

Stryker Reports Third Quarter 2012 Results

October 17, 2012 3:59 PM ET

- **Sales of \$2.1 billion, growth of 1.0%**
- **Adjusted diluted net earnings per share⁽¹⁾ of \$0.97, growth of 6.6%**
- **Adjusted diluted net earnings per share full year guidance revised to a range of \$4.04 to \$4.07 per share for 2012 and \$4.25 to \$4.40 for 2013**

Kalamazoo, Michigan - October 17, 2012 - Stryker Corporation (NYSE:SYK) reported operating results for the third quarter of 2012 with net sales of \$2.1 billion, up 1.0% and adjusted diluted net earnings per share⁽¹⁾ of \$0.97, an increase of 6.6%.

"Our third quarter results reflect solid performance for most of our U.S. franchises, however, this was partly offset by weaker results from key countries outside the U.S. and our capital businesses," commented Kevin A. Lobo, President and Chief Executive Officer. "We expect market conditions to remain challenging in Europe and for capital equipment, and as a result we are lowering our earnings outlook for 2012 and 2013. This will ensure that Stryker makes the necessary investments to strengthen its position as a market leader while continuing to deliver leveraged earnings gains."

Sales Analysis

Consolidated net sales of \$2.1 billion increased 1.0% in the quarter over the prior year, as reported, and 2.9% in constant currency. Net sales in the quarter grew by 3.4% due to increased unit volume and changes in product mix and 0.4% as a result of acquisitions. These increases were partially offset by an unfavorable impact of 0.9% due to changes in price and 1.9% due to the unfavorable impact of foreign currency exchange rates on net sales. Excluding the impact of acquisitions, net sales increased 2.5% in constant currency over the prior year.

Reconstructive net sales of \$891 million decreased 1.1% in the quarter over the prior year, as reported, and increased 1.1% in constant currency. Net sales in the quarter grew by 2.4% due to increased unit volume and changes in product mix and 0.1% as a result of acquisitions. These increases were partially offset by an unfavorable impact of 1.4% due to changes in price and 2.2% due to the unfavorable impact of foreign currency exchange rates on net sales. Excluding the impact of acquisitions, Reconstructive net sales increased 1.0% in constant currency over the prior year.

MedSurg net sales of \$781 million increased 1.7% in the quarter over the prior year, as reported, and 3.1% in constant currency. Net sales in the quarter grew by 3.3% due to increased unit volume and changes in product mix. This increase was partially offset by an unfavorable impact of 0.2% due to changes in price and 1.4% due to the unfavorable impact of foreign currency exchange rates on net sales.

Neurotechnology and Spine net sales of \$380 million increased 4.7% in the quarter over the prior year, as reported, and 6.9% in constant currency. Net sales in the quarter grew by 6.0% due to increased unit volume and changes in product mix and 2.1% as a result of acquisitions. These increases were partially offset by an unfavorable impact of 1.3% due to changes in price and 2.2% due to the unfavorable impact of foreign currency exchange rates on net sales. Excluding the impact of acquisitions, Neurotechnology and Spine net sales increased 4.7% in constant currency over the prior year.

Earnings Analysis

Reported net earnings in the quarter include restructuring and related charges of \$11 million (net of taxes), and acquisition and integration related charges of \$6 million (net of taxes) related to acquisitions completed in 2011. These charges reduced reported gross profit margin from 68.2% to 68.1% and reported operating income margin from 22.9% to 21.9%.

Excluding the charges described above, adjusted net earnings⁽²⁾ of \$370 million increased 5.1% in the quarter over the prior

year. Adjusted diluted net earnings per share⁽¹⁾ of \$0.97 increased 6.6% in the quarter over the prior year.

Net earnings of \$353 million increased 8.0% in the quarter over the prior year. Diluted net earnings per share of \$0.92 increased 9.5% in the quarter over the prior year.

During the quarter, Stryker repurchased approximately 0.4 million shares at a cost of \$19 million.

