



# Stock Selection Guide <sup>®</sup>

The most widely used aid to good investment judgment

Company STRYKER CORP Date 01/05/06

Prepared by jah Data taken from NAIC Data

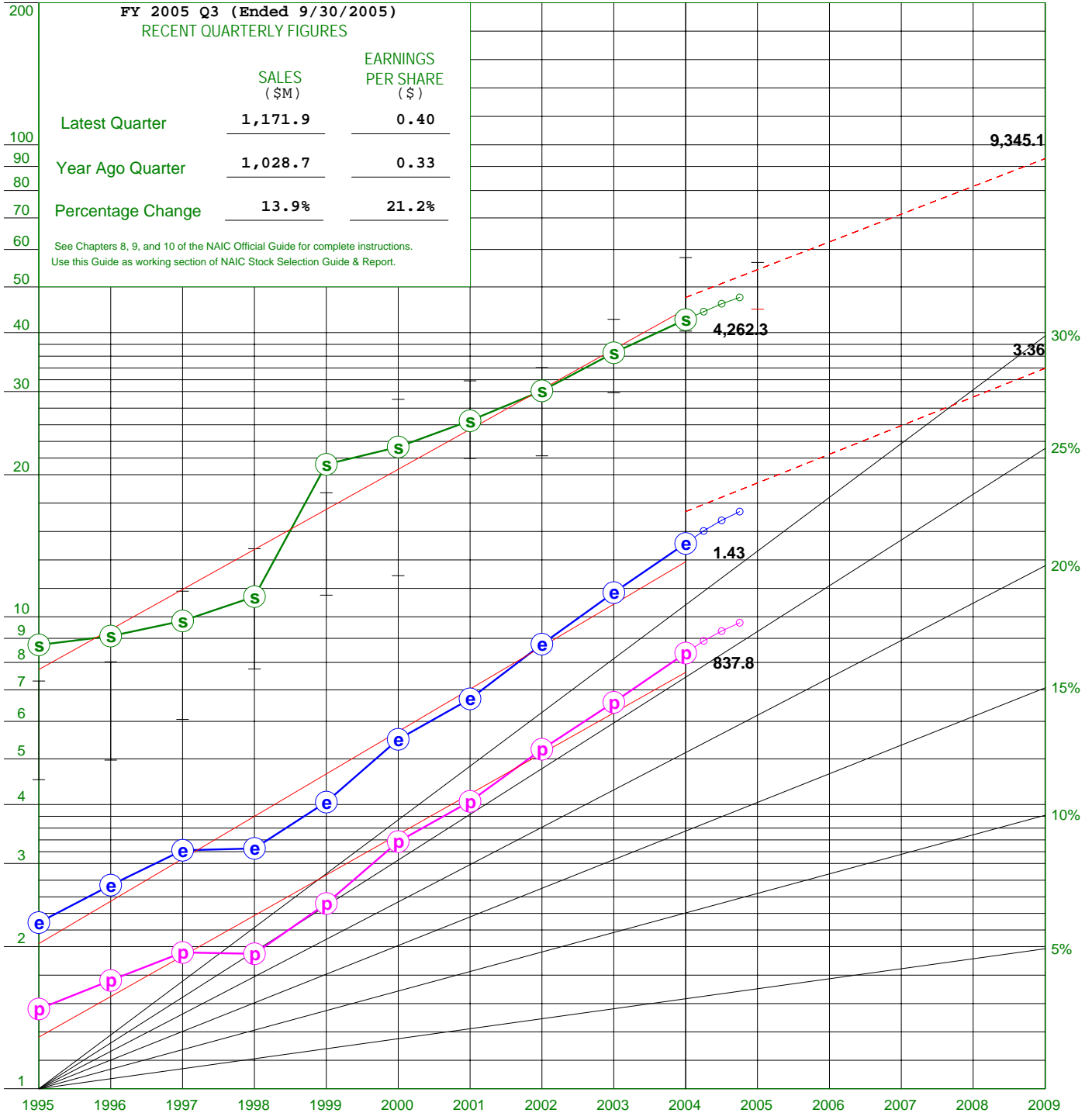
Where traded NYSE Major product/service Health Care

CAPITALIZATION --- Outstanding Amounts Reference \_\_\_\_\_

Preferred (\$M)	0.0	% Insiders	% Institution	
Common (M Shares)	403.9	0.0	0.0	
Debt (\$M)	9.0	% to Tot.Cap.	0.3 % Potential Dil.	None

