

STRYKER CORP
Form 10-Q
July 29, 2015

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

FORM 10-Q

(Mark one)

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

For the quarterly period ended June 30, 2015

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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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Large accelerated filer ☒ Accelerated filer ☐

Non-accelerated filer ☐ Small reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☒

Number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:
376,558,214 shares of Common Stock, \$0.10 par value, as of June 30, 2015.

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PART I. - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

Stryker Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF EARNINGS (Unaudited)

	Three Months		Six Months		
	2015	2014	2015	2014	
Net sales	\$2,432	\$2,363	\$4,811	\$4,668	
Cost of sales	827	815	1,653	1,591	
Gross profit	1,605	1,548	3,158	3,077	
Research, development and engineering expenses	154	158	306	308	
Selling, general and administrative expenses	861	870	1,753	1,729	
Recall charges	112	276	166	620	
Intangible asset amortization	49	47	98	92	
Total operating expenses	1,176	1,351	2,323	2,749	
Operating income	429	197	835	328	
Other income (expense), net	(28) (30) (57) (54)
Earnings before income taxes	401	167	778	274	
Income taxes	9	39	162	76	
Net earnings	\$392	\$128	\$616	\$198	
Net earnings per share of common stock:					
Basic net earnings per share of common stock	\$1.04	\$0.34	\$1.63	\$0.52	
Diluted net earnings per share of common stock	\$1.03	\$0.33	\$1.61	\$0.51	
Weighted-average shares outstanding - in millions:					
Basic	377.0	378.8	377.9	378.5	
Net effect of dilutive employee stock options	4.1	3.9	4.3	4.2	
Diluted	381.1	382.7	382.2	382.7	
Anti-dilutive shares excluded from the calculation of net effect of dilutive employee stock options	—	—	—	2.5	

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Three Months		Six Months		
	2015	2014	2015	2014	
Net earnings	\$392	\$128	\$616	\$198	
Other comprehensive income, net of tax					
Marketable securities	(4	) 4	(3	) 7
Pension plans	(3	) 1	10	—
Unrealized gains on designated hedges	10	(9) 11	(12)
Financial statement translation	87	(33	) (195	) 4
Total other comprehensive (loss) income, net of tax	90	(37) (177) (1)
Comprehensive income	\$482	\$91	\$439	\$197	

See accompanying notes to Consolidated Financial Statements.

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Stryker Corporation and Subsidiaries

CONSOLIDATED BALANCE SHEETS

	June 30 2015 Unaudited	December 31 2014
ASSETS		
Current assets		
Cash and cash equivalents	\$3,626	\$1,795
Marketable securities	651	3,205
Accounts receivable, less allowance of \$62 (\$59 in 2014)	1,500	1,572
Inventories		
Materials and supplies	270	248
Work in Process	104	88
Finished Goods	1,245	1,252
Total inventories	1,619	1,588
Deferred income taxes	955	989
Prepaid expenses and other current assets	585	524
Total current assets	8,936	9,673
Property, plant and equipment		
Land, buildings and improvements	680	678
Machinery and equipment	1,924	1,919
Total property, plant and equipment	2,604	2,597
Less allowance for depreciation	1,502	1,499
Net property, plant and equipment	1,102	1,098
Other assets		
Goodwill	4,125	4,186
Other intangibles, net	1,925	2,018
Other	731	738
Total assets	\$16,819	\$17,713
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$342	\$329
Accrued compensation	440	597
Income taxes	157	333
Dividend payable	130	131
Accrued recall expenses	1,688	1,593
Accrued expenses and other liabilities	739	754
Current maturities of debt	227	727
Total current liabilities	3,723	4,464
Long-term debt, excluding current maturities	3,242	3,246
Other liabilities	1,349	1,408
Shareholders' equity		
Common stock, \$0.10 par value:		
Authorized: 1 billion shares, outstanding: 377 million shares (378 million in 2014)	38	38
Additional paid-in capital	1,298	1,252
Retained earnings	7,600	7,559
Accumulated other comprehensive income	(431)	(254)

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Total shareholders' equity	8,505	8,595
Total liabilities & shareholders' equity	\$16,819	\$17,713

See accompanying notes to Consolidated Financial Statements.

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Dollar amounts in millions except per share amounts or as
otherwise specified

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Stryker Corporation and Subsidiaries

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (Unaudited)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balances at December 31, 2014	\$38	\$1,252	\$7,559	\$(254)	) \$8,595
Net earnings			616		616
Other comprehensive loss				(177)	) (177)
Issuance of 1.5 million shares of common stock under stock option and benefit plans, including \$46 excess income tax benefit		14			14
Repurchase and retirement of 3.5 million shares of common stock		(12)	) (312)		(324)
Share-based compensation		44			44
Cash dividends declared of \$0.69 per share of common stock			(263)	)	(263)
Balances at June 30, 2015	\$38	\$1,298	\$7,600	\$(431)	) \$8,505

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Six Months 2015	2014
Operating activities		
Net earnings	\$616	\$198
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	90	93
Amortization of intangible assets	98	92
Share-based compensation	44	41
Gross recall charges	166	620
Sale of inventory stepped up to fair value at acquisition	13	14
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	39	53
Inventories	(67)	) (120)
Accounts payable	17	11
Accrued expenses and other liabilities	(125)	) (134)
Recall-related payments	(31)	) (36)
Income taxes	(251)	) (137)
Other	128	(116)
Net cash provided by operating activities	737	