

Stryker Corporation (SYK)

\$188.59 (As of 08/06/20)

Price Target (6-12 Months): **\$198.00**

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: B

Growth: C

Momentum: B

Summary

Stryker exited second-quarter 2020 on a strong note, with both earnings and revenues surpassing the Zacks Consensus Estimate. However, the company witnessed weak performance across its segments. Decline in international sales was also a dampener. Although the second quarter results were negatively affected by the pandemic, the company remains committed to continued advancement of its new product pipelines. Per management, the company is poised to capitalize on the broader resumption of deferrable surgeries. Strength in flagship Mako platform continues to favor the company. 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. Shares of the company have underperformed the industry in a year's time.

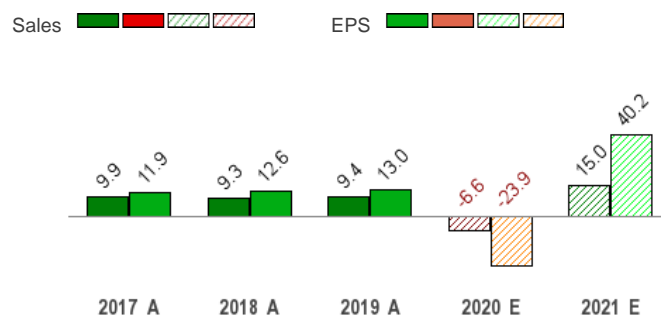
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$226.30 - \$124.54
20 Day Average Volume (sh)	1,423,713
Market Cap	\$70.7 B
YTD Price Change	-10.2%
Beta	0.85
Dividend / Div Yld	\$2.30 / 1.2%
Industry	Medical - Products
Zacks Industry Rank	Bottom 23% (193 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.2%
Last Sales Surprise	5.3%
EPS F1 Est- 4 week change	1.1%
Expected Report Date	11/03/2020
Earnings ESP	0.0%
P/E TTM	27.4
P/E F1	30.0
PEG F1	3.2
P/S TTM	5.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,807 E	3,927 E	3,833 E	4,459 E	15,981 E
2020	3,588 A	2,764 A	3,374 E	4,215 E	13,896 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	\$1.99 E	\$2.17 E	\$2.10 E	\$2.61 E	\$8.82 E
2020	\$1.84 A	\$0.64 A	\$1.37 E	\$2.43 E	\$6.29 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 08/06/2020. The reports text is as of 08/07/2020.

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.

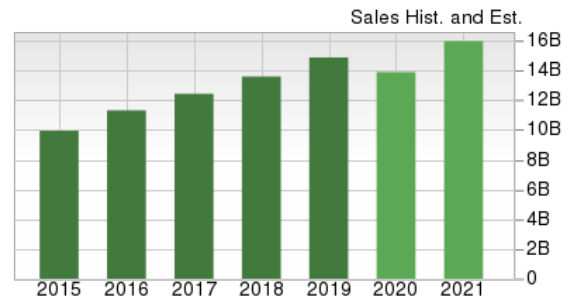
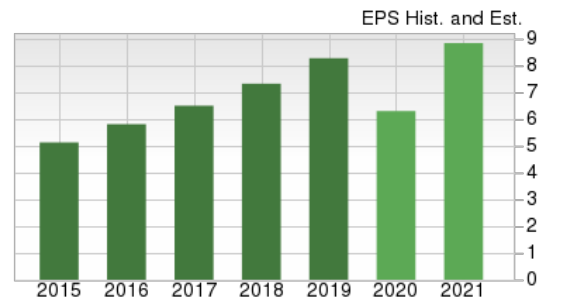
Neurotechnology & Spine division includes both neurosurgical and neurovascular devices. These includes products used for minimally invasive endovascular techniques; traditional brain and open skull base surgical procedures; orthobiologic and biosurgery products, including synthetic bone grafts and vertebral 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 despite financial constraints stemming from the COVID-19 pandemic. This, in turn, positions the company well to 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. In fact, in the second quarter, the company saw a promising number of Mako installations in the United States. Moreover, the company continues to observe that a growing percentage of both hip and knee replacement surgeries are being performed with a Mako robot, thereby raising optimism.

▲ **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 second quarter, Stryker's adjusted R&D expenses were 7.6% of net sales. Per management, this is likely to drive new product launches.

▲ **Acquisition-Driven Strategy:** Stryker has been following an acquisition-driven strategy to boost its growth profile. In 2019, 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.

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.

