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COMPANY PROFILE

Stryker Corporation

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COMPANY OVERVIEW

Stryker Corporation (Stryker or 'the company') is a medical technology company, which offers a diverse array of innovative products and services in orthopaedics, medical and surgical, neurotechnology and spine products. The company operates in the US, EMEA, Asia Pacific Canada and Latin America. Stryker's headquarters is located in Kalamazoo, Michigan, the US.

The company reported revenues of (US Dollars) US$11,325 million for the fiscal year ended December 2016 (FY2016), an increase of 13.9% over FY2015. In FY2016, the company’s operating margin was 19.1%, compared to an operating margin of 18.7% in FY2015. In FY2016, the company recorded a net margin of 14.5%, compared to a net margin of 14.5% in FY2015.

The company reported revenues of US$3,006 million for the third quarter ended September 2017, a decrease of 0.2% over the previous quarter.

KEY FACTS

Head Office	Stryker Corporation 2825 Airview Blvd Kalamazoo Michigan Kalamazoo Michigan USA
Phone	1 269 3892600
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Web Address	www.stryker.com
Revenue / turnover (USD Mn)	11,325.0
Financial Year End	December
Employees	33,000
New York Stock Exchange Ticker	SYK

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SWOT ANALYSIS

Stryker Corporation (Stryker or 'the company') is a medical technology company, which offers a diverse array of innovative products and services in orthopaedics, medical and surgical, neurotechnology and spine products. The company has a strong market position in focused medical equipment markets, which provides it with a competitive edge and enhances its brand image. However, healthcare reform in the US could affect the company's results of operations.

Strength	**Weakness**
Acquiring complementary businesses helped Stryker expand its medical devices business Strong position in focused medical equipment markets Product offerings in diverse therapy areas	Maintenance of excess and obsolete inventory reserves may affect the company's operating profit Geographic concentration exposing business to dependency risks
Opportunity	**Threat**
Strategic acquisitions to strengthen Stryker’s business and its global presence Launch of new products would bolster the company's product portfolio Favorable demographic trends in the US likely to boost demand for the company's products	Intense competition in the medical devices market could affect market share Healthcare reform in the US could affect the company's results of operations

Strength

Acquiring complementary businesses helped Stryker expand its medical devices business

Stryker has been strengthening its medical devices business by acquiring complementary businesses. Earlier, the company acquired the assets of Small Bone Innovations (SBi). SBi is a privately held business headquartered in Morrisville, Pennsylvania with facilities in France and Germany. The assets which Stryker acquired include the Scandinavian Total Ankle Replacement System (STAR Ankle). The addition of STAR Ankle to Stryker's foot and ankle product portfolio enabled the company to comprehensively address a range of foot and ankle procedures. Additional assets acquired from SBi included finger, wrist, and elbow products, further expanded the existing Stryker’s upper extremity product offerings. Stryker acquired Pivot Medical, a US-based privately held business selling products for hip arthroscopy.

Previously, it also acquired Berchtold Holding, a Germany-based privately-held manufacturer of surgical infrastructure equipment. Pivot and Berchtold added a premium portfolio of innovative hip arthroscopy products and operating room equipment to Stryker's endoscopy offering. The acquisition of US-based Patient Safety Technologies added a compliance software solution to Stryker's portfolio of instruments products that prevents foreign objects from being retained in patients after surgery. During the same month, Stryker acquired CoAlign Innovations, a US-based developer and provider of expandable interbody implants for spine surgery, which has provided Stryker's spine business with inter-body devices for this fast-growing segment of the market.

In the past, the company acquired MAKO Surgical Corp. The acquisition of MAKO enhanced the company's product offerings within its orthopaedics segment. Also, Stryker acquired Trauson Holdings Company, which enhanced its product offerings, primarily within its orthopaedics segment, broadened its presence in China and enabled it to expand into the fast growing value segment of the emerging markets. Such strategic acquisitions have helped Stryker in strengthening its medical devices business and market presence.

Strong position in focused medical equipment markets

Stryker has a strong market position in various markets it operates in. For instance, in the global orthopaedics instruments market, Stryker is the leading player having a 34% share. The company has the leading position in the global neurovascular market, where it has a 35% share. In the global hips market, Stryker has a 21% share and holds third position; while in the global trauma reconstructive products market, it holds second position with a 16% share. In the global sports medicine market, Stryker has about 8% share. In the global neurovascular market, Stryker has a leading position with 35% share; while in the neuro powered instruments market, it has second largest position with a 20% share.

Strong market position of Stryker provides it with a competitive edge and enhances its brand image.