## 1 VISUAL ANALYSIS of Sales, Earnings and Price

SYK



- (1) Historical Sales Growth 21.6 % (3) Historical Earnings Per Share Growth 23.0 %  
 (2) Estimated Future Sales Growth 14.5 % (4) Estimated Future Earnings Per Share Growth 15.0 %

## 2 EVALUATING MANAGEMENT

Company **STRYKER CORP (SYK)**

01/05/06

		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	LAST 5 YEAR AVG.	TREND	
													UP	DOWN
<b>A</b>	% Pre-tax Profit on Sales (Net Before Taxes ÷ Sales)	16.9	18.6	19.8	17.5	11.7	14.6	15.6	17.4	18.2	19.7	17.1	UP	
<b>B</b>	% Earned on Equity (E/S ÷ Book Value)	19.2	19.7	20.1	18.5	23.5	25.2	25.0	23.1	20.9	20.9	23.0		DOWN

## 3 PRICE-EARNINGS HISTORY as an indicator of the future

This shows how stock prices have fluctuated with earnings and dividends. It is a building block for translating earnings into future stock prices.

		PRESENT PRICE			HIGH THIS YEAR			LOW THIS YEAR				
		44.850			56.320			39.740				
Year		PRICE		C Earnings Per Share	D Price Earnings Ratio		E Dividend Per Share	F % Payout F ÷ C X 100	G % High Yield F ÷ B X 100			
		HIGH	LOW		HIGH A ÷ C	LOW B ÷ C						
1	2000	28.9	12.2	0.55	52.5	22.2	0.040	7.3	0.3			
2	2001	31.6	21.7	0.67	47.2	32.4	0.050	7.5	0.2			
3	2002	33.7	21.9	0.88	38.5	25.0	0.060	6.9	0.3			
4	2003	42.7	29.8	1.13	38.0	26.5	0.070	6.2	0.2			
5	2004	57.7	40.3	1.43	40.3	28.2	0.090	6.3	0.2			
6	TOTAL		125.9		116.8	79.7		34.2				
7	AVERAGE		25.2		38.9	26.6		6.8				
8	AVERAGE PRICE EARNINGS RATIO				32.8		9 CURRENT PRICE EARNINGS RATIO				26.9	

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

Assuming one recession and one business boom every 5 years, calculations are made of how high and how low the stock might sell. The upside-downside ratio is the key to evaluating risk and reward.

### A HIGH PRICE -- NEXT 5 YEARS

Avg. High P/E ~~38.9~~ 30.0 X Estimate High Earnings/Share 3.36 = Forecast High Price \$ 100.8 (4A1)

### B LOW PRICE -- NEXT 5 YEARS

(a) Avg. Low P/E ~~26.6~~ 19.1 X Estimated Low Earnings/Share ~~1.43~~ 1.67 = \$ 31.9 (3E7 as adj.)  
 (b) Avg. Low Price of Last 5 Years = 25.2 (3B7)  
 (c) Recent Severe Market Low Price = 29.8

(d) Price Dividend Will Support  $\frac{\text{Present Divd.}}{\text{High Yield (H)}} = \frac{0.090}{0.003} = 27.5$   
 Selected Estimate Low Price = 31.9 (4B1)

### C ZONING

100.8 (4A1) High Forecast Price Minus 31.9 (4B1) Low Forecast Price Equals 68.9 (C) Range. 1/3 of Range = 17.2 (4CD)  
 (4C2) Lower 1/3 = 31.9 (4B1) to 49.1 (Buy) Note: Ranges changed to 25%/50%/25%  
 (4C3) Middle 1/3 = 49.1 to 83.6 (Maybe)  
 (4C4) Upper 1/3 = 83.6 to 100.8 (4A1) (Sell)

Present Market Price of 44.850 is in the Buy (4C5) Range

### D UP-SIDE DOWN-SIDE RATIO (Potential Gain vs. Risk of Loss)

High Price (4A1) 100.8 Minus Present Price 44.850 = 56.0  
 Present Price 44.850 Minus Low Price (4B1) 31.9 = 13.0 = 4.3 To 1 (4D)

### E PRICE TARGET (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)

High Price (4A1) 100.8  
 Present Market Price 44.850 = ( 2.247 ) X 100 = ( 224.7 ) - 100 = 124.7 % Appreciation (4E)

Relative Value: 82.0% Proj. Relative Value: 71.2%

## 5 5-YEAR POTENTIAL

This combines price appreciation with dividend yield to get an estimate of total return. It provides a standard for comparing income and growth stocks.