Per the second-quarter earnings call, Stryker is proceeding with the integration efforts associated with the Wright Medical transaction. Further, the company is progressing with the previously proposed plan of divesting its STAR total ankle replacement product. Stryker is still optimistic regarding the completion of the transaction approximately at the end of third-quarter 2020 or beginning of the fourth quarter.

▲ **Stable Liquidity Position:** Stryker exited the second quarter with cash and cash equivalents and marketable securities of \$6.62 billion, up from \$4.05 billion sequentially. Meanwhile long-term debt was \$11.81 billion, up from \$10.23 billion sequentially. Although the quarter's long-term debt was significantly higher than the corresponding cash and cash equivalent level, the company's current debt of \$1.11 billion, up from \$859 million on a sequential basis, is much lower than the short-term cash level. 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.

Reasons To Sell:

- ▼ **Shares Down:** Over the past year, shares of Stryker lost 13.4% compared with the industry's decline of 4.4%. 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 second quarter had an impact of 0.2% 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 Q2 Earnings and Revenues Surpass Estimates

Stryker Corporation reported second-quarter 2020 adjusted earnings per share of 64 cents, which beat the Zacks Consensus Estimate of 62 cents by 3.2%. However, the bottom line plunged 67.7% year over year owing to the impact of the COVID-19 pandemic.

The Michigan-based medical device company reported revenues of \$2.76 billion, which surpassed the Zacks Consensus Estimate by 5.3%. However, the top line declined 24.3% on a year-over-year basis and 23.5% at constant currency (cc).

Quarter Ending **06/2020**

Report Date	Jul 30, 2020
Sales Surprise	5.29%
EPS Surprise	3.23%
Quarterly EPS	0.64
Annual EPS (TTM)	6.88

Revenues by Geography

Revenues in United States came in at \$1.97 billion, down 27.1% year over year. International sales declined 16.4% to \$798 million.

Segmental Analysis

Orthopaedic: In the quarter under review, revenues in the segment totaled \$894 million, down 29.8% year over year. The segment's revenues declined 29.3% 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 \$1.32 billion, down 17.3% year over year. Sales at the segment decreased 16.4% at cc. Per management, the segment declined 29.3% organically in the reported quarter, owing to weak Instruments, Endoscopy and Medical performances.

Neurotechnology and Spine: Sales in the segment amounted to \$546 million, down 29.6% year over year and 28.9% at cc. Organically, the segment witnessed a decline of 29.9%. Per management, the downside was can be attributed to a slowdown in procedures in the second quarter in all the neurotech product lines.

Margins

In the second quarter, adjusted gross profit totaled \$1.58 billion, down 34.1% from the year-ago quarter. Adjusted gross margin was 57.3%, down 850 basis points (bps).

Adjusted operating income amounted to \$345 million, down 63.5% from the prior-year quarter. Adjusted operating margin was 12.5%, down 1340 bps.

Financial Update

Cash and cash equivalents came in at \$6.54 billion, up 50.8% from the year-end 2019.

Cumulative net cash provided by operating activities in the second quarter were \$1.21 billion, reflecting an increase of 46.4% from the year-ago period.

2020 Outlook

Due to the continued uncertainty surrounding the magnitude and duration of the COVID-19 pandemic, and the uncertain 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 hasn't provided third-quarter or full-year 2020 organic sales or earnings outlook.

Valuation

Stryker's shares are down 10.1% and 13.4% in the year-to-date period and in the trailing 12-month periods, respectively. Stocks in the Zacks sub-industry and Zacks Medical sector are down 3.9% and up 1.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 4.4% and up 8.5%, respectively.

The S&P 500 index is up 3.3% in the year-to-date period and 13.6% in the past year.

The stock is currently trading at 24.2X Forward 12-months earnings, which compares to 29.4X for the Zacks sub-industry, 22.7X for the Zacks sector and 22.7X for the S&P 500 index.

Over the past five years, the stock has traded as high as 28.3X and as low as 13.6X, with a 5-year median of 21.4X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$198 price target reflects 25.4X 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	24.24	29.43	22.73	22.71
	5-Year High	28.32	31.01	23.16	22.71
	5-Year Low	13.61	17.09	15.89	15.25
	5-Year Median	21.4	20.24	18.9	17.55
P/S F12M	Current	4.69	3.85	2.84	3.63
	5-Year High	5.34	3.92	3.41	3.63
	5-Year Low	2.93	2.9	2.22	2.53
	5-Year Median	4.31	3.29	2.9	3.04
P/B TTM	Current	5.54	2.99	4.42	4.54
	5-Year High	7.29	3.48	5.07	4.56
	5-Year Low	3.7	2.2	2.94	2.83
	5-Year Median	5.45	2.81	4.3	3.73

