

Stryker Corporation (SYK)

\$189.51 (As of 04/17/20)

Price Target (6-12 Months): **\$199.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 11/26/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:D

Value: D

Growth: B

Momentum: D

Summary

Stryker continues to gain from its core MedSurg unit, which put up a strong show in the fourth 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. Expansion in operating margin is a positive while a strong outlook for 2020 is indicative of bright prospects. Stryker exited fourth-quarter 2019 on a strong note, wherein both earnings and revenues beat their respective consensus marks. However, pricing pressure continues to plague Stryker. Stiff competition in the MedTech space remains a headwind. Shares of Stryker underperformed the industry in past six months.

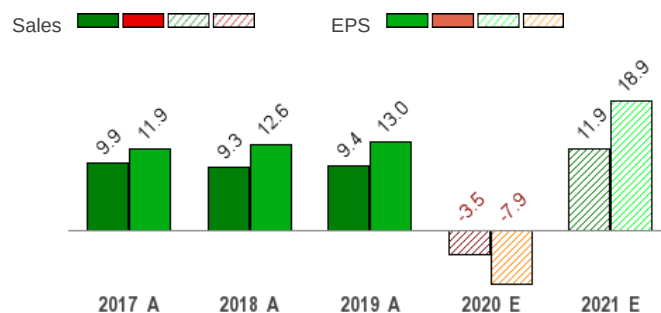
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$226.30 - \$124.54
20 Day Average Volume (sh)	2,816,936
Market Cap	\$71.0 B
YTD Price Change	-9.7%
Beta	0.84
Dividend / Div Yld	\$2.30 / 1.2%
Industry	Medical - Products
Zacks Industry Rank	Top 16% (41 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.2%
Last Sales Surprise	0.7%
EPS F1 Est- 4 week change	-15.5%
Expected Report Date	04/30/2020
Earnings ESP	-11.9%
P/E TTM	22.9
P/E F1	24.9
PEG F1	2.5
P/S TTM	4.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,960 E	4,088 E	4,022 E	4,652 E	16,076 E
2020	3,574 E	3,121 E	3,485 E	4,285 E	14,367 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	\$2.14 E	\$2.28 E	\$2.22 E	\$2.83 E	\$9.05 E
2020	\$1.86 E	\$1.32 E	\$1.77 E	\$2.58 E	\$7.61 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 04/17/2020. The reports text is as of 04/20/2020.

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.

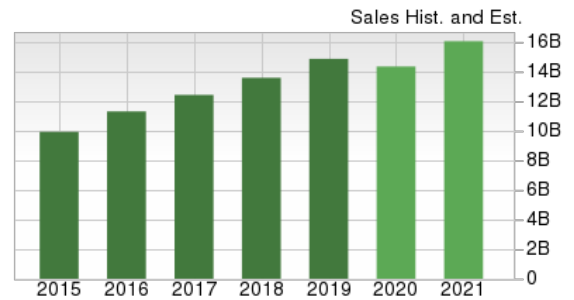
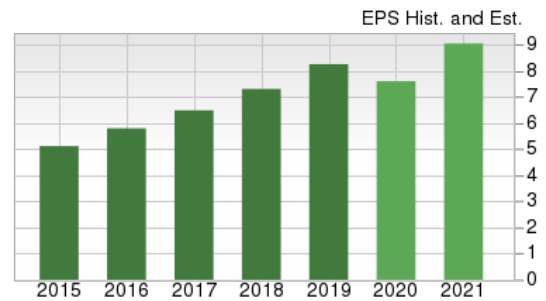
Neurotechnology & Spine division includes both neurosurgical and neurovascular devices. These includes products used for minimally invasive endovascular techniques; traditional brain and open skull base surgical procedures; orthobiologic and biosurgery products, including synthetic bone grafts and vertebral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

The fourth quarter of 2019 witnessed strong showing by the Mako Total Knee platform on the back of significant year-over-year increase in new robot installations. In the quarter under review, Stryker installed a total of 89 robots globally, which included 63 in the United States, compared with 54 in the year-ago quarter. Management is also optimistic about the fact that the installed base is nearing 860 robots globally, with over 700 in the United States. In the fourth quarter, Mako Total Knee procedures came around 24,000 in the United States, which improved approximately 59% from the prior-year quarter. Meanwhile, total Mako procedures performed in the United States exceeded 36,600.

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 immunes 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 fourth quarter, Stryker's adjusted R&D expenses were 5.6% 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 fourth-quarter 2019, the company's international sales improved 6.2%, year over year to \$1.09 billion. Organically, international sales grew 7.6%, driven by robust gains in emerging markets, Europe, Japan and Canada. Stryker's core Orthopaedic segment put up a solid show in the emerging markets. Additionally, MedSurg put up strong performance across most geographies. Neurotechnology & Spine also witnessed strong demand in Europe and emerging markets.

