

Stryker

SYK meant it – operating margins really are sprinting back

Reiterate Rating: BUY | PO: 350.00 USD | Price: 316.64 USD

Half of the margin ramp back to pre-covid coming in 2024

SYK's 2024 guide gave both revenue upside and margin/EPS upside which so far has been unique (others not passing on as much EPS upside). How much further upside there is to SYK's 2024 initial margin guide will remain to be seen but 2024 revenue and EPS are likely moving higher either way. Then 2025 will have another year of solid margin expansion (underwriting DD EPS growth). SYK has expected 200bps of margin expansion over 2 years and the 2024 guide now implies roughly half will come in 2024 (our math is +80-110bps) - a margin ramp faster than most expected. We reiterate our Buy rating and raise our PO to \$350 (from \$325) as we apply a higher 30x multiple (from 28x prior) on our new 2024E EPS given SYK has continued to sustain a much higher growth rate.

ZBH hips/knees can likely beat now after seeing SYK/JNJ

SYK Q4 q/q seasonality was more pronounced than normal for both hips/knees. JNJ's US knees were well above normal q/q seasonality and US hips more in line with historical seasonality. The Street is modeling ZBH closer to normal seasonality suggesting some level of upside is possible if ZBH sees the same seasonality as SYK/JNJ.

The Street models ZBH WW knees +14% q/q in Q4 (historical avg +15%), ZBH WW hips +9% q/q in Q4 (historical avg +10%), ZBH US knees +15% q/q in Q4 (historical avg +13%), and ZBH US hips up 9% q/q in Q4 (historical avg of 8%).

SYK WW knees were +22% q/q, above historical avg of +18%. SYK WW hips were +14% q/q, above the historical avg of +10%. SYK US knees were +22% q/q, above the historical avg of +19%. SYK US Hips were +17% q/q, well above with historical avg of +11%.

JNJ WW knees were +14.5% q/q, slightly above the historical avg of +13%. JNJ WW hips were +6% q/q, below the historical avg of +10%. JNJ US knees were +17% q/q, well above the historical avg of +12.5%. JNJ US Hips were +11% q/q, in-line with historical avg of +10%.

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)			11.56	12.80	14.05
DPS	2.75	2.97	3.17	3.37	3.57
Valuation (Dec)					
P/E	33.9x	29.9x	26.7x	23.6x	21.6x
GAAP P/E	51.3x	38.4x	35.4x	30.2x	26.9x
Dividend Yield	0.9%	0.9%	1.0%	1.1%	1.1%
EV / EBITDA*	27.4x	24.4x	21.9x	19.6x	18.0x
Free Cash Flow Yield*	1.7%	2.5%	2.5%	2.9%	3.3%

* For full definitions of *IQmethod*SM measures, see page 8.

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Timestamp: 31 January 2024 05:00AM EST

31 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	325.00	350.00
2024E Rev (m)	21,722.9	22,097.7
2025E Rev (m)	23,301.9	23,830.9
2026E Rev (m)	24,895.9	25,606.4
2024E EPS	11.56	11.85
2025E EPS	13.01	13.41
2026E EPS	14.07	14.65

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Stock Data

Price	316.64 USD
Price Objective	350.00 USD
Date Established	31-Jan-2024
Investment Opinion	B-1-7
52-Week Range	248.96 USD - 317.82 USD
Mkt Val (mn) / Shares Out (mn)	120,290 USD / 379.9
Free Float	89.6%
Average Daily Value (mn)	436.09 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 TM	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

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iQprofileSM Stryker

iQmethodSM – 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

iQmethodSM – 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 iQmethodSM measures, see page 8.

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.

Acronym glossary

DD = double digit

avg = average

WW = worldwide

JNJ = Johnson & Johnson

ZBH = Zimmer Biomet

SYK = Stryker

Stock Data

Average Daily Volume

1,377,253

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

WW and US knee trends

More detail on Q4 and the guide

SYK grew Q4 revenue 11.4% vs Street's 7.6%. Guidance is for +7.5%-9% organic growth in 2024, ahead of Street's 8.0% at the midpoint. SYK's confidence in 2024 is underpinned by a strong ortho market, healthy capital equipment demand, and stabilizing macro. There is also 1 more selling day in 2024 (adds ~30bps to full year growth).