Product offerings in diverse therapy areas

Stryker has a broad product portfolio. The company offers a diverse array of innovative products and services in orthopaedics, medical and surgical, and neurotechnology and spine that help improve patient and hospital outcomes. The company provides orthopaedic (hip and knee) and trauma implant systems as well as other related products. It offers surgical equipment and surgical navigation systems; endoscopic and communications systems; patient handling and emergency medical equipment; and reprocessed and remanufactured medical devices and other related products. The company also provides a comprehensive portfolio of products including both neurosurgical and neurovascular devices as well as other medical device products used in a variety of medical specialties.

Stryker also has a diversified stream of revenues and is not excessively dependent on one particular segment. During FY2016, the company's orthopaedics segment contributed 39% of the total revenues, followed by the MedSurg segment (43.2%) and neurotechnology and the spine segment (17.7%).

A broad product portfolio provides Stryker with a high degree of diversity in terms of business opportunities and insulates the company from market risks in the face of downturns experienced by any segment. A diversified revenue stream of the company offers it with protection against demand fluctuations in certain segments.

Weakness

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Maintenance of excess and obsolete inventory reserves may affect the company's operating profit

Stryker maintains an obsolete inventory and excess reserves due to the inability to sell its products at prices in excess of current carrying costs. This is primarily due to the introduction of new products and surgical procedures on a regular basis in the markets in which the company operates. This may lead to the obsolescence of some of the company's products. The company estimates the future recoverability of the costs of these products and records a provision for excess and obsolete inventories based on expiration of sterilization dates and expected future trends. Differences in the actual product life cycles, product demand or acceptance of new product introductions and in the ones projected could lead to additional inventory write-downs and affect the future operating profits of the company.

Geographic concentration exposing business to dependency risks

Stryker's dependency on the matured US market could make its business and operations vulnerable to country-specific trends. Although, the company has its presence in Europe and other regions of the world, it depends heavily on its domestic market for most of its revenues (72.8% of total revenues from the US). Such geographic concentration increases the risk that, should any adverse economic, regulatory, environmental or other developments occur in the US, the company's business and financial condition will be materially affected. Stryker may be substantially affected by the political or cultural changes that occur due to the geographical concentration in only one region.

Opportunity

Strategic acquisitions to strengthen Stryker's business and its global presence

Stryker has acquired various companies in the recent past, which would help the company to further strengthen and expand its business globally. For instance, in December 2017, Stryker entered into definitive agreement to acquire Entellus Medical, Inc., a global medical technology company which delivers superior patient and physician experiences through products that are designed for minimally invasive treatment of various ear, nose and throat (ENT) disease states. The acquisition helps the company to provide better healthcare by combining innovative product within the ENT segment and offer its customers with tools that provide cost effective solutions. In September 2017, the company acquired NOVADAQ Technologies Inc., a developer of fluorescence imaging technology. The acquisition complements Stryker's advanced imaging portfolio and expands its product offerings in open and plastic reconstructive surgery category.

In April 2016, it acquired Stanmore Implants Worldwide from SIW Holdings. Stanmore Implants is an innovative orthopaedic business focused on serving the needs of surgeons that treat adult and juvenile orthopaedic oncology. This acquisition provides Stryker with differentiated technologies designed to offer the most effective solutions for orthopaedic oncology surgeons. Also, this addition emphasizes Stryker's commitment to its core joint replacement business and expands its presence in the global orthopaedic oncology market. The company acquired the CareFusion vertebral compression fracture (VCF) portfolio of products from BD (Becton, Dickinson and Company). The portfolio is comprised of minimally-invasive systems used in vertebroplasty and vertebral augmentation procedures. This is highly complementary to Stryker Instruments' Interventional Spine (IVS) business and is aligned with the company's IVS's strategy

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of expanding its VCF footprint, and also it further strengthens Stryker's brand in the Neurotechnology space. Further in April 2016, the company completed the previously announced acquisitions of Sage Products from Madison Dearborn Partners; all of the assets associated with Synergetics USA's neuro portfolio; and Physio-Control International. The acquisition of Sage Products aligns with Stryker's focus on offering products and services that support a mindset of prevention, specifically in the area of "Never Events" such as hospital acquired infections. This business would also provide a consistent disposable revenue stream that would complement the company's capital equipment offerings. Stryker's acquisition of the assets associated with Synergetics USA's neuro portfolio is highly complementary to Stryker Instruments' Neuro Spine and ENT (NSE) business and is aligned with NSE's strategy of expanding its neurosurgical product offering. In addition, the company acquired 100% of the stock of Physio-Control International in an all cash transaction for $1.28 billion. Physio-Control develops, manufactures and markets monitors/defibrillators, automated external defibrillators (AEDs) and CPR-assist devices along with data management and support services. Physio-Control's business complements Stryker Medical's EMS (Emergency Medical Services) offering and would drive a greater balance between capital and disposables. It would bring an enhanced presence and infrastructure that would expand Stryker's global footprint.