Reasons To Sell:

- ▼ **Shares Down:** In the past six months, shares of Stryker lost 11.9% compared with the industry's 1.4% decline. 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 fourth quarter had an impact of 0.6% on the company's top line.
- ▼ **High Debt:** Stryker exited the fourth quarter with a high debt of \$11.1 billion. Consequently, we expect debt to keep the company's margins under pressure.

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 Q4 Earnings and Revenues Surpass Estimates

Stryker Corporation reported fourth-quarter 2019 adjusted earnings per share of \$2.49, which beat the Zacks Consensus Estimate by 1.2%. Further, the bottom line improved 14.2% year over year and exceeded the high end of management's guidance range.

The Michigan-based medical device company reported revenues of \$4.13 billion, which outpaced the Zacks Consensus Estimate by 0.7%. Revenues improved 8.8% on a year-over-year basis and 9.4% at constant currency (cc).

Quarter Ending **12/2019**

Report Date	Jan 28, 2020
Sales Surprise	0.74%
EPS Surprise	1.22%
Quarterly EPS	2.49
Annual EPS (TTM)	8.26

2019 at a Glance

In 2019, the company reported revenues worth \$14.88 billion, which beat the Zacks Consensus Estimate. On a year-over-year basis, the top line improved 9.4%.

Adjusted EPS for the year was \$8.26, which beat the Zacks Consensus Estimate by 0.4%. The bottom line also increased 13% year over year.

Revenues by Geography

Revenues in United States came in at \$3.04 billion, up 9.8% year over year. International sales were up 6.2% to \$1.09 billion.

U.S. organic sales improved 8.2% and international organic sales came in at 7.6%. While solid performance across Orthopaedics, MedSurg and Neurotechnology segments drove growth in the United States, robust gains in emerging markets, Europe, Japan and Canada led to higher international organic sales.

Segmental Analysis

Orthopaedic: In the quarter under review, revenues in the segment totaled \$1.47 billion, up 6.7% year over year. The segment's revenues improved 7.3% at cc. The performance can be attributed to better results at the Knees, Hips and Other sub segments. The company continues to witness solid demand for Mako TKA (Total Knee Arthroplasty) platform or cementless knee and other 3D printed products.

MedSurg: This segment reported sales of \$1.84 billion, up 6.8% year over year. Sales at the segment increased 7.4% at cc. Per management, the segment improved 6.8% organically in the reported quarter, led by strong Endoscopy, Instruments and Medical performances.

Neurotechnology & Spine: Sales in the segment amounted to \$827 million, up 18% year over year and 18.2% at cc. Organically, the segment witnessed growth of 12.5%. Per management, the upside was driven by solid performance by the neurotech product lines.

Margins

In the fourth quarter, gross profit totaled \$2.70 billion, up 10.1% from the year-ago quarter. Adjusted gross margin was 66.3%, up 60 bps.

Operating income totaled \$944 million, up 35.2% from the prior-year quarter. Adjusted operating margin was 28.3%, up 80 bps.

Financial Update

Cash and cash equivalents came in at \$4.34 billion, up 19.9% from the year-ago quarter.

Cash flow from operating activities as of Dec 31, 2019, came in at \$2.19 billion, down 16.1% from the year-ago period.

2020 Outlook

Stryker expects 2020 organic net sales growth to be in the range of 6.5-7.5%.

On a full-year basis, adjusted EPS is expected in the band of \$9.00 to \$9.20. The Zacks Consensus Estimate is pegged at \$9.03, within the company's guided range.

For first-quarter 2020, adjusted EPS is anticipated within \$2.05 and \$2.10. The Zacks Consensus Estimate stands at \$2.05, within the company's projected range.

Valuation

Stryker's shares are down 9.7% and up 4% in the year-to-date and trailing 12-month periods, respectively. Stocks in the Zacks sub-industry and Zacks Medical sector are down 4.9% and 3.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 5.3% while sector is up 4.1%.

The S&P 500 index is down 10.8% in the year-to-date period and 1.7% in the past year.

