Stryker (SYK) Earnings Report: Q2 2015 Conference Call Transcript

The following Stryker conference call took place on July 23, 2015, 04:30 PM ET. This is a transcript of that earnings call:

Company Participants

- Kevin Lobo; Stryker; Chairman, CEO and President
- Katherine Owen; Stryker; VP of Strategy & Investor Relations
- William Jellison; Stryker; CFO and VP

Other Participants

- Robert Hopkins; BofA Merrill Lynch; Analyst
- David Lewis; Morgan Stanley; Analyst
- David Roman; Goldman Sachs Group; Analyst
- Kristen Stewart; Deutsche Bank; Analyst
- Michael Weinstein; JP Morgan Chase; Analyst
- Matthew Taylor; Barclays Capital; Analyst
- Glenn Novarro; RBC Capital Markets; Analyst
- Richard Newitter; Leerink Partners; Analyst
- Raj Denhoy; Jefferies; Analyst
- Jason Wittes; Brean Capital; Analyst
- Michael Matson; Needham & Company; Analyst
- Lawrence Biegelsen; Wells Fargo Securities; Analyst
- Matthew O’Brien; Piper Jaffray Companies; Analyst
- Joanne Wuensch; BMO Capital Markets; Analyst
- Joshua Jennings; Cowen and Company; Analyst
- William Plovanic; Canaccord Genuity; Analyst

MANAGEMENT DISCUSSION SECTION

Operator:

Welcome to Stryker's Second Quarter 2015 Earnings conference call. My name is [Adrian] and I'll be your operator for today's call. (Operator Instructions)

Before we begin, I'd like to remind you the discussions during this conference call will include forward-looking statements. Factors that can cause actual results to differ materially are discussed in the Company's most recent filings with the SEC.

Also, the discussions will include certain non-GAAP financial measures. Reconciliations to the more directly comparable GAAP financial measures can be found in today's press release that is an exhibit to Stryker's current report on Form 8-K filed today with the SEC.

I'll now turn the call over to Mr. Kevin Lobo, Chairman and Chief Executive Officer. You may proceed, sir.

Kevin Lobo (Chairman, CEO and President):
Good afternoon, everyone, and welcome to Stryker's second quarter 2015 earnings call. Joining me today are Bill Jellison, our CFO, and Katherine Owen, Vice President of Strategy and Investor Relations. Following my opening comments, Katherine will provide updates on MAKO, neurovascular and our Transatlantic operating model. Bill will then offer details on our quarterly results before turning to questions and answers.

The second quarter results underscore the momentum we are seeing across our three segments, as we leverage strong sales and marketing execution and realize the benefits from both internally developed products and acquisitions. We're focused on growing organic sales at the high end of med tech. And this marks our ninth consecutive quarter of achieving organic sales growth of at least 5%.

Our strong US businesses, which represent about 70% of our sales, had stellar growth of over 9%, led by double-digit growth from medical, trauma and extremities, neurotechnology, and instruments. Medical and trauma continued their excellent performance, and neurotechnology has been bolstered by new clinical data that Katherine will discuss. Instruments had a nice recovery from Q1 as much of their product issues have been resolved.

Our US spine business was also a bright spot, posting 9% growth in the quarter. We are encouraged about the growth of recent product launches such as AccuLIF from the CoAlign acquisition, and have a robust pipeline of new products that will be launched over the next few years. This product flow, when combined with a strengthened management team, position spine well for the future. Outside the US, our performance was largely consistent, as strength in Europe and a continued improvement in Japan was offset by some softness in other markets including parts of our China and Latin America businesses.

Looking at the P&L, the establishment of our European regional headquarters and related tax benefits are tracking ahead of our expectations. As previously conveyed, we are reinvesting roughly half of our tax savings to support our new structure within Europe, which is reflected in the year-over-year increase in SG&A.

Our strong top line, disciplined expense management, and better-than-expected reduction in tax resulted in an adjusted EPS of $1.20, which was the upper end of our $1.15 to $1.20 range that we targeted heading into the quarter. We expect our first-half momentum to continue, including an improved tax rate, and consequently we are raising both our full-year sales and adjusted EPS targets to 5.5% to 6.5% and $5.06 to $5.12 a share, respectively.

With that, I’ll now turn the call over to Katherine.

Katherine Owen (VP of Strategy & Investor Relations):

Thanks, Kevin. The focus of my comments today will be on providing an update with MAKO, progress with our Transatlantic operating model, or TOM, as well as some comments related to our neurovascular business.

Starting with MAKO, we placed 13 robots globally, representing a Q2 record. This follows the Q1 record of 9 and a Q4 of 2014 record of 20 robot placements. Of the 13 in Q2, we placed 2 in Australia, which represents our first sales in this key market for Stryker where we command a market leading position in hips and knees.

During the quarter we initiated robot upgrades which will enable Stryker hip implants to start being used on the robot in Q3. The updates to the installed base will continue throughout 2015 and into next year. As you are aware, our total knee 510(k) application was submitted to the FDA late last year, and we’ve responded to the Agency’s questions with no current change for our target for clearance in 2015.
Shifting to TOM, with the completion of Q2 we are six months into our new Transatlantic structure and are pleased with the progress we're making to optimize our European presence. We continue to invest in this initiative through a portion of tax savings and all our key leaders and commercial structures are in place. We continue to see improving top-line momentum in Europe and believe we are well positioned for further acceleration, particularly as we head in to 2016.

Finally, the European regional headquarters represent the flagship for our presence in Europe as we bring HCPs into the site for training and education. We believe this will be key to strengthening the Stryker brand in Europe and enhancing our relationships with physicians and hospitals.

Lastly, I will make some comments relating to our neurovascular business. As Kevin mentioned, we like the momentum in the neurovascular space. And the recent update of AHA/AFA guidelines are one of the marketable drivers to expansion. We expect to see similar guidelines coming from Europe and Japan.

Specifically, in June, for the first time, the AHA recommended that patients should receive endovascular therapy with a stent retriever for the treatment of ischemic stroke, which represents the vast majority of the roughly 800,000 strokes that occur annually in the US alone. These guidelines represent the first new stroke treatment in two decades to win the AHA's strongest backing.

The usual treatment of an ischemic stroke is to administer a clot-dissolving drug, know as TPA. However, the drug must be given within four and a half hours after symptom onset. With stent retrievers, the clots can be quickly removed from the patient to restore blood flow to critical vessels in the brain.

