Stryker

Takeaways from management meeting at AAOS

Reiterate Rating: BUY | PO: 400.00 USD | Price: 349.42 USD

15 February 2024

Equity

Key Changes

(US$)	Previous	Current
Price Obj.	350.00	400.00

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AAOS breakfast meeting with SYK CEO Kevin Lobo

We attended SYK's breakfast at the American Academy of Orthopedic Surgeons (AAOS) conference yesterday. SYK CEO Kevin Lobo was bullish highlighting strong market backdrops in orthopedics and hospital capital equipment and an ongoing innovation product cycle. It's also clear SYK will soon be restarting the M&A engine as well. Inside we include our detailed notes from the meeting. We raise our PO to $400 from $350 as we keep the same 30x multiple but move our valuation out to 2025 EPS from 2024.

Back on M&A offense this year; flurry of small deals 1H24

SYK made it clear that they are back on M&A offense after spending most of 2023 focused on paying down debt. With a balance sheet in great shape and strong cash flow generation, SYK sees a more normal level of M&A activity in 2024. More specifically, SYK said that there could be a flurry of smaller deals in the first half more focused on existing call points and potential for a larger deal targeting an adjacency later in the year. We would guess small deals are less than $1bn in deal size. The list of adjacencies has not changed but SYK adamantly ruled out patient monitoring.

Hip/Knee: No Jan drop off; SYK said a new demand cycle

SYK expects another good year for the hip/knee market and thinks growth in 2024 should be similar to 2023. SYK did not see a drop off in January and that demand remains healthy and surgeons have a backlog of patients. SYK said hips/knees may be going through a new demand cycle that could last a number of years and believes that market growth is now MSD versus LSD a few years ago. In the past, when the hip/knees markets slow there are usually warning signs, but SYK is not seeing any today. SYK sees the more recent stable pricing in ortho continuing.

Sprint back to 2019 margins but not sacrificing growth

SYK said that it has enough action plans in place to expand margins by 200bps over the next two years as it recaptures its old margin level; however, beyond that recapture, SYK does not want to sacrifice revenue growth. The 2025+ margin target of 30+bps of margin improvement per year is the right level because it allows SYK to remain a growth company and historically companies that chase margins lose revenue growth. SYK seems ok with baking in 10-30bps of annual margin dilution from M&A deals.

See inside for our notes from the meeting

Estimates (Dec) (US$)	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
EPS	9.34	10.60	11.85	13.41	14.65
GAAP EPS	6.17	8.25	8.94	10.50	11.75
EPS Change (YoY)	2.8%	13.5%	11.8%	13.2%	9.2%
Consensus EPS (Bloomberg)			11.85	13.18	14.57
DPS	2.75	2.97	3.17	3.37	3.57
Valuation (Dec)					
P/E	37.4x	33.0x	29.5x	26.1x	23.9x
GAAP P/E	56.6x	42.4x	39.1x	33.3x	29.7x
Dividend Yield	0.8%	0.8%	0.9%	1.0%	1.0%
EV / EBITDA*	30.1x	26.8x	24.0x	21.5x	19.8x
Free Cash Flow Yield*	1.5%	2.2%	2.3%	2.6%	3.0%

* For full definitions of *iQmethod*℠ measures, see page 9.

Stock Data

Price	349.42 USD
Price Objective	400.00 USD
Date Established	15-Feb-2024
Investment Opinion	B-1-7
52-Week Range	249.98 USD - 349.68 USD
Mrkt Val (mn) / Shares Out (mn)	132,872 USD / 380.3
Free Float	90.1%
Average Daily Value (mn)	529.75 USD
BofA Ticker / Exchange	SYK / NYS
Bloomberg / Reuters	SYK US / SYK.N
ROE (2024E)	22.6%
Net Dbt to Eqty (Dec-2023A)	52.3%
ESGMeter™	High

iQprofile SM Stryker

iQ**method* SM **– Bus Performance

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	12.2%	13.0%	13.7%	14.4%	14.5%
Return on Equity	22.7%	22.9%	22.6%	22.4%	21.4%
Operating Margin	23.8%	24.2%	25.2%	26.3%	26.7%
Free Cash Flow	2,036	2,950	3,032	3,512	3,938

