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Stryker Corporation (SYK) CEO Kevin Lobo on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-29-19 Earnings Summary

Press Release SEC *10-Q*

EPS of $1.91 beats by $0.01 | Revenue of $3.59B (10.64% Y/Y) beats by $8.12M

Earning Call Audio

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Stryker Corporation (NYSE:SYK) Q3 2019 Results Earnings Conference Call October 29, 2019 4:30 PM ET

Company Participants

Kevin Lobo - Chairman and Chief Executive Officer

Katherine Owen - Vice President of Strategy & Investor Relations

Glenn Boehnlein - Chief Financial Officer

Conference Call Participants

Robbie Marcus - JPMorgan

Bob Hopkins - Bank of America

David Lewis - Morgan Stanley

Rick Wise - Stifel

Matt Miksic - Credit Suisse

Vijay Kumar - Evercore ISI

Larry Biegelsen - Wells Fargo

Pito Chickering - Deutsche Bank

Kristen Stewart - Barclays

Richard Newitter - SV8 Leerink

Matt Taylor - UBS

Kyle Rose - Canaccord Genuity

Josh Jennings - Cowen

Matt O'Brien - Piper Jaffray

Operator

Ladies and gentlemen, welcome to the Third Quarter 2019 Stryker Earnings Call. My name is Simon and I will be your operator for today's call. At this time, all participants are in a listen-only mode. Following the conference, we will conduct a question-and-answer session [Operator Instructions] This conference call is being recorded for replay purposes.

Before we begin, I would like to remind you that the discussions during the conference call today will include forward-looking statements. Factors that could cause actual results to differ materially are discussed in the Company's most recent filings with the SEC. Also, the discussions will include certain non-GAAP financial measures. Reconciliations to the most directly comparable GAAP financial measures can be found in today's press release that is an exhibit to Stryker's current report on Form 8-K filed today with SEC.

I will now turn the call over to Mr. Kevin Lobo, Chairman and Chief Executive Officer. You may proceed, sir.

Kevin Lobo

Welcome to Stryker's third quarter earnings call. Joining me today are Glenn Boehnlein, Stryker's CFO; and Katherine Owen, Vice President of Strategy and Investor Relations. For today's call, I will provide opening comments followed by Katherine with updates on Mako and Mobius. Glenn will then provide additional details regarding our quarterly results, before we open the call to Q&A.

As I start my 8th year as CEO of Stryker, I am feeling as good as ever about our performance and our outlook for the future. Our Q3 organic sales growth of 8.6% demonstrated balanced strength across business segments and regions. With over 8% organic sales growth year-to-date, we are well positioned to deliver toward the higher end of our most recent full year guidance of 7.5% to 8% growth.

Orthopaedics had an impressive quarter with organic growth of nearly 9% reflecting excellent results across the portfolio of Mako, hips and knees. MedSurg continued its strong and steady growth coming in at approximately 9% as a medical led the way with double-digit growth.

Neurotechnology and Spine was up approximately 8% as strong double-digit growth in international helped to offset soft legacy Stryker US Spine performance. On a geographic basis, total Stryker organic sales growth approach 8% in the US with robust gains of nearly 12% outside the United States.

As you know, international has been an area of focus and has become a sustainable and consistent above market grower. This quarter we had double-digit organic growth in Europe, Japan and Canada. And emerging markets once again grew strong double digits.

Looking ahead, we expect international to be a source of high growth for many years to come. Our conviction stems from several factors including our lower relative market shares, investments in our Trans-Atlantic operating model and the benefits from strengthened leadership in emerging markets.

Turning to the P&L, we saw good results from our cost transformation for growth initiatives, which translated into a 50 basis point year-over-year expansion after absorbing deal-related dilution and impacts from foreign currency. We also continue to invest in sales, marketing and R&D to support our long-term growth targets. And have a healthy pipeline of new products across our divisions.

Overall with our strong sales performance and margin expansion, we achieved adjusted per share earnings of $1.91, up 13%. With our outstanding management team's, ongoing investments in our sales forces, new product launches and contribution from M&A, we expect a strong momentum to continue through Q4 and into 2020.

I will now turn the call over to Katherine.

Katherine Owen

Thanks, Kevin. My update today will focus on Mako and the key data points that allow you to track our success in executing on our orthopedic robotic strategy, along with a few comments regarding our recent acquisition of Mobius. In Q3, we sold 51 Mako robots globally with 42 in the US.

By comparison in the comparable quarter a year ago, we installed a total of 37 robot, of which 26 were in the US. Globally, our installed base of robots is approaching 800, with well over 600 in the US.

We have also launched Mako into Japan with four robots sold in the quarter. We also put the first Mako Total Knee, which was approved in Q3 in Japan.

Looking at US procedures, in Q3, Mako Total Knee procedures approximated 18,000, increasing roughly 60% from the prior-year quarter, while total Mako procedures approximated 27,000.

Beyond the knee indication, we also continue to see strong demand for Mako hips 40% year-over-year growth. Looking ahead, our Mako order book remains robust and supports our expectation for continued share gains in both hips and knees.

During Q4, we acquired Mobius Imaging, a leader in point-of-care imaging technology along with its sister company Cardan Robotics in an all-cash transaction for $370 million upfront and up to $130 million of contingent payments tied to development and commercial milestones.

