



# Stock Selection Guide®

The most widely used aid to good investment judgment

Company STRYKER CORP Date 06/30/06

Prepared by jah Data taken from NAIC Data

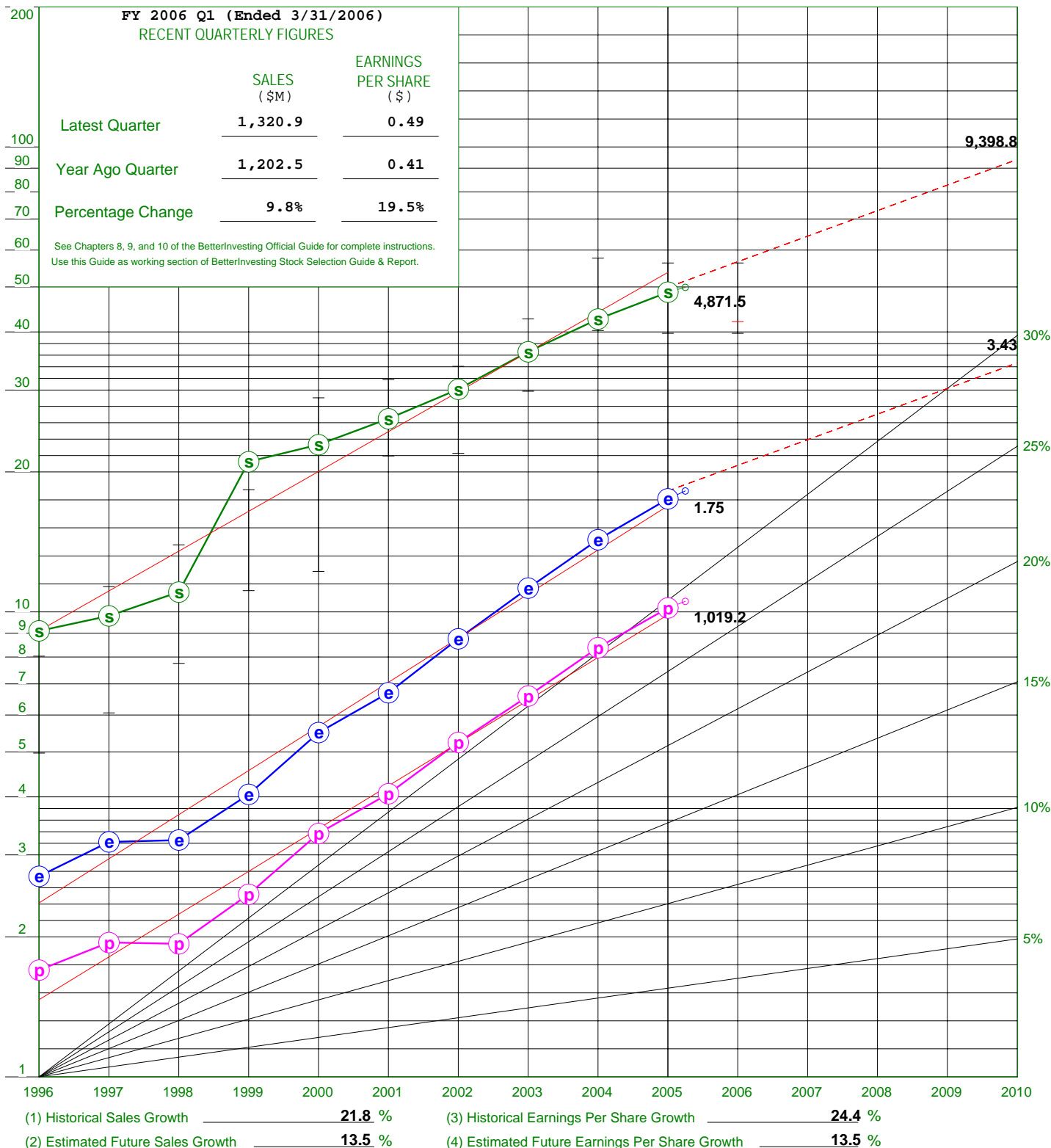
Where traded NYSE Major product/service Health Care

CAPITALIZATION --- Outstanding Amounts Reference

Preferred (\$M)	0.0	% Insiders	% Institution
Common (M Shares)	406.1	0.0	0.0
Debt (\$M)	137.4	% to Tot.Cap.	4.0 % Potential Dil. None

