



# Stryker Corporation Due Diligence Report

*Prepared for: J&J Board of Directors - Confidential*

# Buy-Side Due Diligence Report

## **Johnson & Johnson's Tender Offer for Stryker Corp.**

STRICTLY PRIVATE AND CONFIDENTIAL

# Stryker Overview

## Business - Overview

Stryker is a leading innovator in medical technologies, providing advanced products and services that improve patient outcomes. The company operates through two key segments:

- **MedSurg & Neurotechnology** – Offers surgical equipment, endoscopic systems, patient handling solutions, neurosurgical and neurovascular devices, and AI-assisted virtual care technologies. Customers include hospitals, surgery centers, and healthcare providers
- **Orthopaedics** – Designs, manufactures, and sells joint replacement implants, trauma fixation devices, spinal implants, and Mako Robotic-Arm Assisted surgical solutions. Clients include orthopedic surgeons, hospitals, and specialty medical centers

Stryker drives growth through a strong global presence, direct sales model, and continuous investment in R&D. With a focus on innovation, robotics, and AI-driven healthcare solutions, the company remains a leader in improving surgical precision and patient care worldwide.

## STRYKER-Key Highlights



**25% International Sales**

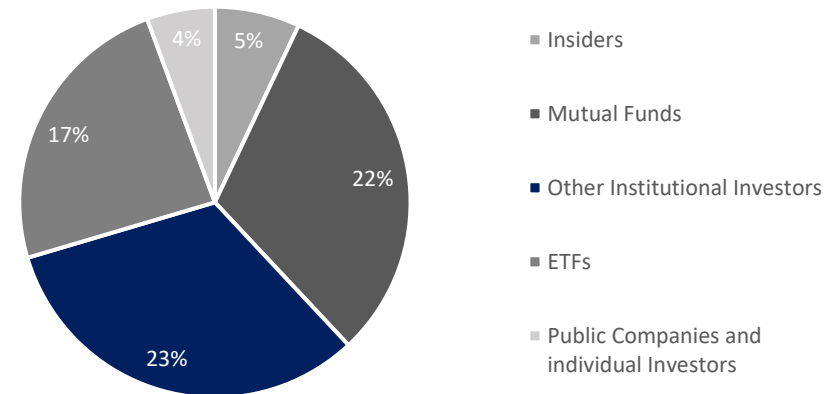
**20.9% EBITDA Margin**

**15.26% ROE**

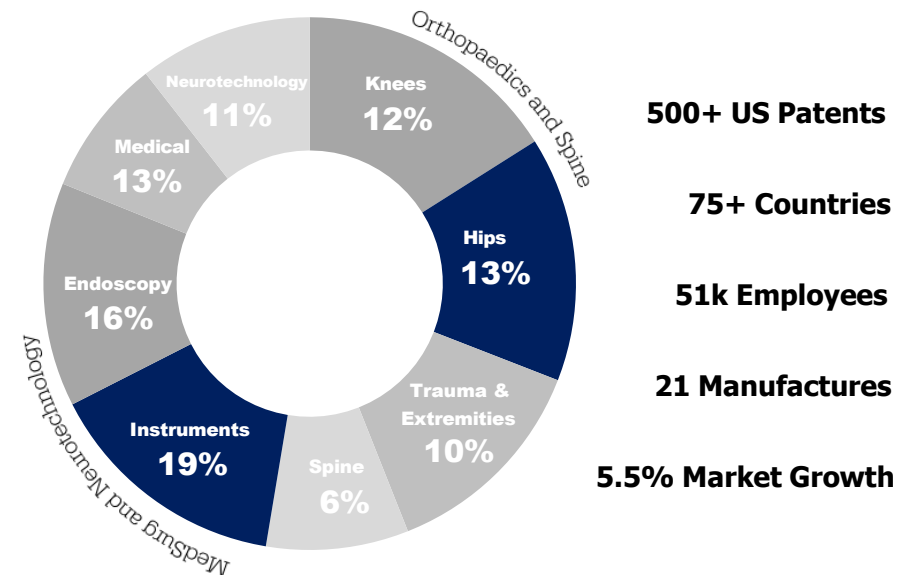
**7.47% ROA**

**\$7.76 EPS**

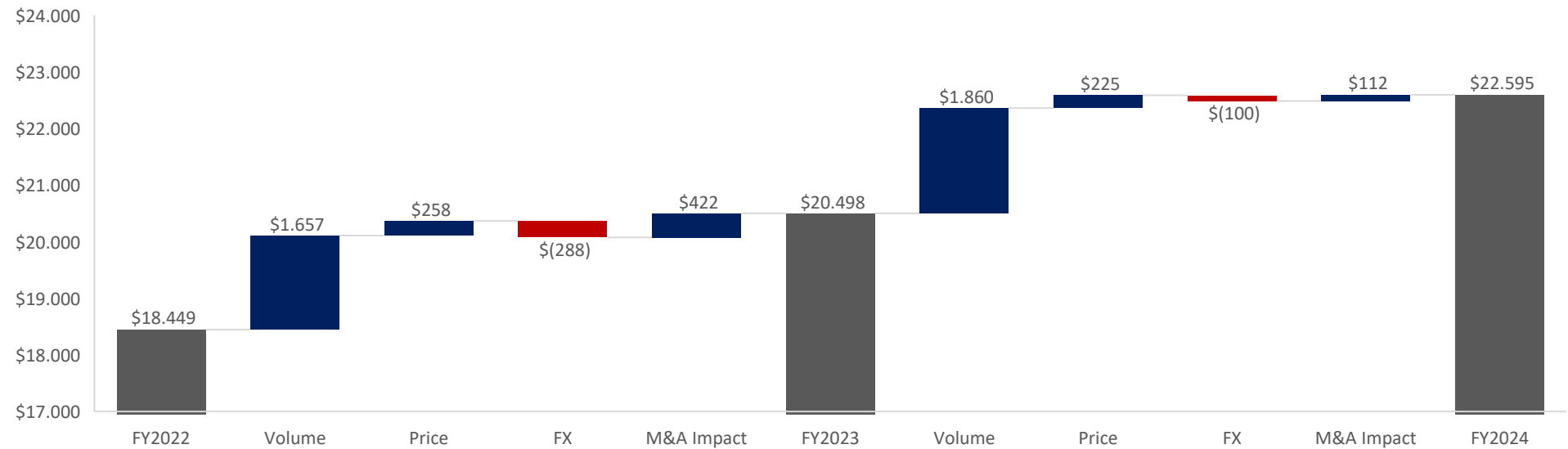
## Ownership - Overview



The ownership structure is a mix of institutional, retail, and individual investors. Approximately 62.30% of the company's stock is owned by Institutional Investors, 4.80% is owned by Insiders, and 32.89% is owned by Public Companies and Individual Investors.

