Date:____11/24/2012_________

Analyst Name:________Jace Hochwalt___________

CIF Stock Recommendation Report (Fall 2012)

Company Name and Ticker:___Stryker Corporation (SYK)______________

Section (A) Summary

Recommendation Buy: Yes No		**Target Price: N/A**	**Stop-Loss Price: N/A**
Sector: Healthcare services	**Industry: Healthcare appliances & equipment**	**Market Cap (in Billions): 20.73 billion**	**# of Shrs. O/S (in Millions): 380.2 million**
Current Price: $54.53	**52 WK Hi: $57.15**	**52 WK Low: $45.61**	**EBO Valuation: 71.10**
Morningstar (MS) Fair Value Est.: $63	**MS FV Uncertainty: Medium**	**MS Consider Buying: $44.10**	**MS Consider Selling: $85.10**
EPS (TTM): 3.72	**EPS (FY1): 4.05**	**EPS (FY2): 4.30**	**MS Star Rating: 4 Stars**
Next Fiscal Yr. End "Year": "Month": December 2012	**Last Fiscal Qtr. End: Less Than 8 WK: Y N**	**If Less Than 8 WK, next Earnings Ann. Date: January 21, 2013**	**Analyst Consensus Recommendation: Buy/Outperform**
Forward P/E: 12.2	**Mean LT Growth: 10.7**	**PEG: 1.2**	**Beta: .9**
% Inst. Ownership: 65.73	**Inst. Ownership- Net Buy: Y N**	**Short Interest Ratio: 4.8**	**Short as % of Float: 3.13%**
Ratio Analysis	**Company**	**Industry**	**Sector**
P/E (TTM)	14.62	23.77	23.81
P/S (TTM)	2.43	1.73	5.00
P/B (MRQ)	2.48	2.28	3.03
P/CF (TTM)	10.82	11.89	15.50
Dividend Yield	1.56	1.58	1.95
Total Debt/Equity (MRQ)	21.16	41.76	45.63
Net Profit Margin (TTM)	16.74	7.37	-1.04
ROA (TTM)	11.50	5.88	7.12
ROE (TTM)	17.95	10.84	11.91

Investment Thesis

I believe that Stryker Corporation is a great company with great financials and good ratios. The last few years, Stryker has been underperforming competitors and the market as a whole however. Recent events have made me very skeptical about Stryker, and this is why I do not recommend a buy.

According to a Breitbart article online, "Stryker Corporation has announced that it will close its facility in Orchard Park, New York, eliminating 96 jobs next month. It will also counter the medical device tax in Obamacare by eliminating 5% of their global workforce, an estimated 1,170 positions (Breitbart.com)." This could have severe consequences to Stryker's stock.

The medical devices industry is an industry that is expected to take a fairly hard hit because of Obamacare. Breitbart also states that "In 2009, the medical device industry was punished with an excise tax of 2.3% of their revenues, regardless of whether they make a profit (Breitbart.com)."

Although Stryker Corporation has been profitable and has had increasing earnings and revenue over the years, I do not think that they will continue to have growth. This is primarily due to the new healthcare policies and the taxes which they have to deal with. I believe that the Cougar Investment fund has better investment opportunities.

Summary

Company Profile: "Stryker is one of the world's leading medical technology companies and is dedicated to helping healthcare professionals perform their jobs more efficiently while enhancing patient care. The Company offers a diverse array of innovative medical technologies, including reconstructive, medical and surgical, and neurotechnology and spine products to help people lead more active and more satisfying lives (Stryker.com)."

Fundamental Valuation: With my fundamental valuation I got a price that is somewhat higher that Stryker's actual stock price. I got a value of $71.10. This is due to the fairly low discount rate and the lower beta. I decided to go with a 4 year abnormal growth period.

Relative Valuation: In the relative valuation, I had a bit of a problem, mainly because there are not a lot of competitors that are exactly like Stryker Corporation. Zimmer Holding was the best comparison, and the stock prices across the board were similar to that of Stryker's. The only major difference between Zimmer and Stryker is the market cap that they have.

Revenue and Earnings Estimates: Revenue and earnings estimates are expected to grow in the oncoming years. The expected earnings per share are very similar to Stryker's closest competitors, Zimmer and Medtronic.

Analyst Recommendations: Analysts are very bullish about Stryker Corporation. They give Stryker a 2.14 rating. However, this number has increased over the past 3 months which may not be a good sign.

Institutional Ownership: Just over 65 percent of Stryker's stock is institutionally owned. There are three shareholders that do have over 5 percent ownership. In the past 3 months, there have been a negative number of owners (sellers) which could raise some red flags.

	<u>Short Interest:</u> The short interest ratio is 4.8. This is fairly high in comparison with some competitors so this could raise a slight problem.
	<u>Stock Price Chart:</u> In the 6 month, 2 year, and 5 year charts, SYK has underperformed its main competitors and the S&P 500 slightly. The stock price does seem to have very sporadic ups and downs but stays right around the 55 dollar range. Currently, Stryker Corporation is nearing their 52 week high.

