

## **Stryker Reports First Quarter 2014 Results and 2014 Outlook**

April 23, 2014 4:00 PM ET

Kalamazoo, Michigan - April 23, 2014 - Stryker Corporation (NYSE:SYK) reported operating results for the first quarter of 2014:

### **First Quarter Highlights**

**Net sales growth of 5.3% to \$2.3 billion**

- **Reconstructive** **4.5% or 5.9% constant currency**
- **MedSurg** **5.8% or 6.8% constant currency**
- **Neurotechnology and Spine** **5.9% or 7.0% constant currency**

**Reported diluted net earnings per share decreased 77.2% to \$0.18**

**Adjusted diluted net earnings per share<sup>(1)</sup> decreased 2.8% to \$1.06**

"The strength of our diversified model was once again demonstrated in the first quarter with solid organic growth of 5%. Our continued investments in internal innovation, coupled with our recent acquisitions, position us well to meet our customers' evolving needs," stated Kevin A. Lobo, President and Chief Executive Officer.

### **Sales Analysis**

Consolidated net sales of \$2.3 billion increased 5.3% in the quarter compared to prior year. Net sales in the quarter grew by 6.9% due to increased unit volume and changes in product mix and 1.4% as a result of acquisitions. Net sales in the quarter were unfavorably impacted by 1.8% due to changes in price and 1.1% due to the unfavorable impact of foreign currency exchange rates on net sales. Excluding the impact of acquisitions, net sales increased 5.0% in constant currency.

Reconstructive net sales of \$999 million increased 4.5% in the quarter, as reported, and 5.9% in constant currency. Net sales grew by 5.3% due to increased unit volume and changes in product mix and 3.0% as a result of acquisitions. Net sales were unfavorably impacted by 2.3% due to changes in price and 1.4% due to the unfavorable impact of foreign currency exchange rates on net sales. Excluding the impact of acquisitions, net sales increased 2.9% in constant currency.

MedSurg net sales of \$886 million increased 5.8% in the quarter, as reported, and 6.8% in constant currency. Net sales grew by 7.9% due to increased unit volume and changes in product mix. Net sales were unfavorably impacted by 1.2% due to changes in price and 1.0% due to the unfavorable impact of foreign currency exchange rates on net sales.

Neurotechnology and Spine net sales of \$420 million increased 5.9% in the quarter, as reported and 7.0% in constant currency. Net sales grew by 8.5% due to increased unit volume and changes in product mix and 0.5% as a result of acquisitions. Net sales were unfavorably impacted by 2.0% due to changes in price and 1.1% due to the unfavorable impact of foreign currency exchange rates on net sales. Excluding the impact of acquisitions, net sales increased 6.5% in constant currency.

### **Earnings Analysis**

Reported net earnings of \$70 million decreased 77.0% in the quarter compared to prior year. Reported diluted net earnings per share of \$0.18 decreased 77.2% in the quarter compared to prior year.

Reported net earnings include charges for the Rejuvenate, ABG II and Neptune recalls, acquisition and integration related charges, additional cost of sales for inventory sold that was "stepped up" to fair value related to acquisitions, restructuring and related charges, certain charges related to legal and regulatory matters and charges associated with the resolution of

certain tax matters. The effect of each of these matters on reported net earnings appears in the reconciliation of GAAP to non-GAAP measures provided below. These charges reduced the reported gross profit margin in the quarter from 66.9% to 66.6% and the reported operating income margin from 24.1% to 5.7%.

Excluding the impact of the items described above, adjusted net earnings<sup>(2)</sup> of \$404 million decreased 3.1% and adjusted diluted net earnings per share<sup>(1)</sup> of \$1.06 decreased 2.8% in the quarter compared to the prior year. As previously announced, beginning in 2014 we are also excluding amortization of intangible assets from our adjusted diluted net earnings per share<sup>(1)</sup>. Using this new measure, adjusted diluted net earnings per share<sup>(1)</sup> for the first quarter 2013 would have been \$1.09.