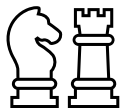


## Revenue Bridge & Sales Quality



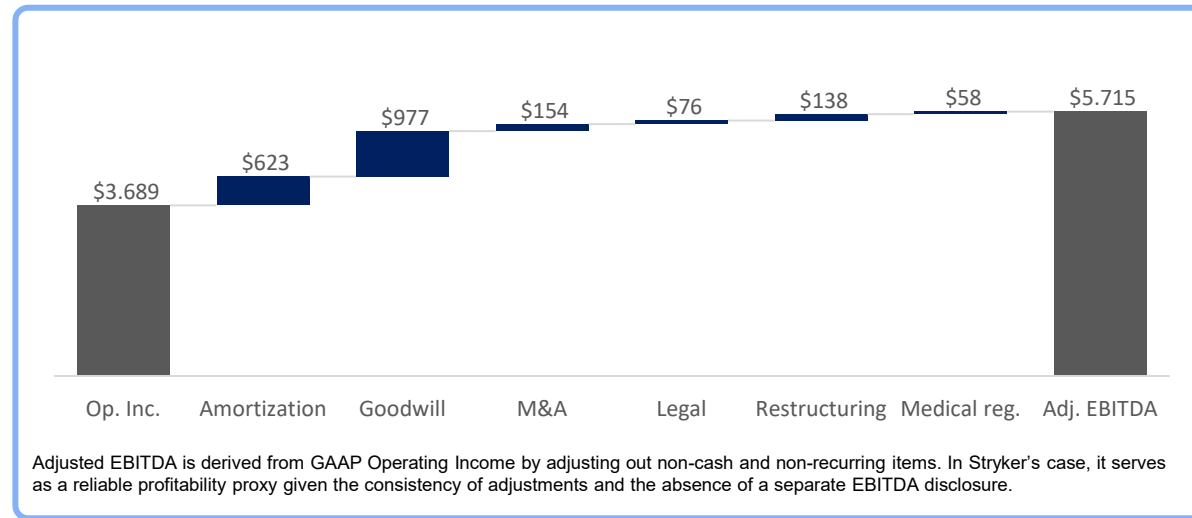
| Total revenue                                                                                                                                                                               | Volume uplift                                                                                                                                                                                                                                                                 | Pricing contribution                                                                                                                                                                                                                                                | M&A-related sales                                                                                                                                                                                               | FX Impact                                                                                                                                                                                       |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>Increased +10.2% YoY to \$22.6B, driven primarily by volume growth (+9.1%), with modest pricing gains (+1.1%) and minimal FX drag (-0.5%)</li> </ul> | <ul style="list-style-type: none"> <li>MedSurg &amp; Neurotech: (+11.1%) notable growth in Instruments, Endoscopy, and Medical capital equipment</li> <li>Orthopaedics : (+8.9%) traction in Hips, Trauma &amp; Extremities offsetting continued softness in Spine</li> </ul> | <ul style="list-style-type: none"> <li>(\$225M) driven by targeted increases in premium and robotic-assisted procedures; however, limited in commoditized areas (e.g., legacy spine implants). Indicates pricing discipline in a competitive environment</li> </ul> | <ul style="list-style-type: none"> <li>(\$112M) are non-material (&lt;1% of total), attributable to bolt-on acquisitions (Vertos, care.ai, SERF). This affirms a high-quality organic growth profile</li> </ul> | <ul style="list-style-type: none"> <li>(\$100M) reflects modest translational headwinds due to USD strength, mostly in EMEA and Asia-Pac. Constant currency revenue growth is +10.7%</li> </ul> |

### Strategic Implications

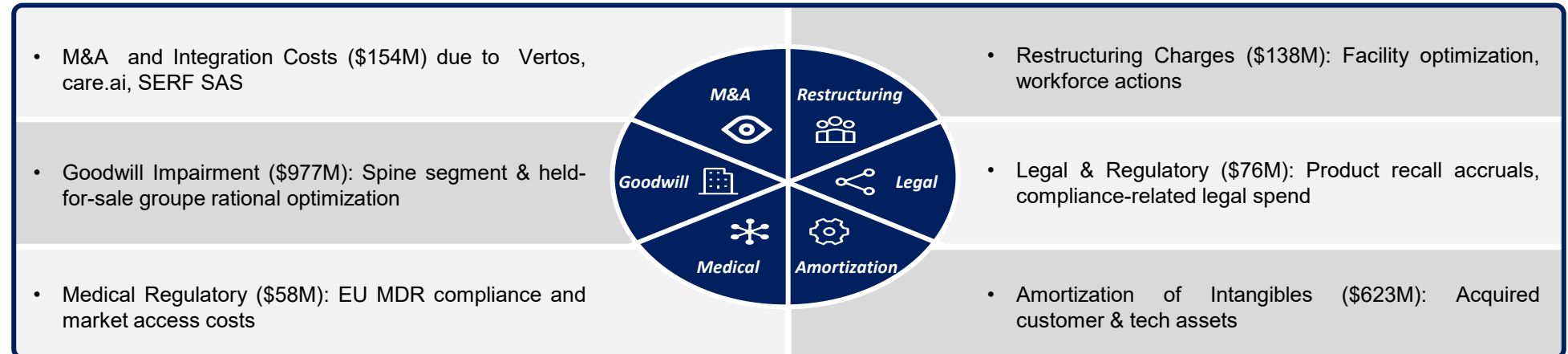
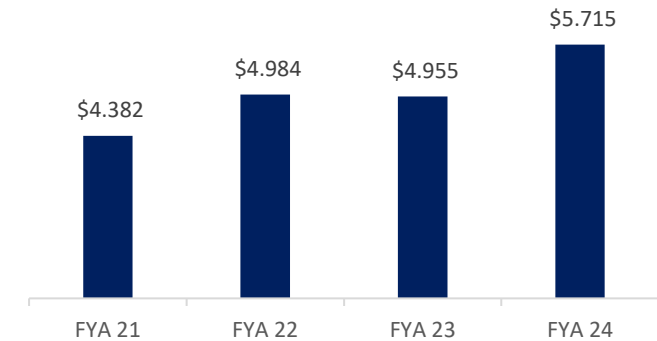