Q4'23 GM of 63.9% missed by -60bps (up 110bps y/y, down ~90bps q/q), but SYK had talked about Q4'23 GM moderating a bit on a big quarter in MS&NT and MS&NT came in 4% ahead. SYK mentioned mix being the biggest impact in Q4 on GM. The other thing is vs SYK's own internal expectations, Q4 GM was right in line. Q4'23 OM of 27.2% missed by -20bps on GM flowthrough offset by lower R&D.

SYK guided for 2024 EPS \$11.70-\$12.00, ~\$250m other expense, and tax 14-15%. This implies OM 25.0%-25.3% in 2024, above the Street's 25.0% at the midpoint, and +80-110bps of y/y OM expansion, by our math.

SYK ortho grew double digits in Q4 ... Mako record placements

SYK knees/hips all grew DDs y/y (WW hips/knees +10%/+14%, US hips/knees +13%/+13%). MAKO had record placements WW in Q4 (now more financed/leased vs outright buy) and utilization continues to grow as 60% knees and 34% hips in US are done on Mako. Hip/knee markets appear healthy and SYK sees sustainable MSD growth for the next 2-3 years driven more by increased patient activity than backlog.

Exhibit 1: WW and US knee Q4/Q3 sequential growth trends relative to historical averages

SYK WW knees grew 22% q/q Vs the historical avg ex-2020 was 18% growth in Q4/Q3 and the pre-covid avg was 18%. SYK US knees grew 22% q/q Vs the historical avg ex-2020 was 19% growth in Q4/Q3 and the pre-covid avg was 20%.

WW Knees	3Q16A	4Q16A	3Q17A	4Q17A	3Q18A	4Q18A	3Q19A	4Q19A	3Q20A	4Q20A	3Q21A	4Q21A	3Q22A	4Q22A	3Q23A	4Q23E	2016-2019 avg.	Historical avg ex-2020
ZBH	631.5	721.0	622.9	731.0	627.9	729.0	651.9	761.0	648.7	726.1	647.9	720.1	657.0	753.6	706.3	803.6	16.1%	15.0%
q/q growth	(9.4%)	14.2%	(8.4%)	17.4%	(10.7%)	16.1%	(7.3%)	16.7%	73.4%	11.9%	(2.7%)	11.1%	(6.8%)	14.7%	(8.4%)	13.8%		
JNJ	355.0	395.0	343.0	397.0	341.0	392.0	344.0	395.0	308.0	345.0	316.0	342.0	317.0	354.0	338.0	387.0	14.2%	12.8%
q/q growth	(7.8%)	11.3%	(10.9%)	15.7%	(10.7%)	15.0%	(7.5%)	14.8%	77.0%	12.0%	(9.7%)	8.2%	(9.2%)	11.7%	(6.9%)	14.5%		
SYK	354.0	405.0	369.0	446.0	395.0	465.0	426.0	510.0	435.0	459.0	439.0	523.0	481.0	552.0	515.0	630.0	18.2%	17.8%
q/q growth	(4.3%)	14.4%	(5.1%)	20.9%	(6.4%)	17.7%	(3.2%)	19.7%	80.5%	5.5%	(7.4%)	19.1%	(3.8%)	14.8%	(8.4%)	22.3%		
SNN	213.0	247.0	228.0	266.0	232.0	269.0	240.0	279.0	219.0	237.0	207.0	232.0	210.0	234.0	223.0	248.5	16.2%	14.7%
q/q growth	(10.5%)	16.0%	(7.3%)	16.7%	(10.1%)	15.9%	(8.4%)	16.3%	59.9%	8.2%	(8.4%)	12.1%	(5.8%)	11.4%	(6.3%)	11.4%		
US Knees	3Q16A	4Q16A	3Q17A	4Q17A	3Q18A	4Q18A	3Q19A	4Q19A	3Q20A	4Q20A	3Q21A	4Q21A	3Q22A	4Q22A	3Q23A	4Q23E	2016-2019 avg.	Historical avg ex-2020
ZBH	397.5	444.0	381.5	443.0	384.6	433.0	399.2	454.0	383.4	425.8	363.1	403.7	389.7	447.4	413.3	474.1	13.5%	13.4%
q/q growth	(4.7%)	11.7%	(5.9%)	16.1%	(5.8%)	12.6%	(3.7%)	13.7%	77.9%	11.1%	(4.7%)	11.2%	(2.2%)	14.8%	(5.6%)	14.7%		
JNJ	223.0	247.0	220.0	246.0	215.0	239.0	209.0	239.0	205.0	216.0	184.0	208.0	203.0	231.0	207.0	242.0	12.0%	12.5%
q/q growth	(2.6%)	10.8%	(6.8%)	11.8%	(6.1%)	11.2%	(4.1%)	14.4%	89.8%	5.4%	(12.4%)	13.0%	(6.0%)	13.8%	(6.3%)	16.9%		
SYK	258.9	299.5	270.0	331.0	291.0	348.0	318.0	385.0	332.0	337.0	321.0	387.0	365.0	416.0	385.0	469.7	19.7%	18.9%
q/q growth	(1.8%)	15.7%	(4.3%)	22.6%	(4.3%)	19.6%	(1.9%)	21.1%	85.5%	1.5%	(8.0%)	20.5%	(0.7%)	14.0%	(5.2%)	22.0%		
SNN	111.1	133.6	115.5	139.0	117.8	140.4	119.8	148.1	110.7	124.8	97.9	119.9	108.7	128.0	107.3		20.9%	20.6%
q/q growth	(12.7%)	20.3%	(13.5%)	20.3%	(12.7%)	19.2%	(10.7%)	23.6%	62.7%	12.8%	(18.1%)	22.5%	(10.7%)	17.7%	(14.3%)			