With this deal Stryker Spine gains immediate entry into the intra-operative Imaging segment as well as aligning with Stryker's implant and navigation offering.

Mobius Airo TruCT scanner is a best-in-class mobile, real time diagnostic quality CT imaging efficient system. In addition Cardan Robotics is currently developing innovative robotics and navigation technology systems for both surgical and Interventional Radiology procedures. Overall, these acquisitions are aligned with Stryker Spine strategy of providing a comprehensive offering with more complete procedural solutions.

With that I will now turn the call over to Glenn.

Glenn Boehnlein

Thanks Catherine. Today, I will focus my comments on our third quarter financial results and the related drivers. We provided our detailed financial results in today's press release. Our organic sales growth was 8.6% in the quarter. As a reminder this quarter included one extra selling day versus Q3 2018.

Generally selling days have an approximately 1% impact on growth. Pricing in the quarter was unfavorable 0.7% from the prior year, while foreign currency had an unfavorable 0.9% impact on sales. US organic sales growth was 7.5% and International organic sales growth was 11.6%.

In the US, there were strong performances across all businesses. International sales growth was led by emerging markets, Europe, Japan and Canada. Our adjusted EPS of $1.91 increased 13% from the prior quarter reflecting strong drop through on sales growth combined with good operating expense control.

Due to the continued strength of the US Dollar, third quarter EPS was negatively impacted by any additional $0.02 from translational and transactional foreign currency exchange rate.

Now, I will provide some highlights around our segment performance. Orthopedics delivered constant currency in organic growth of 8.8% including organic growth of 9.2% in the US. The US perfomance was highlighted by strong performances in knees of 8.9% including high demand for our Mako TKA knee platform.

Our Trauma and Extremities business also had strong organic growth in the US of 8.3%, highlighted by continued ramping of our T2 Alpha and by double digit performance of our foot and ankle and shoulder products.

Internationally, orthopedics delievered organic growth of 8%, which reflects solid performances in emerging markets and Europe. MedSurg continued to have strong growth across all businesses in the quarter with constant currency growth of 10% and organic gains of 8.8%, which included an 8.1% increase in the US.

Instruments had US organic sales growth of 2.4% against a difficulty Q3 2018 sales of 13.5%. As expected, Instruments of sales growth slowed in Q3 after very strong performances in Q1 and Q2. Year-to-date, US organic growth for Instruments is 12.7% and is tracking favorably against the prior year today's growth rate of 10.7%.

Given a strong order book and demand for it's power tools and waste management products, we are confident that Instruments will deliver above market growth in Q4 and the full year.

Endoscopy delivered US organic sales growth of 8.6%. Endoscopy had strong performances across it's general surgery and video products including very strong momentum with our 1688 platform. Medical had U.S. organic growth of 12.5%, reflecting solid performance in its Sage, acute care, bed and stretcher businesses as well as physio portion of it's emergency care business.

Internationally, MedSurg had organic sales growth of 12% with good performance in Japan, emerging markets, Europe and Canada. Neurotechnology and Spine had constant currency growth of 20.2% and organic growth of 7.6%. This growth reflects strong performance in Neurotech and our Interventional Spine businesses offset by softness in our core spine business.

Our US Neurotech business has posted organic growth of 8.5% for the quarter, driven by strong double-digit growth and demand for our neurovascular products, specifically our hemorrhagic and ischemic stroke products. Additionally, we saw solid demand in our neuro powered instruments business and somewhat offset softer demand from our CMS business.

Our spine business saw headwinds during the quarter driven by US sales softness and price erosion. Our K2M integration efforts are ongoing and we are ahead of our plan relative to realized cost synergies. Related to our salesforce integration efforts, we are not ramping as quickly as expected, as cross selling, scaling of rep hires and whole inventory availability is taking longer than we expected.

We remain confident that we are in a good path for the future, but now expect 2019 combined sales growth to in the low single digit. Internationally Neurotechnology in spine had organic growth of 17.6%. This performance was driven by continued high demand for our Neurotech product across most geographies.

Now, I will focus on operating highlights in the third quarter. Our adjusted gross margin of 65.7% was down 50 basis points from the prior year quarter. Compared to the prior year quarter, gross margin expansion was negatively impacted by price and business mix.

Adjusted R&D spending was 6.5% of sales, which was 20 basis points favorable to prior-year quarter. Our adjusted SG&A was 33.8% of sales, which was favorable to the prior-year quarter by 80 basis points.

This reflects the continued focus on operating expense improvements through our CTG program, offsetting this benefit was the negative leverage impact of acquisitions.

In summary, our adjusted operating margin was 25.4% of sales, which was 50 basis points favorable to the prior year quarter. Our operating margin primarily reflects good leverage and continued operational savings offset by acquisitions, the latter of which had an approximately 10 basis point negative impact in the quarter.

We remain highly confident in our ability to deliver on our full-year commitment of driving a 30 basis points to 50 basis point improvement in our operating margin.

Next, I will provide some highlights on other income and expense. Other expenses increased from prior-year quarter, primarily due to higher interest expense year-over-year driven by the additional debt related to the $2.5 billion euro offering that was completed in November 2018.