Note: Results are expressed as a simple rate: use the table below to convert to a compound rate.

**A Present Full Year's Dividend \$** 0.090  
 Present Price of Stock \$ 44.850 = 0.002 X 100 = 0.2 (5A) Present Yield or % Returned on Purchase Price

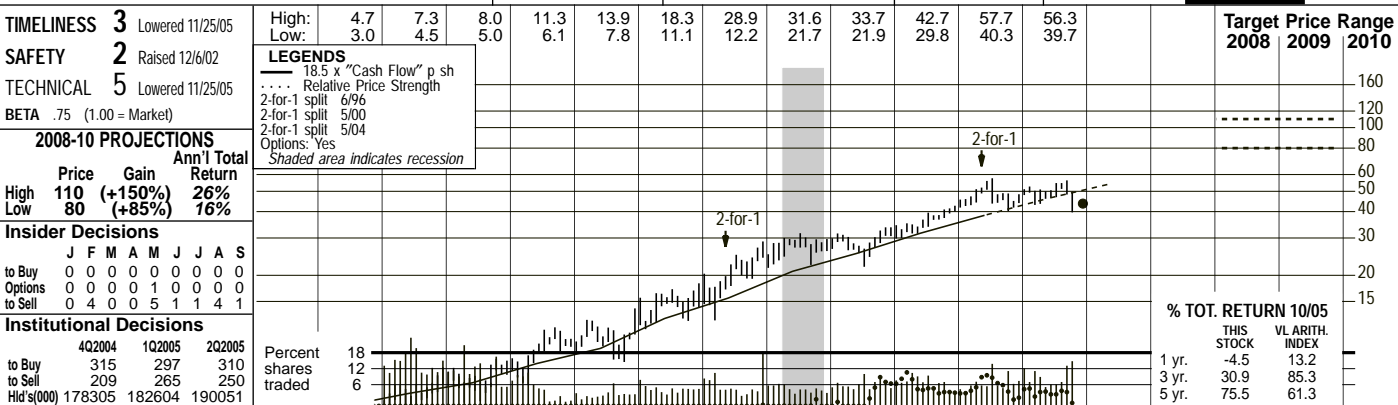
**B AVERAGE YIELD OVER NEXT 5 YEARS**  
 Avg. Earnings Per Share Next 5 Years 2.54 X Avg. % Payout (3G7) 6.8 = 17.3 = 0.4 % (5B)  
 Present Price \$ 44.850

### C ESTIMATED AVERAGE ANNUAL RETURN OVER NEXT FIVE YEARS

	5 Year Appreciation Potential (4E)		P.A.R.	Tot. Ret.
	<u>124.7</u>	<u>24.9</u> %	<u>0.3%</u>	<u>0.2%</u>
Average Yield (5B)	<u>0.4</u> %		<u>13.0%</u>	<u>17.6%</u>
Average Total Annual Return Over the Next 5 Years (5C)	<u>25.3</u> %		<u>13.2%</u>	<u>17.8%</u>

# STRYKER CORP. NYSE-SYK

RECENT PRICE **43.75** P/E RATIO **22.9** (Trailing: 26.2 Median: 31.0) RELATIVE P/E RATIO **1.26** DIV'D YLD **0.3%** VALUE LINE



