

Stryker Corporation (SYK)

\$198.39 (As of 06/02/20)

Price Target (6-12 Months): **\$208.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/26/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

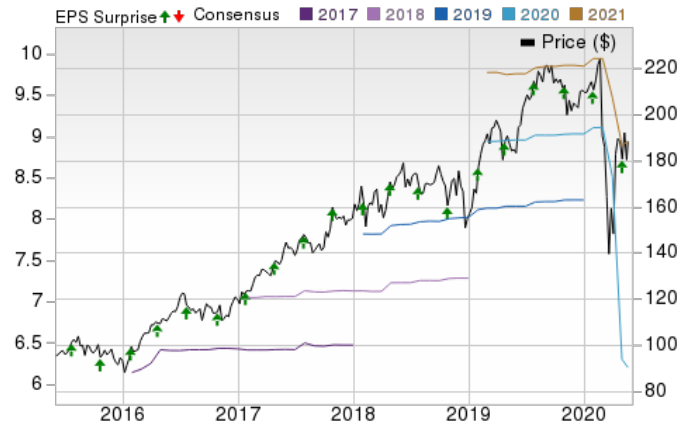
Growth: A

Momentum: F

Summary

Stryker continues to gain from its core MedSurg unit, which put up a strong show in the first quarter. Additionally, strength in flagship Mako platform continues to favor the company. Moreover, solid performance by the neurotech product lines drove the core Neurotechnology & Spine unit in the quarter under review. Robust international growth also instills investor optimism in the stock. Stryker exited first-quarter 2020 on a strong note, with both earnings and revenues beating their respective consensus mark. However, pricing pressure continues to plague Stryker. Stiff competition in the MedTech space also remains a woe. Further, contraction in both gross and operating margins in the quarter raises concern. Year-to-date, shares of Stryker underperformed the industry.

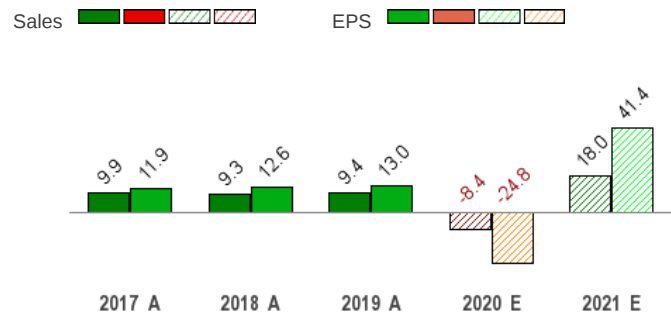
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$226.30 - \$124.54
20 Day Average Volume (sh)	1,658,373
Market Cap	\$74.4 B
YTD Price Change	-5.5%
Beta	0.85
Dividend / Div Yld	\$2.30 / 1.2%
Industry	Medical - Products
Zacks Industry Rank	Top 23% (57 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.9%
Last Sales Surprise	5.4%
EPS F1 Est- 4 week change	-0.2%
Expected Report Date	07/23/2020
Earnings ESP	16.5%
P/E TTM	24.1
P/E F1	32.0
PEG F1	3.5
P/S TTM	5.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,908 E	4,055 E	3,927 E	4,551 E	16,079 E
2020	3,588 A	2,712 E	3,303 E	4,229 E	13,629 E
2019	3,516 A	3,650 A	3,587 A	4,131 A	14,884 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.04 E	\$2.17 E	\$2.09 E	\$2.72 E	\$8.78 E
2020	\$1.84 A	\$0.62 E	\$1.39 E	\$2.41 E	\$6.21 E
2019	\$1.88 A	\$1.98 A	\$1.91 A	\$2.49 A	\$8.26 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/02/2020. The reports text is as of 06/03/2020.

Overview

Headquartered in Kalamazoo, MI, Stryker Corporation (SYK) is one of the world's largest medical device companies operating in the global orthopedic market. The company has three business segments: Orthopaedics, MedSurg, and Neurotechnology & Spine.

Orthopaedic products primarily include implants used in hip and knee joint replacements and trauma and extremities surgeries.