## **2014 Outlook**

There is no change to our previously disclosed guidance which calls for organic sales growth in 2014 to be in the range of 4.5% to 6.0% with adjusted diluted net earnings per share expected to be in the range of \$4.75 to \$4.90, excluding amortization of intangible assets. If foreign currency exchange rates hold near current levels, we expect net sales in the second quarter and full year of 2014 to be negatively impacted by less than 1.0%.

- 1) *A reconciliation of reported diluted net earnings per share to adjusted diluted net earnings per share, a non-GAAP financial measure, and other important information, appears below.*
- 2) *A reconciliation of reported net earnings to adjusted net earnings, a non-GAAP financial measure, and other important information, appears below.*

## **Conference Call on Wednesday, April 23, 2014**

As previously announced, the Company will host a conference call on Wednesday, April 23, 2014 at 4:30 p.m., Eastern Time, to discuss the Company's operating results for the quarter ended March 31, 2014 and provide an operational update.

To participate in the conference call dial (800) 708-4540 (domestic) or (847) 619-6397 (international) and be prepared to provide confirmation number 36936589 to the operator.

A simultaneous webcast of the call will be accessible via the Company's website at [www.stryker.com](http://www.stryker.com). The call will be archived on this site for 90 days.

A recording of the call will also be available from 8:00 p.m., Eastern Time, on Wednesday, April 23, 2014, until 11:59 p.m., Eastern Time, on Wednesday, April 30, 2014. To hear this recording you may dial (888) 843-7419 (domestic) or 630-652-3042 (international) and enter the passcode 36936589 #.

## **Forward-Looking Statements**

This press release contains information that includes or is based on forward-looking statements within the meaning of the federal securities law that are subject to various risks and uncertainties that could cause our actual results to differ materially from those expressed or implied in such statements. Such factors include, but are not limited to: weakening of economic conditions that could adversely affect the level of demand for our products; pricing pressures generally, including cost-containment measures that could adversely affect the price of or demand for our products; changes in foreign exchange markets; legislative and regulatory actions; unanticipated issues arising in connection with clinical studies and otherwise that affect U.S. Food and Drug Administration approval of new products; changes in reimbursement levels from third-party payors; a significant increase in product liability claims; the ultimate total cost with respect to the

Rejuvenate and ABG II matter; the impact of investigative and legal proceedings and compliance risks; resolution of tax audits; the impact of the federal legislation to reform the United States healthcare system; changes in financial markets; changes in the competitive environment; our ability to integrate acquisitions; and our ability to realize anticipated cost savings as a result of workforce reductions and other restructuring activities. Additional information concerning these and other factors is contained in our filings with the U.S. Securities and Exchange Commission, including our Annual Report on Form 10-K and Quarterly Reports on Form 10-Q.

Stryker is one of the world's leading medical technology companies and together with our customers, we are driven to make healthcare better. 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 products and services are available in over 100 countries around the world. Please contact us for more information at [www.stryker.com](http://www.stryker.com).

