

STRYKER CORP
Form 10-Q
October 27, 2017

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

FORM 10-Q

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

For the quarterly period ended September 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

(State of incorporation)

38-1239739

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

2825 Airview Boulevard

Kalamazoo, Michigan

(Address of principal executive offices)

49002

(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)

Small reporting company

Edgar Filing: STRYKER CORP - Form 10-Q

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

There were 374,237,631 shares of Common Stock, \$0.10 par value, on September 30, 2017.

STRYKER CORPORATION 2017 Third Quarter Form 10-Q

PART I. – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Stryker Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF EARNINGS (Unaudited)

| | Three Months | | Nine Months | |
|--|--------------|---------|-------------|---------|
| | 2017 | 2016 | 2017 | 2016 |
| Net sales | \$3,006 | \$2,833 | \$8,973 | \$8,168 |
| Cost of sales | 1,024 | 960 | 3,039 | 2,759 |
| Gross profit | \$1,982 | \$1,873 | \$5,934 | \$5,409 |
| Research, development and engineering expenses | 198 | 184 | 582 | 526 |
| Selling, general and administrative expenses | 1,103 | 1,057 | 3,335 | 3,044 |
| Recall charges | 66 | 57 | 164 | 104 |
| Amortization of intangible assets | 92 | 89 | 275 | 230 |
| Total operating expenses | \$1,459 | \$1,387 | \$4,356 | \$3,904 |
| Operating income | \$523 | \$486 | \$1,578 | \$1,505 |
| Other income (expense), net | (52) | (67) | (164) | (172) |
| Earnings before income taxes | \$471 | \$419 | \$1,414 | \$1,333 |
| Income taxes | 37 | 64 | 145 | 196 |
| Net earnings | \$434 | \$355 | \$1,269 | \$1,137 |

Net earnings per share of common stock:

| | | | | |
|--|---------|--------|--------|--------|
| Basic net earnings per share of common stock | \$ 1.16 | \$0.95 | \$3.39 | \$3.04 |
| Diluted net earnings per share of common stock | \$ 1.14 | \$0.94 | \$3.34 | \$3.01 |

Weighted-average shares outstanding:

| | | | | |
|---|-------|-------|-------|-------|
| Basic | 374.2 | 374.4 | 373.8 | 373.9 |
| Effect of dilutive employee stock options | 6.0 | 4.6 | 6.0 | 4.4 |
| Diluted | 380.2 | 379.0 | 379.8 | 378.3 |

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 | | Nine Months | |
|---|--------------|--------|-------------|---------|
| | 2017 | 2016 | 2017 | 2016 |
| Net earnings | \$434 | \$355 | \$1,269 | \$1,137 |
| Other comprehensive income (loss), net of tax: | | | | |
| Marketable securities | (3) | — | (3) | — |
| Pension plans | 14 | (1) | 4 | (4) |
| Unrealized losses on designated hedges | (6) | — | (7) | (35) |
| Financial statement translation | 87 | (4) | 269 | 78 |
| Total other comprehensive income (loss), net of tax | \$92 | \$(5) | \$263 | \$39 |
| Comprehensive income | \$526 | \$350 | \$1,532 | \$1,176 |

See accompanying notes to Consolidated Financial Statements.

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

STRYKER CORPORATION 2017 Third Quarter Form 10-Q

Stryker Corporation and Subsidiaries

CONSOLIDATED BALANCE SHEETS

| | September 30 2017 (Unaudited) | December 31 2016 |
|--|--|------------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 2,592 | \$ 3,316 |
| Marketable securities | 97 | 68 |
| Accounts receivable, less allowance of \$65 (\$56 in 2016) | 1,965 | 1,967 |
| Inventories: | | |
| Materials and supplies | 523 | 425 |
| Work in process | 159 | 130 |
| Finished goods | 1,772 | 1,475 |
| Total inventories | \$ 2,454 | \$ 2,030 |
| Prepaid expenses and other current assets | 602 | 480 |
| Total current assets | \$ 7,710 | \$ 7,861 |
| Property, plant and equipment: | | |
| Land, buildings and improvements | 921 | 820 |
| Machinery and equipment | 2,768 | 2,341 |
| Total property, plant and equipment | \$ 3,689 | \$ 3,161 |
| Less allowance for depreciation | 1,837 | 1,592 |
| Property, plant and equipment, net | \$ 1,852 | \$ 1,569 |
| Goodwill | 7,026 | 6,356 |
| Other intangibles, net | 3,470 | 3,508 |
| Other noncurrent assets | 1,427 | 1,141 |
| Total assets | \$ 21,485 | \$ 20,435 |
| Liabilities and shareholders' equity | | |
| Current liabilities | | |
| Accounts payable | \$ 458 | \$ 437 |
| Accrued compensation | 672 | 767 |
| Income taxes | 143 | 40 |
| Dividend payable | 159 | 159 |
| Accrued recall expenses | 237 | 594 |
| Accrued expenses and other liabilities | 957 | 923 |
| Current maturities of debt | 632 | 228 |
| Total current liabilities | \$ 3,258 | \$ 3,148 |
| Long-term debt, excluding current maturities | 6,593 | 6,686 |
| Other noncurrent liabilities | 1,209 | 1,051 |
| Total liabilities | \$ 11,060 | \$ 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 | 1,475 | 1,432 |
| Retained earnings | 9,411 | 8,842 |
| Accumulated other comprehensive loss | (498) | (761) |

Edgar Filing: STRYKER CORP - Form 10-Q

| | | |
|--|-----------|----------|
| Total shareholders' equity | \$ 10,425 | \$9,550 |
| Total liabilities & shareholders' equity | \$ 21,485 | \$20,435 |
| See accompanying notes to Consolidated Financial Statements. | | |

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

STRYKER CORPORATION 2017 Third 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 | | | 1,269 | | 1,269 |
| Other comprehensive income | | | | 263 | 263 |
| Issuance of 1.5 million shares of common stock under stock option and benefit plans | | (35) | | | (35) |
| Repurchases of 1.9 million shares of common stock | | (7) | (223) | | (230) |
| Share-based compensation | | 85 | | | 85 |
| Cash dividends declared of \$1.275 per share of common stock | | | (477) | | (477) |
| September 30, 2017 | \$ 37 | \$ 1,475 | \$ 9,411 | \$ (498) | \$ 10,425 |

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

| | Nine Months | |
|---|-------------|-----------|
| | 2017 | 2016 |
| Operating activities | | |
| Net earnings | \$1,269 | \$1,137 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation | 198 | 165 |
| Amortization of intangible assets | 275 | 230 |
| Share-based compensation | 85 | 71 |
| Recall charges | 164 | 104 |
| Sale of inventory stepped-up to fair value at acquisition | — | 37 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 72 | 22 |
| Inventories | (322) | (307) |
| Accounts payable | (2) | (11) |
| Accrued expenses and other liabilities | (97) | (10) |
| Recall-related payments | (492) | (128) |
| Income taxes | (7) | 5 |
| Other, net | (263) | (58) |
| Net cash provided by operating activities | \$880 | \$1,257 |
| Investing activities | | |
| Acquisitions, net of cash acquired | (712) | (4,296) |
| Purchases of marketable securities | (85) | (136) |
| Proceeds from sales of marketable securities | 56 | 769 |
| Purchases of property, plant and equipment | (412) | (347) |
| Other investing, net | — | (4) |
| Net cash used in investing activities | \$(1,153) | \$(4,014) |
| Financing activities | | |
| Proceeds from borrowings | 1,227 | 4,248 |
| Payments on borrowings | (927) | (1,430) |
| Dividends paid | (477) | (426) |
| Repurchases of common stock | (230) | (13) |
| Cash paid for taxes from withheld shares | (83) | (62) |

Edgar Filing: STRYKER CORP - Form 10-Q

| | | |
|--|----------|----------|
| Other financing, net | (32) | (7) |
| Net cash (used in) provided by financing activities | \$(522) | \$2,310 |
| Effect of exchange rate changes on cash and cash equivalents | 71 | 21 |
| Change in cash and cash equivalents | \$(724) | \$(426) |
| Cash and cash equivalents at beginning of period | 3,316 | 3,379 |
| Cash and cash equivalents at end of period | \$2,592 | \$2,953 |

See accompanying notes to Consolidated Financial Statements.

Dollar amounts are in millions except per share amounts or as otherwise specified. 3

STRYKER CORPORATION 2017 Third Quarter Form 10-Q

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 1 - BASIS OF PRESENTATION

General Information

These statements should be read in conjunction with our Annual Report on Form 10-K for 2016. Management believes that the accompanying unaudited Consolidated Financial Statements contain all adjustments, including normal recurring items, considered necessary for a fair presentation of the interim periods. However, the results of operations included in these Consolidated Financial Statements may not necessarily be indicative of our annual results. Certain prior year amounts have been reclassified to conform to current year presentation in our Consolidated Statement of Cash Flows and our segment information in Note 10.

New Accounting Pronouncements Not Yet Adopted

In August 2017 the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2017-12, Derivatives and Hedging - Targeted Improvements to Accounting for Hedging Activities, which amends and simplifies hedge accounting guidance, as well as improves presentation and disclosure to align the economic effects of risk management strategies in the financial statements. The update is effective for fiscal years beginning after December 15, 2018 including interim periods within those fiscal years. Early adoption is permitted. We are in the process of evaluating the impact on our Consolidated Financial Statements.

In May 2017 the FASB issued ASU 2017-09, Compensation - Stock Compensation, which revises the guidance related to changes in terms or conditions of a share-based payment award. We plan to adopt this update on January 1, 2018 and do not expect the adoption to have a material impact on our Consolidated Financial Statements.

