

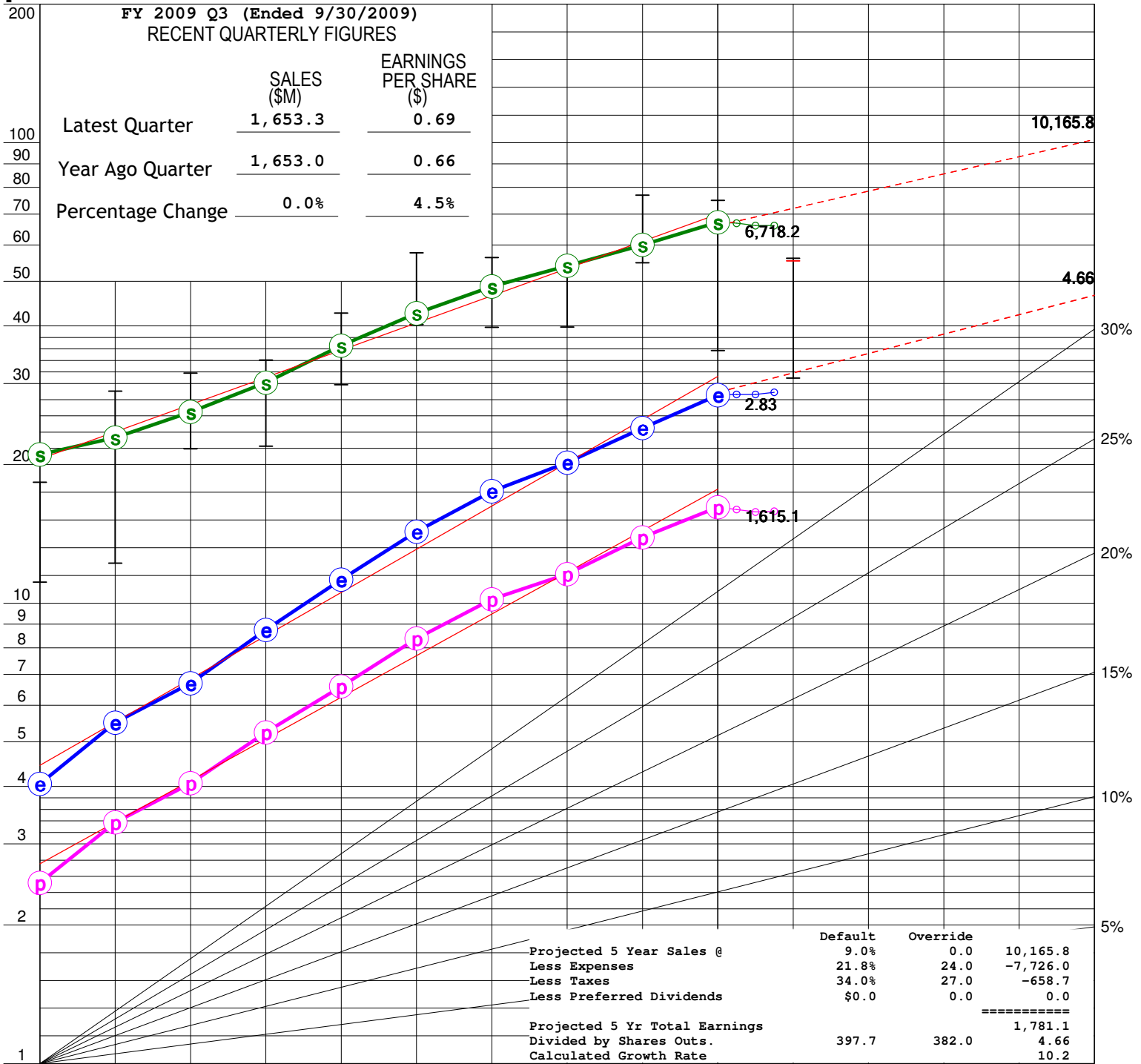


# Stock Study

Company	STRYKER CORP	Price Date	01/08/10
Study by	jah	Data Date	01/08/10
Sector	Healthcare	Data Source	NAIC Data
Industry	Health Care Equipment	Reference	
Preferred(\$M)	0.0		
Common(M Shares)	397.7	% Insiders	5.6
Debt(\$M)	18.1	% Institutions	62.3
% to Tot.Cap.	0.3	Quality	A+ (S&P)