**For investor inquiries please contact:**

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**STRYKER CORPORATION**

**(Unaudited - Millions of Dollars, Except Per Share Amounts)**

**CONDENSED STATEMENTS OF EARNINGS**

|  | <b>First Quarter</b> |               |                 |
|--|----------------------|---------------|-----------------|
|  | <b>2014</b>          | <b>2013</b>   | <b>% Change</b> |
| Net sales                                    | \$2,305              | \$2,190       | 5.3             |
| Cost of sales                                | 769                  | 713           | 7.9             |
| <b>GROSS PROFIT</b>                          | <b>1,536</b>         | <b>1,477</b>  | <b>4.0</b>      |
| % of sales                                   | 66.6%                | 67.4%         |                 |
| Research, development & engineering expenses | 150                  | 129           | 16.3            |
| Selling general & administrative expenses    | 1,205                | 916           | 31.6            |
| Intangibles amortization                     | 45                   | 32            | 40.6            |
| Restructuring charges                        | 5                    | 14            | (64.3)          |
|  | <b>1,405</b>         | <b>1,091</b>  | <b>28.8</b>     |
| <b>OPERATING INCOME</b>                      | <b>131</b>           | <b>386</b>    | <b>(66.1)</b>   |
| % of sales                                   | 5.7%                 | 17.6%         |                 |
| Other income (expense)                       | (24)                 | (11)          | 118.2           |
| <b>EARNINGS BEFORE INCOME TAXES</b>          | <b>107</b>           | <b>375</b>    | <b>(71.5)</b>   |
| Income Taxes                                 | 37                   | 71            | (47.9)          |
| <b>NET EARNINGS</b>                          | <b>\$ 70</b>         | <b>\$ 304</b> | <b>(77.0)</b>   |
| Net earnings per share                       |                      |               |                 |
| Basic  | \$ 0.19              | \$ 0.80       | (76.3)          |
| Diluted                                      | \$ 0.18              | \$ 0.79       | (77.2)          |
| Average shares outstanding                   |                      |               |                 |
| Basic  | 378.2                | 379.7         |                 |
| Diluted                                      | 382.6                | 383.0         |                 |

**CONDENSED BALANCE SHEETS**

|               | <b>March December</b> |             |
|---------------|-----------------------|-------------|
|               | <b>2014</b>           | <b>2013</b> |
| <b>ASSETS</b> |                       |             |

|   |                 |                  |
|---|-----------------|------------------|
| Cash and cash equivalents                         | \$ 1,381        | \$ 1,339         |
| Marketable securities                             | 2,666           | 2,641            |
| Accounts receivable (net)                         | 1,430           | 1,518            |
| Inventories                                       | 1,498           | 1,422            |
| Other current assets                              | 1,471           | 1,415            |
| <b>TOTAL CURRENT ASSETS</b>                       | <b>8,446</b>    | <b>8,335</b>     |
| Property, plant and equipment (net)               | 1,117           | 1,081            |
| Goodwill and other intangibles (net)              | 6,082           | 5,833            |
| Other assets                                      | 514             | 494              |
| <b>TOTAL ASSETS</b>                               | <b>\$16,159</b> | <b>\$ 15,743</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>       |                 |                  |
| Current liabilities                               | \$ 3,558        | \$ 2,657         |
| Other liabilities                                 | 1,294           | 1,300            |
| Long-term debt, excluding current maturities      | 2,244           | 2,739            |
| Shareholders' equity                              | 9,063           | 9,047            |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> | <b>\$16,159</b> | <b>\$ 15,743</b> |

### **CONDENSED STATEMENTS OF CASH FLOWS**

|  | <b>First Quarter</b> |               |
|--|----------------------|---------------|
|  | <b>2014</b>          | <b>2013</b>   |
| <b>OPERATING ACTIVITIES</b>                                      |                      |               |
| Net earnings   | \$ 70                | \$ 304        |
| Depreciation   | 46                   | 38            |
| Intangibles amortization   | 45                   | 32            |
| Restructuring charges  | 5                    | 14            |
| Changes in operating assets and liabilities and other, net       | 40                   | (152)         |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                 | <b>206</b>           | <b>236</b>    |
| <b>INVESTING ACTIVITIES</b>                                      |                      |               |
| Acquisitions, net of cash acquired                               | (272)                | (600)         |
| (Purchases of) proceeds from sales of marketable securities, net | (9)                  | 289           |
| Purchases of property, plant and equipment                       | (70)                 | (49)          |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>                     | <b>(351)</b>         | <b>(360)</b>  |
| <b>FINANCING ACTIVITIES</b>                                      |                      |               |
| Borrowings of debt, net  | 289                  | 1,009         |
| Dividends paid   | (115)                | (101)         |
| Repurchase and retirement of common stock                        | -                    | (250)         |
| Other  | 12                   | (7)           |
| <b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>                 | <b>186</b>           | <b>651</b>    |
| Effect of exchange rate changes on cash and cash equivalents     | 1                    | (9)           |
| <b>CHANGE IN CASH AND CASH EQUIVALENTS</b>                       | <b>\$ 42</b>         | <b>\$ 518</b> |