Source: Company filings, Bloomberg. *Note: JNJ and SYK actuals for Q4'23.

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Exhibit 2: WW and US hip Q4/Q3 sequential growth trends relative to historical averages

SYK WW hips grew 14% q/q Vs the historical avg ex-2020 was 10% growth in Q4/Q3 and the pre-covid avg was 11%. SYK US hips grew 17% q/q Vs the historical avg ex-2020 was 11% growth in Q4/Q3 and the pre-covid avg was 13%.

WW Hips	3Q16A	4Q16A	3Q17A	4Q17A	3Q18A	4Q18A	3Q19A	4Q19A	3Q20A	4Q20A	3Q21A	4Q21A	3Q22A	4Q22A	3Q23A	4Q23E	2016-2019 avg.	Historical avg ex-2020
ZBH	440.6	482.0	432.8	499.0	444.8	498.0	459.2	511.0	484.1	504.1	453.8	480.7	468.0	488.7	465.3	506.1	12.0%	9.7%
q/q growth	(7.7%)	9.4%	(7.5%)	15.3%	(8.6%)	12.0%	(4.0%)	11.3%	46.8%	4.1%	(4.4%)	5.9%	(3.9%)	4.4%	(7.7%)	8.8%		
JNJ	320.0	350.0	328.0	364.0	330.0	365.0	336.0	377.0	345.0	372.0	356.0	378.0	352.0	385.0	375.0	398.0	10.8%	9.8%
q/q growth	(8.3%)	9.4%	(6.3%)	11.0%	(8.3%)	10.6%	(7.7%)	12.2%	52.7%	7.8%	(9.2%)	6.2%	(9.3%)	9.4%	(5.5%)	6.1%		
SYK	310.0	334.0	313.0	348.0	316.0	353.0	332.0	372.0	334.0	340.0	328.0	352.0	347.0	375.0	362.0	414.0		



Exhibit 2: WW and US hip Q4/Q3 sequential growth trends relative to historical averages

SYK WW hips grew 14% q/q Vs the historical avg ex-2020 was 10% growth in Q4/Q3 and the pre-covid avg was 11%. SYK US hips grew 17% q/q Vs the historical avg ex-2020 was 11% growth in Q4/Q3 and the pre-covid avg was 13%.