- Revenue growth is broad-based and volume-led, implying real end-market demand vs. temporary pricing or inorganic levers
- High contribution from capital-intensive MedSurg segments supports recurring service revenue growth and stickiness
- Low M&A reliance and minor FX distortion indicates high integrity of topline growth and it implies clean diligence base
- Opportunity remains to expand pricing power in premium robotics, digital OR, and AI-enabled platforms

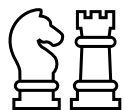
## Adjusted EBITDA Bridge & Profitability Quality



### Adjusted EBITDA Growth Trend



### Strategic Implications



- High adjustment magnitude (35% uplift) reflects Stryker's active restructuring and M&A strategy
- Spine goodwill write-down highlights structural profitability issues, margin accretive divestiture potential
- Recurring non-cash items (amortization, integration) expected in acquisitive model; adjustments are explainable and industry-normal
- EBITDA quality remains strong; 74% conversion to operating cash flow

# Net Debt & Capital Structure

| Metric                    | FY2024             |
|---------------------------|--------------------|
| Cash & Cash Equivalents   | \$ 2.160           |
| Short- Term Investments   | \$ 750             |
| Short- Term Debt          | \$ (500)           |
| Long- Term Debt           | \$ (12.878)        |
| <b>Net Debt</b>           | <b>\$ (10.468)</b> |
| Adjusted EBITDA           | \$ 5.715           |
| <b>Net Leverage Ratio</b> | <b>1.83x</b>       |

**Stryker's net leverage** of 1.83x remains below the large-cap MedTech peer average (2.0–2.5x), supporting its investment-grade credit profile and highlighting disciplined capital structure management. The company retains ample capacity for strategic acquisitions or deleveraging without impairing dividend continuity or liquidity flexibility. Importantly, no off-balance sheet liabilities or near-term maturities create refinancing risk, and \$2.9B in available cash/ST investments offers further downside protection.

| Companies Benchmarking | Net Leverage |
|------------------------|--------------|
| Medtronic              | 2.4x         |
| Zimmer Biomet          | 2.7x         |
| J&J MedTech            | 1.6x         |
| <b>Stryker</b>         | <b>1.83x</b> |



- **Strong liquidity position:** \$2.9B in cash & ST investments ensures near-term flexibility and M&A readiness
- **No refinancing risk:** Debt stack is largely long-term; Stryker issued \$1.25B of unsecured notes in FY24, improving duration
- **No off-balance sheet surprises:** No material finance leases, factoring, or contingent liabilities disclosed
- **No share repurchases:** capital return policy focused on \$1.2B annual dividend
- **Low net leverage** (1.83x) well below peer median (2.2–2.5x for large-cap MedTech)

| Present value           | (\$m)          | (%)           |
|-------------------------|----------------|---------------|
| PV of FCF               | 17.748         | 10,9%         |
| PV of Terminal Value    | 145.061        | 89,1%         |
| <b>Enterprise value</b> | <b>162.808</b> | <b>100,0%</b> |
| Net debt & adjustments  | (10.468)       |               |
| <b>Equity value</b>     | <b>152.340</b> |               |
| Share price             | 399            |               |
| % premium to current    | 5,3%           |               |