In March 2017 the FASB issued ASU 2017-07, Compensation - Retirement Benefits, which revises the presentation of net periodic pension cost and net periodic post-retirement benefit cost. We plan to adopt this update on January 1, 2018 and do not expect the adoption to have a material impact on our Consolidated Financial Statements.

In January 2017 the FASB issued ASU 2017-01, Business Combinations: Clarifying the Definition of a Business, which provides a more robust framework to use in determining when a set of acquired assets and activities constitutes a business.

In February 2016 the FASB issued ASU 2016-02, Leases. This update requires an entity to recognize assets and liabilities on the balance sheet for leases with terms greater than 12 months. We are in the process of evaluating the impact on our Consolidated Financial Statements and anticipate most of our current operating leases will result in the recognition of right to use assets and corresponding liabilities in our Consolidated Balance Sheets. We also anticipate changes in classification between financial statement line items in our Consolidated Statements of Earnings and Consolidated Statements of Cash Flows, but do not anticipate adoption of the update will have a material impact on net earnings and cash flows. We plan to adopt this update on January 1, 2019.

In October 2016 the FASB issued ASU 2016-16, Income Taxes, Intra-Entity Transfers of Assets Other Than Inventory, which requires companies to account for the income tax effect of intercompany sales and transfers of assets other than inventory when the transfer occurs. Under current guidance, we defer the income tax effects of intercompany transfers of assets until the asset has been sold to an outside party or otherwise recognized. We are in the process of finalizing our assessment of this update, the impact of which we cannot reliably estimate due to potential changes in

business structures, future asset transfers, fluctuations in foreign currency exchange rates and potential changes in rules and regulations enacted by tax authorities. We will adopt this update on January 1, 2018.

In May 2014 the FASB issued ASU 2014-09, Revenue from Contracts with Customers. This update outlines a single, comprehensive model for accounting for revenue from contracts with customers. The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method) or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (modified retrospective method). We plan to adopt this update on January 1, 2018 using the modified retrospective method.

While we are still in the process of evaluating the full impact, we have identified certain immaterial historical revenue transactions on which the timing of recognition would have been different under this update. The actual amount of the

cumulative adjustment will depend on the timing of revenue recognition of similar transactions at the end of 2017. While we cannot determine the amount based on information currently available, we do not expect it to have a material impact on our Consolidated Financial Statements. We are in the process of updating our revenue accounting policy and implementing changes to our business processes and controls in response to the new update.

Accounting Pronouncements Recently Adopted

On January 1, 2017 we adopted ASU 2016-09, Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting (ASU 2016-09). The impact on our Consolidated Statements of Earnings was a tax benefit of \$8 in the three months 2017 and \$48 in the nine months 2017. In our 2016 Consolidated Statements of Cash Flow we reclassified \$31 from other financing to income taxes within operating activities to conform to current year presentation.

On January 1, 2017 we adopted ASU 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments. The adoption of this update did not have a material impact on our Consolidated Financial Statements. No other new accounting pronouncements were issued or became effective in the period that had, or are expected to have, a material impact on our Consolidated Financial Statements.

NOTE 2 - ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME (AOCI)

| Three Months 2017 | Marketable Securities | Pension Plans | Financial Hedges | Statement Translation | Total |
|-----------------------|--------------------------|------------------|---------------------|--------------------------|---------|
| Beginning | \$ — | \$(142) | \$ 23 | \$ (471) | \$(590) |
| OCI | (6) | 16 | (7) | 74 | 77 |
| Income taxes | 2 | (4) | 2 | 13 | 13 |
| Reclassifications to: | | | | | |
| Cost of sales | — | 2 | (1) | — | 1 |
| Other income | 1 | — | — | — | 1 |
| Income taxes | — | — | — | — | — |
| Net OCI | \$ (3) | \$ 14 | \$ (6) | \$ 87 | \$ 92 |
| Ending | \$ (3) | \$(128) | \$ 17 | \$ (384) | \$(498) |

Dollar amounts are in millions except per share amounts or as otherwise specified. 4

STRYKER CORPORATION 2017 Third Quarter Form 10-Q

| Three Months 2016 | Marketable Securities | Pension Plans | Hedges | Financial Statement Translation | Total |
|-----------------------|--------------------------|------------------|--------|---------------------------------------|---------|
| Beginning | \$ — | \$(122) | \$(31) | \$(442) | \$(595) |
| OCI | 1 | (4) | (4) | (8) | (15) |
| Income taxes | — | 1 | 2 | 4 | 7 |
| Reclassifications to: | | | | | |
| Cost of sales | — | 2 | 3 | — | 5 |
| Other expense | (1) | — | — | — | (1) |
| Income taxes | — | — | (1) | — | (1) |
| Net OCI | \$ — | \$(1) | \$ — | \$(4) | \$(5) |
| Ending | \$ — | \$(123) | \$(31) | \$(446) | \$(600) |

| Nine Months 2017 | Marketable Securities | Pension Plans | Hedges | Financial Statement Translation | Total |
|-----------------------|--------------------------|------------------|--------|---------------------------------------|---------|
| Beginning | \$ — | \$(132) | \$24 | \$(653) | \$(761) |
| OCI | (6) | 1 | (17) | 227 | 205 |
| Income taxes | 2 | (1) | 5 | 42 | 48 |
| Reclassifications to: | | | | | |
| Cost of sales | — | 5 | 7 | — | 12 |
| Other Income | 1 | — | — | — | 1 |
| Income taxes | — | (1) | (2) | — | (3) |
| Net OCI | \$ (3) | \$4 | \$(7) | \$269 | \$263 |
| Ending | \$ (3) | \$(128) | \$17 | \$(384) | \$(498) |

| Nine Months 2016 | Marketable Securities | Pension Plans | Hedges | Financial Statement Translation | Total |
|-----------------------|--------------------------|------------------|--------|---------------------------------------|---------|
| Beginning | \$ — | \$(119) | \$4 | \$(524) | \$(639) |
| OCI | 3 | (10) | (43) | 69 | 19 |
| Income taxes | (1) | 2 | 13 | 9 | 23 |
| Reclassifications to: | | | | | |
| Cost of sales | — | 5 | (5) | — | — |
| Other expense | (3) | — | — | — | (3) |
| Income taxes | 1 | (1) | — | — | — |
| Net OCI | \$ — | \$(4) | \$(35) | \$78 | \$39 |
| Ending | \$ — | \$(123) | \$(31) | \$(446) | \$(600) |

NOTE 3 - DERIVATIVE INSTRUMENTS

Foreign Currency Hedges

We use operational and economic hedges, foreign currency exchange forward contracts, net investment hedges (both long-term intercompany loans payable and forward exchange contracts) and interest rate derivative instruments to manage the impact of currency exchange and interest rate fluctuations on earnings and cash flow. We do not enter into derivative instruments for speculative purposes. We did not change our hedging strategies, accounting practices or objectives from those disclosed in our Annual Report on Form 10-K for 2016.

| September 2017 | Designated | Non-Designated | Total |
|-------------------------|------------|----------------|---------|
| Gross notional amount | \$ 1,185 | \$ 3,488 | \$4,673 |
| Maximum term in days | | | 548 |
| Fair value: | | | |
| Other current assets | \$ 13 | \$ 24 | \$37 |
| Other noncurrent assets | 1 | — | 1 |

Edgar Filing: STRYKER CORP - Form 10-Q

| | | | | |
|------------------------------|--------|---------|-------|---|
| Other current liabilities | (35 |) (5 |) (40 |) |
| Other noncurrent liabilities | (1 |) — | (1 |) |
| Total | \$ (22 |) \$ 19 | \$ (3 |) |

| | | | | |
|------------------------------|------------|----------------|----------|---|
| December 2016 | Designated | Non-Designated | Total | |
| Gross notional amount | \$ 1,058 | \$ 2,841 | \$ 3,899 | |
| Maximum term in days | | | 548 | |
| Fair value: | | | | |
| Other current assets | \$ 24 | \$ 17 | \$ 41 | |
| Other noncurrent assets | 4 | — | 4 | |
| Other current liabilities | (9 |) (7 |) (16 |) |
| Other noncurrent liabilities | (2 |) — | (2 |) |
| Total | \$ 17 | \$ 10 | \$ 27 | |

On September 30, 2017 the total after-tax amount in AOCI related to our designated net investment hedges was \$21. We evaluate the effectiveness of our net investment hedges quarterly. We have not recognized any ineffectiveness in 2017.

We are exposed to credit loss in the event of nonperformance by our counterparties on our outstanding derivative instruments but do not anticipate nonperformance by any of our counterparties. Should a counterparty default, our maximum exposure to loss is the asset balance of the instrument.

Net Currency Exchange Rate (Losses) Gains

| | | | | |
|-----------------------------|--------|--------|---------|---------|
| | Three | Nine | | |
| | Months | Months | | |
| Recorded in: | 2017 | 2016 | 2017 | 2016 |
| Cost of sales | \$ 1 | \$ (3) | \$ (7) | \$ 5 |
| Other income (expense), net | (2) | (5) | (6) | (15) |
| Total | \$ (1) | \$ (8) | \$ (13) | \$ (10) |

On September 30, 2017 and December 31, 2016 pretax gains on derivatives designated as hedges recorded in AOCI that are expected to be reclassified to earnings within 12 months of the balance sheet date were \$2 and less than \$1. This reclassification is primarily due to the sale of inventory that includes previously hedged purchases. There were no ineffective portions of derivatives that resulted in gains or losses in any of the periods presented.