1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	© VALUE LINE PUB., INC.	08-10
.60	.74	.96	1.23	1.44	1.76	2.24	2.35	2.55	2.86	5.41	5.84	6.61	7.60	9.08	10.59	12.05	13.80	Sales per sh	20.70
.07	.08	.12	.15	.20	.24	.30	.33	.41	.49	.67	.84	1.13	1.37	1.71	2.08	2.50	2.95	"Cash Flow" per sh	4.60
.05	.06	.09	.13	.16	.19	.23	.26	.32	.38	.41	.55	.67	.88	1.12	1.43	1.75	2.10	Earnings per sh <sup>A</sup>	3.50
--	--	--	.01	.01	.01	.01	.03	.03	.03	.03	.04	.04	.05	.06	.07	.09	.11	Div'ds Decl'd per sh <sup>B</sup>	.21
.02	.03	.04	.08	.05	.08	.09	.07	.09	.13	.20	.21	.41	.35	.36	.47	.45	.45	Cap'l Spending per sh	.50
.30	.39	.47	.60	.75	.93	1.17	1.37	1.59	1.69	1.73	2.18	2.68	3.78	5.40	6.84	8.15	9.70	Book Value per sh <sup>C</sup>	13.20
378.50	379.71	380.78	386.42	387.16	386.95	388.43	387.15	384.24	386.16	388.80	391.80	393.40	396.20	399.40	402.50	405.00	400.00	Common Shs Outst'g <sup>D</sup>	370.00
22.6	25.7	38.6	36.6	22.0	21.2	24.6	25.0	27.5	26.7	35.5	37.1	40.3	33.0	32.4	33.0	<b>Bold figures are Value Line estimates</b>		Avg Ann'l P/E Ratio	27.0
1.71	1.91	2.47	2.22	1.30	1.39	1.65	1.57	1.59	1.39	2.02	2.41	2.07	1.80	1.85	1.76			Relative P/E Ratio	1.80
--	--	--	.1%	.3%	.3%	.2%	.4%	.3%	.3%	.2%	.2%	.1%	.2%	.2%	.1%			Avg Ann'l Div'd Yield	.2%

CAPITAL STRUCTURE as of 9/30/05				1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006		
Total Debt \$9.0 mill. Due in 5 Yrs \$9.0 mill.				872.0	910.1	980.1	1103.2	2103.7	2289.4	2602.3	3011.6	3625.3	4262.3	4890	5515	6655	7665	8665	9665	10665	11665	12665	
LT Debt \$ .9 mill. LT Interest \$ .1 mill. (less than 1% of Cap'l)				21.3%	19.4%	22.2%	20.5%	22.2%	23.7%	24.7%	24.9%	24.9%	25.6%	27.0%	27.5%	27.5%	27.5%	27.5%	27.5%	27.5%	27.5%	27.5%	
Leases, Uncapitalized Annual rentals \$51.0 mill.				28.7	28.4	33.3	37.6	101.7	109.4	172.0	186.1	229.7	250.9	285	315	375	435	495	555	615	675	735	
Pension Assets-12/04 \$72.8 mill. Oblig. \$138.1 mill.				87.0	101.0	125.3	150.3	160.4	221.0	271.8	357.1	453.5	586.5	720	860	1000	1140	1280	1420	1560	1700	1840	
Pf'd Stock None				41.0%	38.5%	36.0%	22.2%	35.0%	34.0%	33.0%	31.8%	30.5%	30.0%	29.5%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%	
Common Stock 404,986,762 shares				10.0%	11.1%	12.8%	13.6%	7.6%	9.7%	10.4%	11.9%	12.5%	13.8%	14.7%	15.6%	16.5%	17.4%	18.3%	19.2%	20.1%	21.0%	21.9%	
MARKET CAP: \$17.7 billion (Large Cap)				448.9	501.8	453.6	612.3	440.8	379.6	459.7	443.8	547.1	1029.1	1325	1400	1475	1550	1625	1700	1775	1850	1925	
CURRENT POSITION (SMILL.)				97.0	89.5	4.4	1488.0	1181.1	876.5	720.9	491.0	18.8	.7	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	
Cash Assets				454.3	530.4	612.8	652.1	671.5	854.9	1056.2	1498.2	2154.8	2752.0	3310	3875	4440	5005	5570	6135	6700	7265	7830	
Receivables				16.3%	16.6%	20.6%	7.3%	11.8%	15.2%	17.0%	19.0%	21.4%	21.4%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%
Inventory (LIFO)				19.2%	19.0%	20.5%	23.0%	23.9%	25.9%	25.7%	23.8%	21.0%	21.3%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%
Other				18.3%	18.2%	18.9%	21.4%	22.2%	24.4%	24.2%	22.5%	19.9%	20.3%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Current Assets				4%	4%	8%	7%	7%	6%	6%	6%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	
Accts Payable				<p><b>BUSINESS:</b> Stryker Corp. develops, mfrs., &amp; markets Orthopaedic Implants (60.1% of '04 sales), MedSurg Equipment (34.1%), and other products (5.8%). Orthopaedic products include hip, knee, shoulder, and spinal implants. MedSurg includes powered instruments, endoscopic systems, other operating room devices, specialty stretchers, and maternity beds. Other includes Physical Therapy Services. About 35% of '04 sales were foreign. Acq. Howmedica 12/98. R&amp;D: 5.0% of sales. '04 depr. rate: 20.5%. Has 15,890 employees, 3,785 stockholders. Off. and dir. (incl. Stryker family trust) own 27.7% of stock (3/05 proxy). Pres. &amp; CEO: Stephen MacMillan, Inc. MI. Address: P.O.Box 4085, Kalamazoo, MI 49003. Tel.: 616-385-2600. Web site: www.strykercorp.com.</p>																			
Debt Due				<p><b>Anxiety over Stryker's capacity to maintain a 20%-plus bottom-line track is pressuring the company's stock.</b> Although SYK shares have recovered a few points in recent weeks, they are down 15% since our September report. Most of the damage followed the release of third-quarter results, which revealed sales and earnings that were a tad shy of expectations. The causes of the shortfall were disconcerting as, too, were management comments regarding the pricing environment. The company still expects a 20% share-net advance in 2006, but, clearly, Wall Street isn't as sanguine. For three decades, Stryker has consistently scored annual gains of at least 20%, so investors are hypersensitive to any whiff that this extraordinary record is in jeopardy; the one exception is 1989, when a huge purchase hurt profits. <b>There are multiple reasons for concern.</b> Revenue growth slowed to 13.9% in the September quarter from the 16.5% achieved in the year's first half. Significantly, too, much of the gains came from persistent strength (up 20.5%) in the low-margined MedSurg business. The far more important Orthopaedic Implant segment expanded a relatively modest 10.6% (to \$678 million), down from 13.9% in the preceding six months. Stryker's hips and knees units are ostensibly being squeezed by both market-share losses and pricing pressures. Domestic sales of hips fell 2% (to \$206 million), marking the first quarterly decline in years. Looking forward, the company may have to contend with flat pricing in the reconstruction market, while working to boost unit volume. Moreover, prevailing inflationary and interest-rate trends suggest that foreign currency dynamics could reverse course and become a headwind in 2006. <b>We continue to like these good-quality shares.</b> Earnings momentum remains positive, as do worldwide demographic trends. Stryker's R&amp;D program has several decent prospects, and its financial strength affords a well-regarded management team the flexibility to enhance share net through both acquisitions and stock repurchases. Last, valuations are at multi-year lows, allowing for superior 3- to 5-year returns, even if earnings growth were to fall below the "magical" 20% threshold. <i>George Rho</i> December 2, 2005</p>																			
Other				<p><b>Company's Financial Strength</b> A  <b>Stock's Price Stability</b> 85  <b>Price Growth Persistence</b> 100  <b>Earnings Predictability</b> 100</p>																			
Current Liab.				<p><b>To subscribe call 1-800-833-0046.</b></p>																			