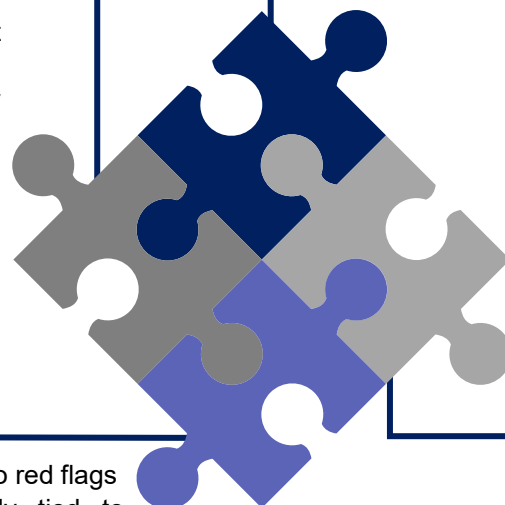
## Strategic Implications



- Stryker is liquid and conservatively levered relative to its size and cash flows
- Debt capacity exists to support further M&A or absorb shocks (e.g., litigation)
- No signs of distress or overextension; cash discipline visible in both payout and liquidity buffers

## Working Capital Efficiency & Cash Conversion

- Operating cash flow rose +14% YoY to \$4.24B, in line with EBITDA growth, implying no material drag from Working Capital
- Inventory increased slightly, management flagged this as supply chain buffer
- No material movement in receivables or payables noted meaning that Working Capital is considered net-neutral
- FCF generation strong enough to fund both CapEx and \$1.2B in dividends, with surplus for reinvestment or debt paydown



|                                    | FY2024 (\$M) | FY2023 (\$M) | YoY         |
|------------------------------------|--------------|--------------|-------------|
| Adjusted EBITDA                    | \$ 5.715     | \$ 4.955     | 15%         |
| Operating Cash Flow (OCF)          | \$ 4.240     | \$ 3.711     | 14%         |
| CapEx                              | \$ (755)     | \$ (575)     | 31%         |
| Free Cash Flow (FCF)               | \$ 3.485     | \$ 3.136     | 11%         |
| <b>Cash Conversion Ratio (CCR)</b> | <b>74.2%</b> | <b>74.9%</b> | <b>Flat</b> |

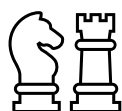
### Efficiency Ratio

|                       |                                |
|-----------------------|--------------------------------|
| Cash Conversion Ratio | 74% of EBITDA converted to OCF |
| CapEx as % of Sales   | 3.3%                           |
| FCF Yield             | 15.4% (FCF / Sales)            |

- Working capital appears well-managed with no red flags
- Inventory increases appear strategic: likely tied to demand planning and mitigation of post-COVID and geopolitical supply risks; not indicative of operational inefficiency
- Receivables quality inferred to be strong: no mention of bad debt expense or DSO changes; no AR impairments or factoring activity reported

- Payables discipline maintained: no evidence of vendor stretch; consistent with Stryker's established supply chain positioning
- Lack of WC spike despite +10% sales growth is notable: indicates Stryker's revenue growth is not being fueled by aggressive receivables or working capital swings
- No adjustments needed to reported OCF or EBITDA for WC corrections: this supports the integrity of reported free cash flow and strengthens reliability of projected liquidity in a transaction model

### Strategic Implications



- High FCF conversion ratio (74% of adj. EBITDA) reflects strong underlying cash economics
- Investment in CapEx supports robotic platforms and smart manufacturing expansion
- Absence of buybacks implies flexibility for future M&A, consistent with Stryker's acquisitive model
- WC ratios suggest no aggressive working capital pulling, signals sustainable operations