Interest Rate Risk on Future Debt Issuance

On September 30, 2017 we had interest rate swaps with notional amounts of \$600 designated as forward starting interest rate swaps in anticipation of future debt issuances. The market value of outstanding interest rate swap agreements on September 30, 2017 was \$40, which was recorded in other current assets with an offsetting amount recorded in AOCI. Upon the probable issuance of the debt, these amounts will be released to interest expense over the term of the debt. The cash flow effect of this hedge is recorded in cash flow from operations.

On September 30, 2017 we had interest rate swaps with gross notional amounts of \$500 designated as fair value hedges of underlying fixed rate obligations representing a portion of our \$600 senior unsecured notes due in 2024. There was no hedge ineffectiveness recorded as a result of these fair value hedges in 2017.

Fair Value Interest Rate Hedge Instruments

| | | | |
|-------------------------|-----------|----------|---|
| | September | December | |
| | 2017 | 2016 | |
| Gross notional amount | \$ 500 | \$ 500 | |
| Fair value: | | | |
| Other noncurrent assets | \$ 10 | \$ 9 | |
| Long-term debt | (10 |) (9 |) |
| Total | \$ — | \$ — | |

Dollar amounts are in millions except per share amounts or as otherwise specified. 5

STRYKER CORPORATION 2017 Third Quarter Form 10-Q

NOTE 4 - FAIR VALUE MEASUREMENTS

Financial assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

| | |
|---------|--|
| Level 1 | Quoted market prices in active markets for identical assets or liabilities |
| Level 2 | Observable market-based inputs or unobservable inputs that are corroborated by market data |
| Level 3 | Unobservable inputs reflecting our assumptions or external inputs from active markets |

When applying the fair value principles in the valuation of assets and liabilities, we are required to maximize the use of quoted market prices and minimize the use of unobservable inputs. We calculate the fair value of our Level 1 and Level 2 instruments based on the exchange traded price of identical or similar instruments, where available, or based on other observable inputs taking into account our credit and that of our counterparties. Foreign currency exchange contracts and interest rate hedges are included in Level 2 as we use inputs other than quoted prices that are observable for the asset or liability. The Level 2 derivative instruments are primarily valued using standard calculations and models that are based on readily observable market data. Our Level 3 liabilities represent milestone payments for acquisitions recorded at fair value calculated using either the Black-Scholes option pricing model or a discounted cash flow technique. Significant unobservable inputs were used in our probability assessments and were appropriately discounted considering the uncertainties associated with the obligation. We estimate that substantially all triggering events will occur. We remeasure the fair value of our assets and liabilities each reporting period. We record the changes in fair value within selling, general and administrative expense and the changes in the time value of money within other income (expense), net.

Assets and Liabilities Measured at Fair Value

| | September 2017 | December 2016 |
|--|-------------------|------------------|
| Cash and cash equivalents | \$ 2,592 | \$ 3,316 |
| Trading marketable securities | 114 | 94 |
| Level 1 - Assets | \$ 2,706 | \$ 3,410 |
| Available-for-sale marketable securities: | | |
| Corporate and asset-backed debt securities | \$ 33 | \$ 25 |
| United States agency debt securities | 19 | 9 |
| United States Treasury debt securities | 24 | 16 |
| Certificates of deposit | 21 | 18 |
| Total available-for-sale marketable securities | \$ 97 | \$ 68 |
| Foreign currency exchange forward contracts | 38 | 45 |
| Interest rate swap asset | 50 | 57 |
| Level 2 - Assets | \$ 185 | \$ 170 |
| Total assets measured at fair value | \$ 2,891 | \$ 3,580 |
| Deferred compensation arrangements | \$ 114 | \$ 94 |
| Level 1 - Liabilities | \$ 114 | \$ 94 |
| Foreign currency exchange forward contracts | \$ 41 | \$ 18 |
| Level 2 - Liabilities | \$ 41 | \$ 18 |
| Contingent consideration: | | |
| Beginning | \$ 86 | \$ 56 |
| Additions | 5 | 49 |
| Change in estimate | (2 |)(7 |
| Settlements | (56 |)(12 |
| Ending | \$ 33 | \$ 86 |
| Level 3 - Liabilities | \$ 33 | \$ 86 |
| Total liabilities measured at fair value | \$ 188 | \$ 198 |

There were no significant transfers into or out of any level in 2017.

Fair Value of Available for Sale Securities by Maturity

| | September | December |
|--|-----------|----------|
| | 2017 | 2016 |
| Due in one year or less | \$ 50 | \$ 36 |
| Due after one year through three years | \$ 47 | \$ 32 |

On September 30, 2017 the aggregate difference between the cost and fair value of available-for-sale marketable securities was nominal. Interest and marketable securities income was \$15 and \$7 in the three months and \$38 and \$19 in the nine months 2017 and 2016, which was recorded in other income (expense), net.

Less than 1% of our investments in available-for-sale marketable securities had a credit quality rating of less than A2 (Moody's), A (Standard & Poor's) and A (Fitch). We do not plan to sell the investments, and it is not more likely than not that we will be required to sell the investments before recovery of their amortized cost basis, which may be maturity. We do not consider these investments to be other-than-temporarily impaired on September 30, 2017.

Substantially all our investments with unrealized losses that were not deemed to be other-than-temporarily impaired were in a continuous unrealized loss position for less than twelve months, and the losses were nominal.

Securities in a Continuous Unrealized Loss Position

| | Number of Investments | Fair Value |
|----------------------------|-----------------------|------------|
| Corporate and asset-backed | 25 | \$ 9 |
| United States agency | 15 | 18 |
| United States Treasury | 16 | 24 |
| Certificates of deposit | 6 | 3 |
| Total | 62 | \$ 54 |

NOTE 5 - ACQUISITIONS

In September 2017 we completed the acquisition of NOVADAQ Technologies Inc. (NOVADAQ) for total consideration of approximately \$716. NOVADAQ is a leading developer of fluorescence imaging technology that provides surgeons with visualization of blood flow in vessels and related tissue perfusion in cardiac, cardiovascular, gastrointestinal, plastic, microsurgical, and reconstructive procedures. This acquisition enhances product offerings within our MedSurg segment.

In April 2016 we completed the acquisition of Sage Products, LLC (Sage) for total consideration of approximately \$2,875. Sage develops, manufactures and distributes intensive care disposable products. This acquisition enhanced our product offerings within our MedSurg segment. The finalization of our purchase price allocation resulted in a \$30 increase in goodwill from our preliminary allocation in 2016.

In April 2016 we completed the acquisition of Physio-Control International, Inc. (Physio) for total net consideration of approximately \$1,299. Physio develops, manufactures and markets monitors/defibrillators, AEDs and CPR-assist devices along with data management and support services. This acquisition enhanced our product offerings within our MedSurg segment. The finalization of our purchase price allocation resulted in a \$19 decrease in goodwill from our preliminary allocation in 2016.

The Other acquisitions in 2016 include the acquisition of the Synergetics neuro portfolio (Synergetics). The Synergetics acquisition enhanced our product offerings within our MedSurg segment. The finalization of our purchase price allocation resulted in an \$11 increase in goodwill from our preliminary allocation in 2016.

Purchase price allocations for NOVADAQ and certain Other acquisitions in 2017 and 2016 are based on preliminary valuations. Our estimates and assumptions are subject to change within the measurement period.

Goodwill acquired with the Sage and Synergetics acquisitions is deductible for tax purposes.

Dollar amounts are in millions except per share amounts or as otherwise specified. 6

STRYKER CORPORATION 2017 Third Quarter Form 10-Q

Purchase Price Allocation of Acquired Net Assets

| | 2017 | | 2016 | | |
|---|---------|-------|----------|----------|--------|
| | NOVADAQ | ONE | Sage | Physio | Other |
| Purchase price paid | \$ 716 | \$ 38 | \$ 2,870 | \$ 1,299 | \$ 348 |
| Contingent consideration | — | 5 | 5 | — | 27 |
| Loss on settlement of pre-existing contract | — | — | — | — | (19) |
| Total consideration | \$ 716 | \$ 43 | \$ 2,875 | \$ 1,299 | \$ 356 |
| Tangible assets: | | | | | |
| Cash | \$ 42 | \$ — | \$ 91 | \$ 32 | \$ 1 |
| Accounts receivable | 20 | 1 | 29 | 107 | 17 |
| Inventory | 22 | 2 | 63 | 61 | 5 |
| Other assets | 26 | 1 | 80 | 103 | 22 |
| Liabilities | (54) | (2) | (83) | (364) | (37) |
| Intangible assets: | | | | | |
| Customer relationship | 18 | — | 930 | 344 | 12 |
| Trade name | 1 | — | 70 | 160 | 10 |
| Developed technology and patents | 139 | 33 | 173 | 226 | 119 |
| Non-compete | — | — | — | — | 2 |
| IPR&D | — | — | — | 7 | 7 |
| Goodwill | 502 | 8 | 1,522 | 623 | 199 |
| | \$ 716 | \$ 43 | \$ 2,875 | \$ 1,299 | \$ 357 |
| Weighted-average life of intangible assets | 15 | 15 | 15 | 14 | 12 |
| Estimated Amortization | | | | | |
| Expense | | | | | |
| Remainder | | | | | |
| of 2018 2019 2020 2021 | | | | | |
| 2017 | | | | | |
| \$ 90 \$ 372 \$ 348 \$ 329 \$ 319 | | | | | |

NOTE 6 - CONTINGENCIES AND COMMITMENTS

We are involved in various ongoing proceedings, legal actions and claims arising in the normal course of business, including proceedings related to product, labor, intellectual property and other matters that are more fully described below. The outcomes of these matters will generally not be known for prolonged periods of time. In certain of the legal proceedings, the claimants seek damages as well as other compensatory and equitable relief that could result in the payment of significant claims and settlements and/or the imposition of injunctions or other equitable relief. For legal matters for which management had sufficient information to reasonably estimate our future obligations, a liability representing management's best estimate of the probable loss, or the minimum of the range of probable losses when a best estimate within the range is not known, is recorded. The estimates are based on consultation with legal counsel, previous settlement experience and settlement strategies. If actual outcomes are less favorable than those estimated by management, additional expense may be incurred, which could unfavorably affect future operating results. We are self-insured for product liability claims and expenses. The ultimate cost to us with respect to product liability claims could be materially different than the amount of the current estimates and accruals and could have a material adverse effect on our financial position, results of operations and cash flows.