**STRYKER CORPORATION**  
**For the First Quarter Ended March 31**  
**(Unaudited - Millions of Dollars)**

### **CONDENSED SALES ANALYSIS**

| <b>First Quarter</b> |
|----------------------|
| <b>% Change</b>      |

|                           | 2014    | 2013    | As Reported | Constant Currency |
|---------------------------|---------|---------|-------------|-------------------|
| Geographic sales          |         |         |             |                   |
| U.S.                      | \$1,542 | \$1,441 | 7.1         | 7.1               |
| International             | 763     | 749     | 1.8         | 5.2               |
| NET SALES                 | \$2,305 | \$2,190 | 5.3         | 6.4               |
| Worldwide sales           |         |         |             |                   |
| Reconstructive            | \$ 999  | \$ 956  | 4.5         | 5.9               |
| MedSurg                   | 886     | 837     | 5.8         | 6.8               |
| Neurotechnology and Spine | 420     | 397     | 5.9         | 7.0               |
| NET SALES                 | \$2,305 | \$2,190 | 5.3         | 6.4               |

## SUPPLEMENTAL SALES GROWTH ANALYSIS

| First Quarter Ended March 31, 2014     |            |            |            |            |            |               |            |
|--|------------|------------|------------|------------|------------|---------------|------------|
| Percentage Change                      |            |            |            |            |            |               |            |
|  |            |            |            | U.S.       |            | International |            |
|  |            | As         | Constant   | As         | As         | Constant      |            |
| 2014                                   | 2013       | Reported   | Currency   | Reported   | Reported   | Currency      |            |
| Reconstructive                         |            |            |            |            |            |               |            |
| Knees                                  | \$348      | \$345      | 1.1        | 2.3        | 4.4        | (5.3)         | (1.7)      |
| Hips                                   | 318        | 308        | 3.1        | 4.9        | 5.9        | (0.4)         | 3.7        |
| Trauma and Extremities                 | 288        | 266        | 8.4        | 9.4        | 11.6       | 4.8           | 6.9        |
| <b>TOTAL RECONSTRUCTIVE</b>            | <b>999</b> | <b>956</b> | <b>4.5</b> | <b>5.9</b> | <b>8.0</b> | <b>(0.5)</b>  | <b>2.9</b> |
| MedSurg                                |            |            |            |            |            |               |            |
| Instruments                            | 343        | 312        | 10.1       | 11.0       | 12.8       | 3.3           | 6.4        |
| Endoscopy                              | 312        | 291        | 7.0        | 8.1        | 5.9        | 9.4           | 13.3       |
| Medical                                | 181        | 182        | (0.5)      | 0.6        | 1.9        | (8.4)         | (3.8)      |
| <b>TOTAL MEDSURG</b>                   | <b>886</b> | <b>837</b> | <b>5.8</b> | <b>6.8</b> | <b>6.7</b> | <b>3.4</b>    | <b>7.1</b> |
| Neurotechnology and Spine              |            |            |            |            |            |               |            |
| Neurotechnology                        | 243        | 221        | 10.0       | 11.6       | 11.3       | 8.1           | 12.0       |
| Spine                                  | 177        | 176        | 0.7        | 1.3        | 0.4        | 1.5           | 3.8        |
| <b>TOTAL NEUROTECHNOLOGY AND SPINE</b> | <b>420</b> | <b>397</b> | <b>5.9</b> | <b>7.0</b> | <b>5.9</b> | <b>5.8</b>    | <b>9.1</b> |