## 1 Growth Analysis

NYSE: SYK



(1) Historical Sales Growth	14.6 %	(3) Historical Earnings Per Share Growth	24.1 %	www.iclub.com
(2) Estimated Future Sales Growth	9.0 %	(4) Estimated Future Earnings Per Share Growth	10.2 %	
(5) Sales Growth R^2	0.99	(6) Earnings Per Share Growth R^2	0.99	

## 2 QUALITY ANALYSIS

Company **STRYKER CORP (SYK)**

01/08/10

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	5 YEAR AVG.	TREND UP / DOWN
<b>A</b> % Pre-tax Profit on Sales	11.7	14.6	15.6	17.4	18.2	19.7	20.9	21.4	23.2	24.0	21.8	UP
<b>B</b> % ROE (Beginning Yr)	<del>31.7</del>	31.8	30.7	32.6	29.8	26.5	25.6	25.2	23.4	21.6	24.5	DOWN
<b>C</b> % Debt to Equity	175.9	102.5	68.2	32.8	0.9	0.0	5.7	0.0	0.0	0.0	1.1	DOWN

## 3 PRICE, PRICE/EARNINGS RATIO and DIVIDEND ANALYSIS

CURRENT PRICE 55.420 52-WEEK HIGH 56.120 52-WEEK LOW 30.820

Fiscal Year	High Price	Low Price	EPS	High P/E	Low P/E	Dividend	% Payout	% High Yield
1 2004	57.7	40.3	1.43	40.3	28.2	0.090	6.3	0.2
2 2005	56.3	39.7	1.75	32.2	22.7	0.110	6.3	0.3
3 2006	55.9	39.8	2.02	27.7	19.7	0.220	10.9	0.6
4 2007	76.9	54.9	2.40	32.0	22.9	0.330	13.8	0.6
5 2008	74.9	35.4	2.83	26.5	12.5	0.400	14.1	1.1
6 AVERAGE		42.0		31.7	21.2		10.3	
AVERAGE P/E RATIO		26.5	PROJECTED P/E RATIO		17.5	TTM EPS		2.87
CURRENT P/E RATIO		19.3	PEG RATIO		1.7	FTM EPS		3.16
RELATIVE VALUE		72.8%	PROJ. RELATIVE VALUE		66.1%			

## 4 EVALUATING REWARD and RISK over the next 5 years

### A FUTURE HIGH PRICE ANALYSIS -- NEXT 5 YEARS

Selected High P/E ~~31.7~~ 32.0 X Estimated High Earnings/Share 4.66 = Forecast High Price \$ 149.1

### B FUTURE LOW PRICE ANALYSIS -- NEXT 5 YEARS

(a) Avg. Low P/E ~~21.2~~ 12.0 X Estimated Low Earnings/Share ~~2.83~~ 2.87 = \$ 34.4

(b) Average 5-Year Low Price = 42.0

(c) Recent Severe Low Price = 30.8

(d) Price Dividend Will Support = Present Divd. + High Yield = 0.600 + 0.011 = 53.1

Selected Estimated Low Price = \$ 42.2

### C PRICE RANGES

Forecast High Price 149.1 - Estimated Low Price 42.2 = Range 106.9 25% of Range = 26.7

BUY (Lower 25% of Range) = 42.2 to 68.9

MAYBE (Middle 50% of Range) = 68.9 to 122.4

SELL (Upper 25% of Range) = 122.4 to 149.1

Current Price 55.420 is in the Buy Range

### D REWARD/RISK ANALYSIS (Potential Gain vs. Risk of Loss)

(Forecast High Price 149.1 - Current Price 55.420) ÷ (Current Price 55.420 - Estimated Low Price 42.2) = 7.1 To 1

## 5 TOTAL RETURN ANALYSIS

### A CURRENT YIELD

Present Full Year's Dividend \$ 0.600 ÷ Current Price of Stock \$ 55.420 = 1.1 % Present Yield or % Returned on Purchase Price

### B AVERAGE YIELD OVER NEXT 5 YEARS

(Avg. EPS Next 5 Years 3.84 X Avg. % Payout ~~10.3~~ 7.3) ÷ Current Price \$ 55.420 = 0.5 %

### C % COMPOUND ANNUAL TOTAL RETURN

Average Yield 0.2 % + Annual Appreciation 21.9 % = Compound Annual Total Return 22.1 %