Our third quarter adjusted effective tax rate of 16.1% reflects an underlying operating tax rate of approximately 17.4%, partially offset by the benefit related to stock compensation expenses. Focusing on the balance sheet, we continue to maintain a strong position with $2 billion of cash and marketable securities, of which approximately 35% was held outside the US.

Total debt on the balance sheet was $8.4 billion. Turning to cash flow, our year-to-date cash from operations was approximately $1.5 billion. This reflects the higher adjusted earnings growth offset by acquisition-related charges, higher recall related payments and an increase in core working capital, primarily related to increased sales.

And now I will discuss our fourth quarter guidance. Based on our performance to date and anticipated strength in the remainder of the year, we anticipate full year sales growth towards the higher end of our previously guided sales growth range of 7.5% to 8%. As a reminder Q4 has the same number of selling days as 2018 and the full year has one additional selling day.

Given our year-to-date performance and continued momentum, we now expect that our adjusted net earnings per diluted share will be in the range of $8.20 to $8.25 for the full year.

For the fourth quarter, we anticipate adjusted net earnings per diluted share to be in the range of $2.43 to $2.48. This guidance includes an increase of negative foreign currency impact related to ongoing strengthening of the US dollar across many of our operating currencies.

We now expect the full year Negative impact related to foreign currency translational and transactional impacts to be approximately $0.15 per share versus our prior estimate of $0.10 per share.

And now I will open up the call for Q&A.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Your first question comes from the line of Robbie Marcus with JPMorgan. Your line is open.

Robbie Marcus

Great. Thanks for taking the question and congrats on a good quarter. One business related question, then one outlook related question. Maybe first on the business, the ortho continues to beat and raise here came in above expectations.

I was hoping you could talk about any initial commentary you can add on robotic competition, particularly from Zimmer here, any impact to the business?

Katherine Owen

Yes. Thanks, Robbie. I would tell you, we're really pleased with what we're seeing and continuing to execute on what's been a years long strategy here with 51 robots in the quarter. We're also pleased with the opportunity we have outside the US, which we're continuing to build on, including the recent approval in Japan and now having done a Mako Total Knee in Japan.

We have approval in China and expect going forward to get approval for the total knee in China. So overall, we remain focused on our strategy, we're continuing to see the benefit of having indications for the use of the robot on hips, on knees, on cementless knees and really a global footprint there. So focused on that strategy and think as we said, we're in a good position to continue to take market share gains.

Robbie Marcus

Glenn, maybe just on the outlook. I know you haven't given guidance yet for next year. There's a lot of moving pieces, particularly in MedSurg and in neurovascular spine, hope you could just give us some early thoughts on puts and takes for next year to be aware of?

Kevin Lobo

Yes, Robbie. This is Kevin. Right now, as I sit here today, I feel very similar to how I felt at this time last year. So without getting into all the specifics, we just have terrific momentum across our business and across our geographies. And I sort of made that statement last year and you've seen the way 2019 has unfolded.

So without getting specific about numbers and specific businesses on an overall basis, we're feeling very, very good about the health of our business and kind of imagine 2020 turning out to be very similar.

Operator

Your next question comes from the line of Bob Hopkins with Bank of America. Your line is open.

Bob Hopkins

Hi, thanks. Just to start out. First question for Kevin. When you look at the Knee performance this quarter and really the orthopedic performance broadly, you saw strength.

So I was wondering if you could just talk big picture about common themes that drove the performance this quarter and specifically is this mostly Stryker taking share across the board or was wondering if you could also offer some comments on kind of the health of the markets that you operate within orthopedics?

Katherine Owen

Yes. Bob, I think it really is across the board. We're benefiting with really building momentum and surgeon conviction around Mako. We've seen and beginning really in the last couple of quarters with the launch of our new hip and having that approved on Mako, more and more surgeons now adopting hip on Mako and obviously having knees.

We continue to see increased penetration for our cementless knee offering, which as you know is uniquely 3D-printed. And now entering the next leg of that ortho story, which is expanding the footprint of Mako globally. We're really excited with the new Mako training facility opened in China.

Kevin Lobo

In Hong Kong.

Katherine Owen

Sorry in Hong Kong, and selling four robots into Japan. The opportunity that presents for us. So it's no one single thing, but we're taking market share across the board. We believe we're growing above the market in both hips and knees, and we’re going to continue to execute on this strategy and feel really good about the order book ahead of us as we think about Mako going into the fourth quarter and next year.

Bob Hopkins

Okay. Great. Thank you. And then for Glenn. I was wondering if you could just comment on FX and tax rate in the outlook for those, because obviously we see you're overcoming a greater headwind here on FX pretty easily.

Anything to worth calling out as we look forward on FX or tax rate. Did you would want us to consider as we think about modeling going forward?

Glenn Boehnlein

Yes.Bob, as we look at 2020 and this is not guidance for 2020, so please don't misconstrue this comment. I really think that Q4, we're also going to have a little bit of headwind on FX just because of where it was sitting last year at that time. I think going forward, though hopefully we would see it moderate and we wouldn't feel as bigger impact as we're feeling in this year.

And then on the effective tax rate, we continue to sort of execute on our sort of tax strategies and we're also continuing to see a really good benefit from the stock comp reclassification within our tax rate. And so right now, as I sit here, I don't see any really big outliers that would make me think differently about our effective tax rate in the future.