Section (B) Company Profile (two pages maximum)

Company Summary

According to Stryker Corporations website, “Stryker is one of the world’s leading medical technology companies and is dedicated to helping healthcare professionals perform their jobs more efficiently while enhancing patient care. The Company offers a diverse array of innovative medical technologies, including reconstructive, medical and surgical, and neurotechnology and spine products to help people lead more active and more satisfying lives (Stryker.com).” They separate their business in to two main segments. In 2010, 59 percent of Stryker’s sales were from orthopedic implants. The other 41 percent of sales came from MedSurg equipment, which includes surgical equipment used for surgical procedures.

Stryker Corporation started in 1941 in Michigan as a medical equipment firm. The firm produces several things including medical implants, surgical technologies, and emergency medical equipment. Today, Stryker is a global leader in the medical technology industry with over 20,000 employees. Stryker has made several acquisitions over the recent years trying to expand more and more. Recently, they have been affected by the new Patient Protection and Affordable Care Act. The medical devices industry is starting to be hit with more taxes, which is actually causing Stryker to cut jobs.

Business Model, Competition, Environment and Strategy

Stryker has a tough environment as of lately. With President Obama being reelected and the Patient Protection and Affordable Care Act being initiated, the Stryker business model is changing. According to a Seeking Alpha article, “Stryker faces the industry-wide challenges of increased scrutiny by third party payers, regulatory headwinds, and intense competition from large players in the medical device market. For Stryker, the ongoing initiatives by government agencies, hospitals and third party payers to limit the growth of healthcare costs, particularly the efforts towards reducing price increases on orthopedic implants, poses a threat for the company’s future operating results as 59% of the company’s total sales comes from its orthopedic implants segment (seekingalpha.com).”

Stryker Corporation has been coming out with new products as of recently and is starting to launch some. It has also been said that the increasing obesity and aging rates of the US and Western populations present some long term opportunities Stryker and its competitors, as the population is more prone to arthritis and other orthopedic related problems. However, with a persistently high unemployment rate, delays in orthopedic procedures have pressured growth in this segment as of recently (Seekingalpha.com)

Revenue and Earnings History

Revenue (In Millions USD)			
Periods	**2010**	**2011**	**2012**
March	1798	2015	2161
June	1758	2046	2106
September	1768	2031	2052
December	1995	2215	
Total	**7,319**	**8,307**	**6,319**

Earnings			
Periods	**2010**	**2011**	**2012**
March	.82	.79	.92
June	.8	.80	.85
September	.85	.85	.93
December	.75	1.05	
Total	3.22	3.49	2.7

After looking at Stryker Corporations revenue, it does seem to be slightly seasonal, mainly in the December quarter. This could make Stryker a potentially good buy right now since we are currently in the December quarter. Also revenue has increased steadily between 2010 and 2012. Earnings for Stryker have a slightly different trend in comparison with their revenue numbers. Earnings seem very sporadic, ranging between .75 and 1.05. It does not look like there is any seasonal trend, and earnings seem to be staying about the same, with a slight increase through the past 3 years.

Section (C) Fundamental Valuation (EBO)

SYK	PARAMETERS	FY1	FY2	Ltg
	EPS Forecasts	4.05	4.30	10.07%
	Book value/share (last f	21.98		
	Discount Rate	6.01%		
	Dividend Payout Ratio (I	22.88%		
	Next Fsc Year end	2012		
	Current Fsc Mth (1 to 12)	11		
	Target ROE (industry avg	10.84%		

	Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	Long-term EPS Growth Rate (Ltg)			0.1007	0.1007	0.1007	0.1007	0.1007					
	Forecasted EPS	4.05	4.30	4.73	5.21	5.73	6.31	6.95					
	Beg. of year BV/Shr	21.980	25.103	28.420	32.070	36.087	40.510	45.377					
	Implied ROE		0.171	0.167	0.162	0.159	0.156	0.153					
ROE	(Beg. ROE, from EPS forecast	0.184	0.171	0.167	0.162	0.159	0.156	0.153	0.144	0.135	0.126	0.117	0.108
Abnormal ROE	(ROE-k)	0.124	0.111	0.106	0.102	0.099	0.096	0.093	0.084	0.075	0.066	0.057	0.048
growth rate for B	(1-POR)*(ROEt-1)	0.000	0.142	0.132	0.128	0.125	0.123	0.120	0.118	0.111	0.104	0.097	0.090
Compounded growth		1.000	1.142	1.293	1.459	1.642	1.843	2.064	2.308	2.565	2.832	3.108	3.389
growth*AROE		**0.124**	**0.127**	**0.138**	**0.149**	**0.162**	**0.176**	**0.192**	**0.194**	**0.193**	**0.187**	**0.178**	**0.164**
required rate (k)	0.060	0.060	0.060	0.060	0.060	0.060	0.060	0.060	0.060	0.060	0.060	0.060	0.060
Compound discount rate		1.060	1.124	1.191	1.263	1.339	1.419	1.505	1.595	1.691	1.793	1.900	2.014
div. payout rate (k)	0.229												
Add to P/B	PV(growth*AROE)	0.12	0.11	0.12	0.12	0.12	0.12	0.13	0.12	0.11	0.10	0.09	0.08
Cum P/B		1.12	1.23	1.35	1.46	1.59	1.71	1.84	1.96	2.07	2.18	2.27	2.35
Add: Perpetuity													
beyond current yr	(Assume this yr's AROE forev	1.95	1.88	1.92	1.97	2.02	2.07	2.12	2.02	1.90	1.74	1.56	1.35
Total P/B	(P/B if we stop est. this period)	3.07	3.11	3.27	3.43	3.60	3.78	3.96	3.98	3.97	3.92	3.83	3.70
Implied price		**71.10**	**72.13**	**75.78**	**79.57**	**83.51**	**87.60**	**91.84**	**92.36**	**92.03**	**90.84**	**88.79**	**85.90**
Check:													
Beg. BV/Shr		21.98	25.10	28.42	32.07	36.09	40.51	45.38	50.73	56.38	62.25	68.32	74.50
Implied EPS		4.05	4.30	4.73	5.21	5.73	6.31	6.95	7.31	7.62	7.86	8.02	8.08
Implied EPS growth			0.062	0.101	0.101	0.101	0.101	0.101	0.053	0.042	0.031	0.020	0.007