MedSurg products consists of surgical equipment and surgical navigation systems (Instruments); endoscopic and communications systems (Endoscopy); patient handling and emergency medical equipment (Medical); and reprocessed and remanufactured medical devices (Sustainability) as well as other medical device products used in a variety of medical specialties.

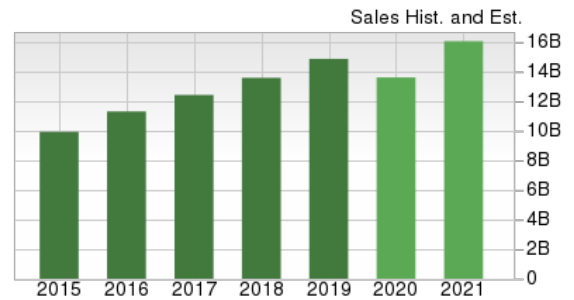
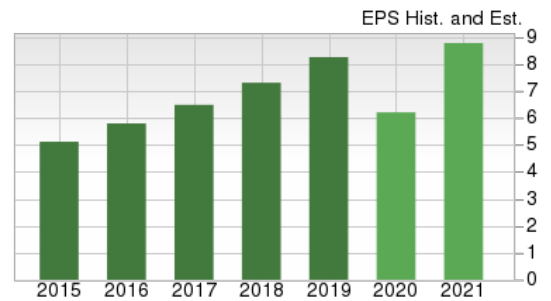
Neurotechnology & Spine division includes both neurosurgical and neurovascular devices. These includes products used for minimally invasive endovascular techniques; traditional brain and open skull base surgical procedures; orthobiologic and biosurgery products, including synthetic bone grafts and vertebral augmentation products; and minimally invasive products for the treatment of acute ischemic and hemorrhagic stroke.

Spinal implant product offering includes cervical, thoracolumbar and interbody systems used in spinal injury, deformity and degenerative therapies.

2019 at a Glance

Stryker's full-year revenues totaled \$14.88 billion.

Full-year Orthopaedic sales grossed \$5.3 billion (36% of net sales). MedSurg revenues totaled \$6.6 billion (44%) while Neurotechnology & Spine revenues grossed \$3.1 billion (20%).



Reasons To Buy:

▲ **Strength in Robotics – Mako Momentum Continues:** Mako is Stryker's robotic-arm assisted surgery platform. In recent times, Stryker launched the robotic-arm assisted total knee arthroplasty application for use with its Mako System. Notably, this is the first and only robotic technology which can be used for total knee, hip and partial knee replacement procedures. Mako Total Knee utilizes both Stryker's robotic platform and its Triathlon Total Knee System, guided through CT-based 3D modeling of bone anatomy. The system also allows for intra-operative planning and assists in bone resectioning procedures.

Stryker's flagship Mako Total Knee Platform and a diversified product portfolio should support the growth of its global business.

Moreover, the company continues to witness strong demand for Mako on the back of its unique features and healthy order book. This, in turn, positions the company sustain momentum in robot sales and recon share market gains. For 2020, the company's Mako order book remains solid and is in sync with its aim of continued share gains in both hips and knees.

▲ **Diversified Product Portfolio:** Stryker has a diversified product portfolio. Its wide range of products immunizes the company from any significant sales shortfall during economic downturns. Its significant exposure in robotics, Artificial Intelligence for health care and Medical Mechatronics has provided the company with a competitive edge in the MedTech space. Stryker's portfolio includes products like Hip, Knee and Mako Robotic-Arm Assisted Surgeries.

Apart from these, Stryker has been one of the early adopters of the 3D printing technology. The company's FDA-approved Tritanium TL Curved Posterior Lumbar Cage is a 3D-printed interbody fusion cage intended for use as an aid in lumbar fixation.

Meanwhile, Stryker's exclusive navigation platform provides streamlined software solutions that allow surgeons to accurately track, analyze and monitor instrumentation pertaining to a patient's anatomy during surgical procedures to enhance patient outcomes. The company's navigation software platform includes Cranial, Hip, ENT along with Knee and Spine Navigation software.

In the first quarter, Stryker's adjusted R&D expenses were 6.4% of net sales. Per management, this is likely to drive new product launches. In recent times, management confirmed the launch of 1688 camera in the endoscopy line of business.