Operator

Your next question comes from the line of David Lewis with Morgan Stanley. Your line is open.

David Lewis

Good afternoon. Just want to pick up on margins, Glenn. And then a quick portfolio question. So. Glenn, just there were some significant ERP programs that are kind of going into place here. I think it within Instruments back half this year, with the outlook has been 30 basis points to 50 basis points of kind of reported improvement you've done better than that on an underlying basis.

Should you think about the momentum in the ERP systems is the right way to think about the future still 30 basis points to 50 basis points of minimum improvement or if we don't see significant M&A next year, can that number actually be a little higher? And then a quick follow up.

Glenn Boehnlein

Yes, I think , first off on ERP, we are executing our program. We're now live with sort of three of our entities on our global SAP platform, corporate CMF and Instruments. We have an active rollout plan for all of our divisions. And honestly, it's two to three years.

So that will roll out over the next couple of years here before we really start to feel that the platform is spread enough across the Company that will drive significant efficiencies.

David Lewis

Okay. I just had two quick ones for me, just on, Kevin few on spine and maybe a follow-up for Katherine on Mako. Just -- on spine, Kevin, I obviously appreciate the update. Is it the right way to think about next year, I'm assuming you're expecting acceleration in the spine business pro forma - is the right way to think about a mid-single digits or can you get back to the corporate rate and how much of this is just integration versus perhaps just, given all the movement we're seeing in robotics spine? Are you confident, could it be some impact from the absence of robotic system in the portfolio?

And then Katherine was asking both for Knee performance, this particular quarter procedures were sort of stable sequentially, typically can draw much from one quarter trend, anything you call out from a Mako procedure perspective, second to third quarter. Thanks so much.

Kevin Lobo

Okay, well thanks for squeezing in two extra questions, David. But I will answer them, no problem. So the first thing I'd tell you on spine, we're are really executing our program and our plan and do expect acceleration next year. I'm not going to get specific as to what degree of acceleration it will be.

We took a lot of pain early with the sales force, getting them all restructured with this type of an integration and really getting the inventory to scale for all of the Stryker salespeople that were dying to sell some of the K2M products.

It has taken longer than we thought. Just getting -- the sales force is all fired up and getting competitive hires back on track. These things, we're following the right path. We're very optimistic that we've made the right decisions. Our ability to forecast obviously was a little bit off, but we're still growing, which I think is different than most other Spine integrations.

Overall, our combined business is growing year-over-year, not mid-single, low-single, but still growing, and we do believe we're on the right path and it's really more of us executing our plan than any other market factors.

Katherine Owen

Yes. And I make out. So I think it's really important to pay attention to the year-over-year growth. So if you look at what we said for total knees, we did 18,000,, which is becoming an increasingly larger base, and that was up 60% year-over-year.

And keep in mind, Q3 is a seasonally slow quarter. So there were simply fewer hip and knee procedures done, whether it's robotics or otherwise, it's just a sequentially slower quarter historically always has and probably always will be so.

So when we look at the growth we're seeing in hips and knees, very strong double digits on an increasingly large base, we feel really comfortable.

Operator

Your next question comes from the line of Rick Wise with Stifel. Your line is open.

Rick Wise

Good afternoon to everybody. And hey Kevin, congrats on 8 wonderful years to you and the team.

Kevin Lobo

It has been 7 wonderful years, thank you.

Rick Wise

I always exaggerate. If I could start with instrument number, obviously you had a tough a challenging comp, I appreciate that. I tried to model for that in my model, but when I look at the sort of the flow of the dollars last year and this year, it is step down still in the third quarter versus the second. Sequentially is a touch more than I might have guessed.

Obviously an excellent quarter overall, but maybe you could help us understand in a more detail some of the - and obviously you're just as optimistic about the fourth quarter and beyond. Help us understand what's next. And what drives it, the dollars higher from a new product standpoint as well?

Glenn Boehnlein

Yes. I think the biggest thing to think about is at the beginning of this year. Instruments, had a sales force split of their surgical sales force. And so if you think about orders that might have been put in by the legacy sales force last year knowing that they were going to work in a split environment, there were really was a lot of backlog that was built up for Instruments coming into this year.

I think in the first two quarters as some of the newer sales force got there got their feet work, got out the customers, Instruments was delivering a lot out of the backlog. And I think that now I think that they've got the momentum and we're seeing that in power tools and their safety products and waste management products that we are seeing good momentum and fully expect, given their current order book to see good growth in Q4.

And obviously if you look year-over-year and I was trying to make this point that sequentially, okay, it didn't flow exactly like we wanted in the nine months and these things are harder to predict, especially when you split sales forces.

But year-to-date they are clearly ahead of where they were last year. And if we look at sort of where they're targeting for Q4. I feel very confident that we're going to have above-market growth again out of instruments.

Rick Wise

Great. And maybe this is for Katherine or Kevin, on Mobius segmet. maybe just talk in a little more detail about your expectations and the strategy with Mobius now in the broader Stryker Spine portfolio?

What's did you do for the spine franchise and when do we start to see the impact of this or is this the right way to think about it, to see the impact in Spine performance? Thanks so much.