Previously, the company completed the previously announced acquisition of Muka Metal, a privately held business headquartered in Kayseri, Turkey that sells hospital beds, stretchers and related patient room furniture and accessories that serve markets across Turkey and other regions globally. The acquisition of Muka aligns with Stryker's strategy to expand its global presence through existing channels with an established and trusted brand. The addition of Muka Metal would boost Stryker Medical's bed and stretcher offerings with an opportunity to drive growth in Turkey and other regions around the world. In the past, acquired the asset of CHG Hospital Beds (CHG). Based in Ontario, Canada, CHG designs, manufactures and markets a series of low-height hospital beds and related accessories. As reported by Stryker, CHG's beds allow a patient's feet to sit flat on the floor while he/she is sitting at the edge of the bed. CHG sells its hospital beds in markets across Canada, the US and the UK. Acquisition of the assets of CHG Hospital Beds would bolster bed offerings of Stryker Medical and allow the company to offer additional solutions to its customers. Thus, all these acquisitions of complementary businesses are likely to help the company strengthen its business and geographical presence.

Launch of new products would bolster the company's product portfolio

Stryker launched several innovative products and solutions in recent times which would help it in expanding its products offerings. For instance, in March 2017, Stryker launched Mako robotic-arm assisted total knee arthroplasty application at the American Academy of Orthopaedic Surgeons (AAOS) in San Diego, the US. It is a robotic technologywhich can be used for all the joint replacement service lines to perform total knee, hip and partial knee replacements. Earlier, Stryker Spine launched the LITe (Less Invasive Technologies) ALIF Procedural Solution. This launch helps the company to grow its ALIF portfolio and add value to Stryker's procedural solutions. Previously, Stryker's Spine and Trauma & Extremities Division launched BIO4, the next generation viable bone matrix. As reported by the company, BIO4 is a viable bone matrix containing endogenous bone forming cells including mesenchymal stem cells, osteoprogenitor cells, osteoblasts, osteoinductive and angiogenic growth factors. In the same month, the company launched advanced robotic-arm assisted total hip application for use with its Mako system. Also, Stryker Navigation introduced Profess System, a surgical navigation system for image-guided intranasal procedures and endoscopic sinus surgery.

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In the past, Stryker’s Spine Division launched its innovative LITe (Less Invasive Technology) TLIF Procedural Solution; and an innovative anchor-based ALIF technology, Aero-AL. According to Stryker, LITe TLIF Procedural Solution would further establish its presence in the minimally invasive fusion market, whereas the addition of Aero-AL would strengthen its product portfolio in the global ALIF market. Thus, launch of new products is likely to expand Stryker's product portfolio.

Favorable demographic trends in the US likely to boost demand for the company's products

The US population is aging rapidly. According to the US Census Bureau, there were approximately 46.2 million Americans aged 65 or older in the US who comprised approximately 14.5% of the total US population in 2014. By the year 2060, the number of elderly is expected to climb to 98.2 million of the total population. Due to the increasing life expectancy of Americans, the number of people aged 85 years and older is also expected to increase to 19.7 million by the year 2060.

The increase in life expectancy will increase demand for medical devices and healthcare equipment. Hence, Stryker, a leading supplier of medical devices and instrumentations in the US, could cash in on the growing demand for medical devices and equipment.

Threat

Intense competition in the medical devices market could affect market share

The company faces stiff competition across the different market segments it serves. It competes with various medical device providers based on the factors like technology, innovation, quality, reputation and customer service. The other factors that influence competition, markets outside of the US, include local distribution systems, complex regulatory environments and differing medical philosophies and product preferences. Some of the major competitors for Stryker include DePuy Synthes, Zimmer Biomet Holdings, Smith & Nephew, and Medtronic. Intense competition is likely to put the market position under duress and keep revenues under pressure.

Healthcare reform in the US could affect the company's results of operations

In 2010, federal legislation to reform the US healthcare system was enacted into law. The legislation is far-reaching and is intended to expand access to health insurance coverage, improve quality and reduce costs over time. Among other things, the new law imposes a 2.3% excise tax on Class I, II and III medical devices beginning January 2013 that applies to US sales of a majority of Stryker's medical devices. Other provisions of this legislation, including Medicare provisions aimed at improving quality and decreasing costs, comparative effectiveness research, an independent payment advisory board, and pilot programs to evaluate alternative payment methodologies, could meaningfully change the way healthcare is developed and delivered. The impact of legislation may have a material adverse effect on the company's business and results of operations.

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