▲ **Acquisition-Driven Strategy:** Stryker has been following an acquisition-driven strategy to boost its growth profile. In recent times, the company acquired K2M Group Holdings for approximately \$1.4 billion. K2M is likely to provide Stryker's Spine unit with a highly complementary and innovative product portfolio, which includes minimally invasive offerings. In fact, the company has also made considerable progress in the integration of K2M and is on track with respect to full-year growth target for spine.

In recent times, the company closed the buyouts of Arrinex, Inc. and OrthoSpace Ltd. While Arrinex buyout will complement the company's ENT portfolio, the addition of OrthoSpace will bolster the already strong product portfolio.

Last year, the company also announced the acquisition of SafeAir AG, a Swiss medical device company. Notably, this buyout boosts Stryker's comprehensive surgical smoke evacuation portfolio.

During the fourth quarter of 2019, the company acquired Mobius Imaging — a leader in point-of-care imaging technology — along with its sister company Cardan Robotics in an all-cash transaction for \$370 million upfront and up to \$130 million of contingent payments related to development and commercial milestones. This transaction is likely to help in allowing Stryker Spine with immediate entry into the intra-operative Imaging segment apart from aligning with Stryker's implant and navigation offering.

▲ **Solid International Growth:** Stryker is focusing on international growth. A significant turnaround in the company's European business owing to its effective restructuring measures represents a potential upside.

In first-quarter 2020, the company's international sales improved 0.8%, year over year to \$945 million. Organically, international sales grew 3.3%, driven by favorable performance in Japan, Canada and smaller countries in Europe and emerging markets. Stryker's core Orthopaedic segment experienced an organic decline, primarily reflecting an earlier downturn in certain geographies. Nonetheless, MedSurg and Neurotechnology and Spine put up strong performance across most geographies.

▲ **Stable Liquidity Position:** Stryker exited the first quarter with cash and cash equivalents and marketable securities of \$4.05 billion, compared with \$4.43 billion at the end of 2019. Meanwhile long-term debt came up to \$9.4 billion, a slight decline from the \$10.23 billion sequentially. Although the quarter's long-term debt was noticeably higher than the corresponding cash and cash equivalent level, the company has no current-year debt on its balance sheet. This is good news in terms of the company's solvency level as, at least during the year of economic downturn, the company is holding sufficient cash for debt repayment. Moreover, the quarter's total debt-to-capital of 41.8% stands at a pretty high level right now. However, it represented a sequential drop from 46.4% at the end of the fourth quarter, thereby indicating healthier financial structure.

Reasons To Sell:

- ▼ **Shares Down:** Year-to-date, shares of Stryker lost 5.5% compared with the industry's decline of 5.4%. Pricing pressures and integration risks are headwinds. Further, the ongoing economic volatility on account of the global coronavirus outbreak might put pressure on the stock.
- ▼ **Lower Demand for Healthcare Products:** Stryker continues to be challenged by lower demand for health care products. Additionally, lower reimbursements for medical products and services may impose a downward pressure on the prices for the company's products, longer sales cycles and slower adoption of new technologies, which will ultimately impact the top line.
- ▼ **Integration Risks:** Stryker continues to acquire a large number of companies. While this improves revenue opportunities, it adds to integration risks thereby putting gross and operating margins under pressure. Frequent acquisitions may impact the company's balance sheet in the form of a high level of goodwill and intangible assets. The company continues acquisitions and planned investments in other CTG programs like the ERP project.
- ▼ **Pricing Pressures:** An unfavorable pricing environment poses a constant threat to Stryker's core businesses. In fact, pricing in the first quarter had an impact of 0.4% on the company's top line.

Challenging global economic conditions and supply-side issues pose major headwinds to Stryker's top-line growth in the near term. Temporary softness in the Spine business is a concern.

Last Earnings Report

Stryker Q1 Earnings and Revenues Surpass Estimates

Stryker Corporation reported first-quarter 2020 adjusted earnings per share of \$1.84, which beat the Zacks Consensus Estimate of \$1.69 by 8.9%. However, the bottom line declined 2.1% year over year due to the impact of the COVID-19 pandemic.