# Risk Assessment – Operational, Regulatory & Financial Exposure

| Category            | Key Risk                                                         | Diligence Implications                                                               |
|---------------------|------------------------------------------------------------------|--------------------------------------------------------------------------------------|
| Regulatory          | EU MDR compliance costs                                          | Elevated compliance CapEx; recurring medical regulatory charges (\$58M adj. in FY24) |
| Legal/Litigation    | Product liability (Rejuvenate, LFIT recalls), FCPA investigation | Potential for settlements/fines; ongoing reserves (\$76M in FY24)                    |
| Segment Performance | Spine segment underperformance                                   | \$977M goodwill impairment implies margin drag and valuation haircut                 |
| FX & Inflation      | Currency volatility impacting internal margins                   | 0.5% topline FX drag in FY24; localized pricing risk                                 |
| Cybersecurity       | Data breaches, ransomware, privacy regulation                    | No material incident in FY24, but elevated MedTech exposure                          |
| M&A Integration     | Vertos, care.ai, SERF SAS execution                              | Integration costs \$154M in FY24; operational complexity                             |

## Key take-aways

- Stryker continues to incur recurring costs related to European Medical Device Regulation (EU MDR), reflected in the \$58M “medical regulatory” adjustment in FY2024
- Legal charges of \$76M in FY2024 relate to product recalls (notably LFIT V40 hip stem) and ongoing global compliance probes (including an active FCPA investigation in several countries)
- The \$977M goodwill impairment reflects persistent underperformance in Spine, linked to margin compression and strategic repositioning
- \$154M in integration charges in FY2024 highlights the complexity of recent acquisitions, particularly with digital and AI components (care.ai)
- FX headwinds reduced topline by 0.5% in FY2024, notably from EUR and JPY exposures. Inflationary pressures were partially offset by 1.1% pricing gains

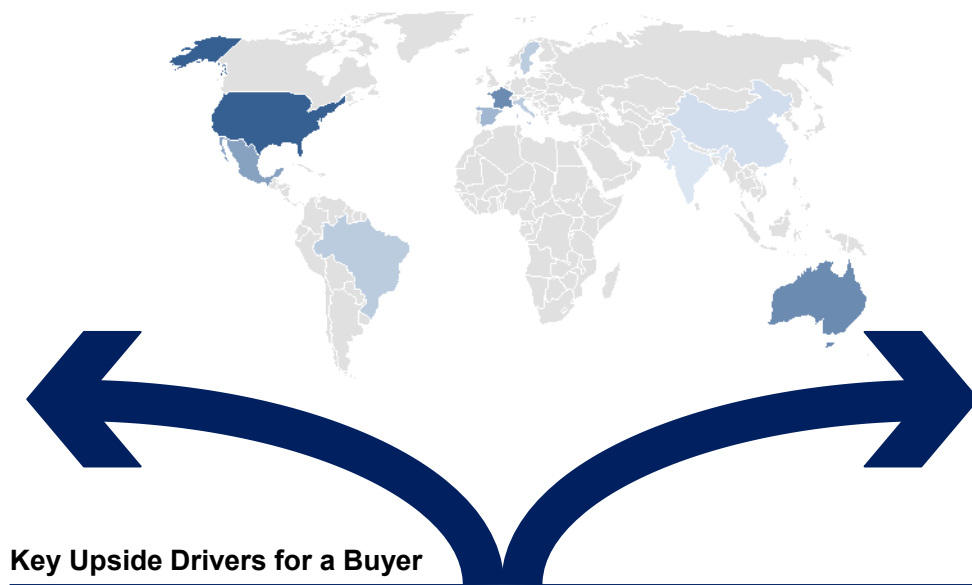
## Strategic Implications

- Earnings normalization must exclude recurring regulatory and legal spend (they are real, not rare)
- Stryker's core platform remains robust, but diligence must adjust for tail-risk segments (Spine) and ongoing integration execution
- No signs of existential risk, but valuation haircut or deferred earnouts may be justified on regulatory/legal grounds