iQ**method* SM **– Quality of Earnings

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.7x	0.9x	0.8x	0.8x	0.8x
Asset Replacement Ratio	1.6x	1.6x	1.7x	1.8x	2.0x
Tax Rate	14.0%	14.1%	14.5%	14.5%	14.5%
Net Debt-to-Equity Ratio	67.4%	52.3%	36.5%	22.1%	9.5%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Dec)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	18,449	20,498	22,098	23,831	25,606
% Change	7.8%	11.1%	7.8%	7.8%	7.5%
Gross Profit	11,649	13,099	14,163	15,371	16,541
% Change	3.4%	12.4%	8.1%	8.5%	7.6%
EBITDA	4,755	5,345	5,969	6,659	7,229
% Change	0%	12.4%	11.7%	11.6%	8.6%
Net Interest & Other Income	(233)	(223)	(248)	(228)	(228)
Net Income (Adjusted)	**3,570**	**4,067**	**4,557**	**5,164**	**5,650**
% Change	**2.8%**	**13.9%**	**12.1%**	**13.3%**	**9.4%**

Free Cash Flow Data (Dec)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	3,570	4,067	4,557	5,164	5,650
Depreciation & Amortization	371	390	392	392	392
Change in Working Capital	(1,225)	(727)	(492)	(567)	(575)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(92)	(174)	(761)	(761)	(761)
Capital Expenditure	(588)	(605)	(663)	(715)	(768)
Free Cash Flow	**2,036**	**2,950**	**3,032**	**3,512**	**3,938**
% Change	**-25.6%**	**44.9%**	**2.8%**	**15.8%**	**12.1%**
Share / Issue Repurchase	(122)	(121)	0	0	0
Cost of Dividends Paid	(1,051)	(1,139)	(1,218)	(1,297)	(1,376)
Change in Debt	472	(419)	(428)	(428)	(428)

Balance Sheet Data (Dec)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,844	2,715	4,302	6,289	8,623
Trade Receivables	3,565	3,985	4,299	4,639	4,987
Other Current Assets	4,866	5,357	5,633	5,984	6,334
Property, Plant & Equipment	2,970	3,183	3,454	3,777	4,153
Other Non-Current Assets	23,639	23,891	23,742	23,593	23,444
Total Assets	**36,884**	**39,131**	**41,430**	**44,282**	**47,542**
Short-Term Debt	1,191	2,308	2,308	2,308	2,308
Other Current Liabilities	5,112	5,386	5,483	5,607	5,731
Long-Term Debt	11,857	10,275	9,847	9,419	8,991
Other Non-Current Liabilities	2,108	2,297	2,297	2,297	2,297
Total Liabilities	**20,268**	**20,266**	**19,935**	**19,631**	**19,327**
Total Equity	**16,616**	**18,866**	**21,494**	**24,651**	**28,214**
Total Equity & Liabilities	**36,884**	**39,131**	**41,430**	**44,282**	**47,542**

* For full definitions of *iQmethod* SM measures, see page 9.

Company Sector

Medical Technology

Company Description

Stryker is a medical technology company that operates in two business segments. Its orthopedic implants business produces implants used in joint replacement, trauma, spine and procedures. Stryker's MedSurg and Neurosurgery segment produces surgical equipment (other than orthopedic hardware) as well patient handling and emergency medical equipment. The Neurosurgery business sells neurovascular procedures and implants used in craniomaxillofacial procedures.

Investment Rationale

SYK's message on margin upside has turned more bullish but the stock has yet to work given the negative sentiment on medtech which we see as an opportunity now ahead of the 2024 upside. SYK's new product super-cycle could add to revenue growth, capital is unlikely to slow anytime soon, ortho is likely higher for longer (multi-year backlog and better pricing), and upside to operating margins alone could drive upside to EPS.

Stock Data

Average Daily Volume	1,516,091

Quarterly Earnings Estimates

	2023	2024
Q1	2.14A	2.34E
Q2	2.54A	2.81E
Q3	2.46A	2.85E
Q4	3.46A	3.85E

Additional thoughts

New product launches continue to drive growth

SYK's supercycle of products should continue to drive above market growth in 2024. The 1788 camera launch will be in its second year which is historically better than the first. Shoulder has five launches expected in 2024 including its shoulder robot. SYK's new defibrillator launch expected in April will be the first major defibrillator launch in 20 years and carries an ASP twice that of current product.

Detailed notes from breakfast meeting

Below we include our notes from SYK's management breakfast meeting Q&A at AAOS.

