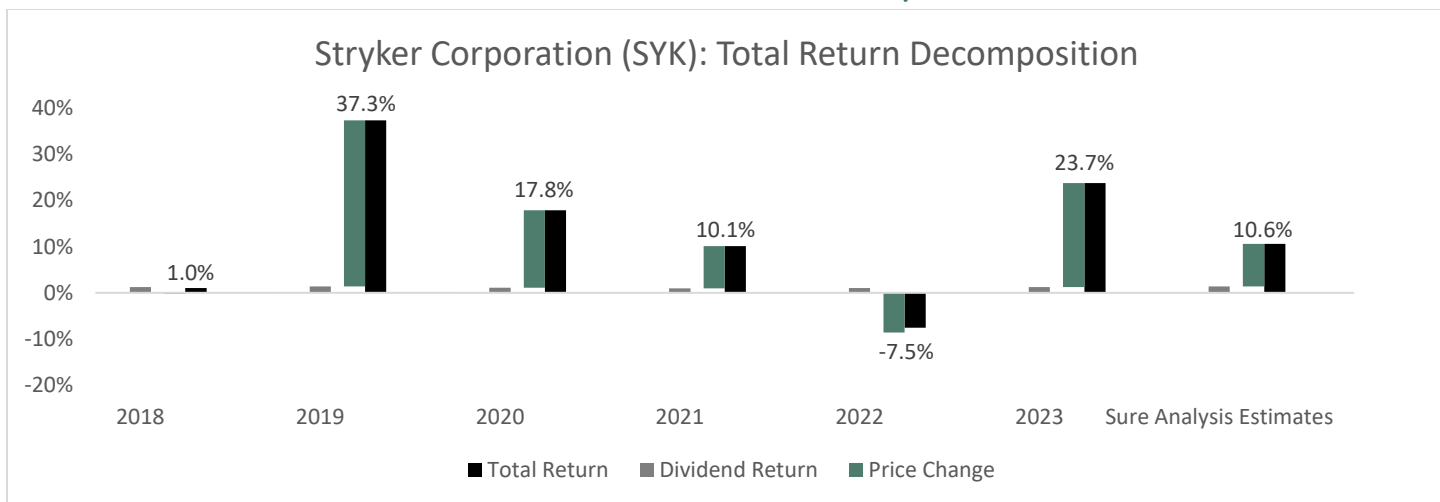
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	53%	38%	36%	35%	27%	25%	32%	28%	30%	28%	27%	27%

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 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

Following second quarter results, Stryker Corporation is now projected to return 10.6% annually over the next five years, down slightly from our prior estimate of 10.7%. Our projected return stems from a 12% earnings growth rate and a starting yield of 1.0%, offset by a low single-digit headwind from multiple contraction. Organic growth continues to be strong for the company, with both segments seeing higher product volumes. Shares still trade above our valuation target, but Stryker is one of the leading names in its industry. We have raised our 2029 price target \$2 to \$518 to reflect updated earnings estimates. We continue to rate shares of Stryker as a buy due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	9,675	9,946	11,325	12,444	13,601	14,884	14,351	17,108	18,449	20,498
Gross Profit	6,356	6,602	7,504	8,180	8,938	9,696	9,057	10,968	11,578	13,058
Gross Margin	65.7%	66.4%	66.3%	65.7%	65.7%	65.1%	63.1%	64.1%	62.8%	63.7%
SG&A Exp.	3,547	3,610	4,137	4,552	5,099	5,356	5,361	6,427	6,455	7,129
D&A Exp.	378	397	546	642	723	778	812	990	998	1,028
Operating Profit	2,007	2,157	2,333	2,470	2,560	2,905	2,240	2,687	3,042	3,906
Operating Margin	20.7%	21.7%	20.6%	19.8%	18.8%	19.5%	15.6%	15.7%	16.5%	19.1%
Net Profit	515	1,439	1,647	1,020	3,553	2,083	1,599	1,994	2,358	3,165
Net Margin	5.3%	14.5%	14.5%	8.2%	26.1%	14.0%	11.1%	11.7%	12.8%	15.4%
Free Cash Flow	1,549	711	1,425	961	2,038	1,542	2,790	2,738	2,036	3,105
Income Tax	645	296	274	1,043	(1,197)	479	355	287	325	508

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	17,279	16,223	20,435	22,197	27,229	30,167	34,330	34,631	36,884	39,881
Cash & Equivalents	1,795	3,379	3,316	2,542	3,616	4,337	2,943	2,944	1,844	2,940
Accounts Receivable	1,572	1,662	1,967	2,198	2,332	2,893	2,701	3,022	3,565	3,765
Inventories	1,588	1,639	2,030	2,465	2,955	2,980	3,494	3,314	3,995	4,843
Goodwill & Int. Ass.	6,204	5,930	9,864	10,645	12,726	13,296	18,332	17,758	19,765	19,836
Total Liabilities	8,684	7,712	10,885	12,217	15,499	17,360	21,246	19,754	20,268	21,288
Accounts Payable	329	410	437	487	646	675	810	1,129	1,413	
Long-Term Debt	3,973	3,998	6,914	7,222	9,859	11,090	13,991	12,479	13,048	10,901
Shareholder's Equity	8,595	8,511	9,550	9,966	11,730	12,807	13,084	14,877	16,616	18,593
LTD/E Ratio	0.46	0.47	0.72	0.72	0.84	0.87	1.07	0.84	0.79	0.59

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	3.1%	8.6%	9.0%	4.8%	14.4%	7.3%	5.0%	5.8%	6.6%	8.2%
Return on Equity	5.8%	16.8%	18.2%	10.5%	32.8%	17.0%	12.4%	14.3%	15.0%	18.0%
ROIC	4.2%	11.5%	11.4%	6.1%	18.3%	9.2%	6.3%	7.3%	8.3%	10.7%
Shares Out.	379	373	375	374	373	380	376	377	382	384
Revenue/Share	25.27	26.11	29.92	32.74	35.76	39.18	37.74	44.75	48.27	53.42
FCF/Share	4.05	1.87	3.76	2.53	5.36	4.06	7.34	7.16	5.33	8.09

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

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