Inputs (provide below input values used in your analysis)

EPS forecasts (FY1 & FY2): __FY1=4.05 FY2=4.3___________________

Long-term growth rate: _______10.07%______________

Book value /share (along with book value and number of shares outstanding):

Book value: _________8.361 Billion____________

# of shares outstanding: ________380.2 Million_____________

Book value / share: _________21.98____________

Dividend payout ratio: _________22.88%_____________

Next fiscal year end: _______December 2012_______________

Current fiscal month: ________11 (November)______________

Target ROE: ________10.84______________

Output

Above normal growth period chosen: _______4 (until 2016)… The reason I chose a 4 year is mainly due to the 2016 election, which will probably make the stock price fluctuate.

EBO valuation (Implied price from the spreadsheet): __71.1 in 2012…… 83.51 in 2016_______

Sensitivity Analysis

EBO valuation would be (you can include more than one scenario in each of the following):

____91.84___________ if changing above normal growth period to _____2018________

_____107.36 in 2016__________ if changing growth rate from mean (consensus) to the highest estimate ________20%_______

_____76.53 in 2016__________ if changing growth rate from mean (consensus) to the lowest estimate _______6.8%________

____46.34 in 2016___________ if changing discount rate to _____10%_________

______83.51 in 2016___if changing target ROE to ______20%_________

The largest changes occur when the discount rate is fluctuated.

Section (D) Relative Valuation

	Ticker	Name	Mkt Cap	Current Price	Mean FY2 Earnings Estimate (next fiscal year)	Forward P/E	Mean LT Growth Rate	PEG	P/B (MRQ)	ROE 5 yr ave	Value Ratio	P/S TTM	P/CF TTM
	SYK												
1	ZMH	Zimmer Holdings	$ 11,480.00	$ 66.15	$ 5.74	11.52	10.10%	1.14	1.99	13.33%	0.15	2.60	10.32
2	SN.L	Smith & Nephew	$ 5,870.00	$ 655.50	$ 0.79	829.75	6.60%	125.72	2.58	21.19%	0.12	2.27	9
3	MDT	Medtronic Inc.	$ 43,630.00	$ 42.80	$ 3.86	11.09	6.45%	1.72	2.57	19.84%	0.13	2.71	10.86
4	ISRG.O	Intuitive Surgical Inc.	$ 21,240.00	$ 534.25	$ 17.66	30.25	18.87%	1.60	6.50	19.85%	0.33	10.34	31.07
	SYK	Stryker Corporation	$ 20,730.00	$ 54.53	$ 4.30	12.68	10.70%	1.19	2.48	19.22%	0.13	2.43	10.82

	Ticker	Implied Price based on:	P/E	PEG	P/B	Value	P/S	P/CF
1	ZMH	Zimmer Holdings	$49.55	$52.50	$43.76	$63.09	$58.34	$52.01
2	SN.L	Smith & Nephew	$3,567.91	$5,784.34	$56.73	$51.45	$50.94	$45.36
3	MDT	Medtronic Inc.	$47.68	$79.09	$56.51	$54.74	$60.81	$54.73
4	ISRG.O	Intuitive Surgical Inc.	$130.08	$73.76	$142.92	$138.39	$232.03	$156.58
		High	$3,567.91	$5,784.34	$142.92	$138.39	$232.03	$156.58
		Low	$47.68	$52.50	$43.76	$51.45	$50.94	$45.36
		Median	$89.82	$76.43	$56.62	$58.92	$59.58	$53.37

As you can see from the relative valuation above, there are several outliers that are present. I want to start off by saying that Zimmer Holdings and Medtronic are the most closely related to Stryker Corporation. With that said, you can see that both of those companies are the best comparisons to Stryker's stock price. The implied prices from those companies are closely related to the 52 week range of Stryker Corporation's stock price. Zimmer and Medtronic both have a very similar Mean FY2 earnings estimate at right around 4, and a very similar forward P/E ratio at around 12. Smith and Nephew has a very low Mean FY2 earnings estimate, which is why it has such a high forward P/E. Intuitive Surgical has a very high mean FY2 earnings estimate, but because of the high stock price, it still has a high forward P/E ratio in comparison with Stryker. The PEG ratios for all of Stryker's competitors are very similar to the PEG ratio of Stryker itself. There is one exception however. Smith & Nephew has an extremely high PEG ratio, due to the high forward P/E and the low long term growth rate. Stryker has very similar P/B, 5 year ROE, value ratio, P/S, and P/CF ratios than most of its competitors. The only outlier is Intuitive Surgical, which has much higher P/CF, P/B, and P/S ratios. This makes it very difficult to compare with Stryker Corporation.