Cal-endar	QUARTERLY SALES (\$ mill.)				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2002	702.9	733.9	745.6	829.2	3011.6
2003	846.9	891.7	885.4	1001	3625.3
2004	1035	1043	1029	1155	4262.3
2005	1202	1219	1172	1297	4890
2006	1340	1360	1340	1475	5515

Cal-endar	EARNINGS PER SHARE <sup>A</sup>				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2002	.20	.21	.21	.26	.88
2003	.26	.27	.26	.33	1.12
2004	.33	.37	.33	.40	1.43
2005	.42	.45	.40	.48	1.75
2006	.50	.53	.49	.58	2.10

Cal-endar	ANNUAL DIVIDEND PAID <sup>B</sup>				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2001	.04	--	--	--	.04
2002	.05	--	--	--	.05
2003	.06	--	--	--	.06
2004	.07	--	--	--	.07
2005	.09	--	--	--	.09

(A) Based on average shares through '96; diluted thereafter. Excludes extraordinary gains of \$0.06 in 1990; \$0.03 in 1996. Excludes non-recurring losses: '98, \$0.57; '99, \$0.71; '01, \$0.01; '02, \$0.03; '04, \$0.29; '05, \$0.08. Next earnings rpt. due late Jan. (B) Dividends historically paid at the end of January. (C) Includes intangibles. In 2004: \$963.2 million, \$2.39/share. (D) In millions, adjusted for stock splits.

# PERT Worksheet-A Graph

Company STRYKER CORP (SYK)