Outlook

The financial forecast for 2012 includes a constant currency sales increase of 4% to 5.5%. If foreign currency exchange rates hold near current levels, we anticipate net sales will be negatively impacted by approximately 0% to 1.0% in the fourth quarter of 2012 and negatively impacted by approximately 0.5% to 1.5% for the full year of 2012. Excluding the impact of acquisitions, sales growth is projected to be 2.5% to 4% in constant currency over the prior year.

The company now projects 2012 adjusted diluted net earnings per share to be in the range of \$4.04 to \$4.07, an increase of 9% over adjusted diluted net earnings per share of \$3.72 in the prior year. The company also projects 2013 adjusted diluted net earnings per share to be in the range of \$4.25 to \$4.40.

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 diluted net earnings to adjusted diluted net earnings, a non-GAAP financial measure, and other important information, appears below.*

Conference Call on Wednesday, October 17, 2012

As previously announced, the Company will host a conference call for financial analysts at 4:30 p.m., Eastern Time, today to discuss the Company's operating results for the quarter ended September 30, 2012 and provide an operational update.

To participate in the conference call dial 866-713-8563 (domestic) or 617-597-5311 (international) and enter the participant passcode 52175809. A simultaneous webcast of the call will be accessible via the Company's website at www.stryker.com. The call will be archived on this site for 90 days.

A recording of the call will also be available from 6:30 p.m., Eastern Time, on Wednesday, October 17, 2012, until 5:00 p.m. on Wednesday, October 24, 2012. To hear this recording, dial 888-286-8010 (domestic) or 617-801-6888 (international) and enter the passcode 71065825.

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 impact of investigative and legal proceedings and compliance risks; resolution of tax audits; 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 are 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 is dedicated to helping healthcare professionals perform their jobs more efficiently while enhancing patient care. We offer 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. For more information about Stryker, please visit 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

	Third Quarter			Nine Months		
	2012	2011	% Change	2012	2011	% Change
Net sales	\$2,052	\$2,031	1.0	\$6,319	\$6,092	3.7
Cost of sales	655	669	(2.1)	2,036	2,071	(1.7)
GROSS PROFIT	1,397	1,362	2.6	4,283	4,021	6.5
% of sales	68.1%	67.1%		67.8%	66.0%	
Research, development & engineering expenses	114	122	(6.6)	342	347	(1.4)
Selling general & administrative expenses	791	765	3.4	2,433	2,316	5.1
Intangibles amortization	30	31	(3.2)	92	90	2.2
Restructuring charges	12	-	-	45	-	-
	947	918	3.2	2,912	2,753	5.8
OPERATING INCOME	450	444	1.4	1,371	1,268	8.1
% of sales	21.9%	21.9%		21.7%	20.8%	
Other income (expense)	(6)	(13)	(53.8)	(24)	(15)	60.0
EARNINGS BEFORE INCOME TAXES	444	431	3.0	1,347	1,253	7.5
Income Taxes	91	104	(12.5)	319	309	3.2
NET EARNINGS	\$ 353	\$ 327	8.0	\$1,028	\$ 944	8.9
Net earnings per share						
Basic	0.93	0.85	9.4	2.70	2.43	11.1
Diluted	0.92	0.84	9.5	2.68	2.41	11.2
Average shares outstanding						
Basic	380.2	386.0		380.7	388.1	
Diluted	382.5	388.4		383.2	391.5	

CONDENSED BALANCE SHEETS

	SeptemberDecember	
	2012	2011
ASSETS		
Cash and cash equivalents	\$ 1,423	\$ 905
Marketable securities	2,440	2,513
Accounts receivable (net)	1,356	1,417
Inventories	1,315	1,283
Other current assets	1,106	1,093
TOTAL CURRENT ASSETS	7,640	7,211
Property, plant and equipment (net)	929	888
Goodwill and other intangibles (net)	3,402	3,514
Other assets	806	792
TOTAL ASSETS	\$ 12,777	\$ 12,405

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities	1,576	1,828
Other liabilities	1,089	1,143
Long-term debt	1,751	1,751
Shareholders' equity	8,361	7,683
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY\$	12,777\$	12,405