Katherine Owen

Yes. I think Rick, it's really about building out a comprehensive portfolio of products and really being able to arm our spine organization with complete procedural solutions. And this is absolutely best-in-class technology, we're bringing in. In longer term, we believe there'll be an opportunity to further bolster our efforts to bring robotics spine to market.

It would be premature to get into the details there on the timing, but we certainly feel like there is some technology that we can leverage there, but if you look at fundamentally near term, it's really about being able to have this best-in-class mobile, real time diagnostic quality CT imaging that really helps to facilitate these complete procedural solutions, which is increasingly a trend we're seeing in Spine.

Operator

Your next question comes from the line of Matt Miksic with Credit Suisse. Your line is open.

Matt Miksic

Great. Thanks for taking the questions. I have two here, just one on some of the trends in Mako and one on FX. So the seasonal pattern here in the US in particular, looks like you went up sequentially maybe 20% or something. If I had the numbers right on system installs, which is sort of seasonally unusual and just wanted to ask if there was anything that you've seen in terms of - I mean we could all hypothesize around people holding off to see a competitor before they make a decision on Stryker lots of different ways to look at this, but any color that you've picked up that drove the strength in particular in the US sequentially?

And then on Mako also if I could just -- Katherine if you could mention to us, if you're going to be able to show this paper, you tried to show last year it at ACOs [ph] or any updates on that and as I mentioned I have one follow-up on FX?

Katherine Owen

Yes. I think really what you're seeing is more just a continued momentum as the features and benefits that are really unique to Mako continue to get more and more well known and understood and appreciated within the clinical community and it's building quarter to quarter strength. So there was nothing I would call out as unusual.

We're just continuing to benefit from a strategy where we have dedicated sales forces and a capital sales force focused on Mako and again being several years into this, the technology market, so I think it's really, we're just continuing to execute on a proven strategy.

With respect to ACA I believe there's going to be some papers there. We will not have two year data at ACOS [ph] just given the timing of that that meeting and then we'll wait and see what may come out at Academy, but we obviously clearly expect to have a very big Mako presence at the meeting -- at both meetings

Matt Miksic

And then the other follow-up. Thanks for that. The follow up on FX. And I'm sorry if I missed this when you're walking through the P&L, but was there an impact in any of the operating lines positive or negative as this, it looks like about 40 basis points to 50 basis points worse FX and we had modeled came through in that 90 basis points and just wondering how that affects the P&L coming through?

Glenn Boehnlein

Yes, we - thanks, Matt. We really don't break out FX impact at that level of detail. So what I can say is that, in an overall level, it was $0.02 per EPS more negative than we had actually anticipated. And I think you'll recall that previously I guided to a $0.10 full-year number.

We were thinking that FX would moderate in Q3 and Q4 and be fairly flat, but that hasn't been the case. And so we're back a full year impact of $0.15, which is built into our guidance.

Operator

Your next question comes from the line of Vijay Kumar with Evercore ISI. Your line is open.

Vijay Kumar

Hey, guys. Thanks for taking my question. Kevin maybe one big big-picture question, I had one follow-up. On the US capital environment, maybe could you comment on what you're seeing on the capital front and maybe how the order book is shaping up?

Kevin Lobo

Yes. Across our businesses, whether it's Mako or whether it's our MedSurg businesses, we see a very healthy capital environment. So our order book -- you've seen that the sustainability of our sales growth over the past couple of years in capital equipment has been just a strong as our implants and our disposables and we really aren't seeing any change. I would say it continues to be a healthy market for capital.

Vijay Kumar

That's helpful. And Glenn, one quick one on enough free cash flows. Year-to-date free cash conversion, maybe it seems to be trending a little light, maybe there are some timing issues, one-off items, maybe a clarify on the free cash front?

Glenn Boehnlein

Sure. Free cash flow continues to be impacted by sort of our integration expenses and costs related to K2M, projected to be more front-end loaded in this year and less back-end loaded. So we will see some improvement because those will start to moderate.

As I said, we also have experienced increases in working capital specifically AR, as we deploy SAP at Instruments. And then also as we consolidate our AR and AP processing into regional shared services, we've also seen a little bit of a tick up in that working capital there.

I mean, keep in mind that cash flow generation has always been back-end loaded and that kind of matches what happens with our sales, that matches what happens with our EBITDA quarterly flows and so I think we'll continue to see sequential improvement throughout 2019 and expect to see improvement again in Q4.

Operator

Your next question comes from the line of Raj Denhoy with Jefferies. Your line is open.

Unidentified Analyst

Hi. This is Anthony for Raj. Maybe just one on Mako and robotics in general and then one in neurovascular. On Mako, just wondering how pricing is kind of playing out in that market just considering there's a couple of new entrants recently and how that's also playing out.

I guess on implant pull-through, are you seeing any shifts and implant specifically in non-neurovascular. Can you give us an idea just on share shift within the divisions when you consider thrombectomy stenting amortization any additional color there would be helpful?

Katherine Owen

Yes. Pricing pricing remains extremely stable with respect to the robot. And in terms of pull-through, if I'm understanding correctly, once you're using the robot, you need to use it for all our implants that you're doing on the robot, so a hip or any and it obviously, it gives an opportunity as we continue to sell into competitive accounts for our sales force to sell the portfolio hips, knees, Mako indication, cementless, revision et cetera. So yes, no change in pricing and continues to be very solid.