Question/topic: Seeing any change in competitors results targeting ASCs in field when targeting ASCs?
A: Don't think it's a tone change in the field. Would like to know what gaps that competitors think they filled. Maybe they have gone on offense, but we focus on new ASC construction big renovation/expansion construction projects. We're winning at an alarming high rate. Not seeing a change in the new construction / big renovation segment of the ASC market. We are very targeted and focused on that segment of the market and are not seeing any impact from competition there.

Question/topic: Pricing
A: Pricing environment feels good. It took a while. Mako helps. Competition more disciplined. Hospital customers understand. Not as easy on implant size. Easier on medsurg and neuro. It has gotten better in spine – not as bad as it has been over the last 5-6 years.

Question/topic: What is your perspective on volume recovery? Do you have any commentary on hip/knee markets?
A: From a demand standpoint, it feels healthy. There is a surgeon backlog. Not sure last year was a spike. Should be another good year for the market. Aging population, innovation, patients happy with surgery results driving new demand cycle that could be long. Expect this year to be similar to last. In the past, usually start to see warning signs ahead of a market slowdown but have not seen any as of yet.

Question/topic: International
A: Still have long way to go especially in emerging markets. EU has been strong and should have another decade of tailwind. Japan is a good opportunity for SYK. Mako picking up steam in international markets. International is 5 years behind the US market for Mako. Japan is picking up and finally passed Australia in robots. Favorable China reimbursement happened a week ago so that should be opportunity. India moving in positive direction on mako. Mako and 1788 camera tip of spear for international engine of growth and then pull through other SYK products. Don't have anywhere near the market share international as do in the US, especially on medsurg side. For Mako, 60% of knees in US done robotically but only 40% globally – shows how much lower mako knees penetration is OUS.

Question/topic: M&A
A: I'm excited to be back on offense. Teams were keeping targets alive last year while paying down debt. Balance sheet is in great shape. Expect normal operating model of M&A – small and large deals. We keep generating cash at a good rate. Going to see flurry of little deals in the first part of the year and we'll see what happens in the back half of the year. Not going to be big in the early part of the year.

Question/topic: Shoulder market share? Robotic surgery in market?
A: We have 30ish shoulder market share. If you go back 5-6 years, Tornier, has almost 40% in the US, growing 20% ever quarter for the last 6 years. We are very bullish that shoulder business will grow way above the market. We have 5 launches in 2024 that

should drive growth: perform fracture stem, pyrocarbon, perform reverse stemless, holo lens, Shoulder ID (patient matched glenoid). Shoulder ID takes 3d scan and create 3d printed implant. We have gotten wildly positive feedback in limited launch. The fracture stem will be huge. Blueprint is used in 2/3 of shoulder replacements. Blueprint proposes plan using AI to the surgeon. Surgeons use the proposed plan proposed by blueprint most of the time. The robot is coming. It will be a true robot. It does bone prep and not just navigation. Bone prep will make the surgery much easier. I have zero worries about competitive robots if the robot does not have bone preparation. The robot will start with the glenoid and start with reverse and then move on to other capabilities. ROSA does not do bone prep for knees. Will it do It for shoulder? I don't know. Again, zero worries about a shoulder robot without bone prep.

Question/topic: Would you consider a new design of Triathlon or a new knee?
A: We have innovated around Triathlon knee. The newer knees that have been launched are closer in design to Triathlon than the previous versions. We don't need to do full knee launch and we don't have one in development.

Question/topic: What is color on pangea launch? How has trauma been performing?
A: In trauma, were #2. We are slightly ahead in EU but not ahead in US and the rest of the world. Synthes is by far the leading plating company. We have improved plating offering over the last several years launching core plating products more similar to Synthes because designs came off patent. We had a great year last year in trauma. We had to have strong trauma growth because shoulder not big enough to drive T&E growth. Im not saying core trauma grew DD but it had strong performance. The Wright deal has been fantastic for upper and lower , but also for core trauma because we have been able to support segment with resources. Pangea will start rolling out in Q2 but will have more of an impact in 2H.

Question/topic: Talk about the new defibrillator launch.
A: We just finished the last round of questions with FDA. We expect launch will be roughly April. The team is gearing up for an April launch. We cant predict FDA timing but could slip by a month or two. It will definitely be 1H. The ASP going from ~$20k to ~$40k. The last big professional defibrillator launch was 20 years ago. It didn't have touch screens then. Physio had a program when we acquired but we had to scrap it because the engineering was overly complicated. The defibrillator launch gives medical another shot in the arm. We already have procuity and other products. We should get approval in Australia a little bit before US, maybe by end of quarter.