The Michigan-based medical device company reported revenues of \$3.59 billion, which surpassed the Zacks Consensus Estimate by 5.4%. The top line improved 2% on a year-over-year basis and 2.4% at constant currency (cc).

Quarter Ending **03/2020**

Report Date	Apr 30, 2020
Sales Surprise	5.37%
EPS Surprise	8.88%
Quarterly EPS	1.84
Annual EPS (TTM)	8.22

Revenues by Geography

Revenues in United States came in at \$2.64 billion, up 2.5% year over year. International sales were up 0.8% to \$945 million.

U.S. organic sales improved 2% and international organic sales rose 3.3%. While solid performance across Orthopaedics, MedSurg and Neurotechnology segments drove growth in the United States, favorable performance in Japan, Canada and smaller countries in Europe and emerging markets led to higher international organic sales.

Segmental Analysis

Orthopaedic: In the quarter under review, revenues in the segment totaled \$1.22 billion, down 2.1% year over year. The segment's revenues declined 1.2% at cc. The downside can be attributed to weak performance at the Knees, Hips and Trauma and Extremities sub segments.

MedSurg: This segment reported sales of \$1.62 billion, up 6.2% year over year. Sales at the segment increased 7% at cc. Per management, the segment improved 6.3% organically in the reported quarter, led by strong Instruments, Sustainability and Medical performances.

Neurotechnology and Spine: Sales in the segment amounted to \$744 million, up 0.7% year over year and 1.5% at cc. Organically, the segment witnessed growth of 0.3%. Per management, the upside was driven by solid performance by the neurotech product lines.

Margins

In the first quarter, adjusted gross profit totaled \$2.34 billion, up 1.3% from the year-ago quarter. Adjusted gross margin was 65.3%, down 50 basis points (bps).

Adjusted operating income amounted to \$862 million, down 2.2% from the prior-year quarter. Adjusted operating margin was 24%, down 110 bps.

Financial Update

Cash and cash equivalents came in at \$3.96 billion, down 8.6% from the year-end 2019.

Net cash provided by operating activities in the first quarter came in at \$591 million, which soaring 88.8% from the year-ago period.

2020 Outlook

Due to the uncertainty surrounding the magnitude and duration of the COVID-19 pandemic, and the timing of global recovery and economic normalization, the company is unable to project the overall impact on its operations and financial results. Consequently, the company is not providing second-quarter or full-year 2020 organic sales or earnings outlook.

Valuation

Stryker's shares are down 5.5% in the year-to-date period while up 6.4% in the trailing 12-month periods. Stocks in the Zacks sub-industry and Zacks Medical sector are down 5.4% and 1.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 2.6% and 4.4%, respectively.

The S&P 500 index is down 5.2% in the year-to-date period while up 9.1% in the past year.

The stock is currently trading at 27.1X Forward 12-months earnings, which compares to 30.8X for the Zacks sub-industry, 23.1X for the Zacks sector and 22.1X for the S&P 500 index.

Over the past five years, the stock has traded as high as 27.1X and as low as 13.6X, with a 5-year median of 21.1X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$208 price target reflects 28.4X forward 12-months earnings.

The table below shows summary valuation data for SYK.

Valuation Multiples - SYK					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	27.05	30.8	23.13	22.13
	5-Year High	27.05	30.8	23.13	22.13
	5-Year Low	13.61	17.01	15.92	15.23
	5-Year Median	21.05	20.11	18.95	17.49
P/S F12M	Current	5.07	3.87	2.78	3.44
	5-Year High	5.34	3.88	3.75	3.44
	5-Year Low	2.93	2.88	2.21	2.53
	5-Year Median	4.25	3.27	2.92	3.02
P/B TTM	Current	5.67	2.82	4.23	4.18
	5-Year High	7.29	4.26	5.07	4.56
	5-Year Low	3.7	2.19	2.93	2.83
	5-Year Median	5.4	2.76	4.29	3.66