Late last year and earlier this year several major studies, including the MR CLEAN study, found stent retrievers dramatically cut the risk of death or disability in patients whose clots persisted after treatment with TPA. The new AHA guidelines recommend patients be treated with a stent retriever if it can be done within six hours of symptom onset, and if they have a severe stroke caused by a clot in a large artery. Clearly the mounting clinical data and support from AHA underscore the opportunity for endovascular treatment of stroke.

However, it’s important to note that much work needs to be done to further develop the market, including the optimization of EMS transport systems and inter-hospital transfers, protocols, in-hospital infrastructure, and investment in new human and physical capital to absorb the patient volume. Stryker remains committed to continuing its investment in stroke innovation with the recent launches of Trevo 6 millimeter, 3 millimeter, and the 40-by-30 or long Trevo. This combined with further clinical studies such as the DAWN trial for late and wake-up stroke patients.

With that, I’ll now turn the call over to Bill.

William Jellison (CFO and VP):

Thanks, Katherine. Sales growth was 2.9% in the second quarter including a negative 4.7% impact from FX translation. Constant currency sales growth was 7.6%, which includes organic growth of 6.9%.

EPS on a GAAP basis for the second quarter were $1.03 per share, versus $0.33 per share last year in the second quarter, while adjusted EPS were $1.20 per share for the quarter versus $1.08 per share in the second quarter of last year. This quarter's EPS includes negative impacts of roughly $0.07 per share from FX, in line with our original guidance.

Most foreign exchange rates were again weaker against the dollar than last year in the same period. The weaker euro and Swiss franc, along with our layered hedging program, helped mitigate some of the impact in the quarter as many of our products are manufactured within Europe.

The most significant non-GAAP adjustments in the quarter relate to a charge of approximately $112
Looking at sales in the second quarter, our organic growth of 6.9% was comprised of a positive 8.7% from volume and mix, while price negatively impacted sales by 1.8 percentage points. Acquisitions added 0.7%, while FX had a negative 4.7% impact on the sales in the quarter.

Looking at our segments, orthopedics represented 42% of our sales in the quarter. Sales of orthopedic products were up 0.6%, as reported, and grew 6.2% constant currency and increased 5.3% organically. US orthopedic sales grew 8.3% in the quarter.

Trauma and extremities had another standout quarter with sales in the US increasing 18%, reflecting approximately 30% growth in our US foot and ankle business, including strong double-digit organic growth. US hips continued its strong performance and grew 5.7% in the second quarter, while US knees increased 2.8% against a tough 7% comp last year. Internationally sales were a positive 1.1% in hips in constant currency and increased 5.3% in knees in constant currency.

Next, our MedSurg segment represented approximately 39% of our sales in the quarter. Total MedSurg sales increased 3.9%, as reported, with 7.4% in constant currency, and increased 6.7% organically. These results were led once again by double-digit organic and constant currency growth in our medical business as our sales force, combined with a strong product offering, continued to execute. We also experienced upper single-digit constant currency growth in instruments, as we restored shipments from a supply issue which negatively impacted the first quarter.

Endoscopy grew by 3.2% in constant currency against double-digit organic comps in the second quarter last year. Our final segment, neurotechnology and spine, which represents 19% of our sales in the quarter, increased 6.4%, as reported, and 11.5% organically. Growth in this segment was led by strong double-digit growth in each of our neurotechnology businesses including neurovascular, CMF, and NSE. Spinal implant sales increased mid single digits in the quarter and high single digits in the US as new products energized the business.

In looking at our operational performance, gross margins on an adjusted basis in the second quarter of 2015 were 66.3% compared to 65.9% in the second quarter last year. The increase in the margin rate in the quarter compared to the second quarter of last year resulted from negative pricing pressures, which were more than offset by favorable mix, FX, and operational efficiencies. Pricing declined 1.8% in the quarter, in line with our expectations of approximately 2 percentage point decline.

Research and development expenses were 6.3% of sales, slightly lower than last year in the quarter. Selling, general and administrative costs on an adjusted basis were $879 million or 36.1% of sales in the quarter versus 35.3% in the prior-year period. The cost increases were driven in part by our decision to reinvest roughly half of our tax savings to strengthen our European selling and marketing activities and support our new European regional headquarters. We also incurred higher compensation costs, including commissions tied to our stronger sales performance, partly offset by improved cost controls in many of our indirect spending categories.

Adjusting for these items on a year-to-date basis, we would be delivering leverage of 30 to 40 basis points. And we are confident in our ability to deliver at least this level of expense leverage in 2016 as we continue to drive a number of key initiatives in this area.

Operating margins on an adjusted basis were 23.8% in the second quarter of 2015, nearly flat with the second quarter of 2014. The rate reflects solid operational improvements, coupled with favorable mix, largely offset by our investments to support our European business, negative price, and compensation...
costs tied to our strong sales performance.

Other expense in the second quarter was approximately $30 million, which is flat with last year in the second quarter. Our reported tax rate for the second quarter was 2.2 percentage points, while our adjusted effective tax rate was 16.8%. This compares to a 22.4% adjusted effective tax rate in the second quarter last year.

Looking at the balance sheet, we ended the quarter with $4.3 billion of cash and marketable securities, approximately one-third of it held in the US. We also had $3.5 billion of debt on the balance sheet at the end of the quarter. From an asset management standpoint, accounts receivable days ended in the second quarter at 55 days, slightly below last year's second quarter. And days in inventory finished the quarter at 173, just a little better than the 177 days in the second quarter last year.

Turning to cash flow, our cash from operations in the first half of 2015 were $737 million compared to $579 million last year in the first half. Capital expenditures were $114 million in the first half of 2015 compared to $124 million in the same period last year. However, capital expenditures are expected to run higher than last year as we move through 2015.

We expect significant cash outflows associated with our Rejuvenate settlement in the second half of this year, with a major portion of the funding occurring in the third quarter. So far in the third quarter we have paid out $786 million and we expect to fund a total of approximately $1.2 billion this quarter. Approximately 50% of the funding for the rejuvenate liability is expected to be sourced from O-US cash. Also, as we previously mentioned, we have repatriated approximately $700 million in the first half of the year and expect to repatriate nearly $1 billion more late in this year.

We still have over $2 billion available for share repurchase under our recently expanded authorization, as approximately $324 million of share repurchases were made by the end of the second quarter. We will continue to evaluate the level and frequency of our share repurchases. However, current plans are to fully utilize the current authorization over the next two to three years.