WW Hips	3Q16A	4Q16A	3Q17A	4Q17A	3Q18A	4Q18A	3Q19A	4Q19A	3Q20A	4Q20A	3Q21A	4Q21A	3Q22A	4Q22A	3Q23A	4Q23E	2016-2019 avg.	Historical avg ex-2020
q/q growth	(4.0%)	7.7%	(2.8%)	11.2%	(6.0%)	11.7%	(3.2%)	12.0%	54.6%	1.8%	(7.1%)	7.3%	(4.7%)	8.1%	(7.9%)	14.4%	10.7%	9.7%
SNN	138.0	153.0	140.0	157.0	142.0	160.0	145.0	160.0	156.0	162.0	145.0	151.0	136.0	150.0	141.0	156.1	11.5%	10.1%
q/q growth	(9.8%)	10.9%	(6.7%)	12.1%	(9.0%)	12.7%	(7.1%)	10.3%	39.3%	3.8%	(9.9%)	4.1%	(8.7%)	10.3%	(7.2%)	10.7%		
US Hips	3Q16A	4Q16A	3Q17A	4Q17A	3Q18A	4Q18A	3Q19A	4Q19A	3Q20A	4Q20A	3Q21A	4Q21A	3Q22A	4Q22A	3Q23A	4Q23E	2016-2019 avg.	Historical avg ex-2020
ZBH	239.0	254.0	226.6	256.0	240.0	259.0	249.0	267.0	252.2	250.1	223.6	239.2	235.6	253.2	242.5	264.0	8.6%	8.1%
q/q growth	(3.8%)	6.3%	(6.9%)	13.0%	(4.0%)	7.9%	(1.7%)	7.2%	53.2%	(0.8%)	(7.3%)	7.0%	(4.8%)	7.5%	(4.6%)	8.9%		
JNJ	190.0	208.0	195.0	215.0	201.0	220.0	204.0	230.0	221.0	229.0	210.0	227.0	228.0	250.0	239.0	266.0	10.5%	9.9%
q/q growth	(3.6%)	9.5%	(6.3%)	10.3%	(4.7%)	9.5%	(5.6%)	12.7%	61.3%	3.6%	(10.3%)	8.1%	(5.0%)	9.6%	(4.4%)	11.3%		
SYK	193.6	211.6	194.0	219.0	198.0	228.0	211.0	239.0	223.0	213.0	199.0	216.0	225.0	239.0	231.0	269.8	12.6%	10.9%
q/q growth	(2.6%)	9.3%	(4.4%)	12.9%	(4.3%)	15.2%	(3.7%)	13.3%	59.3%	(4.5%)	(10.0%)	8.5%	(2.2%)	6.2%	(7.2%)	16.8%		
SNN	64.1	61.4	64.1	62.0	68.0	63.8	69.5	66.3	76.3	69.2	72.5	66.6	75.1	70.3	77.8		(4.6%)	(5.5%)
q/q growth	(7.6%)	(4.3%)	(6.7%)	(3.4%)	(4.9%)	(6.1%)	(1.5%)	(4.6%)	52.1%	(9.3%)	(10.4%)	(8.1%)	(4.3%)	(6.4%)	(5.0%)			

Source: Company filings, Bloomberg. *Note: JNJ and SYK actuals for Q4'23.

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Exhibit 3: WW and US Sequential Knee Growth (black is actuals, green is consensus)

JNJ US knees were up 17% q/q and SYK US knees were up 22% q/q versus Street modeling 15% q/q for ZBH US knees. JNJ WW knees were up 14.5% q/q and SYK WW knees were up 22% q/q versus Street modeling 14% q/q for ZBH WW knees.

WW Knees	1Q22A	2Q22A	3Q22A	4Q22A	1Q23A	2Q23A	3Q23A	4Q23E
ZBH	662.8	704.9	657.0	753.6	762.5	771.4	706.3	803.6
q/q growth	(8.0%)	6.4%	(6.8%)	14.7%	1.2%	1.2%	(8.4%)	13.8%
JNJ	339.0	349.0	317.0	354.0	368.0	363.0	338.0	387.0
q/q growth	(0.9%)	2.9%	(9.2%)	11.7%	4.0%	(1.4%)	(6.9%)	14.5%
SYK	464.0	500.0	481.0	552.0	566.0	562.0	515.0	630.0
q/q growth	(11.3%)	7.8%	(3.8%)	14.8%	2.5%	(0.7%)	(8.4%)	22.3%
SNN	231.0	223.0	210.0	234.0	237.0	238.0	223.0	248.5
q/q growth	(0.4%)	(3.5%)	(5.8%)	11.4%	1.3%	0.4%	(6.3%)	11.4%
US Knees	1Q22A	2Q22A	3Q22A	4Q22A	1Q23A	2Q23A	3Q23A	4Q23E
ZBH	379.5	398.4	389.7	447.4	448.2	437.7	413.3	474.1
q/q growth	(6.0%)	5.0%	(2.2%)	14.8%	0.2%	(2.3%)	(5.6%)	14.7%
JNJ	201.0	216.0	203.0	231.0	226.0	221.0	207.0	242.0
q/q growth	(3.4%)	7.5%	(6.0%)	13.8%	(2.2%)	(2.2%)	(6.3%)	16.9%
SYK	345.0	367.5	365.0	416.0	416.0	406.0	385.0	469.7
q/q growth	(10.8%)	6.5%	(0.7%)	14.0%	0.0%	(2.4%)	(5.2%)	22.0%

Source: Company filings, Bloomberg. *Note: JNJ and SYK actuals for Q4'23.