Unidentified Analyst

Thanks. And the follow up would be on neurovascular, any comments on share shift there?

Katherine Owen

No. We saw very solid growth in both hemorrhagic and a scheme. We really continue to expect to see the bigger impacts from our portfolio of aspiration devices in 2020, but that's unchanged commentary from our last update, so overall Neurovascular remains very solid.

Operator

Your next question comes from the line of Larry Biegelsen with Wells Fargo. Your line is open.

Larry Biegelsen

Good afternoon. Thanks for taking the question. I understand that you want to talk about growth for the different businesses in 2020. But I'm wondering if you talk about some of the focus products and launches for Stryker that'll be meaningful to growth in 2020 and I had one follow-up?

Katherine Owen

Yes, it's -- given the number of businesses we have and geographies, it is impossible to really give a comprehensive answer. And I think largely, if I were to pull a few highlights again not all inclusive, we talked about the Mako launch, continuing to build in the US, but now with the knee approval in Japan, an expectation for continued momentum outside the US.

Next year we're going into year two, endoscopy's camera launch, which historically is the strongest year. So they are really well positioned with that offering. We talked about some of the trauma products that we're seeing improving momentum, coming off of some supply issues that we had there and obviously some very good growth in extremities and then medical is really well positioned going into next year as is Sage [ph] that has launched some products and that will continue to build next year.

We feel really good about neurovascular as well as just the overall market opportunity, particularly in ischemic. So at a high level, I'd throw it out there, those ones.

We're just, we've got a lot of momentum heading into next year and the cadence of products that are either going into peak product cycle or being launched to continue to support that growth. As we think about our goal of continuing to deliver organic sales at the high end of MedTech.

Larry Biegelsen

That's very helpful. Katherine. Then one follow-up for Kevin. Kevin, I guess as Chairman of AdvaMed. I think that's the right title, maybe it would -- it would be helpful to hear your latest thoughts on the MedTech tax be it suspended for at least one more year in 2020 and could that actual suspension spillover into early 2020 before something is finalized? Thanks for taking the questions.

Kevin Lobo

Yes. Thanks. I'm currently in my first year of a 2-year term as the Chairman of our trade association, AdvaMed. We continue to believe that the MedTech's tax will not be reinstated at the beginning of next year, being multi-year a suspension. At this point, even repeal or something that we obviously is the ultimate goal.

But we're not optimistic, just based on the realities of what's going on in Washington, that will happen, but it remains on a multi-year suspension and we continue to lobby for that. There are a number of vehicles that we are hopeful, we can attach this to between now and the end of the year.

Operator

Your next question comes from the line of Pito Chickering with Deutsche Bank. Your line is open.

Pito Chickering

Hi. Good afternoon, guys. Thanks for taking my questions. US market continues -- US hip market continues to accelerate pretty nicely here. Can you walk us through how much of that came from hips on the Mako robot versus just taking shares with the tried into hip. I have a follow-up?

Katherine Owen

Yes. So the majority of our hips are still being performed traditional manually, but we're seeing the percent percent that are done on Mako and I think part of that is surgeons use it for the total knee, they start to think about and trialing it for hips and see the benefits.

We're also seeing the benefit of the new Accolade launch of our 3D-printed hip cup. It's been really well received. We had a very deliberate rollout of that and obviously can be used on Mako.

It's very difficult, Pito to parse out growth from the different parts. I would tell you though, it's really a new product launch and improving momentum with the Mako hip story.

Kevin Lobo

Yes, I think the bigger factor this trade and to hip cup is really terrific. It is 3D-printed it is the very, very modern and we're getting phenomenal feedback and it's being used with a variety of different stems. So the cup really did need to be changed with Mako and with Standard instruments.

Pito Chickering

And then for follow-up. Going back to the US legacy spine. Can you go into a little more detail on what aspects of the cross-selling have been more challenging than expected and how you change that going forward?

Kevin Lobo

Yes sure. The most challenging aspect has been the demand for the K2M products from the legacy Stryker sales force. So it's a pretty large sales force. The K2M offered some really terrific innovative products and we've just had challenges scaling the demand both for the implants as well as the instruments that are needed to put in the implants.

And so the demand was very high. We knew which products, they would like, but it's been a real challenge to scale. They use OEM manufacturers and to scale to manufacturing and be able to deploy all of that has been challenging and more challenging than we first anticipated.

Operator

Your next question comes from the line of Kristen Stewart with Barclays. Your line is open.

Kristen Stewart

Hi. Thanks for taking my question. I was wondering if you could just dive a little bit more into the medical performance, it was lot stronger than I anticipated. I'm wondering if you could kind of break out different sub categories within medical within, this year, I think it much better than prepared remarks.

See how that's doing and then talk a little bit about the beds and stretchers. I think you guys have a new MedSurg bed that should be launching next year. I just want to confirm that as well and just how we should think about that business in light of sustainability of growth?

Katherine Owen

Thanks, Kristen. So we don't break out the different components that's behind that US growth, organic growth of [indiscernible] but I will tell you, we had very scare, which is beds and stretchers as well as physio, which is now encompassed under the umbrella of our emergency care business.

