Stryker is a large and diversified healthcare company with leading market shares across its three divisions. Stryker operates in three key segments: 1) Orthopedic, 2) MedSurg, and 3) Neurotechnology and Spine. The company has a well-diversified business across multiple channels and call points in the hospital.

Name	Ticker	Yield	Growth	D + G
Stryker Corporation	SYK	1.08%	10.50%	11.58%

Highlights:

SYK recently hosted its bi-annual investor meeting. Management was not specific, but they anticipate delivering some of the best revenue growth in diversified med tech in the coming years (we believe this is over 7% and probably better). They have the products and leadership globally to deliver this performance. Additionally, management was clear they will be folding in more assets via the M&A pathway over the next two years and we are excited to see what they will be (they have done well here over the years). Finally, and most importantly, management committed to 200 bps of operating margin expansion by ’25, which is well ahead of the Street at this point. We believe they can largely get there, which should set them up for strong EPS growth over the next two years.

Shares of SYK have held up well in what has been an awful year for med tech stocks (’23). Although there may be a rotation into the under performers at some point, we do not anticipate shares of SYK will lag much if at all given the revenue and EPS growth trajectory of the business. We continue to view SYK as one of our favorite large cap Health Care names.

Bull Case:

- ***Consistent Execution on Growth Objectives*** - Over the past four years, Stryker’s growth profile has been at the high-end of large cap med tech/hospital supply and equipment companies, with an impressive organic revenue growth profile of 7% from 2017-2022, well ahead of med tech peers at 5%. Growth was driven by 4.8% growth in Orthopaedics, 6.9% in MedSurg, and double-digit growth in Neurotechnology and Spine during that period. Going forward, we see Stryker growing revenues 7% organically, driven by above market knee revenue growth fueled by new products and robotic surgery (current U.S. penetration of less than 2%); continued penetration of fast growth segments, including sports medicine, trauma, extremities and neurotechnology; and international expansion driven by the company’s Trans-Atlantic operating model.
- ***Continued Growth in Neurotechnology* -** The key standout was the performance in Neurotechnology where it saw double digit growth in all four of its Neurotech subsegments. This included impressive 30%+ growth in its US Neurovascular business, behind what management called “a great product cycle” now having closed gaps in flow diversion and aspiration. The smaller part of the business can drive the new wave of growth.
- ***Back to M&A* -** They are clearly gearing up to be more acquisitive next year and sports medicine and patient monitoring seem like reasonable categories for them to fill gaps in their portfolio. Additionally, remember that they noted categories like peripheral, neuromodulation, and urology as compelling during AAOS earlier in the year. We are excited to see what they decide to add to the portfolio as we expect they will again prove successful with this part of their corporate strategy

Bear Case:

- ***Elevated Valuation* –** While recognizing SYK’s impressive fundamentals, with the stock trading at the upper-end of large-cap medtech, we see valuation as full, thus rely simply on growth.
- ***Acquisition Integration*** – Stryker’s number one priority for its free cash flow generation is M&A. The company has been a serial acquirer of assets across its three business segments, and we expect business development activity to remain robust going forward.
- ***Overall Risks*** – Major risks include: (1) risk to analyst’s forward orthopedic revenue estimates as ortho/spine end market demand remains subject to many variables over the next several years, including continued pricing, reimbursement, and competitive uncertainties; (2) risk to analyst’s forward MedSurg revenue estimates if hospital capex spending proves softer over coming quarters than we currently expect; and (3) integration risks (potential for sales force and/or product line dis-synergies, etc.) tied to SYK's ongoing acquisition strategy;

Overall Thesis:

We believe SYK is well-positioned to deliver premium growth relative to the broader medtech market over coming years given its broad exposure to good growth markets, strong competitive positioning within the diverse end markets in which it competes, and a long history of solid execution relative to peers. From an end market perspective, we estimate ~25-30% of SYK's revenue is generated in higher-growth markets such as surgical robotics, extremities, and sports medicine, with the company's leadership position in these markets, and even across other markets with lower secular growth potential (hips/knees, MedSurg, spine), helping the company consistently deliver global organic growth a point or two above market in recent years.

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