In June 2012 we voluntarily recalled our Rejuvenate and ABG II Modular-Neck hip stems and terminated global distribution of these hip products. Product liability lawsuits relating to this voluntary recall have been filed against us. On November 3, 2014 we announced that we had entered into a settlement agreement to compensate eligible United States patients who had revision surgery to replace their Rejuvenate and/or ABG II Modular-Neck hip stem prior to that date and in December 2016 the settlement program was extended to patients who had revision surgery prior to December 19, 2016. We continue to offer support for recall-related care and reimburse patients who are not eligible to enroll in the settlement program for testing and treatment services, including any necessary revision

surgeries. In addition, some lawsuits remain and we will continue to defend against them. Based on the information that has been received, the actuarially determined range of probable loss to resolve this matter globally is currently estimated to be approximately \$2,072 to \$2,327 (net of \$232 of third-party insurance recoveries). We recognized additional charges to earnings of \$35 and \$104 in the three and nine months 2017, representing the excess of the minimum of the range over the previously recorded reserves. The final outcome of this matter is dependent on many factors that are difficult to predict including the number of enrollees in the settlement program and the total awards to them, the number and costs of patients not eligible for the settlement program who seek testing and treatment services and require revision surgery and the number and actual costs to resolve the remaining lawsuits. Accordingly, the ultimate cost to resolve this entire matter globally may be materially different than the amount of the current estimate and accruals and could have a material adverse effect on our financial position, results of operations and cash flows. In 2010 we filed a lawsuit in federal court against Zimmer Biomet Holdings, Inc. (Zimmer), alleging that a Zimmer product infringed on three of our patents. In 2013 following a jury trial favorable to us, the trial judge entered a final judgment that, among other things, awarded us damages of \$76 and ordered Zimmer to pay us enhanced damages. Zimmer appealed this ruling. In December 2014 the Federal Circuit affirmed the damages awarded to us, reversed the order for enhanced damages and remanded the issue of attorney fees to the trial court. In May 2015 the trial court entered a stipulated judgment that, among other things, required Zimmer to pay us the base amount of damages and interest, while the issues of enhanced damages and attorney fees continue to be pursued. In June 2015 we recorded a \$54 gain, net of legal costs, which was recorded within selling, general and administrative expenses. On June 13, 2016 the United States Supreme Court vacated the decision of the Federal Circuit that reversed our judgment for enhanced damages and remanded the case to the Federal Circuit to reconsider the issue. On September 12, 2016 the Federal Circuit issued an opinion that, among other things, remanded the issue of enhanced damages to the trial court. On July 12, 2017 the trial court reaffirmed its award of enhanced damages and then entered a judgment of \$164 in our favor. On July 24, 2017 Zimmer filed a notice of appeal of this decision.

In April 2011 Hill-Rom Company, Inc. and affiliated entities (Hill-Rom) brought a lawsuit against us alleging infringement under United States patent laws with respect to nine patents related to electrical network communications for hospital beds. On July 18, 2017 the parties resolved the litigation pursuant to a confidential settlement agreement under which we agreed to pay \$15 to Hill-Rom.

NOTE 7 - DEBT AND CREDIT FACILITIES

In January 2017 we issued \$500 of senior unsecured notes with an interest rate of 1.800% due on January 15, 2019. Our commercial paper program allows us to have a maximum of \$1,500 in commercial paper outstanding with maturities up to 397 days from the date of issuance. On September 30, 2017 there were no amounts outstanding under our commercial paper program.

We have lines of credit issued by various financial institutions that are available to fund our day-to-day operating needs. Certain of our credit facilities require us to comply with financial and other covenants. We were in compliance with all covenants on September 30, 2017.

Dollar amounts are in millions except per share amounts or as otherwise specified. 7

STRYKER CORPORATION 2017 Third Quarter Form 10-Q

Summary of Total Debt

| | September | December |
|-------------------------|-----------|----------|
| Senior unsecured notes: | 2017 | 2016 |
| Rate Due | | |
| 1.300% April 1, 2018 | \$ 599 | \$ 598 |
| 1.800% January 15, 2019 | 499 | — |
| 2.000% March 8, 2019 | 747 | 746 |
| 4.375% January 15, 2020 | 498 | 497 |
| 2.625% March 15, 2021 | 746 | 745 |
| 3.375% May 15, 2024 | 603 | 602 |
| 3.375% November 1, 2025 | 745 | 744 |
| 3.500% March 15, 2026 | 988 | 987 |
| 4.100% April 1, 2043 | 391 | 391 |
| 4.375% May 15, 2044 | 394 | 395 |
| 4.625% March 15, 2046 | 980 | 979 |
| Commercial paper | — | 200 |
| Other | 35 | 30 |
| Total debt | \$ 7,225 | \$ 6,914 |
| Less current maturities | 632 | 228 |
| Total long-term debt | \$ 6,593 | \$ 6,686 |

| | | |
|---------------------------------|----------|----------|
| Unamortized debt issuance costs | \$ 41 | \$ 45 |
| Available borrowing capacity | \$ 1,542 | \$ 1,551 |
| Fair value of debt | \$ 7,446 | \$ 6,762 |

The fair value of the debt (excluding the interest rate hedge) was estimated using quoted interest rates, maturities and amounts of borrowings based on quoted active market prices and yields that took into account the underlying terms of the debt instruments. Substantially all of our debt is classified within Level 2 of the fair value hierarchy.

NOTE 8 - CAPITAL STOCK

In February 2017 we declared a quarterly dividend of \$0.425 per share payable on April 28, 2017 to shareholders of record at the close of business on March 31, 2017. In May 2017 we declared a quarterly dividend of \$0.425 per share payable on July 31, 2017 to shareholders of record at the close of business on June 30, 2017. In August 2017 we declared a quarterly dividend of \$0.425 per share payable on October 31, 2017 to shareholders of record at the close of business on September 29, 2017.

In March 2015 we announced that our Board of Directors had authorized us to purchase up to \$2,000 of our common stock. In January 2017 we repurchased 1.9 million shares at a cost of \$230 under our authorized repurchase program. The manner, timing and amount of repurchases are determined by management based on an evaluation of market conditions, stock price, and other factors and is subject to regulatory considerations. Purchases are made from time-to-time in the open market, in privately negotiated transactions or otherwise. On September 30, 2017 the total dollar value of shares that could be acquired under our authorized repurchase program was \$1,640.

NOTE 9 - INCOME TAXES

Our effective tax rates were 7.9% and 15.2% in the three months and 10.3% and 14.7% in the nine months 2017 and 2016. The decrease in the effective income tax rates in the three and nine months 2017 was primarily due to the income tax effect of the adoption of ASU 2016-09. Refer to Note 1 for further information.

NOTE 10 - SEGMENT INFORMATION

| | Three Months | | Nine Months | |
|--|--------------|------|-------------|------|
| | 2017 | 2016 | 2017 | 2016 |

Edgar Filing: STRYKER CORP - Form 10-Q

| | | | | |
|---|---------|---------|---------|---------|
| Orthopaedics | \$1,132 | \$1,077 | \$3,408 | \$3,216 |
| MedSurg | 1,336 | 1,253 | 3,977 | 3,469 |
| Neurotechnology and Spine | 538 | 503 | 1,588 | 1,483 |
| Net sales | \$3,006 | \$2,833 | \$8,973 | \$8,168 |
| Orthopaedics | \$389 | \$383 | \$1,175 | \$1,152 |
| MedSurg | 271 | 269 | 840 | 714 |
| Neurotechnology and Spine | 157 | 142 | 445 | 406 |
| Segment operating income | \$817 | \$794 | \$2,460 | \$2,272 |
| Items not allocated to segments: | | | | |
| Corporate and other | (89 |)(88 |)(265 |)(258 |
| Acquisition and integration-related charges | (11 |)(49 |)(29 |)(120 |
| Amortization of intangible assets | (92 |)(89 |)(275 |)(230 |
| Restructuring-related charges | (36 |)(25 |)(119 |)(67 |
| Rejuvenate and ABG II and other recalls | (66 |)(57 |)(164 |)(104 |
| Legal matters | — | — | (30 |)12 |
| Consolidated operating income | \$523 | \$486 | \$1,578 | \$1,505 |

There were no significant changes to total assets by segment from information provided in our Annual Report on Form 10-K for 2016.

Dollar amounts are in millions except per share amounts or as otherwise specified. 8

STRYKER CORPORATION 2017 Third Quarter Form 10-Q

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

ABOUT STRYKER

Stryker Corporation is a global leader in medical technology with net sales of \$11,325 and net earnings of \$1,647 in 2016. We offer a diverse array of innovative medical technologies, including orthopaedic, medical and surgical, and neurotechnology and spine products, to help people lead more active and satisfying lives.