Our strong second quarter results give us additional confidence in our ability to deliver improved operating results for the year. We are increasing our guidance for both sales and earnings for 2015. Our sales guidance now includes constant currency growth, up 6.5% to 7.5%, with organic sales growth in the range of 5.5% to 6.5%. If foreign currency exchange rates hold near current levels, we expect net sales for the full year of 2015 to be negatively impacted by approximately 3.5% to 4%.

Pricing pressure will continue and prices are currently expected to be nearly 2% decline for the Company moving forward, consistent with the pricing environment we experienced over the last year. The benefit from the renewal of the tax extenders continues to be in our year-end earnings guidance and represents approximately $0.05 per share for the year. We continue to expect that they will once again be approved. However, we do not expect them to be renewed until late in the year. As such, we do not have any benefit from them in our actual results or planned earnings guidance until the fourth quarter of this year.

We also expect that our adjusted tax rate will run at or below the level achieved in the first half of the year and will be noticeably better in the period the tax extenders are approved. Based on current FX rates we expect 2015 to be negatively impacted by approximately $0.25 per share for the full year. Keep in mind that the full-year negative impact of foreign exchange rate movement is largely driven by the translational component of FX, which we do not hedge.

And, finally, we are also increasing our earnings guidance for 2015. Our adjusted net earnings per share is now $5.06 to $5.12, with adjusted net earnings per share in the range of $1.20 to $1.25 for the third quarter of 2015.
Questions & Answers

Operator:

Thank you. I’ll now begin the question and answer session. (Operator Instructions)

Your first question comes from that line of Bob Hopkins from Bank of America.

Robert Hopkins (Analyst - BofA Merrill Lynch):

Great. Thanks. Good afternoon and congrats on a really good quarter. Just two things I wanted to touch on, one for Bill, then one for Kevin. First, Bill, one of the questions we’ve gotten pretty consistently from investors relates to your ability to drop through operating margin leverage. I noticed you made the comment about 30 to 40 basis points of drop through. Was that an SG&A or operating margin comment? And is that the kind of leverage you want us to expect you to be able to deliver as we look forward?

William Jellison (CFO and VP):

Sure. That comment, Bob, was specifically on our SG&A component and we wanted to just make that clear because we’re making some nice reductions within that area currently. However, as you can tell, that’s obviously being masked by a couple things this year and we wanted to highlight that.

I think also, as we relate to the 2016 comment, we’re highly confident in our ability to create that leverage. But again, that’s just at the expense level and we’ll talk more broadly about our operating income levels as we give our regular guidance.

Plus, you should expect, and you’re seeing our gross profit margin improvement currently show up. And as I mentioned earlier this year, we should have better comparables against gross margin as we move through this year. So, if we’re getting any level of gross margin improvement, which we believe should be flat to a slight positive in a more neutral FX-related environment, along with some of the SG&A related leverage that we just talked about, you should expect leverage at the operating income line, as well, moving forward.

Robert Hopkins (Analyst - BofA Merrill Lynch):

Great, thank you. And then for Kevin and Katherine, obviously you’re seeing some clear strengths across your businesses. As you think about capital allocation, does the strength of your business change at all how you think about capital allocation priorities? Does M&A remain the top priority? If you could just speak to that, how this clear strength in your business might be impacting your thought process there, that would be helpful.

Kevin Lobo (Chairman, CEO and President):

Our capital allocation strategy is unchanged. We still have M&A as our first priority and use of cash. And you can see, based on the actions we’ve done over the past couple of years, they are contributing to our sustained organic growth performance because after the anniversary of the first year then they become part of our organic business. And we still see significant scope for acquisitions within the three segments that we play in today. That continues to remain number one.

And as we mentioned previously, dividends we intend to have steady increases, at least as fast as our earnings growth, potentially a little bit faster than that. Then share repurchase, the more fungible one, which really varies depending on the timing and the flow of deals which, as you know, is inherently
uncertain. But, no change to our strategy. The strength of our business, frankly, reinforces the strategy that we’ve been deploying over the past few years.

Operator:

And next question comes from David Lewis from Morgan Stanley.

David Lewis (Analyst - Morgan Stanley):

Good afternoon. Kevin, what I find interesting about this particular quarter, if we look at various segments that you were enthusiastic about at AOS, namely, spine, neuro, and MAKO, they’ve all come through and, frankly, I think most would agree have come through faster than most were expecting. I think it would be helpful, based on your earlier enthusiasm, what’s your conviction on the continuation of the trends you’re seeing here in the second quarter in those key businesses -- spine, neuro, and MAKO?

Kevin Lobo (Chairman, CEO and President):

I feel very good about all three of those businesses. Neuro has been a trend we’ve seen, frankly, for multiple quarters. And it’s now being accelerated because of the ischemic stroke segment that Katherine mentioned, which will be a multi-year journey. And that was based on the Concentric acquisition which we did in October of 2012. Neuro has been really a continuation of a multiple quarter experience.

On MAKO, we turned the corner, really, about the midpoint of last year and you’ve seen sustained improvement. I expect that to continue. We’re of course very anxious for the total knee approval which we believe will be another catalyst for enhanced growth. Our organization really has embraced this. The sales force integration is now really humming. So we’re feeling very good moment and excited. We got over our back order issue that plagued us a little bit in the first quarter. We were able to get through that on MAKO in the second quarter, so feel good about that.

Spine, really, is the one business that’s turned the most and the most recently. I’m really encouraged because it’s based on a combination of product launches -- numerous product launches. If you look over the past two years, we’ve launched more than we did in the last four years. If you looked in the first half of this year, we’ve launched more in any six-month period than we’ve launched, probably, in the last three, four, five years.

We’ve really gained momentum. We have new R&D leadership. It has an exciting flow of products. And, of course, we’ve added some acquisitions, as well, with CoAlign, with the Bio4 Biologics. So, we have a number of products, and the product flow going forward I feel very good about.

As you’ve seen in spine, innovation is rewarded. You grow through innovation and new products. And that’s a truism across large and small players in spine. So, the innovation is alive and well in spine. Our management team has been strengthened over the past year or two. So, I feel very good about our prospects with spine going forward.

David Lewis (Analyst - Morgan Stanley):

Okay, very clear. Thanks, Kevin. And maybe just a deeper dive, Katherine, on MAKO. I think what’s interesting is that business has basically gone up every quarter, last quarter, five quarters. This particular quarter you doubled MAKO installs or systems year on year. But we still haven’t seen a significant impact from either product approvals on hip or potentially, obviously, the knee in the latter half of the year. So, what is driving the momentum at MAKO? Is this simply sales reorganization focus or are we starting to see the enthusiasm for existing approvals, and the approvals coming obviously in a few months?