## 1 VISUAL ANALYSIS of Sales, Earnings and Price

SYK



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	LAST 5 YEAR AVG.	TREND	
												UP	DOWN
A % Pre-tax Profit on Sales (Net Before Taxes ÷ Sales)	18.6	19.8	17.5	11.7	14.6	15.6	17.4	18.2	19.7	20.9	18.4	UP	
B % Earned on Equity (E/S ÷ Book Value)	19.7	20.1	18.5	23.5	25.2	25.0	23.1	20.9	20.9	21.8	22.3		DOWN

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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		42.110	HIGH THIS YEAR		56.320	LOW THIS YEAR		39.740
Year		PRICE		C Earnings Per Share	D Price Earnings Ratio		F Dividend Per Share	G % Payout F ÷ C X 100	H % High Yield F ÷ B X 100	
		HIGH	LOW		HIGH A ÷ C	LOW B ÷ C				
1	2001	31.6	21.7	0.67	<del>47.2</del>	<del>32.4</del>	0.050	7.5	0.2	
2	2002	33.7	21.9	0.88	38.5	25.0	0.060	6.9	0.3	
3	2003	42.7	29.8	1.13	38.0	26.5	0.070	6.2	0.2	
4	2004	57.7	40.3	1.43	40.3	28.2	0.090	6.3	0.2	
5	2005	56.3	39.7	1.75	32.2	22.7	0.110	6.3	0.3	
6	TOTAL		153.4		149.0	102.4		33.2		
7	AVERAGE		30.7		37.3	25.6		6.6		
8	AVERAGE PRICE EARNINGS RATIO			31.4	9	CURRENT PRICE EARNINGS RATIO			23.1	

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Proj. P/E [20.38] Based on Next 4 qtr. EPS [2.07] Current P/E Based on Last 4 qtr. EPS [1.82] PEG=151

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 ~~37.3~~ 30.0 X Estimate High Earnings/Share 3.43 = Forecast High Price \$ 102.9  
(3D7 as adj.) (4A1)

B LOW PRICE -- NEXT 5 YEARS

(a) Avg. Low P/E ~~25.6~~ 19.1 X Estimated Low Earnings/Share ~~1.75~~ 1.82 = \$ 34.8  
(3E7 as adj.)  
(b) Avg. Low Price of Last 5 Years = 30.7  
(3B7)  
(c) Recent Severe Market Low Price = 39.7  
(d) Price Dividend Will Support Present Divd. = 0.110 = 39.7  
High Yield (H) 0.003  
Selected Estimate Low Price = \$ 34.8  
(4B1)

C ZONING

102.9 High Forecast Price Minus 34.8 Low Forecast Price Equals 68.1 Range. 1/3 of Range = 17.0  
(4A1) (4B1) (C) (4CD)  
(4C2) Lower 1/3 = (4B1) 34.8 to 51.8 (Buy) Note: Ranges changed to 25%/50%/25%  
(4C3) Middle 1/3 = 51.8 to 85.9 (Maybe)  
(4C4) Upper 1/3 = 85.9 to 102.9 (4A1) (Sell)

Present Market Price of 42.110 is in the Buy Range  
(4C5)

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

High Price (4A1) 102.9 Minus Present Price 42.110  
Present Price 42.110 Minus Low Price (4B1) 34.8 = 60.8 = 8.3 To 1  
7.3 (4D)

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

High Price (4A1) 102.9  
Present Market Price 42.110 = ( 2.444 ) X 100 = ( 244.4 ) - 100 = 144.4 % Appreciation  
(4E)