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Exhibit 4: WW and US Sequential Hip Growth (black is actuals, green is consensus)

JNJ US hips were up 11% q/q and SYK US hips were up 17% q/q versus Street modeling 9% q/q for ZBH US hips. JNJ WW hips were up 6% q/q and SYK WW hips were up 14% q/q versus Street modeling 9% q/q for ZBH WW hips.

WW Hips	1Q22A	2Q22A	3Q22A	4Q22A	1Q23A	2Q23A	3Q23A	4Q23E
ZBH	451.0	487.2	468.0	488.7	492.8	504.3	465.3	506.1
q/q growth	(6.2%)	8.0%	(3.9%)	4.4%	0.8%	2.3%	(7.7%)	8.8%
JNJ	389.0	388.0	352.0	385.0	390.0	397.0	375.0	398.0
q/q growth	2.9%	(0.3%)	(9.3%)	9.4%	1.3%	1.8%	(5.5%)	6.1%
SYK	327.0	364.0	347.0	375.0	375.0	393.0	362.0	414.0
q/q growth	(7.1%)	11.3%	(4.7%)	8.1%	0.0%	4.8%	(7.9%)	14.4%
SNN	149.0	149.0	136.0	150.0	152.0	152.0	141.0	156.1
q/q growth	(1.3%)	0.0%	(8.7%)	10.3%	1.3%	0.0%	(7.2%)	10.7%
US Hips	1Q22A	2Q22A	3Q22A	4Q22A	1Q23A	2Q23A	3Q23A	4Q23E
ZBH	224.6	247.5	235.6	253.2	252.3	254.3	242.5	264.0
q/q growth	(6.1%)	10.2%	(4.8%)	7.5%	(0.4%)	0.8%	(4.6%)	8.9%
JNJ	225.0	240.0	228.0	250.0	241.0	250.0	239.0	266.0
q/q growth	(0.9%)	6.7%	(5.0%)	9.6%	(3.6%)	3.7%	(4.4%)	11.3%

Exhibit 4: WW and US Sequential Hip Growth (black is actuals, green is consensus)

JNJ US hips were up 11% q/q and SYK US hips were up 17% q/q versus Street modeling 9% q/q for ZBH US hips. JNJ WW hips were up 6% q/q and SYK WW hips were up 14% q/q versus Street modeling 9% q/q for ZBH WW hips.

WW Hips	1Q22A	2Q22A	3Q22A	4Q22A	1Q23A	2Q23A	3Q23A	4Q23E
SYK	202.0	230.0	225.0	239.0	236.0	249.0	231.0	269.8
q/q growth	(6.5%)	13.9%	(2.2%)	6.2%	(1.3%)	5.5%	(7.2%)	16.8%

Source: Company filings, Bloomberg. *Note: JNJ and SYK actuals for Q4'23.

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Exhibit 5: Knees Y/Y and 2-year average stacked growth (green is consensus)

JNJ US knee growth accelerated 170bps and SYK US knee growth decelerated -10bps on stacked 2-year average (Street models 170bps acceleration for ZBH).