Katherine Owen (VP of Strategy & Investor Relations):
I'd say, David, it's more the former as we've got the integration challenges that we had early on last year behind us, and the teams really working together and leveraging the considerable breadth and depth we bring along with the MAKO expertise. We're in the process, as I mentioned, around doing the necessary software upgrades that will enable us to start to put our hip implants on the MAKO. We have the clearance but we have to do that work. And that will continue through this year and into next year, as well.

And then the knee indication, we are looking to get that clearance, hopefully sometime in 2015. It's in the hands of the FDA. But keep in mind it is going to be three or four quarters before we've gone through the necessary training and upgrades and work that's going to be needed to be done to make sure that that launch is truly optimized. So, I would make sure to just consider that. It will not be a light switch when we get that indication. It clearly enhances the value proposition of you having a robot, but it is going to take some time to make sure we really optimize that launch.

Operator:

And the next question comes from David Roman from Goldman Sachs.

David Roman (Analyst - Goldman Sachs Group):

Thank you. Good evening, everybody. I was hoping we could come back to the neurovascular business. Understandably, Katherine, in your comments you talked about the need for training and development and educating the market around the new guidelines. But if we look at the numbers that your key competitor put up in their most recent quarter, as well as the step we saw in your business today, it does look like the market was ready to get moving here. So, maybe you could just help us think about how we should size this opportunity on a go-forward basis, and whether the growth rates we're seeing now are reflective of something sustainable or some type of pent-up demand waiting for clinical data and new guidelines.

Katherine Owen (VP of Strategy & Investor Relations):

I think there are some well-established, in the minority stroke centers that were well prepared for this clinical data, that were expecting it to be positive, but they had done a lot of that market development and had the patient inter-hospital transfers and the various work that needed to be done completed. So, they were good to go. But that does not represent the majority of places where patients would need to go. I think you're seeing an early benefit but there really is going to need to be a lot of market enhancement work done between us and others as well as additional clinical data.

We feel really excited. The data is truly compelling. And the impact that this could have on patients -- it's clear these devices have a very clear role to play. But it will take time for this to be broadly applicable with all stroke centers, which is what we're trying to signal.

I think it's too early for us to size the market up. We'll just have to see how this plays out on paper with roughly 80% of the 800,000 patients who have a stroke being ischemic, and get to some very big numbers. But I don't think we want to get too far ahead right now until we've got some more time to see how the market develops and the neurovascular community embraces the data and the market development work.

David Roman (Analyst - Goldman Sachs Group):

Maybe, just secondarily, another question on MAKO -- I think, Kevin, one of the things you had talked about at AOS was different ways to get the capital out there and target some of the biomedic accounts. Could you just maybe talk about how any of the changed commercial strategy may be impacting the
business today and any opportunities that may arise out of the Zimmer-Biomet transaction, and some of the divestitures that were acquired for completion there around Uni's.

**Kevin Lobo** (Chairman, CEO and President):

I'm not exactly sure I follow your question there. In terms of relating the Uni's, the Zimmer-Biomet to MAKO? Is that your question?

**David Roman** (Analyst - Goldman Sachs Group):

I think one of the divestitures required for FDC clearance was some of the Zimmer Uni products. Are you seeing any disruption in the market thus far that would provide an incremental opportunity for MAKO associated with that transaction?

**Kevin Lobo** (Chairman, CEO and President):

I'd say it's really too early. This deal is just closing right now. We haven't seen much of an impact there. MAKO already had a very sizable portion of the Uni market, as it was. Certainly every time there's a change, any type of acquisition, whether we're doing an acquisition or someone else is doing an acquisition, as the companies integrate, there usually is opportunity. So, we'll see how that plays out but right now it's too early to say. It really didn't impact this quarter, that's for sure.

**Operator:**

And next question comes from Kristen Stewart from Deutsche Bank.

**Kristen Stewart** (Analyst - Deutsche Bank):

Hi, thanks for taking the question. I was just wondering if we can just reconcile the change in guidance in terms of the EPS. I know it looks like FX is a little less negative relative to where you were guiding previously. I think in the first quarter you said it was going to be a $0.25 to $0.30 headwind. I think the tax rate went down and the organic growth went up and you're investing a little bit. So maybe just help me understand some of the moving parts just in terms of where numbers are going, how much of it is underlying organic moving versus reinvestment and so forth.

**William Jellison** (CFO and VP):

Sure. Kristen, this is Bill. I think as far as our overall guidance is concerned we've obviously had some positives on a number of fronts. Our sales and operations are doing very well. We've increased our top-line sales guidance obviously. Taxes obviously also a little bit better, or quite a bit better, as well, than we've been talking about earlier, at least for the Street. And as far as FX is concerned, that might be a penny or two better for the whole year than what was there.

There's also, on an ongoing basis, a lot of other dynamics that are in the marketplace, as well, that we need to make sure we're taking into account. It's really the culmination of all those positives and negatives that we're looking at. Also Keep in mind on the tax side that we have stated all year long that we've been expecting to reinvest about half of that which is what you're seeing in the SG&A side. We have been expecting that investment up front in the year, so that's also reflected in the numbers that you're hearing.

**Kristen Stewart** (Analyst - Deutsche Bank):

Okay. So, I guess the best way to think about it is, if not for the reinvestment, you would have clearly -- what would have been the underlying operational EPS growth, if not for the reinvestment?
William Jellison (CFO and VP):

Keep in mind on the reinvestment, a chunk of the reinvestment is actually to support that overall project, which is running through the SG&A. Another part of it is what we’ve talked about upfront with our Transatlantic operating model, and some of the additional support that we want to be putting in our sales and marketing efforts, especially within Europe. I think we’re already seeing some, at least, positive motivation and activities around that move at this point. And we expect that that's got a multi-year benefit for us.

As we talked about, the leverage that we've got with our underlying operating expenses, we believe that we're actually delivering that already this year and that that's why we're also committing to some level of that, at least externally, as I mentioned on the call earlier.

Kevin Lobo (Chairman, CEO and President):

Kristen, this is Kevin. I just want to underscore what Bill said. A good portion of the reinvestment is establishing that European structure and there's costs related to that. The tax benefits, it's not like a one-time event that's a windfall. This is by remapping our transactions, creating a structure, creating this headquarters, there was a significant amount of cost involved in creating that. Of course it's driving significant financial benefits through the tax line, and those benefits will be there for years to come.