I believe the PEG and Forward P/E ratios are bad indicators of Stryker's stock price, mainly due to the outliers from Smith & Nephew, and Intuitive Surgical. I believe the ratio which is the best indicator is the P/B ratio. All the prices are in somewhat of a close range with

Stryker's current stock price. However, if comparing Stryker to just Zimmer Holdings and Medtronic Inc, I think that each and every ratio is a very good indicator of Stryker's stock price. Every ratio for those companies gives an implied price between 40 and 80 dollars, which is right around the lows and highs of Stryker's stock price. Zimmer Holdings and Medtronic are as close to pure play companies as it gets for Stryker Corporation.

Section (E) Revenue and Earnings Estimates

HISTORICAL SURPRISES

Sales and Profit Figures in US Dollar (USD)
Earnings and Dividend Figures in US Dollar (USD)

Estimates vs Actual	Estimate	Actual	Difference	Surprise %
SALES (in millions)				
Quarter Ending Sep-12	2,071.62	2,052.00	19.62	-0.95
Quarter Ending Jun-12	2,129.46	2,106.00	23.46	-1.10
Quarter Ending Mar-12	2,120.01	2,161.00	40.99	1.93
Quarter Ending Dec-11	2,214.79	2,215.00	0.21	0.01
Quarter Ending Sep-11	2,034.23	2,031.00	3.23	-0.16
Earnings (per share)				
Quarter Ending Sep-12	0.98	0.97	0.01	-1.16
Quarter Ending Jun-12	0.99	0.98	0.01	-0.55
Quarter Ending Mar-12	0.99	0.99	0.00	0.00
Quarter Ending Dec-11	1.02	1.02	0.00	0.37
Quarter Ending Sep-11	0.89	0.91	0.02	2.36

As you can see from the chart above, there have been positive and negative surprises. There does not seem to be any type of trend as to when analysts hit and miss. For revenue, analysts have missed projections by around 20 million dollars, which ultimately caused a negative surprise of about 1 percent for the September and June quarters of 2012. In the March quarter of 2012, analysts under estimated revenue by 41 million dollars, which caused a positive surprise in the stock price by nearly 2 percent. The December and September quarters of 2011 did not have significant differences between the estimates and the actual revenue, so the surprises were much less severe.

Earnings estimates and the surprises they accounted for were somewhat different than the surprises for revenue. Like revenue estimates in the September and June quarters of 2012, earnings projections were missed. In both September and June of 2012, earnings missed by 1 cent per share, which caused a drop of just over 1 percent in September, and .55 percent in June. The quarters of March of 2012 and December of 2011 were right on projections, which did not create too much of a surprise in the stock price. In September of 2011, estimates were under projected by 2 cents per share, which caused a positive surprise of over 2 percent. When earnings are off even just by pennies, there does seem to be very drastic stock price surprises.

CONSENSUS ESTIMATES ANALYSIS

Sales and Profit Figures in US Dollar (USD)
Earnings and Dividend Figures in US Dollar (USD)

	# of Estimates	Mean	High	Low	1 Year Ago
SALES (in millions)					
Quarter Ending Dec-12	31	2,267.60	2,308.00	2,214.60	2,361.47
Quarter Ending Mar-13	21	2,229.53	2,265.20	2,184.00	--
Year Ending Dec-12	33	8,588.85	8,638.00	8,533.60	8,820.24
Year Ending Dec-13	33	8,930.03	9,054.00	8,803.00	9,261.88
Earnings (per share)					
Quarter Ending Dec-12	33	1.12	1.14	0.99	1.14
Quarter Ending Mar-13	23	1.05	1.11	0.98	--
Year Ending Dec-12	34	4.05	4.08	4.03	4.11
Year Ending Dec-13	35	4.30	4.38	3.99	4.45
LT Growth Rate (%)	11	10.07	20.00	6.80	11.35

Analysts' estimates for the upcoming quarters and upcoming years are fairly close together. When I say this, I mean that the mean estimated earnings are not significantly different from the high and low estimates. The differences between them are less than 2 percent across the board. This number does not really change even when looking at the quarters ending in December of 2012 and March of 2013, and even at the year ending in 2012 and the year ending in 2013. This is probably because the type of business that Stryker is in typically doesn't see a lot of surprises when it comes to sales. Increased or decreased consumer spending won't really cause an increase or decrease in sales.