So it was strength across the medical portfolio and I really wouldn't call out one beyond the other is really very, very solid growth. We do have some new products coming for competitive reasons, not really going to get into any commentary around features benefits or timing, but I would just put it in the bucket of tailwinds as we think about next year.

Kevin Lobo

Kristen, I just like to add before your follow-up. I'd just like to add that this medical business has been really consistent and terrific performer over multiple years. It is not fully appreciated for its growth. I mean we had double-digit growth, organic in the US last year and we - on top of that posted another double-digit year quarter of organic growth.

So it's stable and strong performance, terrific leadership with a long-tenured President and terrific General managers and the ability to sell even if you look at physio without a lot of the full bag of new products driving very, very high growth. So it's really a terrific division of our Company and I expect continued very strong growth in the future.

Kristen Stewart

Okay. And I just wanted to follow up. I think it was the question David asked about margins, you guys are overcoming a lot of FX headwinds this year, so I just want to get an understanding for what - what is allowing you to overcome this FX headwinds, your underlying margin performance is quite impressive.

Should we think about that capability of really over delivering on the margin front as being able to carry over in absence of M&A deployment?

Glenn Boehnlein

Kristen, I think a lot of the strength of the underlying programs we have associated with CTG and driving really op margin performance has certainly helped and given us some good leverage in terms of overcoming some of our FX challenges. Point two is that we did a really good job accelerating the cost synergies on K2, so early on in the year, we really attacked those and we're able to sort of front-end a lot of what we thought would maybe extend out to this entire nine months, and so that the team really did a great job there.

And then lastly, I would just point out to, we do have a hedging program, which helps offset some of our known transactional FX exposures, it looks out 18 months. And so then that's also help mitigate it and that would generally flow through operating expenses as well

Operator

Your next question comes from the line of Richard Newitter with SV8 Leerink. Your

Richard Newitter

Hi, thanks. I have two questions. I wanted to start off, first on the robotics initiatives and some of the deals that you did. Katherine the Cardan deal, I just wanted to get a sense for - I appreciate - I guess it was exactly kind of what you're robotics plan is in spine, but is it right to think of Cardan and Mako, that Mako is ultimately where you're going to go when you come to market with the spine robot solution.

And you saw something accelerates you to getting there or is there potentially something that we see launched from Cardan first, before we see a Mako spine robot and then I have a follow-up? Thanks.

Katherine Owen

Yes. Richard I don't mean to be difficult, but as you said, we're not going to tell you exactly. I'm not going to tell you at. We really are going to wait on this one that would truly be premature to get into details around this. We do think there is some complementary technology for our ultimate goal of Mako spine robotics system, but it's just too early.

And as you know, we really like to have a clear line of sight and an ability to articulate a value proposition and certainty to market launch before we start talking about it. So it's just too early right now and that along with some competitive reasons we're just not going to go into any detail.

Richard Newitter

Fair enough. And just the foot and ankle and shoulder call out. I think you said double-digit growth between foot and ankle and shoulder this quarter. Can you break out or parse out what the two divisions we're growing and anything that you call out that breaking the trend in each of those respective upper and lower extremities markets thanks?

Katherine Owen

Yes. So, we're pleased with the growth. We're not going to break it out into that level of detail. I would remind you, shoulder is off of a pretty low base. So to be fair, when we talk about very strong growth that is off a lower base. So across the board strength and feel good that we're starting to see better momentum there.

Operator

Your next question comes from the line of Matt Taylor with UBS. Your line is open.

Matt Taylor

I think, the question Mako dynamics, because it is impressive that you're -- as the US market has - I guess I was wondering if you could talk -- kind of the US TAM and then some of the opportunities going forward in Japan and China that you articulated, how big could those be?

Katherine Owen

I'm sorry, so I apologize, I missed the first part of the question around the US?

Kevin Lobo

[indiscernible]

Katherine Owen

I mean, so it's - there is a lot of runway left here. I mean we were thrilled with the uptake and the ever-increasing base of robots, but there is still a lot of opportunity given there is somewhere around 5,000 orthopedic hospitals in the US.

And keep in mind, we're now low double-digit penetration for hospitals that have purchased the second Mako, and so I would view it as we've got years of runway here, particularly as we continue to build on the benefit features, benefits to patients as well as the economic benefits.

Matt Taylor

And then I just had a follow-up on the Trauma and Extremities. You partially covered this, but can you comment at all on market dynamics and foot and ankle? Do you feel like you're gaining share?

And then same question in Trauma, is it more of a share gain or kind of shortages that improve the growth rate?

Katherine Owen

Yes. If you recall, we had some supply issues tied to some new product launches in Trauma that we spoke about earlier in the year, we're seeing the benefit of starting to come out of that.

And then just overall just increased focus by the selling organizations that are helping to deliver that performance, and again as I noted some easier lower revenue base on the shoulder side.

Operator

Your next question comes from the line of Kyle Rose with Canaccord Genuity. Your line is open.

Kyle Rose

Great. Thank you very much for taking the question. I've got two, one on the shoulder side and then the other on Mako. So first on shoulders. I know in the past you've talked about the success of some of the specialty sales forces. Can you just remind us what - how the shoulder is commercialized currently and any plans to potentially develop or carve off specialized sales force specifically for the upper extremity side?