So, this for us is an investment that is clearly paying off but it is directly related to each other. And it's not that the tax area is just a windfall and comes for free. There was a cost associated. It appears on two different lines of the P&L but net it's a huge positive for us and one of the contributors to our raised guidance.

Operator:

And our next question comes from Mike Weinstein from JPMorgan.

Michael Weinstein (Analyst - JPMorgan Chase):

Hi, guys. Let me start off, I'll pick up actually and maybe push a little bit on the guidance, as well. So, really, the tax discussion goes back to the analyst meeting last year, and that's when you disclosed that there would be a couple hundred basis point benefit from the European setup, and that you were going to invest half of that. But since the start of the year the tax rate guidance has come down by what would basically imply about 350 basis points, so that's like $0.20. And then initially the FX headwind was $0.30 and now it's $0.25. That's $0.25 of incremental, call it less headwind or call it increment tailwind for you guys.

You've raised the bottom end of the range by $0.16 since the start of the year but you've only raised the top end by $0.02. Are you putting earnings away at this point for a rainy day? Reconcile the map I just walked through versus how much you've raised guidance so far this year.

William Jellison (CFO and VP):

Sure. Mike, I think one point to make is really around the tax rate side of the equation. In taking a look at the expectation this year, we clearly knew that it was going to be a better than 2% impact for this year. From a directional perspective to the Street, we wanted to give guidance to say it was a meaningful improvement, but we really didn't fully identify that until we saw that run through our numbers. We wanted to commit to it.

Just like with our investments that we were doing within that area, same thing. We were spending a certain amount of money up front that we knew we were comfortable with, but we also were holding some
back and making sure we wanted to see that realized through our earnings statements before we really are releasing that. But our total expectation for the project is in line, and which was the commitment for us to reinvest half of that total savings back into the business, both to support that structure, which was pretty significant to support the change in the structure that we have within Europe, but then also to really ramp up some of our sales and marketing activities there.

**Michael Weinstein** (Analyst - JP Morgan Chase):

Okay. So, the answer is you're not putting earnings away for rainy day? And I'll ask one follow-up so the operator doesn't cut me off. Just talk for a minute about US spine because obviously this is the best quarter in a while, and just would love to hear your thoughts on it.

**William Jellison** (CFO and VP):

Just getting back, for our guidance, obviously the guidance is really for our operational performance. So, when we give our third-quarter guidance, that's what we believe our operational range will be for the third quarter. Of course, if FX changes -- we've now, after six months of our regional headquarters, we've now got a very good view of our tax rate. So, you're not going to see as much volatility in our tax rate in the third and fourth quarter. You can be much more reliable.

As you enter a new structure like this, there's a lot of unknowns. We worked through those unknowns in the first half of the year so now we're feeling a lot better about that. So, you won't see as much volatility as we saw in the first six months. We do try to guide around what's going to happen operationally. And then, of course, things like FX and unknown things happen over the quarter that can move us up or down within the range.

On spine, it's been a while in the works. I mentioned, I think, at Academy a year ago -- not this year but the prior year -- that we had hired a new spine R&D leader and re-established a real focus on innovation, which had been lacking in our spine business. We've launched a lot of products in that in the first half of this year and we have a really robust pipeline. Product flow is, I would say, number one issue.

We also have enhanced some of our management team in spine, stabilized the sales force. We really have a good offense. We were running a very profitable business before but we weren't growing very fast. We've now turned on the engine of growth really behind new products. And it's not something I see as a one-hit wonder. Of course, each quarter is dynamic. This is one good quarter. But I do see a sustained path for good results for multiple quarters going forward.

**Operator:**

And our next question comes from Matt Taylor from Barclays.

**Matthew Taylor** (Analyst - Barclays Capital):

Hi. Thanks for taking the question. I've got a couple questions. One was, if I look at the pricing in Recon, it actually got a little bit better this quarter. It was the best it had been in six quarters. I wondered if there was any real change there or if that's just within the range of normal variability?

**Katherine Owen** (VP of Strategy &amp; Investor Relations):

I would put that in the range of normal variability. It can bounce away in the 10s of basis points. Obviously it's better when it improves or is less negative but I wouldn't point to any change or difference in what's going on in the market.

**Matthew Taylor** (Analyst - Barclays Capital):
Thanks. And have you seen any disruption from the ongoing combinations at your different ortho competitors? And maybe just comment on how you’re seeing such strong growth in trauma and foot and ankle.

Katherine Owen (VP of Strategy &amp; Investor Relations):

We haven’t really seen any impact from the Biomet-Zimmer merger, recognizing that it has just recently closed. So, we’ll see how that plays out. We’re certainly not going to underestimate them as a competitor. They’re two formidable organizations. But we’re also very focused on continuing to drive growth and execute on MAKO, and then on trauma and extremities.

Kevin Lobo (Chairman, CEO and President):

Yes, I'd just add on, trauma and extremities, this has been a multi-year story. If you look at 2012, 2013, 2014, each of those years in the US we grew at least 15%. And based on the first half of this year, it's safe to say it looks like we're going to deliver another 15% or more growth. That's four years in a row.

We've just seen sustained performance. Foot and ankle has been a huge contributor to that and continues to grow extremely well. It's a market, it's a little bit like the stroke market Katherine was talking about. It's been a market development story, so hard to predict. It's, frankly, exceeded our expectations when we created the foot and ankle business unit.

But that's a team that knows how to perform. It's been performing consistently year over year. We're excited. We still have a lot of room for growth in upper extremities. So, while we're very pleased with our performance, it's not that we've reached the end of the growth opportunity. We're still actually a smaller player in upper extremities and we see that as a potentially exciting area for the future.

Operator:

And the next question comes from Glenn Novarro from RBC Capital Markets.

Glenn Novarro (Analyst - RBC Capital Markets):

Hi. Good afternoon. I wanted to just follow up on pricing in light of what CMS announced with respect to this pilot program on bundling. We've been getting a lot of incoming questions about does this put pressure on price longer term. My first question, Kevin, is what are your thoughts on this whole bundling project? Thanks.

Kevin Lobo (Chairman, CEO and President):

What we saw with the initial pilots on the bundle payments was we really didn't see any different dynamic in pricing. Price pressure, we expect, will continue as it is currently. Once they start to focus on the total episode of care in a bundle payment, they tend to make much more focus on the post-acute costs, which, frankly, outpace the cost of an implant.