Y/Y Growth												
WW Knees	1Q21A	2Q21A	3Q21A	4Q21A	1Q22A	2Q22A	3Q22A	4Q22A	1Q23A	2Q23A	3Q23A	4Q23E
ZBH	-3.7%	72.2%	-0.7%	0.4%	9.7%	11.2%	7.2%	12.3%	17.2%	11.0%	8.8%	6.6%
2 yr avg	-5.8%	15.4%	-0.3%	-2.0%	3.0%	41.7%	3.3%	6.4%	13.5%	11.1%	8.0%	9.5%
JNJ	-11.8%	94.2%	2.1%	3.8%	8.8%	3.3%	4.9%	7.0%	11.5%	4.6%	5.7%	8.4%
2 yr avg	-7.3%	24.0%	-4.1%	-6.7%	-1.5%	48.8%	3.5%	5.4%	10.2%	4.0%	5.3%	7.7%
SYK	-5.0%	92.2%	0.3%	14.9%	14.6%	8.7%	13.4%	9.0%	23.2%	13.2%	8.4%	13.9%
2 yr avg	-3.1%	25.6%	1.5%	2.0%	4.8%	50.5%	6.9%	12.0%	18.9%	11.0%	10.9%	11.5%
SNN	-13.3%	57.8%	-6.5%	4.9%	12.2%	4.2%	7.4%	5.5%	5.0%	7.8%	5.7%	6.2%
2 yr avg	-9.9%	8.9%	-7.3%	-8.6%	-0.6%	31.0%	0.5%	5.2%	8.6%	6.0%	6.6%	5.9%
Total	-7.1%	79.4%	-0.7%	5.4%	11.2%	8.0%	8.5%	9.5%	16.0%	10.0%	7.7%	9.3%
2-Yr Stacked Sequential Accel/Decel:												
	2Q21A	3Q21A	4Q21A	1Q22A	2Q22A	3Q22A	4Q22A	1Q23A	2Q23A	3Q23A	4Q23E	
ZBH	21.2%	-15.7%	-1.7%	5.0%	38.7%	-38.5%	3.1%	7.1%	-2.4%	-3.1%	1.5%	
JNJ	31.3%	-28.0%	-2.7%	5.2%	50.3%	-45.3%	1.9%	4.8%	-6.2%	1.4%	2.4%	
SYK	28.7%	-24.1%	0.5%	2.8%	45.7%	-43.6%	5.1%	7.0%	-8.0%	0.0%	0.5%	
SNN	18.8%	-16.2%	-1.3%	8.0%	31.6%	-30.6%	4.8%	3.4%	-2.6%	0.6%	-0.7%	
Average	25.0%	-21.0%	-1.3%	5.2%	41.5%	-39.5%	3.7%	5.6%	-4.8%	-0.3%	0.9%	
Y/Y Growth												
US Knees	1Q21A	2Q21A	3Q21A	4Q21A	1Q22A	2Q22A	3Q22A	4Q22A	1Q23A	2Q23A	3Q23A	4Q23E
ZBH	-3.6%	77.0%	-5.3%	-5.2%	10.4%	4.5%	7.3%	12.3%	17.1%	10.3%	7.6%	6.0%
2 yr avg	-5.9%	16.8%	-0.3%	-1.9%	3.4%	40.8%	1.0%	3.6%	13.8%	7.4%	7.5%	9.1%
JNJ	-15.4%	93.9%	-9.8%	-0.2%	8.6%	2.9%	9.8%	11.0%	12.8%	2.4%	2.3%	4.5%
2 yr avg	-9.5%	21.5%	-5.9%	-6.9%	-3.4%	48.4%	0.0%	5.4%	10.7%	2.7%	6.1%	7.8%
SYK	-7.3%	95.2%	-3.3%	14.6%	17.5%	5.3%	13.7%	7.5%	19.6%	10.4%	6.8%	12.9%
2 yr avg	-4.1%	25.2%	0.7%	1.1%	5.1%	50.3%	5.2%	11.1%	18.6%	7.9%	10.3%	10.2%
SNN	-17.9%	74.6%	-11.6%	2.0%	11.7%	3.4%	11.1%	6.8%	10.1%	2.8%	-1.3%	
2 yr avg	-12.2%	12.7%	-9.6%	-7.9%	-3.1%	39.0%	-0.3%	4.4%	10.9%	3.1%	4.9%	
2-Yr Stacked Sequential Accel/Decel:												
	2Q21A	3Q21A	4Q21A	1Q22A	2Q22A	3Q22A	4Q22A	1Q23A	2Q23A	3Q23A	4Q23E	
ZBH	22.7%	-17.0%	-1.7%	5.3%	37.4%	-39.8%	2.6%	10.2%	-6.4%	0.0%	1.7%	
JNJ	30.9%	-27.3%	-1.0%	3.5%	51.8%	-48.4%	5.4%	5.3%	-8.1%	3.4%	1.7%	
SYK	29.3%	-24.6%	0.4%	4.1%	45.2%	-45.1%	5.9%	7.5%	-10.7%	2.4%	-0.1%	
SNN	24.9%	-22.3%	1.8%	4.8%	42.1%	-39.3%	4.7%	6.5%	-7.8%	1.8%		
Average	26.9%	-22.8%	-0.1%	4.4%	44.1%	-43.1%	4.6%	7.4%	-8.2%	1.9%	1.1%	

Source: Company filings, Bloomberg. *Note: JNJ and SYK actuals for Q4'23.