Question/topic: Things going very well at SYK, what needs improvement?
A: Every business can do better. I was delighted with Q4. It was phenomenal. Spine is one area that has to get better. We don't have cervical disc. We don't have expandable implants. We need a robot. The launch for co-pilot which does bone prep likely comes inf Q3. Spine has been playing defense for a long time. Q4 spine numbers were good but not great. Neurovascular is another area. We are doing great in hemorrhagic. We have not been as fully committed on aspiration. The ischemic market is like spine – tons of companies and it's a knife fight. Salesforce becoming more important. No glaring weak spots. Vocera will pick up again this year vs last year.

Question/topic: How should we think about new product margin contribution?
A: Spot buys have gone away. Margins in endo will have a strong year. It is the 2nd year for 1788 camera. We took good price in powered instruments. We will have to get some margin expansion through GM. Trying to move things to Taiwan and other low cost sites. We are moving machining for joint replacement and trauma to Poland. With every product launch we are trying to improve margin. We have more power than thought in pricing.

Question/topic: What is disruptive power for mixed reality/virtual reality?
A: Apple called out a few companies that it was partnering with on earnings call and Stryker was one of them. We had early access to the vision pro and have been working with them for 6-9 months. You can see preoperative example on floor. We have

intraoperative product that we have been showing surgeons in private rooms. It is the next leap forward. It will fit under sterishield and less tiring to wear for surgeon. It has huge potential. We will see how process goes for competitors. Competitors have been trying to buy today but SYK has been programming for 6-9 months. We think the intraoperative can be used in some procedures by end of year.

Question/topic: M&A interest areas? Patient monitoring?
A: Patient monitoring is not on list. It wasn't before and not on it now. It is not high growth. We are interested in anything that adds to vocera. We have a target list but patient monitoring not on the list. Not top priority. We are highly unlikely do anything in patient monitoring in next year or two. All adjacencies from last year still in play. We plan to feed hungry mouths in existing call points in 1H. There are great adjacencies but not clear which is the best target. We don't like to overpay.

Question/topic: Why cant medsurg growth be well over DD for a number of years?
A: Balance sheets at hospital matter. Environment is really good right now, but cant escape the macro environment. Medsurg growth tied to macro environment. If the capital environment stays healthy, medsurg will continue to deliver DD growth.

Question/topic: You mentioned shoulder patient specific 3d implant. Are there other applications for 3d patient specific implants? Where are we in 3D printing cycle?
A: 3D printing is gamechanging. Not going to build another foundry. Cobalt chrome is not easy to 3d print. Ttitanium is easy to 3d print. Acetabulum is first 3rd printed replacement product. Costs are starting to come down. Right now relatively similar to regular costs. Costs will continue to come down. Not a big cost savings yet, but will be in 5 years. We still need to solve cobalt chrome. All teams looking at personalized implants. Mandible biggest benefit because root canal for each person different.

Question/topic: On sprint back to 2025 margins – why 30-50 beyond 2025 right number?
A: We still want to be a growth company. We may continue to have 10, 20, 30 bps of dilution from deals. Don't want to sacrifice growth. Most companies that chase margins lose growth. Organic growth going up every year even as getting bigger. Respectable margin expansion 30-50 – could do more but don't want to promise that. We are focused on getting 200 bps over next two years. A point of clarification, beyond 2025 took the top end off of guidance - now getting >30bps going forward.

Question/topic: Are you seeing better mix opportunities now? Are hospitals more willing to pay for that?
A: Physician power and preference mean more now. When orthopedic procedures stopped during the pandemic, hospitals realized how profitable ortho procedures are. Before Covid, the pendulum moved toward contracting and now swung back towards surgeon. Innovation is getting rewarded. Hospitals willing to pay because ortho is money maker.

Question/topic: Seasonality
A: I have to say that comps will catch up when give guidance that is below prior year. I don't say internally that comps will catch up. Each quarter % of total year in 2024 will be similar to 2023 and then adjust for days. 2023 was the first normal year so it makes a nice comparison year to model the flow of revenue. We didn't see a big dip in January. Volumes staying healthy. OM expansion more 2h weighted.