We segregate our operations into three reportable business segments: Orthopaedics, MedSurg, and Neurotechnology and Spine. Orthopaedics products consist primarily of implants used in hip and knee joint replacements and trauma and extremities surgeries. MedSurg products include surgical equipment and surgical navigation systems (Instruments), endoscopic and communications systems (Endoscopy), patient handling and emergency medical equipment, and intensive care disposable products (Medical), reprocessed and remanufactured medical devices (Sustainability) and other medical device products used in a variety of medical specialties. Neurotechnology and Spine products include neurosurgical, neurovascular and spinal implant devices.

Overview of the Three and Nine Months

In the three months 2017 we achieved sales growth of 6.1%. Excluding the impact of acquisitions, sales grew 5.5% in constant currency, in line with our goal to grow organic sales at the high-end of the medical technology industry. We reported net earnings of \$434 in the three months and achieved 21.3% growth in net earnings per diluted share. Excluding the impact of certain items, we achieved adjusted net earnings⁽¹⁾ of \$578 and growth of 9.4% in adjusted net earnings per diluted share⁽¹⁾.

In the nine months 2017 we achieved sales growth of 9.9%. Excluding the impact of acquisitions, sales grew 6.7% in constant currency, in line with our goal to grow organic sales at the high-end of the medical technology industry. We reported net earnings of \$1,269 in the nine months and achieved 11.0% growth in net earnings per diluted share. Excluding the impact of certain items,

we achieved adjusted net earnings⁽¹⁾ of \$1,719 and growth of 12.7% in adjusted net earnings per diluted share⁽¹⁾.

Recent Developments

In October 2017 we acquired a majority of the outstanding equity securities of VEXIM, a French public company, and commenced a tender offer to acquire all of VEXIM's remaining outstanding equity securities for total cash consideration of approximately \$215. VEXIM is a medical device company specializing in the minimally-invasive treatment of vertebral fractures and had net sales in 2016 of approximately \$19. The transaction is expected to close in the fourth quarter of 2017.

In September 2017 we completed the acquisition of NOVADAQ Technologies Inc. (NOVADAQ) for total consideration of approximately \$716. NOVADAQ is a leading developer of fluorescence imaging technology that provides surgeons with visualization of blood flow in vessels and related tissue perfusion in cardiac, cardiovascular, gastrointestinal, plastic, microsurgical, and reconstructive procedures.

In August 2017, we initiated a voluntary product recall involving specific lots of our Sage Products (Sage) Oral Care products. We took this action in response to a Warning Letter received from the U.S. Food and Drug Administration (FDA) dated July 17, 2017, which set forth concerns regarding the potential for cross-contamination of Oral Care solutions manufactured by a third party supplier on equipment also used to manufacture non-pharmaceutical products. We discontinued business with the third-party supplier and the Oral Care solutions are now being manufactured in-house by Sage. We resumed shipping Oral Care products in October and continue to anticipate a return to full supply capacity by year-end.

We also placed Sage cloth-based products on a temporary ship hold during the quarter in response to concerns set forth in the FDA Warning Letter regarding testing methods used for all Sage products containing solutions. We resumed shipping products manufactured by Sage and tested under the testing method required by FDA in September and continue to anticipate a return to full supply capacity by year-end.

RESULTS OF OPERATIONS

Three Months

Nine Months

Edgar Filing: STRYKER CORP - Form 10-Q

| | | | Percent Net Sales | | | Percentage | | Percent Net Sales | | Percentage | | |
|--|---------|---------|-------------------|---------|--------|------------|---------|-------------------|-------|------------|--------|-----|
| | 2017 | 2016 | 2017 | 2016 | Change | 2017 | 2016 | 2017 | 2016 | Change | | |
| Net sales | \$3,006 | \$2,833 | 100.0 | % 100.0 | % 6.1 | % | \$8,973 | \$8,168 | 100.0 | % 100.0 | % 9.9 | % |
| Gross profit | 1,982 | 1,873 | 65.9 | 66.1 | 5.8 | | 5,934 | 5,409 | 66.1 | 66.2 | 9.7 | |
| Research, development and engineering expenses | 198 | 184 | 6.6 | 6.5 | 7.6 | | 582 | 526 | 6.5 | 6.4 | 10.6 | |
| Selling, general and administrative expenses | 1,103 | 1,057 | 36.7 | 37.3 | 4.4 | | 3,335 | 3,044 | 37.2 | 37.3 | 9.6 | |
| Recall charges | 66 | 57 | 2.2 | 2.0 | 15.8 | | 164 | 104 | 1.8 | 1.3 | 57.7 | |
| Amortization of intangible assets | 92 | 89 | 3.1 | 3.1 | 3.4 | | 275 | 230 | 3.1 | 2.8 | 19.6 | |
| Other income (expense), net | (52) | (67) | (1.7) | (2.4) | (22.4) | () | (164) | (172) | (1.8) | (2.1) | (4.7) | () |
| Income taxes | 37 | 64 | | | (42.2) | () | 145 | 196 | | | (26.0) | () |
| Net earnings | \$434 | \$355 | 14.4 | % 12.5 | % 22.3 | % | \$1,269 | \$1,137 | 14.1 | % 13.9 | % 11.6 | % |
| Net earnings per diluted share | \$1.14 | \$0.94 | | | 21.3 | % | \$3.34 | \$3.01 | | | 11.0 | % |
| Adjusted net earnings per diluted share ⁽¹⁾ | \$1.52 | \$1.39 | | | 9.4 | % | \$4.53 | \$4.02 | | | 12.7 | % |

⁽¹⁾ Refer to "Non-GAAP Financial Measures" for a discussion of non-GAAP financial measures used in this report and a reconciliation to the most directly comparable GAAP financial measure.

Dollar amounts are in millions except per share amounts or as otherwise specified. 9

Edgar Filing: STRYKER CORP - Form 10-Q

STRYKER CORPORATION 2017 Third Quarter Form 10-Q

| Geographic and Segment Net Sales | Three Months | | | | Nine Months | | | |
|----------------------------------|--------------|---------|-------------------|-------------------|-------------|---------|-------------------|-------------------|
| | 2017 | 2016 | Percentage Change | | 2017 | 2016 | Percentage Change | |
| | | | As Reported | Constant Currency | | | As Reported | Constant Currency |
| Geographic: | | | | | | | | |
| United States | \$2,182 | \$2,059 | 6.0% | 6.0% | \$6,546 | \$5,930 | 10.4% | 10.4% |
| International | 824 | 774 | 6.4 | 5.4 | 2,427 | 2,238 | 8.5 | 9.6 |
| Total | \$3,006 | \$2,833 | 6.1% | 5.8% | \$8,973 | \$8,168 | 9.9% | 10.2% |
| Segment: | | | | | | | | |
| Orthopaedics | \$1,132 | \$1,077 | 5.1% | 4.8% | \$3,408 | \$3,216 | 6.0% | 6.4% |
| MedSurg | 1,336 | 1,253 | 6.7 | 6.2 | 3,977 | 3,469 | 14.7 | 14.9 |
| Neurotechnology and Spine | 538 | 503 | 6.9 | 7.0 | 1,588 | 1,483 | 7.0 | 7.5 |
| Total | \$3,006 | \$2,833 | 6.1% | 5.8% | \$8,973 | \$8,168 | 9.9% | 10.2% |

Supplemental Net Sales Growth Information

| | Three Months | | | | | | | | Nine Months | | | | | | | |
|-----------------------------------|--------------|---------|-------------------|-------------------|---------------------------|---------------------------|-------|---------|-------------------|-------------------|---------------------------|---------------------------|-------------------|-------|--|--|
| | | | Percentage Change | | | | | | Percentage Change | | | | | | | |
| | 2017 | 2016 | As Reported | Constant Currency | United States As Reported | International As Reported | 2017 | 2016 | As Reported | Constant Currency | United States As Reported | International As Reported | Constant Currency | | | |
| Orthopaedics: | | | | | | | | | | | | | | | | |
| Knees | \$369 | \$354 | 4.2% | 3.9% | 4.3% | 4.0% | 2.6% | \$1,149 | \$1,085 | 5.9% | 6.2% | 6.3% | 5.0% | 5.9% | | |
| Hips | 313 | 310 | 1.0 | 0.9 | 0.2 | 2.2 | 1.9 | 955 | 949 | 0.6 | 1.3 | 1.5 | (0.8) | 1.0 | | |
| Trauma and Extremities | 367 | 343 | 7.4 | 6.9 | 11.2 | 1.0 | (0.2) | 1,070 | 998 | 7.3 | 7.7 | 10.9 | 1.4 | 2.5 | | |
| Other | 83 | 70 | 16.3 | 15.9 | 20.4 | 0.7 | (1.0) | 234 | 184 | 26.6 | 26.5 | 26.7 | 26.3 | 25.5 | | |
| Total Orthopaedics | \$1,132 | \$1,077 | 5.1% | 4.8% | 6.5% | 2.2% | 1.2% | \$3,408 | \$3,216 | 6.0% | 6.4% | 7.7% | 2.5% | 3.7% | | |
| MedSurg: | | | | | | | | | | | | | | | | |
| Instruments | \$404 | \$380 | 6.3% | 6.1% | 6.4% | 6.1% | 4.8% | \$1,190 | \$1,122 | 6.1% | 6.3% | 6.1% | 5.9% | 6.9% | | |
| Endoscopy | 404 | 364 | 10.9 | 10.4 | 13.8 | 1.7 | (0.4) | 1,183 | 1,049 | 12.8 | 12.8 | 14.6 | 6.6 | 6.7 | | |
| Medical | 464 | 450 | 3.4 | 2.8 | (1.0) | 21.5 | 18.5 | 1,413 | 1,122 | 26.0 | 26.4 | 22.8 | 38.8 | 40.9 | | |
| Sustainability | 64 | 59 | 7.3 | 7.3 | 7.1 | 57.3 | 53.0 | 191 | 176 | 8.3 | 8.3 | 8.2 | 37.2 | 36.4 | | |
| Total MedSurg | \$1,336 | \$1,253 | 6.7% | 6.2% | 5.8% | 9.9% | 7.7% | \$3,977 | \$3,469 | 14.7% | 14.9% | 14.2% | 16.5% | 17.4% | | |
| Neurotechnology and Spine: | | | | | | | | | | | | | | | | |
| Neurotechnology | \$353 | \$311 | 13.5% | 13.7% | 11.8% | 16.6% | 17.1% | \$1,036 | \$924 | 12.0% | 12.6% | 10.6% | 14.7% | 16.1% | | |
| Spine | 185 | 192 | (3.7) | (3.8) | (3.6) | (4.2) | (4.3) | 552 | 559 | (1.2) | (0.9) | (0.9) | (2.3) | (0.8) | | |
| Total Neurotechnology and Spine | \$538 | \$503 | 6.9% | 7.0% | 5.3% | 10.3% | 10.7% | \$1,588 | \$1,483 | 7.0% | 7.5% | 5.8% | 9.7% | 11.2% | | |
| Total | \$3,006 | \$2,833 | 6.1% | 5.8% | 6.0% | 6.4% | 5.4% | \$8,973 | \$8,168 | 9.9% | 10.2% | 10.4% | 8.5% | 9.6% | | |