## SUPPLEMENTAL INFORMATION - RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES

We supplement the reporting of our financial information determined under accounting principles generally accepted in the United States (GAAP) with certain non-GAAP financial measures, including percentage sales growth in constant currency; percentage organic sales growth; adjusted gross profit; cost of sales excluding specified items; adjusted selling, general and administrative expenses; adjusted intangible amortization; adjusted operating income; adjusted effective income tax rate; adjusted net earnings; and adjusted diluted net earnings per share (EPS). We believe that these non-GAAP measures provide meaningful information to assist investors and shareholders in understanding our financial results and assessing our prospects for future performance. Management believes percentage sales growth in constant currency and the other adjusted measures described above are important indicators of our operations because they exclude items that may not be indicative of or are unrelated to our core operating results and provide a baseline for analyzing trends in our underlying businesses. Management uses these non-GAAP financial measures for reviewing the operating results of reportable business segments and analyzing potential future business trends in connection with our budget process and bases certain management incentive compensation on these non-GAAP financial measures.

To measure percentage sales growth in constant currency, we remove the impact of changes in foreign currency exchange rates that affect the comparability and trend of sales. Percentage sales growth in constant currency is calculated by translating current year results at prior year average foreign currency exchange rates. To measure percentage organic sales growth, we remove the impact of changes in foreign currency exchange rates and acquisitions that affect the comparability and trend of sales. Percentage organic sales growth is calculated by translating current year results at prior year average foreign currency exchange rates excluding the impact of acquisitions.

To measure earnings performance on a consistent and comparable basis, we exclude certain items that affect the comparability of operating results and the trend of earnings. These adjustments are irregular in timing, may not be indicative of our past and future performance and are therefore excluded to allow investors to better understand underlying operating trends. Adjustments may include, but are not limited to, the following:

1. *AcquisitionAcquisition and integration related costs.* These adjustments include costs related to integrating recently acquired businesses and specific costs related to the consummation of the acquisition process.
2. *RestructuringRestructuring and related charges.* These adjustments include costs associated with focused workforce reductions and other restructuring activities.
3. *RejuvenateRejuvenate and recall matters.* These adjustments are our best estimate of the minimum of the range of probable loss to resolve certain product recalls, including the recall of Rejuvenate / ABG II modular-neck hip stems and certain matters pertaining to the recall of the Neptune Waste Management System.
4. *RegulatoryRegulatory and legal matters.* These adjustments represent our best estimate of the minimum of the range of probable loss to resolve certain regulatory matters and other legal settlements.
5. *AmortizationAmortization of intangible assets.* These adjustments represent the periodic amortization expense related to purchased intangible assets.
6. *TaxTax matters.* These adjustments represent certain discrete tax items and adjustments to interest expense related to the settlement of certain tax matters.

Because non-GAAP financial measures are not standardized, it may not be possible to compare these financial measures with other companies' non-GAAP financial measures having the same or similar names. These adjusted financial measures should not be considered in isolation or as a substitute for reported sales growth, gross profit, cost of sales, selling, general and administrative expenses, intangible amortization, operating income, effective income tax rate, net earnings and diluted net earnings per share, the most directly comparable GAAP financial measures. These non-GAAP financial measures are an additional way of viewing aspects of our operations that, when viewed with our GAAP results and the reconciliations to corresponding GAAP financial measures at the end of the discussion of Results of Operations below, provide a more complete understanding of our business. We strongly encourage investors and shareholders to review our financial statements and publicly-filed reports in their entirety and not to rely on any single financial measure.

The following reconciles the non-GAAP financial measures discussed above with the most directly comparable GAAP financial measures:

**STRYKER CORPORATION**  
**For the Quarters Ended March 31, 2014 and 2013**  
**(Unaudited - Millions of Dollars, Except Per Share Amounts)**