Question/topic: GLP1 data
A: Surgeons are busy. Backlogs are healthy. Patients encouraged to take weight loss drugs to get eligible and enter the funnel. Age, genes and activity level are overwhelming more of a factor to get knee replacement compared to weight. Most people getting knee replacements are active. No surgeons worried that weight loss drugs will impact procedures.

Question/topic: ASC pricing

A: We charge same price in ASC or hospital. ASC deals typically are for 5-7 years so lock price in. Hospital contract last 3 years. Big construction/renovation leaning now towards 7 year contracts. A large and growing % of makos going into ASC. Last year had the insignia stem which has been huge but mako 4.0 software driving adoption. Mako now represents 33% of hips. New things we hear are about fluoroscopy. An increasing number of surgeons are using mako for director anterior and not using any fluoroscopy. They are taking radiation out of the procedure. The fluoroscopy discussion is relatively new.

Question/topic: ASC penetration
A: The demand is there for 40-60% of procedures to be done in the ASC. ASC penetration is not going to slow down. There are no nursing staffing problems in the ASC. But the pace of construction is the limiter. There is not enough construction capacity. Competitors can try to compete but will be really hard. Its hard to do within SYK. We tried working with 3rd parties. It takes time because there are different lawyers. We have a massive advantage over competitors. Competitors can compete if have surgeons love them and fight for them. But we can design operating rooms. We have inhouse architects. We have everything that an orthopedic ASC needs.

Question/topic: ASC contracts – what inflationary increases going into contracts?
A: Government contracting for SYK was not great. We didn't put standard CPI increases into the government contracts. We lock price in for the life of the contract. We don't do a lot of CPI clauses in ASC contracts. We don't give away price to get big deals.

Question/topic: What do you think of smart implants?
A: We have a project for smart implants. We believe there is a place for it. The project will aim bigger than whats available today. Not worried about a cemented instrument gyroscope. Over time it will be important. We have concepts that we think will work, but it is too early.

Question/topic: Talk about your foot and ankle business.
A: F&A has HSD growth, knocking on the door of DD growth. We had little challenge with forefoot business but the total ankle is completely dominant – 90% market share. We have blueprint launching for total ankle. We are building a bigger moat around total ankle franchise. Augment doing extremely well. Total ankles and augment both have strong DD growth. We launched a number of products – 5-6 launches in the last 6 months. We think there is more than one way to do a bunion. We were a little bit behind in MIS but now in terrific shape. Wright integration completely behind them. The plates/screws are growing MSD to HSD.

Question/topic: Talk about your innovation cycle
A: Nobody was talking about enabling tech, robotics and cementless when I started 11 years ago. Enabling tech is hard because it consumes R&D dollars. Robots are hard to develop. You have to make big bets and be patient and it takes time. Today we can take a surgeon design and create 3d printed prototype the next day versus weeks before the technology was available. We can innovate on implants at much faster rate. You cant get enabling tech wrong. We were late in spine and missed out on growth. If we didn't have enabling tech in spine would be dead duck.

Question/topic: Are you seeing an impact from GLP-1s today?
A: We are starting to see a lift today. Surgeons are seeing patients come back after taking weight loss drugs. The surgeons have patients stop a week before the surgery. So surgeons are scheduling the surgeries.

Question/topic: Why is 200bps the right margin expansion number?
A: We want our money back. The 200bps is just getting back to where we were in 2019. We are not going to set a target that is going to sacrifice growth. Our choice will always be the topline, but cant only chase the topline. We have enough action plans in place to get to 200 bps target. We want to be a top flight company. We are a top flight growth

company, but only a good margin company. Glenn is leaning in and we are not setting targets that cant meet. Need funds to continue to reinvest in growth.

Glossary
MSD – mid single digits
LSD – low single digits
ASP – average selling price
ASC – ambulatory surgery center
T&E – Trauma & Extremities
DD – double digit
CPI – consumer price index

Price objective basis & risk

Stryker (SYK)
Our $400 PO is based on 30x our 2025 EPS which is a premium to medtech but in line with where higher-quality, higher-growth names trade today.

Downside risks to our PO are a slowdown in hospital capital spending, supply chain disruption, or more inflation pressure on costs and materials. Upside risks to our PO are new product launches and continued share gains driving upside to revenue growth. Moderating inflation/improving supply chains could also drive upside.

