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First Cut Stock Study Report

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Save file as FC<yyyymmdd><ticker>.doc (i.e. FC20080224FDS.doc).
Create a PDF of the SSG (see instructions on last page).

Please return this completed form and the SSG in PDF format to:

FirstCut@betterinvesting.net

Company Name:	STRYKER	**Ticker:**	SYK
Date of Study:	3/7/2008	**Price:**	$ 32.01
Your Name:	ETANA FINKLER		
Email address:	etana.finkler01@comcast.net	☐ **Consent to post email on web**	
City:	SILVER SPRING	**State:**	MD
Chapter Name (if applicable):	DC Regional		

Discuss why you consider this to be a high quality, growth company that should be investigated further. Please include comments on historical sales and EPS growth, pre-tax profit margin, return on equity, and debt.

1. Sales & Earnings: I have watched SYK for the past 12 years present steady double digit sales and earnings, usually coming in higher than estimated. The price is rarely in the "buy" zone
2. Profit margin (2A=up) has grown since 2000 from 14.6% to 24%, excellent double digit increase
3. No long term debt; leader in its industry; diversified products, strong cash flow, mgmt .
4. Healthcare is one of the few sectors that is still growing in this stalled economy. Specifically with Stryker, consumers will not be able to delay elective surgery for too long, when it comes to hip or knee or replacements.
5. MI 71.7% quality BLUE; 25% PAR; high price projection $95.

Briefly describe how the company makes money:

a. Nearly 60% of Stryker's revenue comes form the orthopedic implant market. Products include hip, knee, and spinal implants.

b. 40% of the revenue comes from the sale of a variety of medical equipment, such as operating room products, especially tools and equipment that complement its orthopedic devices and improve the efficiency of the surgical

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procedures. The equipment is pretty widespread from hospital beds and carts to things like endoscopic systems.

c. Stryker is also a top provider of medical beds and emergency equipment, such as stretchers.

Simply put, the company makes money by favorably affecting the lifestyles of our aging demographics. There is no sign that these trends will slow down over the long term, even if there is some recessionary impact (discretion) in the short term. (paraphrased from Mark Robertson and Ann Cuneaz)

Projected growth rate for sales: 8**%**
Why did you select this rate? Discuss from where future growth will come.

Ann Cuneaz wrote, "Stryker is not recession proof, and their sales have slowed in recent quarters due largely to medical equipment business decelerating dramatically on tighening hospital capital budgets. Sales grew only 3.6% in the most recent quarter. Analysts have lowered near term projections to only 3% in 2009 and 9% in 2010. Morningstar and Value Line are making longer term (5 year) projections of 12% and 13.5%, respectively."

My projection of 8% is based on slower growth in the next year or 2, and then rebounding to 10-12% once the economy recovers. This is a reasonable expectation for a large-size company with the aging boomer need for these products

Projected growth rate for earnings per share: 10**%**
Why did you select this rate?

VL projects 15%. I chose the earnings rate that is in the current Manifest Investing Fundamental Forecast for SYK, estimating $4.74 earnings in 5 yrs. Mark R. uses analyst's projections from VL, S&P, and Morningstar for earnings projections. Ann C said, "This growth rate is based on the preferred procedure. Historically, Stryker' profit margins have been increasing over the past 10 years." .. but I think going foreward in light of government pressure on healthcare, profit margins will be flat, but still in the good double digits.

Projected High P/E: 20
Why did you select this value?

20 is very conservative for SYK, especially since it is a stock with high market visibility. 20 is more conservative than both the MI and the VL projection of 22 for AVG p/e. I chose 20 because it is based on on guideline of a PEG of 2 (P/E projected to be twice the projected EPS growth rate). Projected Low, and with this conservative high P/E estimate, SYK is still in the buy zone.

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Projected Low P/E: 10
Why did you select this value?
Ann C wrote, "My previous projection for Low P/E of 18 was not low enough, since the P/E has recently been 14. It's difficult to make projections when the market is revaluing equities and history does not seem to apply. My selection of 10 would equate to a PEG of 1.

Projected Low Price: $27.5
Why did you select this value?
80% of current price, and a bit more conservative than line 4Ba on SSG

At the current price, the stock is a (check one):

☒ **Buy** or ☐ **Hold** or ☐ **Sell**

At the current price, the upside-downside ratio is: 13 **to 1**

Projected compounded rate of return: 22.1%

Your final recommendation (check one):

☒ **Buy** or ☐ **Hold** or ☐ **Sell**

Explain:

I know Biomet and Stryker, since I have watched these stocks (owned Biomet since 1996 and SYK since 2002). I have seen constant repeated surpassing analyst estimates. The price is rarely in the buy zone. Pressures outside the company is the the cruel market and terrible economy. Pressures within the company are lowered hospital spending for medical equipment purchases and delayed individual elective surgery. I think these issues are short term and provide a unique buying opportunity for this high quality company.

Secondly, Stryker is the March recommend purchase in the Ingrid Hendershot newsletter. Ms. Hendershot's philosophy is to find Hi quality companies, similar to the BI approach. I have attached a scan of her article recommending the purchase of SYK in the myiclub.com file area. She highlights the strong cash flow and the share buyback and the possibility of SYK's 1.2% dividend being increased in the future. No debt.

If we are looking for companies with strong growth potential, I think the boomers have just begun to replace their hips, knees, etc. This surgery has gotten more familiar and people are less afraid to do it. The boomers are an active generation who will not want to be sidelined due to hip or knee problems.

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Instructions to Create PDF of SSG

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