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5-YEAR POTENTIAL

Relative Value: 73.6% Proj. Relative Value: 64.9%

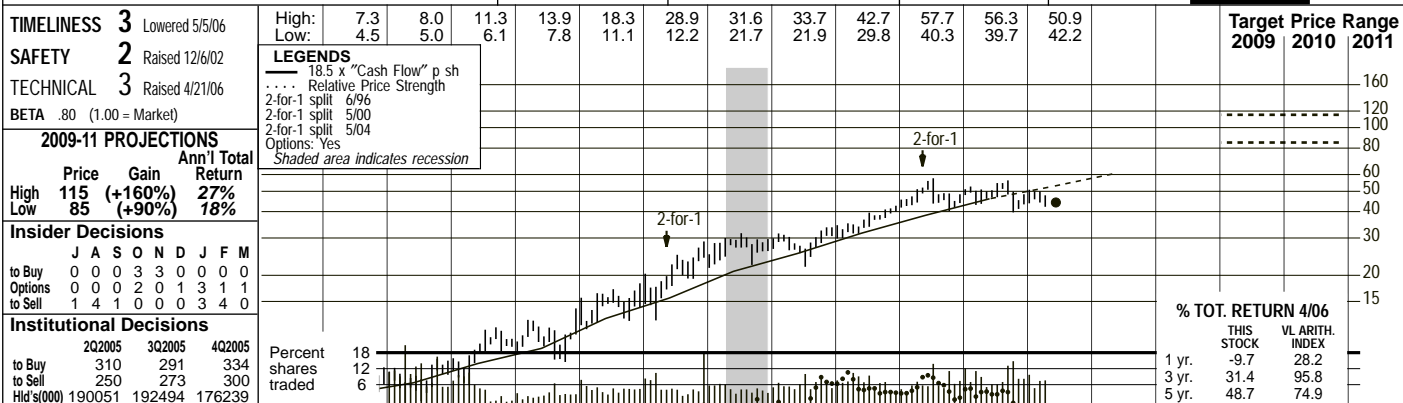
This combines price appreciation with dividend yield to get an estimate of total return. It provides a standard for comparing income and growth stocks.

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

Note: Results are expressed as a Simple Rate; use the table below to convert to a Compound Rate.									
A Present Full Year's Dividend \$		0.110							
Present Price of Stock		\$	42.110	=	0.003	X 100 =	0.3	Present Yield or % Returned on Purchase Price	
							(5A)		
B AVERAGE YIELD OVER NEXT 5 YEARS									
Avg. Earnings Per Share Next 5 Years		2.66		X Avg. % Payout	(3G7)	6.6	=	17.6	= 0.4 %
								(5B)	
C ESTIMATED AVERAGE ANNUAL RETURN OVER NEXT FIVE YEARS									
5 Year Appreciation Potential		(4E)	144.4			Present Price \$		42.110	
5			28.9	%	Average Yield		0.3%	Tot. Ret. 0.2%	
Average Yield (5B)		-----		0.4	%	Annual Appreciation		14.9%	19.6%
Average Total Annual Return Over the Next 5 Years		(5C)	29.3	%	% Compd Ann Rate of Ret		15.1%	19.8%	

# STRYKER CORP. NYSE-SYK

RECENT PRICE **44.21** P/E RATIO **21.9** (Trailing: 24.3; Median: 32.0) RELATIVE P/E RATIO **1.24** DIV'D YLD **0.3%** VALUE LINE



1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
.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	12.02	13.60	15.30	Sales per sh	23.60
.08	.12	.15	.20	.24	.30	.33	.41	.49	.67	.84	1.13	1.37	1.71	2.08	2.49	2.85	3.30	"Cash Flow" per sh	5.10
.06	.09	.13	.16	.19	.23	.26	.32	.38	.41	.55	.67	.88	1.12	1.43	1.75	2.02	2.42	Earnings per sh <sup>A</sup>	3.90
--	--	.01	.01	.01	.01	.03	.03	.03	.03	.04	.04	.05	.06	.07	.09	.11	.13	Div'ds Decl'd per sh <sup>B</sup>	.23
.03	.04	.08	.05	.08	.09	.07	.09	.13	.20	.21	.41	.35	.36	.47	.67	.50	.50	Cap'l Spending per sh	.60
.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	8.03	9.50	11.25	Book Value per sh <sup>C</sup>	15.95
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	405.20	400.00	395.00	Common Shs Outst'g <sup>D</sup>	360.00
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	27.7	<b>Bold figures are Value Line estimates</b>		Avg Ann'l P/E Ratio	26.0
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	1.74	1.48			Relative P/E Ratio	1.75
--	--	.1%	.3%	.3%	.2%	.4%	.3%	.3%	.2%	.2%	.1%	.2%	.2%	.1%	.2%			Avg Ann'l Div'd Yield	.2%

**CAPITAL STRUCTURE as of 3/31/06**  
 Total Debt \$137.4 mill. Due in 5 Yrs \$40.0 mill.  
 LT Debt \$99.6 mill. LT Interest \$3.1 mill.  
 (3% of Cap'l)  
 Leases, Uncapitalized Annual rentals \$51.2 mill.