Analyst Certification

I, Travis Steed, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Medical Technology & Devices Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Abbott Laboratories	ABT	ABT US	Travis Steed
	Axonics	AXNX	AXNX US	Travis Steed
	Bausch & Lomb	BLCO	BLCO US	Craig Bijou
	Becton Dickinson	BDX	BDX US	Travis Steed
	Boston Scientific	BSX	BSX US	Travis Steed
	Dexcom	DXCM	DXCM US	Travis Steed
	Inari Medical	NARI	NARI US	Travis Steed
	Inspire Medical	INSP	INSP US	Travis Steed
	Insulet	PODD	PODD US	Travis Steed
	Intuitive Surgical	ISRG	ISRG US	Travis Steed
	Medtronic	MDT	MDT US	Travis Steed
	Paragon 28	FNA	FNA US	Craig Bijou
	Procept BioRobotics Corporation	PRCT	PRCT US	Craig Bijou
	RxSight	RXST	RXST US	Craig Bijou
	Shockwave Medical	SWAV	SWAV US	Travis Steed
	Si-Bone	SIBN	SIBN US	Craig Bijou
	Stryker	SYK	SYK US	Travis Steed
	The Cooper Companies	COO	COO US	Craig Bijou
NEUTRAL				
	Baxter International Inc	BAX	BAX US	Travis Steed
	Conmed	CNMD	CNMD US	Travis Steed
	Edwards Lifesciences	EW	EW US	Travis Steed
	GE HealthCare	GEHC	GEHC US	Craig Bijou
	Integer Holdings Corporation	ITGR	ITGR US	Craig Bijou
	Merit Medical	MMSI	MMSI US	Craig Bijou
	Teleflex Incorporated	TFX	TFX US	Craig Bijou
	Zimmer Biomet	ZBH	ZBH US	Travis Steed
UNDERPERFORM				
	Embecta	EMBC	EMBC US	Travis Steed
	Globus Medical	GMED	GMED US	Craig Bijou
	Integra Lifesciences	IART	IART US	Craig Bijou
	Nevro	NVRO	NVRO US	Travis Steed
	Outset Medical	OM	OM US	Travis Steed
	Silk Road Medical	SILK	SILK US	Travis Steed
	Tandem Diabetes Care	TNDM	TNDM US	Travis Steed

iQmethod SM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings	**Numerator**	**Denominator**
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt – Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit	**Numerator**	**Denominator**
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

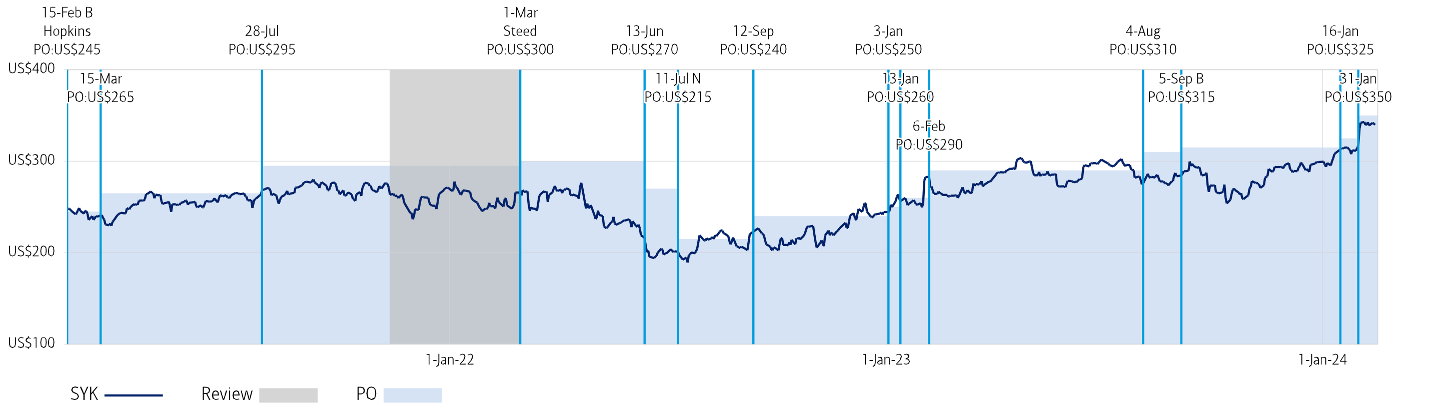
iQmethod SM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase ® is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

Disclosures

Important Disclosures

Stryker (SYK) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

[R1] Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R2]
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R2]Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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