We see this as a trend that really doesn't disrupt the implant pricing. We’ll have the same pressures we had before. If anything, it might start to drive them to rationalize towards less suppliers of implants. In that world we like that. Vendor consolidation to us is an environment where we feel we're well positioned to win.

To us, this is a dynamic that we've seen in pockets. And we haven't seen our business adversely affected by a move to bundle payments. Like I say, the post-acute costs are very significant. And once they shine a spotlight, that's where I believe more of the focus will be placed than on the implant costs. That's not to say the implant costs are not immune from price pressure but I don't see it as a new catalyst.
Glenn Novarro (Analyst - RBC Capital Markets):

Got it. And then just on medicals, it was a very good, strong medical quarter. I just wonder if that's a function of the favorable CapEx environment that we're in today or is it a function of your new product cadence or maybe both.

Katherine Owen (VP of Strategy & Investor Relations):

I would attribute it to both. The medical group is doing a great job executing on product launches, some of which you may have seen at our product fair in June. The environment is stable. It's inherently volatile, as we've seen, over the years but the outlook is very stable right now as I would characterize CapEx, particularly for medical.

Operator:

And our next question comes from Richard Newitter from Leerink.

Richard Newitter (Analyst - Leerink Partners):

Thanks for taking the questions. First question for Bill. You mentioned the 30 to 40 basis points of SG&A leverage in 2016. And you said flat to positive gross margin leverage in an FX neutral situation. Can you just describe what kind of pricing dynamics or decline, what's the threshold at which maybe it's flat to negative?

William Jellison (CFO and VP):

Sure. That obviously relates to the gross profit margin piece of it. From that perspective we still are expecting about a 2 percentage point price decline level. As we've talked about before, as you're in that 2% level we believe we can, in a normal FX related environment, we can still keep margins flat and actually hopefully still improve them slightly based on all the cost initiatives we have in that area.

If pricing improves and is like 1.5%, we've talked that that actually creeps up to maybe into the 20 to 40 basis points of an improvement level. And obviously if it goes north of 2%, that also has a more negative related impact. But, again, we see prices pretty much in line with where we are this year which is right in that 2% range.

Richard Newitter (Analyst - Leerink Partners):

Okay. That's helpful. Then for Katherine, the total knee on the MAKO solution, sometime in 2015, should we be thinking that when you do in fact get approval there, even though we might not see it in the actual implant numbers for knees and the growth rates is there, should we expect some sort of step up in your ability to play systems? Are there customers for whom the value proposition will become that much more apparent?

Katherine Owen (VP of Strategy & Investor Relations):

Without a doubt those customers who are going to see greater value in a robot with more applications and the total knee is the biggest one. I have no doubt there are some who have waited. I'm not sure I would necessarily model some step function change or bolus. This is a tough business to model. But it clearly strengthens the value proposition.

But, really, the real driver will be a few quarters out once we start to do the upgrades and see more and more traction. I think in theory it makes sense. I think we'd be a little bit hesitant to get too aggressive in modeling any type of step function change.
Operator:

Our next question from Raj Denhoy from Jefferies.

Raj Denhoy (Analyst - Jefferies):

Hi. I wanted to ask a question on the spine business. When that business was not performing well, there was a lot of questions about whether you’d want to do an acquisition there to perhaps jump start the performance. My question is, as you've now seen a resumption in performance, and you've described it as being longer term or at least having some durability, does that change your view on that business and how long you'll wait for it to grow, if that makes sense? I apologize.

Katherine Owen (VP of Strategy & Investor Relations):

I think the way we continue to view it is clearly M&A is a primarily use of our cash, as we've talked about. We have dedicated BD people in all of our divisions who are actively looking at targets. And that's the reason why we were able to identify CoAlign and seeing the benefit of that product from that acquisition.

They're always going to be out looking at ways to augment the portfolio. But first and foremost, we look to invest in the business and build it organically. We're never going to rule out acquisition targets in any area and they're going to vary in size. As you know, most of ours tend to be relatively small to mid-sized targets, but those BD people will continue to look at market opportunities.

Raj Denhoy (Analyst - Jefferies):

But as that business performs better, do you have more patience, in a sense, for it, or do you still feel like you need to do something? Because you described wanting to be bigger in that business longer term.

Katherine Owen (VP of Strategy & Investor Relations):

I don’t want to speak to any specific division. We’ve said we’re focused on our core and key adjacent markets, and spine is one of them. But we also do a lot of relatively smaller deals. And I'm not going to rule out continuing to augment our portfolio. We do that when businesses are doing well and we continue to invest in them. There’s no deviation or change in the overall strategy. Each deal will stand on its own merits. But I wouldn’t want to single out any one division and say they’re off the BD market for any period of time.

Operator:

And next question comes from Jason Wittes from Brean Capital.

Jason Wittes (Analyst - Brean Capital):

Thank you. Just a couple follow-ups. First, the reinvestment that you’re doing in Europe, can we assume that that's a finite period, basically through the end of this year? Or how long will that reinvestment period run through?

William Jellison (CFO and VP):

The investments that we're actually making there would be investments that would occur on an ongoing basis but off of the same level. We're investigating about half of that tax savings this year but you should think of that as just a normal step up for what we're doing within the European side.

But as we're moving forward we'd expect to grow that new base level and leverage it, as well, against our
sales growth, as we would anything else. That's why we wanted to reiterate that you should expect to see at least the 30 to 40 basis point of improvement in the SG&A line category for next year. But it's not like a one-time investment. This is an investment in the course of business moving forward.

Kevin Lobo (Chairman, CEO and President):

It changes the base.

Jason Wittes (Analyst - Brean Capital):

That's helpful. Another follow-up on Trevo, I think, Katherine, based on your comments, it sounds like the large stroke centers have pretty quickly picked up on the data and have changed their practices. But if you start going to more regional or smaller centers, it's unclear whether they're moving in that direction just yet. Is that the right way to think about what's going on in the marketplace right now?

Katherine Owen (VP of Strategy & Investor Relations):

Yes, there's some very well-established stroke centers that are very sophisticated and were ready to go. I think a lot of those other stroke centers were waiting for data to be a catalyst to say we have to start to do this work. This data that's come in, like MR CLEAN, and will be coming in is certainly that catalyst. But it takes time.

As you think about that laundry list of market development items I mentioned, those are not something that will happen in a quarter or two. It will be a few years. But it's clearly supported by the data that I think will prompt many of those to start to make those changes and investments.

Operator:

And the next question comes from Mike Matson from Needham.