**Pension Assets-12/05** \$91.6 mill. **Oblig.** \$156.8 mill.  
**Pfd Stock** None

**Common Stock** 406,137,562 shares

**MARKET CAP: \$18.0 billion (Large Cap)**

CURRENT POSITION	2004	2005	3/31/06
Cash Assets	349.4	1056.5	874.1
Receivables	751.1	770.3	841.8
Inventory (LIFO)	552.5	563.5	595.6
Other	489.6	479.8	509.9
Current Assets	2142.6	2870.1	2821.4
Accts Payable	214.5	206.5	202.1
Debt Due	9.3	47.4	37.8
Other	889.7	994.9	893.5
Current Liab.	1113.5	1248.8	1133.4

ANNUAL RATES	Past 10 Yrs	Past 5 Yrs	Est'd '03-'05
of change (per sh)			
Sales	19.5%	17.5%	14.5%
"Cash Flow"	24.0%	25.5%	16.0%
Earnings	22.5%	26.5%	18.0%
Dividends	22.0%	16.5%	21.0%
Book Value	21.5%	29.5%	15.5%

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	846.9	891.7	885.4	1001	3625.3
2004	1035	1043	1028	1155	4262.3
2005	1202	1218	1171	1278	4871.5
2006	1321	1340	1320	1449	5430
2007	1475	1500	1460	1600	6035

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	.26	.27	.27	.32	1.12
2004	.33	.37	.33	.40	1.43
2005	.42	.45	.40	.48	1.75
2006	.49	.51	.47	.55	2.02
2007	.58	.61	.57	.66	2.42

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	.05	--	--	--	.05
2003	.06	--	--	--	.06
2004	.07	--	--	--	.07
2005	.09	--	--	--	.09
2006	.11	--	--	--	.11

**BUSINESS:** Stryker Corp. develops, mfrs., & markets Orthopaedic Implants (58.6% of '05 sales), MedSurg Equipment (36.0%), and other products (5.4%). 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

**Stryker has an exceptional long-term track record.** In the 28 years that John Brown was at the helm, the company increased per-share profits by at least 20% in all but one year. (Note: Numerous stock splits-related rounding obscures this fact in the presentation above.) The sole exception was in 1999, when the earnings advance was hindered by costs associated with the large December, 1998 acquisition of Pfizer's Howmedica business. Stryker accomplished this exemplary performance through a combination of new products, price increases, and strategic small acquisitions. Very healthy target markets helped, too, as did a keen eye on expenses, which helped to bolster margins and earnings gains. Mr. Brown passed the baton to Steve MacMillan at the end of 2004, and the new CEO delivered a 22% increase in share profits in his first year.

**Bottom-line advances of about 20% are likely in both 2006 and 2007.** The medical devices maker posted a 12.3% constant-currency top-line increase in the March quarter, with improving trends evident in all of its businesses. An extended decline in hip sales appears to have re-

versed course, and strong uptake of *Tri-athlon* and *X3 poly* supported a modest acceleration in knee sales. Contributions from MedSurg Equipment continued to surge, rising 15.5% (to \$490 million). Share-net, meantime, rose 20%, adjusted for nonrecurring items and the adoption of an accounting rule that mandates the expensing of stock-based compensation. Management's profit guidance for 2006 is \$2.02, and we're comfortable with the projected 21% apples-to-apples gain. **This issue has fared poorly over the past two years . . .** Top-line deceleration has hurt investor sentiment, as has fear about possible acquisitions and cuts in reimbursement. We would note, too, that healthcare equities have struggled of late, as most of the money has chased the equities of energy and cyclical concerns. . . . **but we think Stryker stock will generate attractive returns over the next 3 to 5 years.** Demographic and socioeconomic trends augur well for continued prosperity. Meanwhile, atypically depressed valuations offer the potential for a doubling in the price out to 2009-2011.

George Rho June 2, 2006

Trailing 4 quarters

# PERT Worksheet-A Graph

Company STRYKER CORP (SYK)