Consolidated Net Sales

Consolidated net sales increased 6.1% in the three months 2017 as reported and 5.8% in constant currency, as foreign currency exchange rates positively impacted net sales by 0.3%. Excluding the 0.3% impact of acquisitions, net sales in constant currency increased by 6.5% from increased unit volume (including negative impacts of 1.8% related to Sage product recalls and temporary ship holds and 0.6% related to hurricanes) partially offset by 1.0% due to lower prices.

The unit volume increase was primarily due to higher shipments of endoscopy, trauma and extremities, neurotechnology, instruments and knee products.

Consolidated net sales increased 9.9% in the nine months 2017 as reported and 10.2% in constant currency, as foreign currency exchange rates negatively impacted net sales by 0.3%. Excluding the 3.5% impact of acquisitions, net sales in constant currency increased by 7.8% from increased unit volume (including negative impacts of 0.7% related to Sage product recalls and temporary ship holds and 0.2% related to hurricanes) partially offset by 1.1% due to lower prices. The unit volume increase was primarily due to higher shipments of endoscopy, knee, trauma and extremities, instrument and neurotechnology products.

Orthopaedics Net Sales

Orthopaedics net sales increased 5.1% in the three months 2017 as reported and 4.8% in constant currency, as foreign currency exchange rates positively impacted net sales by 0.3%. Excluding

the 0.3% impact of acquisitions, net sales in constant currency increased by 6.5% from increased unit volume (including 0.4% negative impact related to hurricanes) partially offset by 2.0% due to lower prices. The unit volume increase was primarily due to higher shipments of knee, trauma and extremities and capital.

Orthopaedics net sales increased 6.0% in the nine months 2017 as reported and 6.4% in constant currency, as foreign currency exchange rates negatively impacted net sales by 0.4%. Excluding the 0.4% impact of acquisitions, net sales in constant currency increased by 8.4% from increased unit volume (including 0.2% negative impact related to hurricanes) partially offset by 2.4% due to lower prices. The unit volume increase was primarily due to higher shipments of knee, trauma and extremities and capital.

MedSurg Net Sales

MedSurg net sales increased 6.7% in the three months 2017 as reported and 6.2% in constant currency, as foreign currency exchange rates positively impacted net sales by 0.5%. Excluding the 0.6% impact of acquisitions, net sales in constant currency increased by 5.6% from increased unit volume (including negative impacts of 4.6% related to Sage product recalls and ship holds and 0.8% related to hurricanes). The unit volume increase was primarily due to higher shipments of endoscopy and instrument products.

MedSurg net sales increased 14.7% in the nine months 2017 as reported and 14.9% in constant currency, as foreign currency exchange rates negatively impacted net sales by 0.2%. Excluding

Dollar amounts are in millions except per share amounts or as otherwise specified. 10

STRYKER CORPORATION 2017 Third Quarter Form 10-Q

the 7.4% impact of acquisitions, net sales in constant currency increased by 7.4% from increased unit volume (including negative impacts of 1.7% related to Sage product recalls and ship holds and 0.3% related to hurricanes) and 0.1% due to higher prices. The unit volume increase was primarily due to higher shipments of endoscopy and instrument products.

Neurotechnology and Spine Net Sales

Neurotechnology and Spine net sales increased 6.9% in the three months 2017 as reported and 7.0% in constant currency, as foreign currency exchange rates negatively impacted net sales by 0.1%. Net sales in constant currency increased by 8.1% from increased unit volume (including 0.5% negative impact related to hurricanes) partially offset by 1.1% due to lower prices. The unit volume increase was primarily due to higher shipments of neurotechnology products.

Neurotechnology and Spine net sales increased 7.0% in the nine months 2017 as reported and 7.5% in constant currency, as foreign currency exchange rates negatively impacted net sales by 0.5%. Excluding the 0.7% impact of acquisitions, net sales in constant currency increased by 8.2% from increased unit volume (including 0.2% negative impact related to hurricanes) partially offset by 1.4% due to lower prices. The unit volume increase was primarily due to higher shipments of neurotechnology products.

Gross Profit

Gross profit as a percentage of sales in the three months 2017 decreased to 65.9% from 66.1% in 2016. Excluding the impact of the charges noted below, gross profit decreased to 66.0% of sales in the three months 2017 from 66.3% in 2016 primarily due to lower selling prices and product mix, partially offset by benefits from reductions in costs. Gross profit as a percentage of sales in the nine months 2017 decreased to 66.1% from 66.2% in 2016. Excluding the impact of the charges noted below, gross profit decreased to 66.3% of sales in the nine months 2017 from 66.8% in 2016 primarily due to recent acquisitions, lower selling prices and foreign currency, partially offset by productivity and product mix.

| | | | Percent Net Sales | |
|------------------------------------|---------|---------|-------------------|-------|
| Three Months | 2017 | 2016 | 2017 | 2016 |
| Reported | \$1,982 | \$1,873 | 65.9% | 66.1% |
| Inventory stepped-up to fair value | 2 | 2 | 0.1 | 0.1 |
| Restructuring-related charges | 1 | 2 | — | 0.1 |
| Adjusted | \$1,985 | \$1,877 | 66.0% | 66.3% |

| | | | Percent Net Sales | |
|------------------------------------|---------|---------|-------------------|-------|
| Nine Months | 2017 | 2016 | 2017 | 2016 |
| Reported | \$5,934 | \$5,409 | 66.1% | 66.2% |
| Inventory stepped-up to fair value | 2 | 37 | — | 0.5 |
| Restructuring-related charges | 12 | 7 | 0.2 | 0.1 |
| Adjusted | \$5,948 | \$5,453 | 66.3% | 66.8% |

Research, Development and Engineering Expenses

Research, development and engineering expenses increased \$14 or 7.6% in the three months 2017 and were 6.6% of sales in 2017 and 6.5% in 2016. These expenses increased \$56 or 10.6% in the nine months 2017 and were 6.5% of sales in 2017 and 6.4% in 2016. Recent acquisitions and the timing of spending on projects and investments in new technologies contributed to the increased spending levels.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$46 or 4.4% in the three months 2017 and decreased as a percentage of sales to 36.7% from 37.3% in 2016. Excluding the impact of the charges noted below, expenses increased to 35.2% of sales in the three months 2017 from 34.9% in 2016, primarily due to planned investments in our selling organization and our new global ERP system, partially offset by cost containment efforts and business mix, including leverage from our recent acquisitions.

Edgar Filing: STRYKER CORP - Form 10-Q

Selling, general and administrative expenses increased \$291 or 9.6% in the nine months 2017 and decreased as a percentage of sales to 37.2% from 37.3% in 2016. Excluding the impact of the charges noted below, expenses decreased to 35.3% of sales in the nine months 2017 from 35.7% in 2016, primarily due to cost containment efforts and business mix, including leverage from our recent acquisitions, partially offset by planned investments in our selling organization and our new global ERP system.

| | | | Percent Net Sales | |
|---|---------|---------|-------------------|--------|
| Three Months | 2017 | 2016 | 2017 | 2016 |
| Reported | \$1,103 | \$1,057 | 36.7 % | 37.3 % |
| Other acquisition and integration-related | (9) | (47) | (0.3) | (1.7) |
| Restructuring-related charges | (35) | (23) | (1.2) | (0.8) |
| Legal matters | — | — | — | — |
| Adjusted | \$1,059 | \$987 | 35.2 % | 34.9 % |

| | | | Percent Net Sales | |
|---|---------|---------|-------------------|--------|
| Nine Months | 2017 | 2016 | 2017 | 2016 |
| Reported | \$3,335 | \$3,044 | 37.2 % | 37.3 % |
| Other acquisition and integration-related | (27) | (83) | (0.3) | (1.0) |
| Restructuring-related charges | (107) | (60) | (1.2) | (0.7) |
| Legal matters | (30) | 12 | (0.4) | 0.1 |
| Adjusted | \$3,171 | \$2,913 | 35.3 % | 35.7 % |

Recall Charges

Recall charges were \$66 and \$57 in the three months and \$164 and \$104 in the nine months 2017 and 2016. The charges were primarily due to the previously disclosed Rejuvenate and ABG II Modular-Neck hip stems voluntary recalls and the voluntary recalls on Sage Products Oral Care solutions in the three months 2017. Refer to Note 6 to our Consolidated Financial Statements for further information.