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Exhibit 6: Hips Y/Y and 2-year average stacked growth (green is consensus)

JNJ US hip growth accelerated 60bps and SYK US hip growth accelerated 370bps on stacked 2-year average (Street models 90bps acceleration for ZBH).

Y/Y Growth												
WW Hips	1Q21A	2Q21A	3Q21A	4Q21A	1Q22A	2Q22A	3Q22A	4Q22A	1Q23A	2Q23A	3Q23A	4Q23E
ZBH	1.8%	39.9%	-6.6%	-2.8%	3.2%	8.6%	10.5%	9.9%	11.9%	5.4%	0.9%	3.6%
2 yr avg	5.0%	4.6%	-1.1%	-3.1%	2.5%	24.3%	2.0%	3.6%	7.6%	7.0%	5.7%	6.7%
JNJ	1.3%	67.7%	2.3%	6.7%	11.3%	2.7%	3.5%	5.4%	2.9%	3.1%	5.8%	2.7%
2 yr avg	-1.8%	15.2%	2.1%	0.0%	6.3%	35.2%	2.9%	6.1%	7.1%	2.9%	4.7%	4.1%
SYK	-3.2%	58.7%	-2.3%	4.0%	8.6%	7.6%	11.3%	12.5%	17.1%	9.3%	5.9%	10.3%
2 yr avg	-4.8%	11.2%	-1.2%	-2.6%	2.7%	33.2%	4.5%	8.3%	12.9%	8.5%	8.6%	11.4%
SNN	6.1%	36.2%	-7.9%	-0.1%	-0.7%	-2.2%	-1.0%	4.9%	4.6%	3.4%	3.5%	4.1%

Exhibit 6: Hips Y/Y and 2-year average stacked growth (green is consensus)

JNJ US hip growth accelerated 60bps and SYK US hip growth accelerated 370bps on stacked 2-year average (Street models 90bps acceleration for ZBH).