As of 06/02/2020

Industry Analysis Zacks Industry Rank: Top 23% (57 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Quidel Corporation (QDEL)	Outperform	1
Surmodics, Inc. (SRDX)	Outperform	1
Baxter International Inc. (BAX)	Neutral	4
OwensMinor, Inc. (OMI)	Neutral	2
Perrigo Company plc (PRGO)	Neutral	3
SmithNephew SNATS, Inc. (SNN)	Neutral	3
Zimmer Biomet Holdings, Inc. (ZBH)	Neutral	3
Boston Scientific Corporation (BSX)	Underperform	3

Industry Comparison Industry: Medical - Products				Industry Peers		
	SYK	X Industry	S&P 500	BAX	BSX	SRDX
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Outperform
Zacks Rank (Short Term)	3	-	-	4	3	1
VGM Score	C	-	-	F	F	F
Market Cap	74.36 B	374.37 M	22.11 B	46.15 B	52.53 B	517.16 M
# of Analysts	14	3	14	11	11	1
Dividend Yield	1.16%	0.00%	1.93%	0.97%	0.00%	0.00%
Value Score	C	-	-	D	D	C
Cash/Price	0.06	0.11	0.06	0.09	0.01	0.10
EV/EBITDA	23.87	0.07	12.69	26.07	27.02	30.68
PEG Ratio	3.47	4.89	2.98	2.51	3.91	76.02
Price/Book (P/B)	5.67	3.57	3.07	5.99	3.80	4.14
Price/Cash Flow (P/CF)	18.95	17.72	11.86	18.31	15.62	29.24
P/E (F1)	31.95	34.66	21.79	27.63	41.67	760.20
Price/Sales (P/S)	4.97	5.29	2.29	4.00	4.87	5.14
Earnings Yield	3.13%	0.11%	4.39%	3.62%	2.40%	0.13%
Debt/Equity	0.72	0.10	0.76	0.84	0.68	0.00
Cash Flow (\$/share)	10.47	-0.01	7.01	4.97	2.40	1.30
Growth Score	A	-	-	D	F	F
Hist. EPS Growth (3-5 yrs)	12.22%	12.07%	10.87%	NA	13.88%	-17.18%
Proj. EPS Growth (F1/F0)	-24.80%	1.03%	-10.74%	-0.52%	-42.98%	-93.06%
Curr. Cash Flow Growth	11.85%	5.43%	5.48%	4.10%	12.08%	33.22%
Hist. Cash Flow Growth (3-5 yrs)	12.35%	7.71%	8.55%	-6.10%	10.33%	1.89%
Current Ratio	2.58	2.73	1.29	2.74	1.21	5.82
Debt/Capital	41.76%	14.48%	44.75%	45.61%	40.33%	0.00%
Net Margin	14.47%	-27.05%	10.59%	8.85%	39.75%	6.59%
Return on Equity	24.90%	-9.21%	16.29%	22.70%	18.24%	6.99%
Sales/Assets	0.53	0.56	0.55	0.64	0.39	0.65
Proj. Sales Growth (F1/F0)	-8.43%	0.00%	-2.67%	3.03%	-11.12%	-16.33%
Momentum Score	F	-	-	F	D	F
Daily Price Chg	0.58%	0.00%	0.99%	0.65%	0.11%	1.74%
1 Week Price Chg	6.29%	0.00%	4.60%	3.54%	5.79%	-0.43%
4 Week Price Chg	5.57%	6.31%	9.15%	2.52%	1.98%	3.51%
12 Week Price Chg	8.08%	10.83%	4.65%	9.64%	6.71%	24.87%
52 Week Price Chg	6.40%	-0.54%	-0.30%	19.38%	-3.87%	-9.15%
20 Day Average Volume	1,658,373	272,556	2,486,038	2,691,283	10,624,616	60,909
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.40%	0.00%
(F1) EPS Est 4 week change	-0.20%	0.00%	-0.33%	0.00%	-0.60%	0.00%
(F1) EPS Est 12 week change	-31.79%	-16.19%	-16.13%	-11.77%	-48.89%	129.41%
(Q1) EPS Est Mthly Chg	-15.43%	-0.08%	-0.55%	-0.16%	0.00%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	A
Momentum Score	F
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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