Michael Matson (Analyst - Needham & Company):

Hi, thanks for taking my question. First of all, I just wanted to see if the selling days this quarter were the same as the year-ago quarter.

Katherine Owen (VP of Strategy & Investor Relations):

Yes, there's no change in selling days.

Michael Matson (Analyst - Needham & Company):

Okay, thanks. And then I know it's a smaller deal but I was just wondering if you could comment on the Muka Medical acquisition that you did.

Katherine Owen (VP of Strategy & Investor Relations):

Yes, we're excited about that. The medical group is clearly excited about it. We've had a relationship with them, a distribution agreement going back to 2012. The company has been around for nearly 50 years, a private company based out of Turkey.

They've done a great job. They specialize in the design and manufacture of hospital beds and stretchers. They've been primarily serving the Turkish market and surrounding countries. So, it's a great opportunity for us to build a presence in that segment with a premium value product. We know them well so we're comfortable with where they're located and their manufacturing facility. It really helps to strengthen our portfolio longer term.
It's a small deal. And there will be some very modest, not material, incremental sales. But clearly a great product franchise to further bolster what medical is doing.

**Michael Matson** (Analyst - Needham & Company):

Are those products intended to be sold globally or is it more for the European markets or emerging markets?

**Katherine Owen** (VP of Strategy & Investor Relations):

It's primarily for the Turkish and surrounding countries as well as some in Latin America. Longer term we'll wait and see what direction we go in with this but you should not be thinking of that as a near-term US product offering.

**Operator:**

And your next question comes from Larry Biegelsen from Wells Fargo.

**Lawrence Biegelsen** (Analyst - Wells Fargo Securities):

Thank you for taking the question. Just starting with neurotech, we understand that a lot of physicians prefer to use an aspiration device with a stent retriever. Do you guys have any plans to introduce your own aspiration device? And if so, what's the timing? And I have a follow-up. Thanks.

**Katherine Owen** (VP of Strategy & Investor Relations):

Thanks for the question. One of the great things about neurovascular, on both the hemorrhagic and ischemic side, is there's so much opportunity for innovation, and you've seen that the last few years with technologies coming out. We have a very robust pipeline on the R&D side. I'm not going to get into specifics at this time around which products and the timing of them. But I will say we're very comfortable, as one of the market leaders here, and with the talent in our R&D team, that we are well-positioned, both with our current portfolio and future generations of products that we'll be reintroducing. But I'm not going to get anymore specific at this time around time lines.

**Lawrence Biegelsen** (Analyst - Wells Fargo Securities):

I understand. Kevin, I think you mentioned some softness in China. Can you talk about what you're seeing there? And just very quickly, Bill, on the tax rate, I'm a little confused what tax rate to use this year. Last quarter you said less than 20% but it's trying to get about 18% in the first half without the R&D tax credit. Thanks a lot, guys.

**Kevin Lobo** (Chairman, CEO and President):

I'll start with the China question. We saw a really good performance with our implant business. Where we saw the slowdown was in capital equipment. We saw that get quite sluggish in China in the second quarter. We even saw in Latin America, also, the issues that we had were more pronounced in capital equipment than in our implant business.

**William Jellison** (CFO and VP):

Associated with the tax rate question that you asked, our year-to-date operating tax rate is about 18.1%. As I mentioned in the call script, we're comfortable with a rate for the full year at or slightly below that. Keep in mind, as you mentioned, the tax extenders are not in that number yet.

When the tax extenders are ultimately approved, hopefully by the fourth quarter of this year, in that
period you'll actually see the tax rate dip down again in that one period, obviously, because that would be a full-year benefit of those extenders being picked up in the fourth quarter. But for an average rate for this year, we would expect to be a little bit below what our average trend rate is right now. And I think that's a relatively consistent tax rate that you could project for next year, as well.

**Operator:**

And your next question comes from Matthew O'Brien from Piper Jaffray.

**Matthew O'Brien** (Analyst - Piper Jaffray Companies):

Good afternoon. Thanks for taking the questions. Kevin, as I look across the businesses, it looks like the performance is quite strong across the platform, but it seems like it's more volume driven than anything we've seen historically -- or the last couple years, I should say. Is that a function of benefiting from things like ACA, the deferrals in CapEx that are now coming through, and then AHA guidelines in neuro? Is that something that you feel comfortable being able to smoothly transition through or lap as we get into next year, some of those benefits not being as much of a tailwind?

**Kevin Lobo** (Chairman, CEO and President):

It's hard to generalize because every division has its own story. If you look at trauma and extremities and the performance there, a lot of it was innovation, creating a new business unit for foot and ankle. I think each division has its own story.

The overall tailwind around capital equipment is undeniable. And I think you see that in the marketplace. That's been a real positive. If you look at our instruments division, as an example, even before the tailwind they were really performing at a very high level, a double-digit growth kind of performer, and getting Neptune back on the market and growth there.

I feel really strongly about all of our divisions' leadership, their innovation pipeline, looking at the way they look at acquisitions. I get a chance to go around and visit with every division. We've strengthened a lot of leadership in many areas and we have very strong positions. We were growing faster than the market when the markets were a little bit down. Now the market is certainly moving up in the capital equipment side and we're taking full advantage.

You can see even in an area like medical, that's done two deals just in the past year, they're smaller deals but they're adding to the innovation that they're doing organically. And innovation wins. So when the market is good you see the numbers are buoyed. I'm not worried about as we get into comparatives that are a little bit higher that we can't sustain strong growth.

**Matthew O'Brien** (Analyst - Piper Jaffray Companies):

Okay, very helpful. And then as a follow-up question, just looking at the environment that we're in now with extremely low interest rates and robust equity markets, I'm just curious on the asset side of things. You've done a couple smaller deals recently. But are the evaluations that are out in the marketplace right now for some of the larger acquisitions, even mid-sized acquisition targets, getting to the point where it just doesn't make sense? Are you unable to meet your internal hurdle rates with some of those assets? If that's the case, are you willing to, given the environment, adjust your internal hurdle rates?

**Katherine Owen** (VP of Strategy & Investor Relations):

I'd say clearly evaluations have moved up. We're always confronted with challenges around valuations, sellers' expectations, even in an environment that hasn't been quite as strong as recently. So, it's always going to be a factor that we've got to consider. It hasn't changed our priority around M&A but it
certainly does become an issue on some deals, and that does impact the numbers we look at.

At this time there's no change in terms of -- the second part of your question, when you talk about our hurdle rates and returns -- we're pretty disciplined on the approach we take there. We think that makes sense.