Analysts' estimates for earnings per share are clearly different from analysts' estimates for revenue. In the upcoming quarters and upcoming years, it seems that the mean estimate does differ quite a bit from the high and low estimates. It seems that there is about a 10 to 15 percent difference between the low estimate and the mean. For the high estimate, there is about a 2-6 percent difference between the high and the mean estimate. It does seem normal that the mean estimate is typically closer the high, rather than the low estimate. This is the case in both December of 2012 and September of 2013, as well as the year ending in 2012, and the year ending in 2013.

What surprised me were the estimates of the long term growth rate. Not only were there significantly less analysts that estimated this (11 analysts compared to about 30 for the revenue and earnings estimates), but the differences between the mean, and the high and low estimates was very severe. The mean long term growth rate is at 10.07 percent. The low is at 6.8 percent, which is about a 47 percent difference. The high estimate is at 20 percent, which is nearly a 100 percent difference. I did notice that changing the long term growth rate in my EBO analysis did change the implied stock price, but not as severely as I was expecting.

CONSENSUS ESTIMATES TREND

Sales and Profit Figures in US Dollar (USD)
Earnings and Dividend Figures in US Dollar (USD)

	Current	1 Week Ago	1 Month Ago	2 Month Ago	1 Year Ago
SALES (in millions)					
Quarter Ending Dec-12	2,267.60	2,268.19	2,267.90	2,291.41	2,361.47
Quarter Ending Mar-13	2,229.53	2,230.61	2,232.17	2,248.65	--
Year Ending Dec-12	8,588.85	8,589.47	8,593.03	8,636.46	8,820.24
Year Ending Dec-13	8,930.03	8,934.00	8,942.75	9,051.88	9,261.88
Earnings (per share)					
Quarter Ending Dec-12	1.12	1.12	1.12	1.14	1.14
Quarter Ending Mar-13	1.05	1.05	1.05	1.07	--
Quarter Ending Dec-12	4.05	4.05	4.06	4.09	4.11
Quarter Ending Dec-13	4.30	4.30	4.31	4.46	4.45

As you can see in the table above, analysts' estimates of both revenue and earnings have been steadily decreasing for the upcoming quarters, as well as the years ending in 2012 and 2013. 1 year ago, sales were expected to be 100 million dollars higher than they are now for the December quarter of 2012. Estimates a year ago for the years ending in 2012 and 2013 were about 300 million dollars higher than they currently are now.

Earning per share estimates has also taken a drop in the last year in a similar fashion as revenue. The biggest difference you can see is the December 2013 estimates from 2 months ago. Estimates went from 4.46 to 4.30 which is a huge drop in just 2 months. I believe the main reason this happened was because of the re election of President Obama. The new Patient Protection and Affordable Care Act is playing a fairly significant role in what is happening to the medical supplies industry. The raise in taxes for the industry will definitely hurt business and potentially cause sales to decrease because Stryker will most likely increase their prices on the products they sell.

ESTIMATES REVISIONS SUMMARY

	Last Week		Last 4 Weeks	
Number Of Revisions:	**Up**	**Down**	**Up**	**Down**
Revenue				
Quarter Ending Dec-12	0	0	2	0
Quarter Ending Mar-13	0	0	0	0
Year Ending Dec-12	0	0	2	1
Year Ending Dec-13	0	0	2	1
Earnings				
Quarter Ending Dec-12	0	0	2	0
Quarter Ending Mar-13	0	0	0	0
Year Ending Dec-12	0	0	0	2
Year Ending Dec-13	0	0	2	2

As you can see from the chart above, there has not been any movement in estimates for revenue in the last week. In the last 4 weeks however, there has been a good amount of movement. As you can see, 2 analysts are actually revising the revenue for December of 2012 in an upward direction. Also for the year ending 2012 and 2013, two analysts have revised their revenue in an upward direction as well. A slight counter for this is that 1 analyst revised their revenue for years ending in 2012 and 2013 in a downward direction.

The revisions to earnings estimates are fairly similar to that of the revenue estimates. In the last week, there have been no revisions. In the last 4 weeks however, there have been 8 revisions. 2 analysts revised their earnings estimates in an upward direction for the quarter ending in December 2012. Also 2 analysts have revised their earnings for the year 2013 in an upward direction. On the other side of the spectrum however, in the years ending in 2012 and 2013, 2 analysts revised their earnings in a downward direction.

<u>You will need to incorporate what you see here with Morningstar's analyst research report (you can access ***Morningstar Direct at the Financial Markets Lab***.) and other readings/analysis you found from various on-line financial sites. Discuss whether you think the company has a good chance of making or beating analyst consensus estimate, and why. Based on how the stock has been trading lately, do you think market has already anticipated strong or lackluster financial outlook from the company?</u>

I believe that, if anything, analysts' estimates will be off. As you can see from the consensus estimates table, both revenue and earnings estimates have been dropping lower and lower. With the reelection of President Obama, and the new excise taxes that medical equipment suppliers now have to deal with, the revenue and earnings won't be as high as anticipated. On the Morningstar website, they state, "In early 2012, Stryker's top manager, Stephen MacMillan quit suddenly due to personal reasons. Given this unresolved management transition, Stryker now faces significant uncertainty surrounding future strategic goals and capital allocation policies (Morningstar.com)." The sudden change in management could be a very negative thing for Stryker.