The stock is currently trading at 20.3X Forward 12-months earnings, which compares to 27.7X for the Zacks sub-industry, 21.4X for the Zacks sector and 19.5X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.6X and as low as 14.9X, with a 5-year median of 20.9X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$199 price target reflects 21.3X 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	20.25	27.72	21.37	19.53
	5-Year High	25.57	27.72	21.37	19.53
	5-Year Low	14.97	17.01	15.81	15.19
	5-Year Median	20.91	19.72	18.81	17.45
P/S F12M	Current	4.36	4.03	2.71	3.20
	5-Year High	5.34	4.03	3.84	3.44
	5-Year Low	3.14	2.88	2.25	2.54
	5-Year Median	4.22	3.22	2.96	3.01
P/B TTM	Current	5.55	3.14	3.70	3.80
	5-Year High	7.29	4.30	5.05	4.55
	5-Year Low	3.70	2.21	2.90	2.84
	5-Year Median	5.38	2.77	4.29	3.64

As of 04/17/2020

Industry Analysis Zacks Industry Rank: Top 16% (41 out of 253)



Top Peers

STERIS plc (STE)	Outperform
Baxter International Inc. (BAX)	Neutral
Boston Scientific Corporation (BSX)	Neutral
CONMED Corporation (CNMD)	Neutral
Hill-Rom Holdings, Inc. (HRC)	Neutral
Intuitive Surgical, Inc. (ISRG)	Neutral
Johnson & Johnson (JNJ)	Neutral
Medtronic PLC (MDT)	Neutral

Industry Comparison Industry: Medical - Products				Industry Peers		
	SYK Neutral	X Industry	S&P 500	ISRG Neutral	JNJ Neutral	MDT Neutral
VGM Score	D	-	-	D	C	C
Market Cap	71.03 B	274.80 M	19.60 B	61.45 B	400.78 B	138.48 B
# of Analysts	15	2.5	14	5	9	14
Dividend Yield	1.21%	0.00%	2.17%	0.00%	2.50%	2.09%
Value Score	D	-	-	D	C	C
Cash/Price	0.06	0.10	0.06	0.05	0.05	0.09
EV/EBITDA	23.01	0.40	11.73	33.89	16.55	16.30
PEG Ratio	2.45	3.53	2.19	5.31	3.24	2.74
Price/Book (P/B)	5.54	3.35	2.67	7.37	6.73	2.67
Price/Cash Flow (P/CF)	18.10	16.20	10.55	43.43	13.20	14.22
P/E (F1)	24.68	29.99	18.18	56.73	19.76	19.42
Price/Sales (P/S)	4.77	4.99	2.08	13.35	4.84	4.46
Earnings Yield	4.02%	-0.51%	5.38%	1.76%	5.06%	5.15%
Debt/Equity	0.80	0.10	0.70	0.00	0.45	0.48
Cash Flow (\$/share)	10.47	-0.00	7.01	12.12	11.52	7.27
Growth Score	B	-	-	B	B	C
Hist. EPS Growth (3-5 yrs)	12.31%	11.68%	10.92%	21.15%	9.27%	6.24%
Proj. EPS Growth (F1/F0)	-7.92%	5.80%	-3.36%	-27.29%	-11.38%	1.96%
Curr. Cash Flow Growth	11.85%	3.86%	5.93%	11.44%	3.68%	6.26%
Hist. Cash Flow Growth (3-5 yrs)	12.35%	7.73%	8.55%	18.49%	7.62%	15.58%
Current Ratio	2.58	2.62	1.24	4.53	1.26	2.75
Debt/Capital	44.41%	15.61%	42.78%	0.00%	30.82%	32.25%
Net Margin	13.99%	-23.31%	11.64%	30.11%	24.47%	17.11%
Return on Equity	25.75%	-10.52%	16.74%	17.82%	40.01%	14.76%
Sales/Assets	0.55	0.57	0.54	0.50	0.53	0.34
Proj. Sales Growth (F1/F0)	-3.48%	0.54%	-0.14%	-3.51%	-3.13%	-0.50%
Momentum Score	D	-	-	F	F	C
Daily Price Chg	8.41%	1.44%	4.04%	3.11%	1.57%	7.97%
1 Week Price Chg	23.40%	7.57%	16.01%	8.93%	5.26%	17.11%
4 Week Price Chg	26.76%	21.21%	18.93%	28.94%	19.65%	30.43%
12 Week Price Chg	-12.35%	-14.58%	-19.39%	-14.42%	2.35%	-14.58%
52 Week Price Chg	5.13%	-12.34%	-11.34%	-0.33%	10.54%	22.69%
20 Day Average Volume	2,816,936	201,118	3,220,598	1,215,047	13,287,343	8,696,518
(F1) EPS Est 1 week change	-4.81%	0.00%	0.00%	-7.14%	-8.05%	0.00%
(F1) EPS Est 4 week change	-15.46%	0.00%	-7.09%	-16.83%	-14.48%	-5.55%
(F1) EPS Est 12 week change	-14.71%	-5.75%	-9.32%	-22.96%	-14.98%	-4.96%
(Q1) EPS Est Mthly Chg	-39.80%	-0.18%	-10.68%	-13.77%	-35.93%	-20.92%

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	D
Growth Score	B
Momentum Score	D
VGM Score	D

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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