CONDENSED STATEMENTS OF CASH FLOWS

	Third Quarter		Nine Months	
	2012	2011	2012	2011
OPERATING ACTIVITIES				
Net earnings	\$ 353	\$ 327	\$1,028	\$ 944
Depreciation	38	40	115	119
Amortization	82	84	249	240
Restructuring charges	12	-	45	-
Changes in operating assets and liabilities and other, net	84	(5)	(376)	(496)
NET CASH PROVIDED BY OPERATING ACTIVITIES	569	446	1,061	807
INVESTING ACTIVITIES				
Acquisitions, net of cash acquired	(37)	(144)	(47)	(1,922)
Proceeds from sales of property, plant and equipment	-	1	-	67
Proceeds from sales of (purchases of) marketable securities, net	(333)	(297)	41	262
Purchases of property, plant and equipment	(58)	(57)	(161)	(162)
NET CASH USED IN INVESTING ACTIVITIES	(428)	(497)	(167)	(1,755)
FINANCING ACTIVITIES				
Borrowings (repayments) of debt, net	1	764	2	746
Dividends paid	(81)	(70)	(243)	(210)
Repurchase and retirement of common stock	(19)	(289)	(108)	(539)
Other	(11)	(17)	(37)	(19)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(110)	388	(386)	(22)
Effect of exchange rate changes on cash and cash equivalents	(1)	(24)	10	22
CHANGE IN CASH AND CASH EQUIVALENTS	\$ 30	\$ 313	\$ 518	\$ (948)

STRYKER CORPORATION

For the Three Month and Nine Month Periods Ended September 30, 2012
(Unaudited - Millions of Dollars)

CONDENSED SALES ANALYSIS

	Third Quarter				Nine Months			
			% Change				% Change	
	2012	2011	As Reported	Constant Currency	2012	2011	As Reported	Constant Currency
Geographic sales								
U.S.	\$1,360	\$1,298	4.7	4.7	\$4,128	\$3,862	6.9	6.9
International	692	733	(5.6)	(0.4)	2,191	2,230	(1.8)	2.0
NET SALES	\$2,052	\$2,031	1.0	2.9	\$6,319	\$6,092	3.7	5.1
Worldwide sales								
Reconstructive	\$ 891	\$ 901	(1.1)	1.1	\$2,776	\$2,729	1.8	3.3
MedSurg	781	767	1.7	3.1	2,388	2,303	3.6	4.8
Neurotechnology and Spine	380	363	4.7	6.9	1,155	1,060	9.0	10.5

NET SALES	\$2,052	\$2,031	1.0	2.9	\$6,319	\$6,092	3.7	5.1
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SUPPLEMENTAL SALES GROWTH ANALYSIS

	Third Quarter					
	% Change					
			Constant Currency	U.S.	International	
	As 2012	As 2011		As Reported	As Reported	Constant Currency
Reconstructive						
Hips	\$288	\$300	(3.9)	(2.1)	1.6	(5.9)
Knees	315	311	1.4	3.0	4.5	0.4
Trauma and Extremities	235	236	(0.7)	2.7	10.5	(4.2)
TOTAL RECONSTRUCTIVE	891	901	(1.1)	1.1	5.3	(4.1)
MedSurg						
Instruments	303	294	3.0	4.6	6.2	0.3
Endoscopy	259	257	1.1	2.7	1.1	6.5
Medical	169	171	(1.3)	(0.1)	(6.7)	31.9
TOTAL MEDSURG	781	767	1.7	3.1	1.7	7.6
Neurotechnology and Spine						
Spine	175	179	(1.6)	0.1	1.8	(3.7)
Neurotechnology	205	184	10.8	13.5	23.1	2.1
TOTAL NEUROTECHNOLOGY AND SPINE	380	363	4.7	6.9	11.3	(0.2)