After watching a video on Morningstar.com, Alex Morozov and Matt Coffina slightly backup the statements I made above. The excise tax of 2.3 percent will be initiated for all medical suppliers in the beginning of 2013. This tax is only for U.S markets, but with a decrease in international sales as of lately for Stryker, this still a negative factor. Alex and Matt both say that the medical device industry is going to take a hit, with some companies getting hit harder than other. They do claim that Stryker focuses more on a younger population, so the increasing number of recipients getting healthcare due to Obamacare could potentially give Stryker somewhat of a boost in comparison to other competitor's.

One more thing to mention is that sales of reconstructive joints, which is a large part of Stryker's business, dropped in the third quarter by a little over 1 percent. This could be due to a recall of artificial hip implants that Stryker faced in July of 2012 though. Lawsuits have arisen and are continuing which could negatively affect the current earnings and revenue estimates for the future.

Section (F) Analysts' Recommendations

Consensus Recommendation	Next Earnings (approx.)	Company Fiscal Year End Month	Last Updated
Outperform	1.12	December	27 Nov 2012

ANALYST RECOMMENDATIONS AND REVISIONS

1-5 Linear Scale	Current	1 Month Ago	2 Month Ago	3 Month Ago
(1) BUY	11	10	11	11
(2) OUTPERFORM	8	8	8	8
(3) HOLD	16	15	12	11
(4) UNDERPERFORM	0	0	0	0
(5) SELL	0	0	0	0
No Opinion	0	0	0	0
Mean Rating	2.14	2.15	2.03	2.00

The above chart shows analyst recommendations of Stryker Corporation for the last 3 months. As you can see by the mean rating, the overall attitude for analysts towards Stryker is bullish. However, I do believe that it is important to note that the current rating now is somewhat different than what it was 2 months ago and even 3 months ago. 3 months ago, there were 30 analysts, 11 which said to buy, 8 said outperform, and 11 said hold. The current recommendation for Stryker contains 35 analysts. There are still 11 that say buy and 8 that say outperform, but now there are 16 that say hold. As you can see by looking at the chart, the number of analysts that say to buy and hold stays nearly the same throughout the 3 month period. The thing that does change is the addition of analysts that simply say to hold the stock if it is currently owned. I don't believe that this is a good sign for Stryker, and I think this trend will continue in the future.

Morningstar analysts also have a very similar opinion. There are a total of 10 analysts that reviewed Stryker, 4 of them said buy, 2 said outperform, and 4 said to hold. Still shows a bullish rating, but like we talked about in class, usually a buy means to hold and a hold means to sell. I also decided to check YahooFinance.com to clarify the analyst recommendations. Yahoo analysts gave Stryker a near identical rating of 2.2. A majority of yahoo analysts recommend a hold. I think this is a clear conclusion that most analysts would recommend a hold on Stryker Corporation. I agree with them.

Section (G) Institutional Ownership

SYK				
Ownership Activity	**# of Holders**	**% Beg. Holders**	**Shares**	**% Shares**
Shares Outstanding			380,200,000	100.00%
# of Holders/Tot Shares Held	943	99.47%	249,897,776	74.99%
# New Positions	55	5.80%		
# Closed Positions	60	6.33%		
# Increased Positions	326	34.39%		
# Decreased Positions	433	45.68%		
Beg. Total Inst. Positions	948	100.00%	249,172,360	65.54%
# Net Buyers/3 Mo. Net Chg	-107	42.95%	725,416	0.19%

Ownership Information	% Outstanding
Top 10 Institutions % Ownership	33.70%
Mutual Fund % Ownership	1.26%
Float %	74.87%

> 5% Ownership		
Holder Name	% Outstanding	Report Date
Greenleaf Trust	8.2	9/30/2012
Brown (John W)	5.3	12/31/2011
Stryker (Pat)	5.3	12/31/11

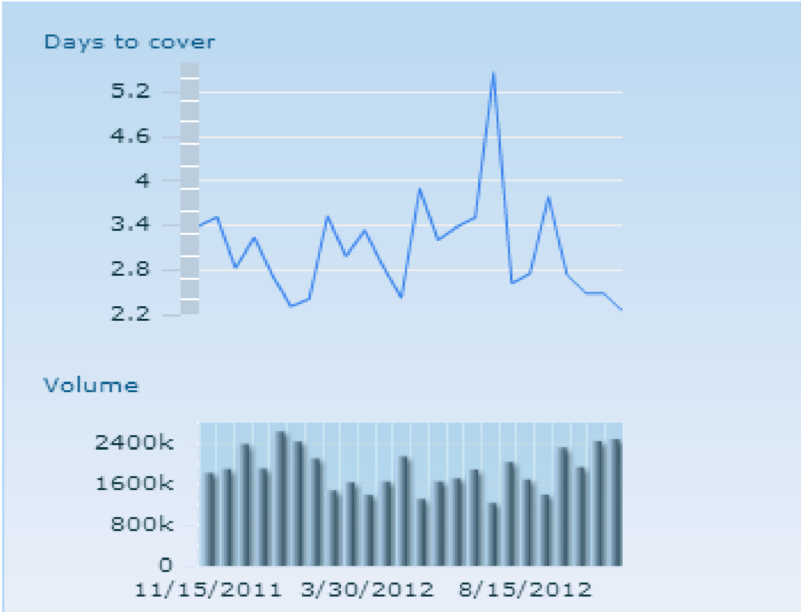
The chart above shows the institutional ownership for Stryker Corporation. As you can see, Stryker does have a negative trend as of lately. There have been 55 new positions, yet 60 positions have closed. Also the number of increased positions is 326, and the number of decreased positions is 433 so there is a net loss of buyers. This shows that investors are becoming somewhat bearish about Stryker which is not a good sign if you are looking to invest. There are 3 owners that have over a 5% stake in the company. YahooFinance.com claims that there have been over 1 million shares sold by insiders, and over 8 million shares sold by institutions in the last 6 months. To me, this is a sign that people expect Stryker to underperform in the future.