Operator:

And our next question comes from Joanne Wuensch from BMO Capital Markets.

Joanne Wuensch (Analyst - BMO Capital Markets):

Thank you very much. Most of my questions have been asked and answered. But briefly, in China you've made a number of investments there over the years. I remember Charleston Ferry well. Do you have the footprint there that you want to have?

Kevin Lobo (Chairman, CEO and President):

Overall we still have a long way to go in China. I would say the Charleston acquisition was a great deal for trauma and spine and we're expanding in China. We're still about to launch in India. So, we don't sell Charleston yet in India, we're launching that in the second half of this year. We're still waiting for approvals in Brazil. We'll launch that next year. So, I think Charleston has a lot of room to grow outside China.

Inside China I'm very pleased with that but we don't yet have a lower-priced hip and knee offering. That's something that you could see in the foreseeable future. That's something we'd want to pursue. We're not still covering all the territories in China. We're continuing to grow our sales force in some of the more remote areas where we still don't have access. We've been growing our China business very strongly over the past five, six years in both the premium segment as well as the lower-priced or mid-tier segment.

But we still have a long way to go. I'd say the market potential in China is still very significant. Right now, obviously, you're hearing a lot about a China slowdown but I think within healthcare we still believe we have a lot of room to grow. And certainly on the MedSurg side. That's been an area, the endoscopy business has been a very strong business, but our other MedSurg businesses don't yet have a very strong footprint in China.

So, we still see a lot of opportunity. We're learning a lot about the mid-tier segments and Charleston was our first foray into that segment. And figuring out how to win in that marketplace with other products is something that I see, maybe not in the next year but in the next five years, as very important for Stryker. We still have a long way to go.

Joanne Wuensch (Analyst - BMO Capital Markets):

I appreciate that. As a follow-up, one of the ways that spine has grown is investment in the sales force. Is there a way to qualitatively talk about how much larger that sales force looks like today versus 12, 18, 24 months ago? Thank you.

Kevin Lobo (Chairman, CEO and President):

In which country, sorry? The question was in China. We obviously use a distributor network in China. And we have a separate set of distributors for the Stryker premium business and a separate set of distributors for the mid-tier segment.

What I mentioned to you is we've got very good coverage in the big cities and in some of the surrounding areas, but pushing to the western part of China we still have room to grow. And that will largely be
through expanding the distributor network. It's not so much about direct sales force, it's more about making sure we have the right distributors to cover the rest of the country.

Operator:

And our next question comes from Josh Jennings from Cowen and Company.

Joshua Jennings (Analyst - Cowen and Company):

a lot. I just wanted to start on MAKO. Katherine, you mentioned two systems placed in Australia. Maybe if you could just give us an update on the plans for O-US launches in other countries. Or are we getting ahead of ourselves?

Katherine Owen (VP of Strategy &amp; Investor Relations):

I think it's going to continue to be dominated by the US robot placement. Australia is a market where, as I mentioned, we have very strong market positions in both hips and knees. So, it was a market that made a lot of sense. But I think as you go forward I would really focus on the US is going to be the primary driver of the placements.

Joshua Jennings (Analyst - Cowen and Company):

On the emerging markets business, pardon me if I missed this in your prepared remarks, but can you just talk about -- you talked a lot about China -- but just other avenues within emerging markets where you are in terms of your trajectory this year, actually in the first half of 2015, and any initiatives you can to accelerate your emerging market growth. Thanks a lot.

Kevin Lobo (Chairman, CEO and President):

I would say after China, which has been our really strong market. Our strongest emerging market is China at Stryker. After that I would say I'm really pleased with our progress in India where we're growing very well -- from a small base, admittedly, but we're having very good performance starting from last year in India, and it seems to be very sustained growth.

The other priority market is Brazil. And Brazil obviously is going through a pretty tough recession right now. We also had some issues where we had to change one of our spine dealers in Sao Paulo and that caused a bit of an issue in our spine business. So, we have that from time to time in Brazil, which represents roughly half of Latin America.

Latin America is, for the future, very important for us. And we're quite a small player. But I would say this year, because of the recession in Brazil, it's not going quite as well as it has in the past couple of years, but it's certainly an important market for the long term.

Areas like Russia and Turkey are actually doing quite well but you can imagine those are not exactly the most attractive markets, at least at the moment. But those are the other emerging market countries that are going to be a top priority for us.

We're measuring our investments we had planned. If you look back maybe two years ago we were planning to really invest more vigorously in Russia and Turkey. And given the macroeconomic conditions there we've tempered our investments in those two countries.

But clearly it represents about 8% of our sales at Stryker, emerging markets, and we would like that number to be much higher. But the conditions have to be right and we want to make sure we get a good return on our investment. There's a couple markets that are doing very well and there's other ones that I think we're going to be a little more measured in the pace of our investments
Operator:

And our next question comes from Bill Plovanic.

William Plovanic (Analyst - Canaccord Genuity):

Good evening. Thanks for taking my questions. First on the foot and ankle, that's grown really well for you. Would you say that you're creating the market with procedural kitting, or do you think that's more taking share from existing players in the foot and ankle piece?

Kevin Lobo (Chairman, CEO and President):

With the kind of growth we've had over the past few years I'd say the bulk of it is market development. But you can't grow at this rate without taking some share so I'm sure we've taken some share along the way. But this has been really more about a new market story where we're getting people that weren't using implants to start to use implants. That's been the biggest engine of growth within foot and ankle.

William Plovanic (Analyst - Canaccord Genuity):

Okay. And then on MAKO, as you place these systems and that's reaccelerated, is this based more on an alternative financing method or are these direct sales?

Kevin Lobo (Chairman, CEO and President):

I would say we have a flex financial unit within Stryker that provides various options to make capital easier to acquire. And we have used that for some of the sales of the robot. But, frankly, though, the vast majority have been direct purchases thus far. So, the hospitals are finding the capital and they are pointing it up. But we do have an arsenal, a range of options for them to choose from.

I think going forward, certainly in Europe, as an example, as we start to expand MAKO in Europe, I think using financing will be much more prevalent than it is here in the US. But in the US the vast majority have been direct purchases.

Operator:

There are no further questions at this time. I'll now turn the call over to Mr. Kevin Lobo for any closing remarks.

Kevin Lobo (Chairman, CEO and President):

Thank you all for joining our call. Our conference call for the second quarter of 2015 results will be held on October 22, 2015. Thank you.

Operator:

Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating, and you may now disconnect.

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