

STRYKER CORP  
Form 10-Q  
July 28, 2017

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

(Mark  
one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the quarterly period ended June 30, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934

Commission file number: 000-09165

STRYKER CORPORATION

(Exact name of registrant as specified in its charter)

Michigan

38-1239739

(State of incorporation)

(I.R.S. Employer Identification No.)

2825 Airview Boulevard, Kalamazoo, Michigan 49002

(Address of principal executive offices)

(Zip Code)

(269) 385-2600

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

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Small reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

Number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:  
374,063,294 shares of Common Stock, \$0.10 par value, on June 30, 2017.

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## STRYKER CORPORATION 2017 SECOND QUARTER FORM 10-Q

## PART I. – FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

Stryker Corporation and Subsidiaries

## CONSOLIDATED STATEMENTS OF EARNINGS (Unaudited)

	Three Months		Six Months	
	2017	2016	2017	2016
Net sales	\$3,012	\$2,840	\$5,967	\$5,335
Cost of sales	1,022	998	2,015	1,799
Gross profit	\$1,990	\$1,842	\$3,952	\$3,536
Research, development and engineering expenses	192	183	384	342
Selling, general and administrative expenses	1,130	1,043	2,232	1,987
Recall charges	72	28	98	47
Amortization of intangible assets	95	88	183	141
Total operating expenses	\$1,489	\$1,342	\$2,897	\$2,517
Operating income	\$501	\$500	\$1,055	\$1,019
Other income (expense), net	(57 )	(67 )	(112 )	(105 )
Earnings before income taxes	\$444	\$433	\$943	\$914
Income taxes	53	53	108	132
Net earnings	\$391	\$380	\$835	\$782

## Net earnings per share of common stock:

Basic net earnings per share of common stock	\$1.04	\$1.02	\$2.23	\$2.09
Diluted net earnings per share of common stock	\$1.03	\$1.00	\$2.20	\$2.07

## Weighted-average shares outstanding:

Basic	373.9	374.2	373.7	373.7
Effect of dilutive employee stock options	5.9	4.3	5.9	4.3
Diluted	379.8	378.5	379.6	378.0

Anti-dilutive shares excluded from the calculation of dilutive employee stock options were de minimis in all periods.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Three Months		Six Months	
	2017	2016	2017	2016
Net earnings	\$391	\$380	\$835	\$782
Other comprehensive income, net of tax:				
Marketable securities	—	—	—	—
Pension plans	(6 )	(2 )	(10 )	(3 )
Unrealized gains (losses) on designated hedges	5	(15 )	(1 )	(35 )
Financial statement translation	86	44	182	82
Total other comprehensive income, net of tax	\$85	\$27	\$171	\$44
Comprehensive income	\$476	\$407	\$1,006	\$826

See accompanying notes to Consolidated Financial Statements.

Dollar amounts are in millions except per share amounts or as otherwise specified. 1

## STRYKER CORPORATION 2017 SECOND QUARTER FORM 10-Q

Stryker Corporation and Subsidiaries

## CONSOLIDATED BALANCE SHEETS

	June 30 2017 (Unaudited)	December 31 2016
Assets		
Current assets		
Cash and cash equivalents	\$ 3,649	\$ 3,316
Marketable securities	98	68
Accounts receivable, less allowance of \$60 (\$56 in 2016)	1,905	1,967
Inventories:		
Materials and supplies	495	425
Work in process	151	130
Finished goods	1,633	1,475
Total inventories	\$ 2,279	\$ 2,030
Prepaid expenses and other current assets	547	480
Total current assets	\$ 8,478	\$ 7,861
Property, plant and equipment:		
Land, buildings and improvements	892	820
Machinery and equipment	2,626	2,341
Total property, plant and equipment	\$ 3,518	\$ 3,161
Less allowance for depreciation	1,760	1,592
Property, plant and equipment, net	\$ 1,758	\$ 1,569
Goodwill	6,471	6,356
Other intangibles, net	3,382	3,508
Other noncurrent assets	1,203	1,141
Total assets	\$ 21,292	\$ 20,435
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable	\$ 427	\$ 437
Accrued compensation	548	767
Income taxes	80	40
Dividend payable	159	159
Accrued recall expenses	538	594
Accrued expenses and other liabilities	1,026	923
Current maturities of debt	774	228
Total current liabilities	\$ 3,552	\$ 3,148
Long-term debt, excluding current maturities	6,592	6,686
Other noncurrent liabilities	1,113	1,051
Total liabilities	\$ 11,257	\$ 10,885
Shareholders' equity		
Common stock, \$0.10 par value:		
Authorized: 1 billion shares, outstanding: 374 million shares (375 million shares in 2016)	37	37
Additional paid-in capital	1,452	1,432
Retained earnings	9,136	8,842
Accumulated other comprehensive loss	(590)	(761)

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Total shareholders' equity	\$ 10,035	\$9,550
Total liabilities & shareholders' equity	\$ 21,292	\$20,435

See accompanying notes to Consolidated Financial Statements.

Dollar amounts are in millions except per share amounts or as otherwise specified. 2

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## STRYKER CORPORATION 2017 SECOND QUARTER FORM 10-Q

Stryker Corporation and Subsidiaries

## CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (Unaudited)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
December 31, 2016	\$ 37	\$ 1,432	\$ 8,842	\$ (761 )	\$ 9,550
Net earnings			835		835
Other comprehensive income				171	171
Issuance of 1.4 million shares of common stock under stock option and benefit plans		(31 )			(31 )
Repurchases of 1.9 million shares of common stock		(7 )	(223 )		(230 )
Share-based compensation		58			58
Cash dividends declared of \$0.850 per share of common stock			(318 )		(318 )
June 30, 2017	\$ 37	\$ 1,452	\$ 9,136	\$ (590 )	\$ 10,035

## CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Six Months	
	2017	2016
Operating activities		
Net earnings	\$835	\$782
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	127	106
Amortization of intangible assets	183	141
Share-based compensation	58	49
Recall charges	69	47
Sale of inventory stepped-up to fair value at acquisition	—	35
Changes in operating assets and liabilities:		
Accounts receivable	97	57
Inventories	(192 )	(225 )
Accounts payable	(12 )	(5 )
Accrued expenses and other liabilities	(122 )	(133 )
Recall-related payments, net of insurance recovery	(124 )	(104 )
Income taxes	24	25
Other	(142 )	(20 )
Net cash provided by operating activities	\$801	\$755
Investing activities		
Acquisitions, net of cash acquired	(38 )	(4,219 )
Purchases of marketable securities	(66 )	(116 )
Proceeds from sales of marketable securities	36	652
Purchases of property, plant and equipment	(270 )	(229 )
Net cash used in investing activities	\$(338)	\$(3,912)
Financing activities		