### D % PROJECTED AVERAGE RETURN

Average Yield 0.3 % + Annual Appreciation 13.1 % = Projected Average Total Return 13.4 %

# STRYKER CORP. NYSE-SYK

RECENT PRICE **49.34** P/E RATIO **16.1** (Trailing: 17.5; Median: 32.0) RELATIVE P/E RATIO **0.96** DIV'D YLD **1.2%**

**VALUE LINE**

**TIMELINESS** 2 Raised 11/6/09  
**SAFETY** 1 Raised 8/28/09  
**TECHNICAL** 3 Lowered 11/6/09  
**BETA** .80 (1.00 = Market)

High: 13.9 18.3 28.9 31.6 33.7 42.7 57.7 56.3 55.9 76.9 74.9 49.8  
 Low: 7.8 11.1 12.2 21.7 21.9 29.8 40.3 39.7 39.8 54.9 35.4 30.8

**LEGENDS**  
 — 17.5 x "Cash Flow" p sh  
 ···· Relative Price Strength  
 2-for-1 split 6/96  
 2-for-1 split 5/00  
 2-for-1 split 5/04  
 Options: Yes  
 Shaded area: prior recession  
 Latest recession began 12/07

**2012-14 PROJECTIONS**

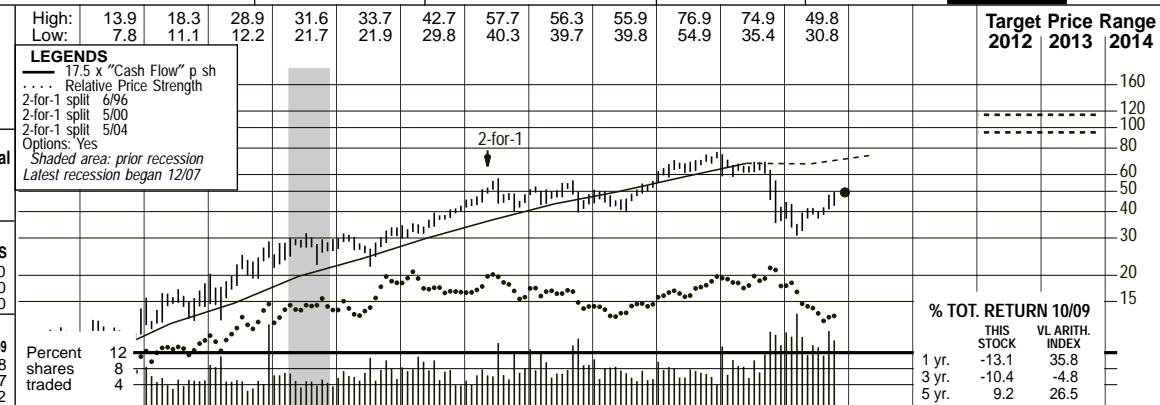
	Price	Gain	Ann'l Total Return
High	115	(+135%)	24%
Low	95	(+95%)	19%

**Insider Decisions**

	J	F	M	A	M	J	J	A	S
to Buy	0	0	0	2	0	0	0	2	0
Options	0	2	1	0	0	0	0	0	0
to Sell	0	0	0	0	2	0	1	2	0

**Institutional Decisions**

	4Q2008	1Q2009	2Q2009
to Buy	311	335	358
to Sell	437	370	347
Hld's(000)	251483	242577	245582



1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
1.44	1.76	2.24	2.35	2.55	2.86	5.41	5.84	6.61	7.60	9.08	10.59	12.02	13.25	14.60	16.95	16.70	18.20	Sales per sh	24.10
.20	.24	.30	.33	.41	.49	.67	.84	1.13	1.37	1.71	2.08	2.49	2.85	3.33	3.87	3.85	4.25	"Cash Flow" per sh	5.90
.16	.19	.23	.26	.32	.38	.41	.55	.67	.88	1.12	1.43	1.75	2.02	2.40	2.78	2.90	3.25	Earnings per sh <sup>A</sup>	4.75
.01	.01	.01	.03	.03	.03	.03	.04	.04	.05	.06	.07	.09	.11	.22	.33	.50	.60	Div'ds Decl'd per sh <sup>B</sup>	.72
.05	.08	.09	.07	.09	.13	.20	.21	.41	.35	.36	.47	.67	.53	.46	.39	.30	.40	Cap'l Spending per sh	.40
.75	.93	1.17	1.37	1.59	1.69	1.73	2.18	2.68	3.78	5.40	6.84	8.03	10.27	13.09	13.64	15.80	17.60	Book Value per sh <sup>C</sup>	27.10
387.16	386.95	388.43	387.15	384.24	386.16	388.80	391.80	393.40	396.20	399.40	402.50	405.20	407.90	411.00	396.40	395.00	385.00	Common Shs Outst'g <sup>D</sup>	382.00
22.0	21.2	24.6	25.0	27.5	26.7	35.5	37.1	40.3	33.0	32.4	33.0	27.7	23.6	27.9	21.8	21.8	21.8	Avg Ann'l P/E Ratio	22.0
1.30	1.39	1.65	1.57	1.59	1.39	2.02	2.41	2.07	1.80	1.85	1.74	1.47	1.27	1.48	1.31	1.31	1.31	Relative P/E Ratio	1.45
.3%	.3%	.2%	.4%	.3%	.3%	.2%	.2%	.1%	.2%	.2%	.1%	.2%	.2%	.2%	.3%	.5%	.5%	Avg Ann'l Div'd Yield	.7%