And then with respect to Mako, you want -- specifically you wanted to talk about the emerging markets, you highlighted the training facility in China and the first procedures in Japan.

I guess just help us frame the opportunity for some of these larger enabling technologies in the emerging markets? And just how if at all the business model differs from a capital perspective?

Katherine Owen

Yes I'll take the second part, it's early days. I mean, we're obviously very excited to have the training facility in Hong Kong to have the approval in Japan for the total knee now. So I think probably a bit early to start talking about revenue expectations, but it's part of the overall strategy.

We're obviously going to bring a lot of the lessons learned we have from the launch in the US and obviously have the benefit of a surge - global surgeon community to really help validate the technology. So I think there is a significant opportunity in those markets and you can see it is continuing to build that base of robots outside the US.

Kevin Lobo

Yes, just to add, I would say that Japan and China are the two, I would say, big market opportunities for Mako. There is opportunity across the world as you can see. We have well over 100 robots placed outside the United States and so there are many other countries.

I think India will be interesting, but it's going to take longer in India for that to play out, but Japan and China are the two priorities in the near term. On your question related to shoulder.

So, as you know, we launched a short stem shoulder earlier this year. We still do not have very -- much of a dedicated sales force. We have a very sort of small business, we're very pleased with the growth pace and we have a few dedicated salespeople in large MSAs, but, don't really have the scale yet to have a fully dedicated sales force. So it is shared with our joint replacement sales force.

Operator

Your next question comes from the line of Josh Jennings with Cowen. Your line is open.

Josh Jennings

Hi, good evening. Thanks. I will start off on the Trans-Atlantic model and just you guys are having some nice success there. And so maybe some more details just in terms of the runway and I mean you guys have laid out that you're underrepresented from a share perspective.

I mean is it really as straightforward as just for sales reps and introducing more products and you guys should creep up to your US share levels in a different orthopedic segments and MedSurg businesses etc. And is there any MBR risk next year?

Kevin Lobo

What I tell you is the same thing, I said four years ago. When we launched the Trans-Atlantic operating model, we said we're very under penetrated. Europe was roughly 10%, 11% of our total sales and we have a long runway to go. And every year, since then Europe has outgrown Stryker's growth rate.

And Europe had never done that prior to the change, so we're delighted with this operating model change, the way our Division Presidents have embraced it, continued specialization of sales forces.

We are still not as specialized in Europe as we are in United States. We still have sales bags that are larger, just because of the scale that we have. I expect that specialization to continue in Europe and that we have multiple years ahead of us, continue to grow well above the market. So, we're growing higher than Stryker's growth rate, which is multiples higher than the market growth in Europe.

But again, we're making up for lost time because our market shares are lower. I would dream of being able to have the same level of market shares as we have in United States. It's going to take us time to get there.

But we still have significant runway ahead of us, and that's why, I call Europe a growth engine for Stryker, both inside the Company as well as outside the Company.

Josh Jennings

Obviously, in terms of the potential for CE Mark recertification...

Kevin Lobo

Yes, we're in very good - with our preparation. We've been working at this for multiple years. And as we - obviously, as we start to prepare for this there were a number of SKUs that we've decided not to register because we've discontinued them, so it enabled us to do a bit of cleanup on our SKUs in general.

But we believe we're in very good shape. We've made the necessary investments, don't perceive that being any reason to call it as a risk for our momentum in Europe.

Operator

Your next question comes from the line of Matt O'Brien with Piper Jaffray. Your line is open.

Matt O'Brien

Good afternoon. Thanks for taking the question. I'll just -- I have one question is multi-parts and it's -- it revolves around Mako. The domestic performance in the quarter was very strong according to our math here. I think the strongest we've ever seen. So first question is, did you see some delays, maybe in Q2 different systems that we're hitting the market? That's first.

And then secondly, Katherine, you mentioned you're starting to see multiple system orders now, but you're in the low double-digit range. So I'm wondering if you're starting to get so much volume into some of these older facilities that they are not having to add a second or third system and is that something that we could see an inflection in over, maybe the next couple of years?

Katherine Owen

No, there is nothing around that pushed into Q3, and we usually had pretty good line of sight when it comes to capital when that occurs. So that's not a factor. I really think it's go back to my earlier comments, we're just continuing to build on our execution that is working well. And so it hasn't suddenly gone to low-double digits.

As hospital start to use it more and more surgeons pile on. There is a capacity percent of hospitals buying a second robot building and I think that trend will continue. It is incredibly difficult to model out.

I would just tell you that we don't see a reason why we wouldn't see that continuing decline. It won't be every hospital, but clearly as demand increases from other surgeons in a hospital practice, that really is what drives that second purchase.

Matt O'Brien

Helpful. Thank you.

Operator

And there are no further questions at this time. I will now turn the conference over to Mr. Kevin Lobo for any closing remarks.

Kevin Lobo

Thank you for joining our call. We look forward to sharing our Q4 results with you in January, at which time we will provide our 2020 guidance. Thank you.

Operator

Thank you, ladies and gentlemen. This concludes today's conference. Thank for participating. You may now disconnect.