Section (H) Short Interest (two pages)

NOTE: You are encouraged to look at the short interest information for two of the companies' closest competitors. This will help gauge whether the sentiment indicated in the short interest statistics is company specific or industry-wide.

Stryker Short interest Table

Settlement Date	Short Interest	Avg Daily Share Volume	Days To Cover
10/31/2012	5,585,101	2,475,900	2.255786
10/15/2012	6,059,087	2,441,532	2.481674
9/28/2012	4,811,792	1,933,421	2.488745
9/14/2012	6,336,115	2,307,967	2.745323
8/31/2012	5,322,274	1,402,623	3.794515
8/15/2012	4,658,899	1,690,522	2.755894
7/31/2012	5,324,888	2,033,662	2.618374
7/13/2012	6,691,998	1,224,307	5.465948
6/29/2012	6,601,114	1,881,618	3.508212
6/15/2012	5,788,728	1,713,652	3.378007
5/31/2012	5,267,463	1,644,102	3.203854
5/15/2012	5,091,613	1,307,150	3.895202
4/30/2012	5,197,313	2,142,735	2.425551
4/13/2012	4,699,263	1,651,332	2.845741
3/30/2012	4,635,399	1,387,523	3.340773
3/15/2012	4,874,339	1,632,254	2.986263
2/29/2012	5,178,000	1,469,167	3.524446
2/15/2012	5,050,988	2,094,609	2.411423
1/31/2012	5,623,775	2,433,033	2.311426
1/13/2012	7,156,554	2,625,113	2.726189
12/30/2011	6,148,009	1,897,223	3.240531
12/15/2011	6,732,953	2,382,319	2.826218
11/30/2011	6,653,151	1,893,251	3.514141
11/15/2011	6,160,034	1,816,666	3.390846



From http://finance.yahoo.com/

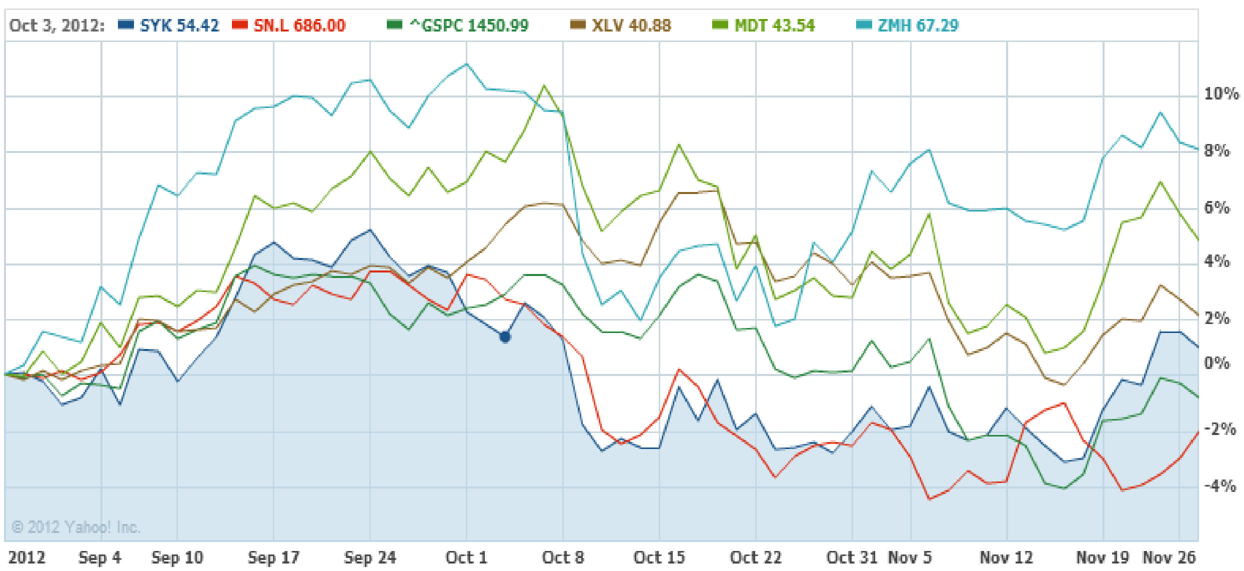
Avg Vol (3 month)	Avg Vol (10 day)	Shares Outstanding	Float
2,076,410	1,763,170	380.2 Million	308.01 Million
Shares Short (Most recent date)	**Short Ratio (Most recent date)**	**Short % of Float (Most recent date)**	**Shares Short (2 weeks prior)**
5.59Million	2.3	1.7%	6.06 Million

The tables and chart above show the short interest ratio for Stryker in the last year. The short interest ratio may seem slightly high to some people, but in comparison with its closest competitors, Stryker actually has a very good short interest ratio. As you can see from the first chart and the graph, the "days to cover" ranges from around 2 to 4. There is a spike in July where it does reach a little over 5, but shortly after that drops back down to about 2.5. It could be from the recall which Stryker was starting to go through in early July.