**CAPITAL STRUCTURE as of 9/30/09**  
 Total Debt \$18.1 mill. Due in 5 Yrs \$18.1 mill.  
 LT Debt None LT Interest Nil

**Leases, Uncapitalized** Annual rentals \$37.7 mill.

**Pension Assets-12/08** \$150.5 mill. **Oblig.** \$252.1 mill.  
**Pfd Stock** None

**Common Stock** 397,738,563 shares as of 10/31/09

**MARKET CAP: \$19.6 billion (Large Cap)**

2103.7	2289.4	2602.3	3011.6	3625.3	4262.3	4871.5	5406	6001	6718	6600	7000	Sales (\$mill)	9200
22.2%	23.7%	24.7%	24.9%	24.9%	25.6%	26.8%	27.0%	28.2%	28.9%	29.5%	30.0%	Operating Margin	32.0%
101.7	109.4	172.0	186.1	229.7	250.9	289.9	331.8	366.6	387.6	370	380	Depreciation (\$mill)	425
160.4	221.0	271.8	357.1	453.5	586.5	719.1	830.4	1000.7	1147.8	1155	1260	Net Profit (\$mill)	1825
35.0%	34.0%	33.0%	31.8%	30.5%	30.0%	29.4%	28.2%	28.0%	27.4%	27.0%	27.0%	Income Tax Rate	27.0%
7.6%	9.7%	10.4%	11.9%	12.5%	13.8%	14.8%	15.4%	16.7%	17.1%	17.5%	18.0%	Net Profit Margin	19.8%
440.8	379.6	459.7	443.8	547.1	1029.1	1621.3	2182.8	3571.9	3517.2	4600	5385	Working Cap'l (\$mill)	9910
1181.1	876.5	720.9	491.0	18.8	.7	184.2	--	--	--	Nil	Nil	Long-Term Debt (\$mill)	Nil
671.5	854.9	1066.2	1498.2	2154.8	2752.0	3251.8	4191.0	5378.5	5406.7	6235	6765	Shr. Equity (\$mill)	10345
11.8%	15.2%	17.0%	19.0%	21.4%	21.4%	20.9%	19.8%	18.6%	21.2%	18.5%	18.5%	Return on Total Cap'l	17.5%
23.9%	25.9%	25.7%	23.8%	21.0%	21.3%	22.1%	19.8%	18.6%	21.2%	18.5%	18.5%	Return on Shr. Equity	17.5%
22.2%	24.4%	24.2%	22.5%	19.9%	20.3%	21.0%	18.7%	16.9%	18.7%	15.5%	15.0%	Retained to Com Eq	15.0%
7%	6%	6%	6%	5%	5%	5%	5%	9%	12%	17%	18%	All Div'ds to Net Prof	15%

**CURRENT POSITION**

	2007	2008	9/30/09
Cash Assets	2410.8	2195.6	2929.4
Receivables	1030.7	1129.5	1113.5
Inventory (LIFO)	796.2	952.7	977.3
Other	667.2	701.5	741.6
Current Assets	4904.9	4979.3	5761.8
Accts Payable	265.5	274.3	204.5
Debt Due	16.8	20.5	18.1
Other	1050.7	1167.3	975.4
Current Liab.	1333.0	1462.1	1198.0