Amortization of Intangible Assets

Amortization of intangible assets was \$92 and \$89 in the three months and \$275 and \$230 in the nine months 2017 and 2016. The increase in 2017 was primarily due to our recent acquisitions. Refer to Note 5 to our Consolidated Financial Statements for further information.

Other Income (Expense), Net

Other income (expense), net was (\$52) and (\$67) in the three months and (\$164) and (\$172) in the nine months 2017 and 2016. The decrease in the three months 2017 was primarily due to an increase in interest income and lower interest expense. The decrease in the nine months 2017 was primarily due to an increase in interest income, partially offset by higher interest expense from increased debt levels as a result of our March 2016 and January 2017 debt offerings.

Income Taxes

The effective income tax rate on earnings was 7.9% and 15.2% in the three months and 10.3% and 14.7% in the nine months 2017 and 2016. The decrease in the effective income tax rate in the three and nine months 2017 is primarily due to the income tax effect of

Dollar amounts are in millions except per share amounts or as otherwise specified. 11

STRYKER CORPORATION 2017 Third Quarter Form 10-Q

the adoption of ASU 2016-09. Refer to Note 1 to our Consolidated Financial Statements for further information.

Net Earnings

Net earnings increased to \$434 or \$1.14 per diluted share in the three months 2017 from \$355 or \$0.94 per diluted share in 2016. Adjusted net earnings⁽¹⁾ per diluted share increased 9.4% to \$1.52 in the three months 2017 from \$1.39 in 2016. The impact of foreign currency exchange rates on net earnings reduced net earnings per diluted share by less than \$0.01 and approximately \$0.03 in the three months 2017 and 2016.

Net earnings increased to \$1,269 or \$3.34 per diluted share in the nine months 2017 from \$1,137 or \$3.01 per diluted share in 2016. Adjusted net earnings⁽¹⁾ per diluted share increased 12.7% to \$4.53 in the nine months 2017 from \$4.02 in 2016. The impact of foreign currency exchange rates on net earnings reduced net earnings per diluted share by approximately \$0.07 and \$0.08 in the nine months 2017 and 2016.

| | Percent Net Sales | | | |
|---|-------------------|---------|--------|--------|
| Three Months | 2017 | 2016 | 2017 | 2016 |
| Reported | \$434 | \$355 | 14.4 % | 12.5 % |
| Inventory stepped-up to fair value | 2 | 1 | 0.1 | — |
| Other acquisition and integration-related | 6 | 44 | 0.2 | 1.6 |
| Amortization of intangible assets | 66 | 62 | 2.2 | 2.2 |
| Restructuring-related charges | 27 | 20 | 0.9 | 0.7 |
| Rejuvenate and other recall matters | 48 | 44 | 1.6 | 1.6 |
| Legal matters | (5) | — | (0.2) | — |
| Adjusted | \$578 | \$526 | 19.2 % | 18.6 % |
| | Percent Net Sales | | | |
| Nine Months | 2017 | 2016 | 2017 | 2016 |
| Reported | \$1,269 | \$1,137 | 14.1 % | 13.9 % |
| Inventory stepped-up to fair value | 2 | 23 | — | 0.3 |
| Other acquisition and integration-related | 20 | 69 | 0.2 | 0.8 |
| Amortization of intangible assets | 190 | 160 | 2.1 | 2.0 |
| Restructuring-related charges | 95 | 54 | 1.1 | 0.7 |
| Rejuvenate and other recall matters | 123 | 83 | 1.4 | 1.0 |
| Legal Matters | 20 | (7) | 0.3 | (0.1) |
| Adjusted | \$1,719 | \$1,519 | 19.2 % | 18.6 % |

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 amortization of intangible assets; adjusted operating income; adjusted effective income tax rate; adjusted net earnings; and adjusted net earnings per diluted share (Diluted 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 and prior year results at the same foreign currency exchange rate. 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 and prior year results at the same foreign currency exchange rate 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 and may not be indicative of our past and future performance.

The following are examples of the types of adjustments that may be included in a period:

1. Acquisition and integration-related costs. Costs related to integrating recently acquired businesses and specific costs related to the consummation of the acquisition process.
2. Amortization of purchased intangible assets. Periodic amortization expense related to purchased intangible assets.
3. Restructuring-related charges. Costs associated with workforce reductions and other restructuring-related activities.
4. Rejuvenate and other recall matters. Our best estimate of the minimum of the range of probable loss to resolve certain product recalls.
5. Regulatory and legal matters. Our best estimate of the minimum of the range of probable loss to resolve certain regulatory matters and other legal settlements.
6. Tax matters. Certain significant and 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, amortization of intangible assets, operating income, effective income tax rate, net earnings and net earnings per diluted share, the most directly comparable GAAP financial measures. These non-GAAP financial measures are an additional way of viewing aspects of our operations 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. 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 weighted-average basic and diluted shares outstanding used in the calculation of non-GAAP earnings per share are the same as those used in the calculation of the reported per share amounts.

Dollar amounts are in millions except per share amounts or as otherwise specified. 12

Edgar Filing: STRYKER CORP - Form 10-Q

STRYKER CORPORATION 2017 Third Quarter Form 10-Q

Reconciliation of Non-GAAP Financial Measures to the Most Directly Comparable GAAP Financial Measures

| Three Months 2017 | Gross Profit | Selling, General & Administrative Expenses | Amortization of Intangible Assets | Operating Income | Net Earnings | Effective Tax Rate | Diluted EPS |
|--|--------------|--|-----------------------------------|------------------|--------------|--------------------|-------------|
| Reported | \$1,982 | \$ 1,103 | \$ 92 | \$ 523 | \$ 434 | 7.9 % | \$1.14 |
| Acquisition and integration-related charges: | | | | | | | |
| Inventory stepped-up to fair value | 2 | — | — | 2 | 2 | — | 0.01 |
| Other acquisition and integration-related | — | (9 |) — | 9 | 6 | 0.2 | 0.01 |
| Amortization of purchased intangible assets | — | — | (92 |) 92 | 66 | 2.7 | 0.18 |
| Restructuring-related charges | 1 | (35 |) — | 36 | 27 | 0.7 | 0.07 |
| Rejuvenate and other recall matters | — | — | — | 66 | 48 | 1.9 | 0.13 |
| Legal matters | — | — | — | — | (5 |) 1.2 | (0.02 |
| Adjusted | \$1,985 | \$ 1,059 | \$ — | \$ 728 | \$ 578 | 14.6 % | \$1.52 |
| Three Months 2016 | Gross Profit | Selling, General & Administrative Expenses | Amortization of Intangible Assets | Operating Income | Net Earnings | Effective Tax Rate | Diluted EPS |
| Reported | \$1,873 | \$ 1,057 | \$ 89 | \$ 486 | \$ 355 | 15.2 % | \$0.94 |
| Acquisition and integration-related charges: | | | | | | | |
| Inventory stepped-up to fair value | 2 | — | — | 2 | 1 | 0.2 | — |
| Other acquisition and integration-related | — | (47 |) — | 47 | 44 | (1.2 |) 0.12 |
| Amortization of purchased intangible assets | — | — | (89 |) 89 | 62 | 2.7 | 0.16 |
| Restructuring-related charges | 2 | (23 |) — | 25 | 20 | 0.1 | 0.05 |
| Rejuvenate and other recall matters | — | — | — | 57 | 44 | 0.5 | 0.12 |
| Adjusted | \$1,877 | \$ 987 | \$ — | \$ 706 | \$ 526 | 17.5 % | \$1.39 |
| Nine Months 2017 | Gross Profit | Selling, General & Administrative Expenses | Amortization of Intangible Assets | Operating Income | Net Earnings | Effective Tax Rate | Diluted EPS |
| Reported | \$5,934 | \$ 3,335 | \$ 275 | \$ 1,578 | \$ 1,269 | 10.3 % | \$3.34 |
| Acquisition and integration-related charges: | | | | | | | |
| Inventory stepped-up to fair value | 2 | — | — | 2 | 2 | — | 0.01 |
| Other acquisition and integration-related | — | (27 |) — | 27 | 20 | 0.2 | 0.05 |
| Amortization of purchased intangible assets | — | — | (275 |) 275 | 190 | 3.0 | 0.50 |
| Restructuring-related charges | 12 | (107 |) — | 119 | 95 | 0.4 | 0.25 |
| Rejuvenate and other recall matters | — | — | — | 164 | 123 | 1.1 | 0.33 |
| Legal matters | — | (30 |) — | 30 | 20 | 0.4 | 0.05 |
| Adjusted | \$5,948 | \$ 3,171 | \$ — | \$ 2,195 | \$ 1,719 | 15.4 % | \$4.53 |
| Nine Months 2016 | Gross Profit | Selling, General & Administrative Expenses | Amortization of Intangible Assets | Operating Income | Net Earnings | Effective Tax Rate | Diluted EPS |
| Reported | \$5,409 | \$ 3,044 | \$ 230 | \$ 1,505 | \$ 1,137 | 14.7 % | \$3.01 |
| Acquisition and integration-related charges: | | | | | | | |
| Inventory stepped-up to fair value | 37 | — | — | 37 | 23 | 0.6 | 0.06 |
| Other acquisition and integration-related | — | (83 |) — | 83 | 69 | — | 0.19 |
| Amortization of purchased intangible assets | — | — | (230 |) 230 | 160 | 2.2 | 0.42 |
| Restructuring-related charges | 7 | (60 |) — | 67 | 54 | 0.1 | 0.14 |