## Value Creation Levers – Post-Transaction Upside

### Opportunities & Strengths

- Strong global brand recognition in MedTech
- Mako Robotics platform enables scalable, high-margin growth
- Mako Shoulder launch expands procedural portfolio
- care.ai & Vocera enhances data monetization & care delivery
- MedSurg installed base drives recurring consumable sales
- Vertos/SERF enable targeted growth in EU markets
- Familiarity with U.S. market reduces operational risk
- 74% of EBITDA cash flow conversion funds internal growth
- Proven bolt-on M&A execution track record
- 25.3% adj. EBITDA margin allows integration upside



### Key Upside Drivers for a Buyer

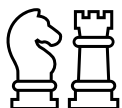
- Mako Shoulder launch plus increased robotics penetration especially in EU and Asia offer scalable growth with high ASP and procedural margin leverage
- Digital workflow tools (via care.ai & Vocera) support data monetization and hospital integration, asset-light, scalable, and in-demand post-COVID
- Installed base in MedSurg drives recurring revenue through instrument reusables and consumables giving cash-rich business unit
- Localized M&A (Vertos, SERF SAS) expands clinical portfolio and unlocks distribution synergy in Europe and interventional spine

### Risks & Constraints

- Regulatory complexity (EU MDR, FDA, FCPA) creates compliance burden
- Robotic adoption in emerging markets limited by cost/training
- Shoulder is a nascent segment with uncertain adoption
- AI/digital integration still early – ROI unproven
- MedSurg mature in core U.S. market – saturation risk
- Heavy reliance on U.S. healthcare (75% of revenue)
- Limited working capital disclosure requires close monitoring
- Ongoing integration costs (e.g., \$154M in FY24) weigh on margins
- Spine goodwill impairments highlight margin fragility in select segments



### Strategic Implications



**Stryker's value creation opportunity lies in scaling high-ROI platforms (robotics, digital, procedural tech), while mitigating integration and geographic execution risk.** Its strong cash engine and M&A discipline offer flexibility, but investor return hinges on capturing synergy and managing exposure in structurally weaker segments.

## Conclusion & Key Investment Highlights

This Due Diligence review highlights Stryker's positioning as a scalable, cash-generative MedTech platform with proven execution and embedded growth levers. While core metrics are strong, diligence has identified red flags requiring adjustment, monitoring, or valuation conservatism.



### Investment Highlights

- **Robust topline growth:** +10.2% YoY, 9.1% from volume
- **Mako & Digital Platforms:** High-ROI, high-margin procedures
- **MedSurg Core:** Recurring revenue, installed base stickiness
- **Strong cash flow profile:** 74% cash conversion from EBITDA
- **FCF supports reinvestment:** CapEx + \$1.2B dividends fully funded
- **Clean leverage:** 1.83x Net Debt / Adj. EBITDA
- **Valuation flexibility:** \$2.9B liquidity + no buybacks
- **Track record of integration:** Vertos, Vocera, SERF SAS
- **Regulatory readiness:** EU MDR compliance underway
- **Low FX & M&A distortion:** High-quality organic revenue base



### Watchpoints & Diligence Risks

- Growth pricing only +1.1%, given limited inflation pass-through
- Early-stage adoption curve in robotics & digital AI platforms
- U.S. exposure concentration (75% of revenue giving high Trump's War tariff exposure)
- Working capital detail not disclosed in SCF given indirect inference only
- CapEx up 31% YoY; requires future ROI discipline
- No disclosure of finance leases, but check for unrecognized lease/off-B/S liabilities
- Legacy margin drag (Spine) caused \$977M impairment in FY24
- \$154M FY24 integration cost given watch for synergy realization slippage
- Medical regulatory spend (\$58M FY24) may be recurring, not one-time
- FX impact (-0.5%) but pricing may face pressures

### Final Takeaway

Stryker is a cash-strong, innovation-led platform with upside in procedural robotics and digital care orchestration. While diligence flags structural challenges in legacy Spine and recurring regulatory/legal costs, the business model remains defensible and scalable. Valuation adjustments may be justified for impairments, integration risks, and compliance charges, but EBITDA quality is strong.

## Disclaimer

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