**BUSINESS:** Stryker Corp. develops, mfrs., & markets Orthopaedic Implants (59% of '08 sales), and MedSurg Equipment (41%). Orthopaedic products include hip, knee, trauma, spinal, and craniomaxillofacial implants. MedSurg includes powered instruments, endoscopic systems, other operating room devices, specialty stretchers, and maternity beds. Physical Therapy Services

business sold '07. About 36% of '08 sales were foreign. Acq. Howmedica 12/98. R&D: 5.5% of sales. '08 depr. rate: 20.7%. Has 17,594 employees. Off. and dir. (incl. Stryker family trust) own 28.3% of stock (3/09 proxy). Chairman: John Brown. Pres. & CEO: Stephen MacMillan. Inc.: MI. Addr.: P.O.Box 4085, Kalamazoo, MI 49003. Tel.: 616-385-2600. Internet: www.strykercorp.com.

**ANNUAL RATES**

Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08	
change (per sh)	10 Yrs.	5 Yrs.	
Sales	19.0%	14.0%	8.5%
"Cash Flow"	23.5%	19.0%	10.0%
Earnings	22.5%	22.0%	12.0%
Dividends	23.0%	34.5%	22.0%
Book Value	23.0%	25.5%	14.0%

**Stryker's balance sheet affords much flexibility.** The company is sitting on a hearty cash balance of close to \$3 billion and minimal debt, which well positions this medical device manufacturer to pursue external growth endeavors. As such, Stryker is working on three different purchases, ranging from surgical equipment, software, and ultrasonic accessories, to complement its portfolio. All told, the deals are expected to close before yearend for cash of \$100 million with future milestone and royalty payments anticipated. We expect that Stryker will continue an active stance in the acquisition market moving into 2010.

year compliance program in response to the receipt of four warning letters from the FDA after site inspections at four facilities. Under a \$200 million initiative, the company has implemented changes at all of its 21 facilities in order to address the quality control and other issues that were noted at the inspected sites. The biotech warning letter has been resolved, thanks to a successful re-inspection by the FDA. Stryker ought to continue to make investments in its compliance plan, even after the remaining three letters reach resolution.

**QUARTERLY SALES (\$ mill.)**

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	1321	1328	1294	1463	5406
2007	1426	1464	1453	1658	6001
2008	1634	1713	1653	1718	6718
2009	1601	1634	1653	1712	6600
2010	1720	1770	1735	1775	7000

**The dividend has been bumped up.** Starting with a \$0.10-per-share December payment, Stryker will pay dividends quarterly. In the new year, the dividend will expand to \$0.15 per share, a hefty 20% increase, year over year. Even with the substantial upswing in the payout, the company maintains more than enough cash for further increases and other uses, such as a stock-repurchase program.

**These shares have climbed steadily in price since our August coverage.** Time-ly SYK stock is pegged to outleg the market in the year ahead, even after the healthy 24% increase in price. What's more, the long-term view is intriguing, especially with Stryker's assortment of products and a likely improvement in hospital capital spending around the corner. Patient investors ought to consider the above average capital recovery potential this equity offers for the haul to 2012-2014.

**EARNINGS PER SHARE <sup>A</sup>**

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.49	.52	.46	.55	2.02
2007	.58	.61	.55	.66	2.40
2008	.70	.73	.66	.69	2.78
2009	.71	.73	.57	.89	2.90
2010	.80	.81	.79	.85	3.25

**Compliance measures are bearing fruit.** Stryker has undertaken a multi-

Mary Beth Wiedenkiller November 27, 2009

**QUARTERLY DIVIDENDS PAID <sup>B</sup>**

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	.09	--	--	--	.09
2006	.11	--	--	--	.11
2007	.22	--	--	--	.22
2008	.33	--	--	--	.33
2009	.40	--	--	.10	

(A) Based on average shares through '96; diluted thereafter. Excludes extraordinary gains of \$0.03 in 1996. Excludes nonrecurring losses (gains): '98, \$0.57; '99, \$0.71; '01, \$0.01; '02, \$0.03; '04, \$0.29; '05, \$0.11; '06, 13¢; '07, 4¢; '08, 5¢. Next earnings rpt. due late January.

(B) Dividends historically paid at the end of January. (C) Includes intangibles. At 9/30/09: \$954.9 million, \$2.40/share. (D) In millions, adjusted for stock splits.

**Company's Financial Strength** A++

Price Stability	85
Price Growth Persistence	80
Earnings Predictability	100

To subscribe call 1-800-833-0046.