As of 08/06/2020

Industry Analysis Zacks Industry Rank: Bottom 23% (193 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
EssilorLuxottica Societe anonyme (ESLOY)	Neutral	3
OwensMinor, Inc. (OMI)	Neutral	2
Perrigo Company plc (PRGO)	Neutral	3
Terumo Corp. (TRUMY)	Neutral	4
Zimmer Biomet Holdings, Inc. (ZBH)	Neutral	3
Baxter International Inc. (BAX)	Underperform	5
Boston Scientific Corporation (BSX)	Underperform	3
SmithNephew SNATS, Inc. (SNN)	Underperform	4

Industry Comparison Industry: Medical - Products				Industry Peers		
	SYK	X Industry	S&P 500	BAX	BSX	ESLOY
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	5	3	3
VGM Score	C	-	-	B	F	D
Market Cap	70.69 B	324.85 M	23.20 B	40.69 B	54.21 B	28.43 B
# of Analysts	14	3	14	11	11	2
Dividend Yield	1.22%	0.00%	1.78%	1.22%	0.00%	0.00%
Value Score	B	-	-	C	C	B
Cash/Price	0.09	0.10	0.07	0.09	0.01	0.19
EV/EBITDA	22.72	-0.07	13.21	23.18	27.73	7.70
PEG Ratio	3.24	4.15	2.94	2.70	3.77	56.47
Price/Book (P/B)	5.54	3.42	3.12	4.99	3.40	0.72
Price/Cash Flow (P/CF)	18.01	16.74	12.27	16.17	15.77	6.25
P/E (F1)	29.98	37.67	21.69	26.33	37.65	75.67
Price/Sales (P/S)	5.02	5.14	2.48	3.57	5.34	NA
Earnings Yield	3.34%	-0.86%	4.39%	3.79%	2.67%	1.32%
Debt/Equity	0.93	0.10	0.77	0.80	0.59	0.24
Cash Flow (\$/share)	10.47	-0.00	6.94	4.97	2.40	10.41
Growth Score	C	-	-	B	F	F
Hist. EPS Growth (3-5 yrs)	10.79%	11.57%	10.46%	NA	11.21%	NA
Proj. EPS Growth (F1/F0)	-23.87%	8.74%	-6.80%	-7.77%	-36.30%	-65.04%
Curr. Cash Flow Growth	11.85%	4.10%	5.39%	4.10%	12.08%	46.37%
Hist. Cash Flow Growth (3-5 yrs)	12.35%	7.87%	8.55%	-6.10%	10.33%	27.87%
Current Ratio	2.91	2.72	1.33	2.97	1.87	1.91
Debt/Capital	48.08%	14.98%	44.50%	44.50%	37.27%	19.36%
Net Margin	11.38%	-25.53%	10.13%	8.10%	39.18%	NA
Return on Equity	20.53%	-8.55%	14.39%	20.75%	12.86%	NA
Sales/Assets	0.48	0.52	0.51	0.62	0.34	NA
Proj. Sales Growth (F1/F0)	-6.64%	0.00%	-1.51%	0.38%	-6.50%	-14.17%
Momentum Score	B	-	-	C	C	F
Daily Price Chg	0.34%	-0.11%	-0.04%	-0.11%	0.42%	-0.02%
1 Week Price Chg	-2.78%	-0.41%	0.14%	-3.23%	-0.08%	-0.78%
4 Week Price Chg	6.09%	0.45%	7.78%	-6.21%	9.83%	-1.90%
12 Week Price Chg	5.13%	10.86%	17.48%	-7.54%	6.73%	11.23%
52 Week Price Chg	-13.41%	-1.72%	0.68%	-6.26%	-11.39%	-9.17%
20 Day Average Volume	1,423,713	266,844	2,057,775	3,102,138	8,286,506	50,519
(F1) EPS Est 1 week change	-0.24%	0.00%	0.00%	0.29%	0.00%	-35.34%
(F1) EPS Est 4 week change	1.10%	0.00%	1.36%	-7.29%	12.05%	-35.34%
(F1) EPS Est 12 week change	1.43%	0.60%	1.57%	-7.29%	11.03%	-34.60%
(Q1) EPS Est Mthly Chg	-2.17%	0.00%	0.54%	-10.87%	-2.09%	NA

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	B
Growth Score	C
Momentum Score	B
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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