Currently, I believe that the current short interest ratio is a bullish indicator, just because of the fact that the “days to cover” is very low and seems to keep going lower. Zimmer Holdings, arguably Stryker Corporations closest competitor has a current short interest ratio of right around 4. Zimmer’s short interest ratio does seem to fluctuate a lot more compared to Stryker however. In the last year, Zimmer has had their “days to cover” range between 2.5 and 6, and they seem to have very sporadic ups and downs. MedTronic, another competitor of Stryker has very similar short interest ratios as Stryker. Their short interest seems to fluctuate between 2 and 4, but maintaining mainly at around 2.5 to 3. MedTronic, in my opinion, is not the best indicator though just because they are not as close a competitor to Stryker as Zimmer Holdings is.

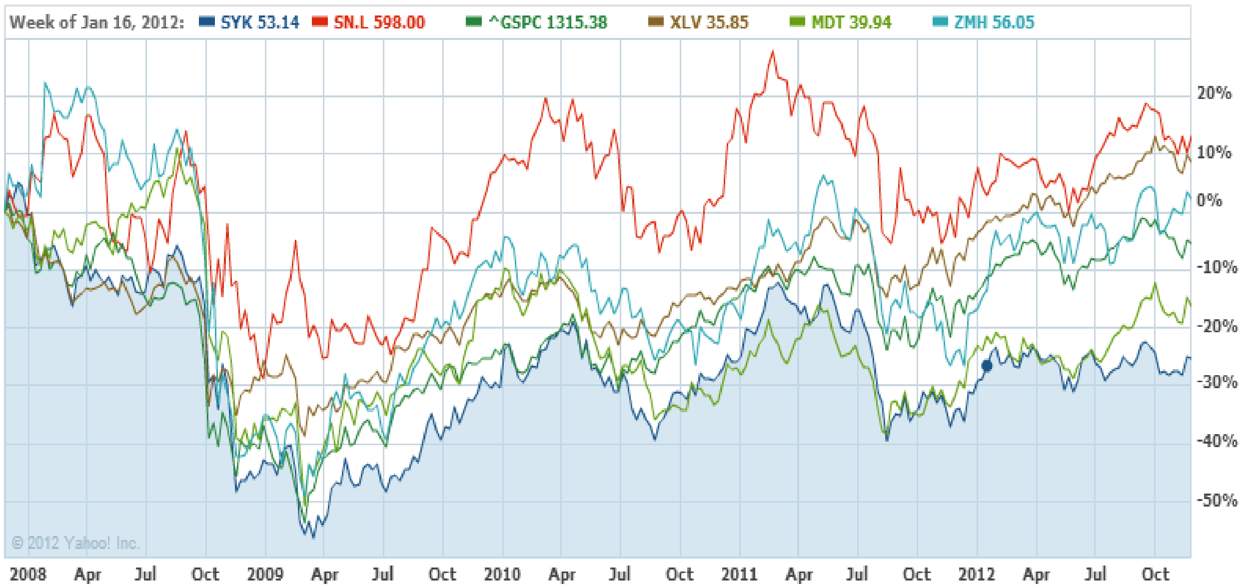
Section (I)   Stock Charts

A three months price chart



A one year price chart

A five year price chart



Additional price chart (Before and After Election)

I have provided 4 price charts above. The first chart is a three month stock chart. As you can see, Stryker Corporation underperformed most of its competitors and the sector. It did outperform the S&P 500 however. In the 1 year stock chart, Stryker is also outperformed by most every competitor as well as the S&P 500 and the sector. The 5 year chart is even worse when comparing Stryker to its competitors and the sector. In the 5 year chart, every competitor as well as the S&P 500 and the sector outperformed Stryker.

I also added one last graph which I feel is the most relevant. The stock chart is for the last month. The purpose was to compare Stryker to its competitors and the sector after the election. Since the election plays a huge part in the performance of the healthcare sector, I thought it was very relevant. As you can see, Stryker has actually outperformed all medical supplies companies that I compared it with, and it also outperformed the S&P 500 and the sector as a whole. This is a good sign in my opinion, and I think it reflects that even with the increased taxes that Stryker will have to deal with in the following year, they still will be getting a lot of business due to the increased number of healthcare recipients due to the Patient Protection and Affordable Care Act.

Resources Used

http://www.breitbart.com/Big-Government/2012/11/13/Obama-Donor-s-Corporation-Lays-Off-Employees-Due-to-ObamaCare

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http://www.stryker.com/en-us/index.htm