Edgar Filing: STRYKER CORP - Form 10-Q

| | | | | | | | |
|-------------------------------------|---------|----------|------|----------|----------|--------|----------|
| Rejuvenate and other recall matters | — | — | — | 104 | 83 | 0.1 | 0.22 |
| Legal matters | — | 12 | — | (12 |) (7 |) (0.2 |) (0.02 |
| Adjusted | \$5,453 | \$ 2,913 | \$ — | \$ 2,014 | \$ 1,519 | 17.5 | % \$4.02 |

FINANCIAL CONDITION AND LIQUIDITY

| Nine Months | 2017 | 2016 |
|---|---------|----------|
| Net cash provided by operating activities | \$880 | \$1,257 |
| Net cash used in investing activities | (1,153) | (4,014) |
| Net cash (used in) provided by financing activities | (522) | 2,310 |
| Effect of exchange rate changes | 71 | 21 |
| Change in cash and cash equivalents | \$(724) | \$(426) |

Certain prior year amounts have been reclassified to conform to current year presentation in our Consolidated Statement of Cash Flows.

Operating Activities

Cash provided by operations was \$880 and \$1,257 in the nine months 2017 and 2016. Operating cash flows resulted primarily from net earnings adjusted for non-cash items (depreciation and amortization, share-based compensation and deferred income

taxes). The decrease was primarily due to higher recall-related payments, net of charges, the unfavorable impact of foreign currency remeasurement and higher accrued expenses, partially offset by a lower increase in working capital as the net of accounts receivable, inventory and accounts payable consumed \$252 of cash in 2017 compared to \$296 in 2016.

Investing Activities

Cash used in investing activities was \$1,153 and \$4,014 in the nine months 2017 and 2016. The decrease is primarily due to higher acquisition activity in 2016. Refer to Note 5 to our Consolidated Financial Statements for information. Acquisitions, Net of Cash Acquired: Acquisitions resulted in cash consumption of \$712 and \$4,296 in the nine months 2017 and 2016. In 2017 we acquired NOVADAQ and certain other business and

Dollar amounts are in millions except per share amounts or as otherwise specified. 13

STRYKER CORPORATION 2017 Third Quarter Form 10-Q

related assets. In 2016 we acquired Sage, Physio, Synergetics and certain other business and related assets.

Purchases of Property, Plant and Equipment: Purchases of property, plant and equipment were \$412 and \$347 in the nine months 2017 and 2016. The increase is primarily due to capital expenditures associated with the development of our new global ERP system and investments in new and existing plants and equipment to support sales growth.

Marketable Securities, Net: Cash used to purchase marketable securities was \$29 in the nine months 2017, and cash received from the sales of marketable securities was \$633 in the nine months 2016.

Financing Activities

Dividends and Share Repurchases: Dividends paid per common share increased 11.8% to \$1.275 per share in the nine months 2017 compared to \$1.140 per share in the nine months 2016.

| Nine Months | 2017 | 2016 |
|--|-------|-------|
| Total dividends paid to common shareholders | \$477 | \$426 |
| Total amount paid to repurchase common stock | \$230 | \$13 |
| Shares of repurchased common stock (in millions) | 1.9 | 0.1 |

Borrowings and Repayments of Debt: Net proceeds from borrowings were \$300 in the nine months 2017 primarily from the issuance of \$500 of senior unsecured notes partially offset by payment of \$200 of commercial paper. Net proceeds were \$2,818 in the nine months 2016 primarily from the issuance of \$3,500 of senior unsecured notes, partially offset by payment of \$750 of senior unsecured notes due in September 2016.

Liquidity

Cash, cash equivalents and marketable securities were \$2,689 and \$3,384 on September 30, 2017 and December 31, 2016. Current assets exceeded current liabilities by \$4,452 and \$4,713 on September 30, 2017 and December 31, 2016. We anticipate being able to support our short-term liquidity and operating needs, including acquisitions and Rejuvenate and ABG II recall-related payments, from a variety of sources including cash from operations, commercial paper and existing credit lines. We raised funds in the capital markets and may continue to do so from time to time. We continue to have strong investment-grade short-term and long-term debt ratings that we believe should enable us to refinance our debt as needed.

We have existing credit facilities should additional funds be required. On September 30, 2017 we had approximately \$1,542 of borrowing capacity available under all of our existing credit facilities.

Our cash, cash equivalents and marketable securities held in locations outside the United States was approximately 80% on September 30, 2017 compared to 84% on December 31, 2016. The majority of our cash held in locations outside the United States is considered to be indefinitely reinvested. We intend to use this cash to expand operations organically and through acquisitions.

Critical Accounting Policies

There were no changes to our critical accounting policies from those disclosed in our Annual Report on Form 10-K for 2016.

New Accounting Pronouncements Not Yet Adopted

Refer to Note 1 to our Consolidated Financial Statements for information.

Guarantees and Other Off-Balance Sheet Arrangements

We do not have guarantees or other off-balance sheet financing arrangements, including variable interest entities, of a magnitude that we believe could have a material impact on our financial condition or liquidity.

OTHER MATTERS

Legal and Regulatory Matters

As further described in Note 6 to our Consolidated Financial Statements, we recorded additional charges to earnings of \$35 in the three months 2017 and \$104 in the nine months 2017 representing the excess of the minimum of the range of probable loss to resolve the Rejuvenate and ABG II recalls over the previously recorded reserves. Based on the information that has been received the actuarially determined range of probable loss to resolve this matter is estimated to be approximately \$2,072 to \$2,327 (net of \$232 of third-party insurance recoveries). The final outcome of this matter is dependent on many variables that are difficult to predict. The ultimate cost to entirely resolve this matter may be materially different than the amount of the current estimate and could have a material adverse effect on

our financial position, results of operations and cash flows.

FORWARD-LOOKING STATEMENTS

This report contains statements referring to us that are not historical facts and are considered "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements, which are intended to take advantage of the "safe harbor" provisions of the Reform Act, are based on current projections about operations, industry conditions, financial condition and liquidity. Words that identify forward-looking statements include words such as "may," "could," "will," "should," "possible," "plan," "predict," "forecast," "potential," "anticipate," "estimate," "expect," "project," "intend," "believe," "may impact," "on track," "goal," "strategy" and words and terms of similar substance used in connection with any discussion of future operating or financial performance, an acquisition or our businesses. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. Those statements are not guarantees and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results could differ materially and adversely from these forward-looking statements. Some important factors that could cause our actual results to differ from our expectations in any forward-looking statements include those risks discussed in Item 1A. "Risk Factors" of our Annual Report on Form 10-K for 2016. This Form 10-Q should be read in conjunction with our Consolidated Financial Statements and accompanying notes to our Consolidated Financial Statements in our Annual Report on Form 10-K for 2016.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We consider our greatest potential area of market risk exposure to be exchange rate risk. Quantitative and qualitative disclosures about exchange rate risk are included in Item 7A "Quantitative and Qualitative Disclosures About Market Risk" of our Annual Report on Form 10-K for 2016. There were no material changes from the information provided therein.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(b) or 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act) as of September 30, 2017. Based upon that evaluation, we concluded disclosure controls and procedures are designed to ensure that material information required to be disclosed by us in the reports that we file or submit

Dollar amounts are in millions except per share amounts or as otherwise specified. 14

under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms and that such material information is accumulated and communicated to our management, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Controls over Financial Reporting

There was no change to our internal control over financial reporting in the three months 2017 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) We issued 512 shares of our common stock in the three months 2017 as performance incentive awards to employees. These shares were not registered under the Securities Act of 1933 based on the conclusion that the awards would not be events of sale within the meaning of Section 2(a)(3) of the Act.

ITEM 6. EXHIBITS

31(i)* Certification of Principal Executive Officer of Stryker Corporation pursuant to Rule 13a-14(a)

31(ii)* Certification of Principal Financial Officer of Stryker Corporation pursuant to Rule 13a-14(a)

32(i)* Certification by Principal Executive Officer of Stryker Corporation pursuant to 18 U.S.C. Section 1350

32(ii)* Certification by Principal Financial Officer of Stryker Corporation pursuant to 18 U.S.C. Section 1350

101.INS XBRL Instance Document

101.SCH XBRL Schema Document

101.CAL XBRL Calculation Linkbase Document

101.DEF XBRL Definition Linkbase Document

101.LAB XBRL Label Linkbase Document

101.PRE XBRL Presentation Linkbase Document

* Furnished with this Form 10-Q

Dollar amounts are in millions except per share amounts or as otherwise specified. 15

STRYKER CORPORATION 2017 Third Quarter Form 10-Q

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

STRYKER CORPORATION
(Registrant)

October 27, 2017 /s/ KEVIN A. LOBO

Date Kevin A. Lobo, Chairman and Chief Executive Officer

October 27, 2017 /s/ GLENN S. BOEHNLEIN

Date Glenn S. Boehnlein, Vice President, Chief Financial Officer