**RECONCILIATION OF ACTUAL RESULTS TO ADJUSTED RESULTS**

|                       |               | <b>Selling, General and</b> |                     |                  |                 |                  |                |
|-----------------------|---------------|-----------------------------|---------------------|------------------|-----------------|------------------|----------------|
| <b>Quarter Ended</b>  | <b>Gross</b>  | <b>Administrative</b>       | <b>Intangible</b>   | <b>Operating</b> | <b>Net</b>      | <b>Effective</b> | <b>Diluted</b> |
| <b>March 31, 2014</b> | <b>Profit</b> | <b>Expenses</b>             | <b>Amortization</b> | <b>Income</b>    | <b>Earnings</b> | <b>Tax Rate</b>  | <b>EPS</b>     |

|   |            |       |       |          |     |          |      |
|---|------------|-------|-------|----------|-----|----------|------|
| AS REPORTED                                     | \$ 1,536\$ | 1,205 | \$ 45 | \$ 131\$ | 70  | 34.5 %\$ | 0.18 |
| Acquisition and integration related charges (a) |            |       |       |          |     |          |      |
| Inventory stepped up to fair value              | 5          | -     | -     | 5        | 3   | 0.9      | 0.01 |
| Other acquisition and integration related       | -          | (16)  | -     | 16       | 10  | 2.0      | 0.03 |
| Intangible amortization                         | -          | -     | (45)  | 45       | 31  | 2.5      | 0.08 |
| Restructuring and related charges (b)           | 1          | (9)   | -     | 15       | 10  | 1.2      | 0.03 |
| Rejuvenate and recall matters (c)               | -          | (344) | -     | 344      | 272 | (9.6)    | 0.71 |
| Tax matters (d)                                 | -          | -     | -     | -        | 8   | (7.4)    | 0.02 |
| ADJUSTED  | \$ 1,542\$ | 836   | \$ -  | \$ 556\$ | 404 | 24.1 %\$ | 1.06 |

| Quarter Ended<br>March 31, 2013                 | Selling General and |                         |                         |                  |              |                    |             |
|---|---------------------|-------------------------|-------------------------|------------------|--------------|--------------------|-------------|
|   | Gross Profit        | Administrative Expenses | Intangible Amortization | Operating Income | Net Earnings | Effective Tax Rate | Diluted EPS |
| AS REPORTED                                     | \$ 1,477\$          | 916                     | \$ 32                   | \$ 386\$         | 304          | 18.9 %\$           | 0.79        |
| Acquisition and integration related charges (a) |                     |                         |                         |                  |              |                    |             |
| Other acquisition and integration related       | -                   | (20)                    | -                       | 20               | 17           | (0.3)              | 0.05        |
| Intangible amortization                         | -                   | -                       | (32)                    | 32               | 23           | 0.6                | 0.06        |
| Restructuring and related charges (b)           | -                   | (2)                     | -                       | 16               | 11           | 0.4                | 0.03        |
| Rejuvenate and recall matters (c)               | -                   | (40)                    | -                       | 40               | 32           | 0.1                | 0.08        |
| Regulatory and legal matters (e)                | -                   | (40)                    | -                       | 40               | 30           | 0.6                | 0.08        |
| ADJUSTED  | \$ 1,477\$          | 814                     | \$ -                    | \$ 534\$         | 417          | 20.3 %\$           | 1.09        |

- (a) In 2011 the Company completed the acquisition of the Neurovascular division of Boston Scientific Corporation. In 2012 the Company completed the acquisition of Surpass Medical, Ltd. In 2013 the Company completed the acquisition of Trauson Holdings Company Limited and MAKO Surgical Corp. In the first quarter of 2014 the Company completed acquisitions including Patient Safety Technologies, Inc. and Pivot Medical, Inc., and announced its intent to acquire Berchtold Holding, AG. As a result, the Company has incurred certain acquisition and integration related charges.
- (b) In both 2013 and 2014 the Company incurred and will continue to incur certain restructuring and related charges associated with focused workforce reductions and other restructuring activities.
- (c) Charges represent our best estimate of the minimum of the range of probable loss to resolve the recall of Rejuvenate / ABG II modular-neck hip stems and certain matters pertaining to the recall of Neptune Waste Management System.
- (d) Charges represent the effect of certain discrete tax items.
- (e) Charges represent our best estimate of the probable loss to resolve certain previously disclosed regulatory matters and other legal settlements.

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