	Nine Months					
	% Change					
			Constant Currency	U.S.	International	
	As 2012	As 2011		As Reported	As Reported	Constant Currency
Reconstructive						
Hips	\$ 908	\$ 914	(0.7)	0.6	4.5	(3.3)
Knees	996	975	2.2	3.4	4.9	0.7
Trauma and Extremities	711	678	4.8	7.1	14.9	0.7
TOTAL RECONSTRUCTIVE	2,776	2,729	1.8	3.3	7.5	(1.7)
MedSurg						
Instruments	931	868	7.2	8.5	10.5	3.7
Endoscopy	802	788	1.8	3.0	1.0	7.9
Medical	506	522	(3.2)	(2.2)	(7.4)	21.3
TOTAL MEDSURG	2,388	2,303	3.6	4.8	3.6	8.2
Neurotechnology and Spine						
Spine	537	509	5.6	6.7	8.9	1.9
Neurotechnology	618	551	12.1	13.9	20.6	5.9
TOTAL NEUROTECHNOLOGY AND SPINE	1,155	1,060	9.0	10.5	14.3	4.3

SUPPLEMENTAL INFORMATION - CONDENSED STATEMENTS OF EARNINGS RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES

We supplement the reporting of our financial information determined under GAAP with certain non-GAAP financial measures, including percentage sales growth in constant currency, adjusted net earnings and adjusted diluted net earnings

per share. 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, adjusted net earnings and adjusted net earnings per diluted share 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 for analyzing potential future business trends in connection with our budget process and bases certain annual bonus plans 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 earnings performance on a consistent and comparable basis, we exclude certain items that affect the comparability of operating results and the trend of earnings. 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, 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 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, adjusted net earnings and adjusted diluted net earnings per share, with the most directly comparable GAAP financial measures, reported net earnings and diluted net earnings per share:

STRYKER CORPORATION

For the Three Month and Nine Month Periods Ended September 30, 2012

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

RECONCILIATION OF NET EARNINGS TO ADJUSTED NET EARNINGS

	Third Quarter			Nine Months		
	Notes	2012	2011 % Change	2012	2011 % Change	
NET EARNINGS		\$353	\$327	8.0	\$1,028	\$ 944 8.9
Acquisition and integration related charges, net of tax (a)						
Inventory "step up" to fair value		-	12 (100.0)	11	85 (87.1)	
Acquisition and integration related		6	13 (53.8)	17	29 (41.4)	
Restructuring and related charges (b)	11	-	-	35	-	-
OtisKnee matter (c)	-	-	-	33	-	-
ADJUSTED NET EARNINGS		\$370	\$352	5.1	\$1,124	\$1,058 6.2

RECONCILIATION OF DILUTED NET EARNINGS PER SHARE TO ADJUSTED DILUTED NET EARNINGS PER SHARE

	Notes	Third Quarter			Nine Months		
		2012	2011 % Change		2012	2011 % Change	
DILUTED NET EARNINGS PER SHARE		\$ 0.92	\$ 0.84	9.5	\$ 2.68	\$ 2.41	11.2
Acquisition and integration related charges, net of tax (a)							
Inventory "step up" to fair value		-	0.03 (100.0)	0.03	0.22 (86.4)		
Acquisition and integration related		0.02	0.03 (33.3)	0.04	0.07 (42.9)		
Restructuring and related charges (b)	0.03	-	-	0.09	-	-	
OtisKnee matter (c)	-	-	-	0.09	-	-	

ADJUSTED DILUTED NET EARNINGS PER SHARE

\$ 0.97	\$ 0.91	6.6	\$ 2.93	\$ 2.70	8.5
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- (a) *In 2011 the Company completed the acquisition of the Neurovascular division of Boston Scientific Corporation, Orthovita, Inc., Memometal Technologies S.A., and Concentric Medical, Inc., and has incurred certain acquisition and integration related charges.*
- (b) *In 2011 the Company announced focused workforce reductions and other restructuring activities and has incurred and will continue to incur certain restructuring and related charges.*
- (c) *In 2011 the Company announced entering into discussions with the DOJ regarding the settlement of the allegations of violations of Federal laws related to sales of the OtisKnee device not cleared by the United States Food and Drug Administration. We recorded a non-tax deductible charge representing our best estimate of the minimum of the range of probable loss to resolve this matter.*

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