Y/Y Growth												
2 yr avg	-0.8%	4.7%	-0.4%	-1.3%	2.7%	17.0%	-4.5%	2.4%	2.0%	0.6%	1.3%	4.5%
Total	0.9%	51.1%	-3.3%	1.8%	6.3%	5.4%	7.5%	8.8%	9.7%	5.6%	3.8%	5.4%
2-Yr Stacked Sequential Accel/Decel:												
	2Q21A	3Q21A	4Q21A	1Q22A	2Q22A	3Q22A	4Q22A	1Q23A	2Q23A	3Q23A	4Q23E	
ZBH	-0.4%	-5.7%	-2.0%	5.6%	21.8%	-22.3%	1.6%	4.0%	-0.6%	-1.3%	1.0%	
JNJ	17.0%	-13.1%	-2.1%	6.3%	28.9%	-32.3%	3.2%	1.1%	-4.2%	1.8%	-0.6%	
SYK	16.0%	-12.4%	-1.4%	5.3%	30.5%	-28.7%	3.8%	4.6%	-4.4%	0.2%	2.8%	
SNN	5.4%	-5.1%	-0.9%	4.0%	14.3%	-21.5%	6.9%	-0.5%	-1.4%	0.7%	3.2%	
Average	9.5%	-9.1%	-1.6%	5.3%	23.9%	-26.2%	3.8%	2.3%	-2.6%	0.3%	1.6%	
Y/Y Growth												
US Hips	1Q21A	2Q21A	3Q21A	4Q21A	1Q22A	2Q22A	3Q22A	4Q22A	1Q23A	2Q23A	3Q23A	4Q23E
ZBH	3.0%	46.6%	-11.3%	-4.4%	2.0%	2.6%	5.3%	7.4%	11.3%	3.2%	4.5%	4.3%
2 yr avg	-2.2%	8.5%	-0.6%	-1.5%	2.5%	24.6%	-3.0%	1.5%	6.7%	2.9%	4.9%	5.8%
JNJ	0.5%	70.1%	-5.3%	4.4%	7.3%	3.4%	9.1%	8.9%	7.7%	4.1%	4.9%	6.3%
2 yr avg	-1.2%	16.6%	1.7%	-0.2%	3.9%	36.8%	1.9%	6.7%	7.5%	3.8%	7.0%	7.6%
SYK	-5.8%	57.0%	-10.6%	1.6%	8.5%	4.5%	12.4%	11.3%	15.2%	8.8%	4.5%	12.9%
2 yr avg	-6.5%	10.6%	-2.7%	-4.8%	1.4%	30.8%	0.9%	6.5%	11.9%	6.7%	8.5%	12.1%
SNN	8.5%	60.3%	-5.0%	2.2%	1.7%	-1.5%	3.6%	5.5%	8.5%	4.3%	3.6%	
2 yr avg	2.1%	15.7%	2.4%	2.3%	5.1%	29.4%	-0.7%	3.9%	5.1%	1.4%	3.6%	
2-Yr Stacked Sequential Accel/Decel:												
	2Q21A	3Q21A	4Q21A	1Q22A	2Q22A	3Q22A	4Q22A	1Q23A	2Q23A	3Q23A	4Q23E	
ZBH	10.7%	-9.1%	-0.9%	4.0%	22.1%	-27.6%	4.5%	5.2%	-3.8%	2.0%	0.9%	
JNJ	17.8%	-14.9%	-1.9%	4.1%	32.9%	-34.9%	4.8%	0.8%	-3.8%	3.3%	0.6%	
SYK	17.1%	-13.2%	-2.1%	6.1%	29.4%	-29.9%	5.6%	5.4%	-5.2%	1.8%	3.7%	
SNN	13.7%	-13.3%	-0.1%	2.8%	24.3%	-30.1%	4.6%	1.3%	-3.7%	2.2%		
Average	14.8%	-12.6%	-1.2%	4.2%	27.2%	-30.6%	4.8%	3.2%	-4.1%	2.3%	1.7%	

Source: Company filings, Bloomberg. *Note: JNJ and SYK actuals for Q4'23.

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Price objective basis & risk

Stryker (SYK)

Our \$350 PO is based on 30x our 2024 EPS which is a premium to medtech but in line with where higher-quality, higher-growth names trade today on 2024 EPS.

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
	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



iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM 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.

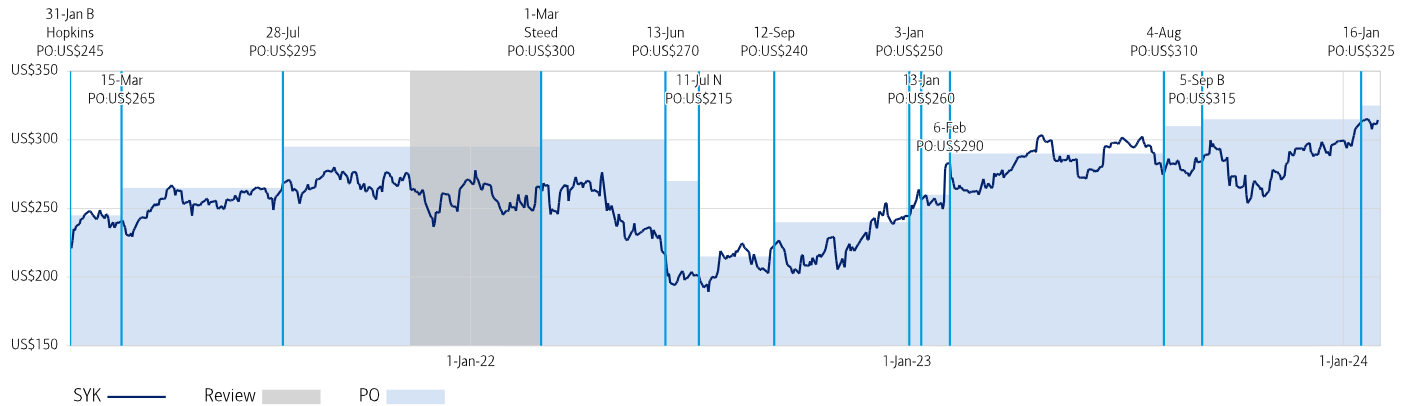
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Disclosures

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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