STERIS plc (STE)

Updated March 6th, 2023, by Yiannis Zourmpanos

Key Metrics

Current Price:	$190	**5 Year CAGR Estimate:**	12.0%	**Market Cap:**	$19.0B
Fair Value Price:	$200	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	06/13/2023[1]
% Fair Value:	95%	**5 Year Valuation Multiple Estimate:**	1.0%	**Dividend Payment Date:**	06/28/2023[2]
Dividend Yield:	1.0%	**5 Year Price Target**	$322	**Years Of Dividend Growth:**	12
Dividend Risk Score:	A	**Retirement Suitability Score:**	D	**Rating:**	Buy

Overview & Current Events

STERIS plc is a global leader in infection prevention and other procedural products and services. Founded as Innovative Medical Technologies in Ohio in 1985, the company was later renamed STERIS in 1987. STERIS operates through four segments: Healthcare, Applied Sterilization Technologies, Life Sciences, and Dental. The company has a strong history of acquisitions, including American Sterilizer Company in 1987 and Amsco International in 1996, which expanded its product line for healthcare and sterilization. As of March 3, 2023, STERIS has a market capitalization of approximately $19 billion and does not have a long history of paying dividends.

On February 8th, 2023, the company announced financial results for its fiscal 2023 third quarter ended December 31st, 2022. According to the latest earnings update, STERIS plc reported Non-GAAP EPS of $2.02, missing market estimates by $0.17, and revenue of $1.22 billion, representing a 0.58% increase from the previous year. In a difficult market, the company produced 7% constant currency organic sales growth and significantly increased capital equipment shipments for several essential healthcare goods, demonstrating improved supply chain conditions.

Despite the difficulties, the slight improvement in practices and a sizable backlog of capital equipment in the healthcare and life sciences industries support a favorable outlook. In the upcoming quarters, the company expects improvements in its supply, which in turn supports the company in decreasing its backlog. The adjusted diluted EPS is now anticipated to be in the range of $8.00 to $8.10.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$2.42	$2.99	$3.39	$3.76	$4.15	$4.89	$5.64	$6.17	$7.92	$8.50	***$8.00***	***$12.88***
DPS	$0.82	$0.90	$0.98	$1.09	$1.21	$1.33	$1.45	$1.57	$1.69	$1.80	***$1.88***	***$3.03***
Shares	59.0	59.7	85.9	85.0	84.8	84.5	84.9	85.4	100.1	100.0	***100.0***	***139.3***

STERIS plc operates in a growing healthcare industry that will positively influence its revenues over the long term. In addition, it has a strong track record of growth through acquisitions that helped expand its product offerings and geographical reach. For example, the acquisition of Cantel Medical expanded its product portfolio in infection prevention. Thus, in 2022, STE experienced a significant increase in SG&A expenses based on acquisition-related costs, including the amortization of acquired intangible assets, the "step-up" of fixed assets to fair value, and acquisition and integration expenses.

To that effect, accounting for these non-recurring items, the company's diluted EPS saw a decline of 46.4% due to the 105.5% increase in SG&A expenses. Nevertheless, STERIS plc has reported strong growth in the past five years with an EPS CAGR of 43.1%. Thus, for 2023, we have matched the company's lower diluted EPS guidance at $8.00, and we have forecasted an annual growth of 10.0%, which implies an EPS of $12.88 by 2028.

Despite the fluctuations in EPS, STE has consistently increased its DPS, but at a slower growth in the last two years. However, we expect the DPS to remain on a rising trajectory through 2028.

[1] Estimated ex-dividend date.

[2] Estimated dividend payment date.

STERIS plc (STE)

Updated March 6th, 2023, by Yiannis Zourmpanos

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	18.5	19.5	20.1	18.5	20.5	22.6	25.7	27.8	27.6	24.5	***23.7***	***25.0***
Avg. Yld.	1.9%	1.7%	1.4%	1.6%	1.5%	1.3%	1.0%	1.0%	0.8%	0.9%	***1.0%***	***1.0%***

STERIS plc trades at a forward P/E of 23.7, considerably lower than its long-term nine-year and 5-year average P/E of 22.5 and 25.6, respectively. We expect the synergies from the Cantel acquisition to start materializing in two or three years, leading to a valuation rerating at a P/E of 25, implying a target price of $322 by 2028 and an upside potential of 70%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

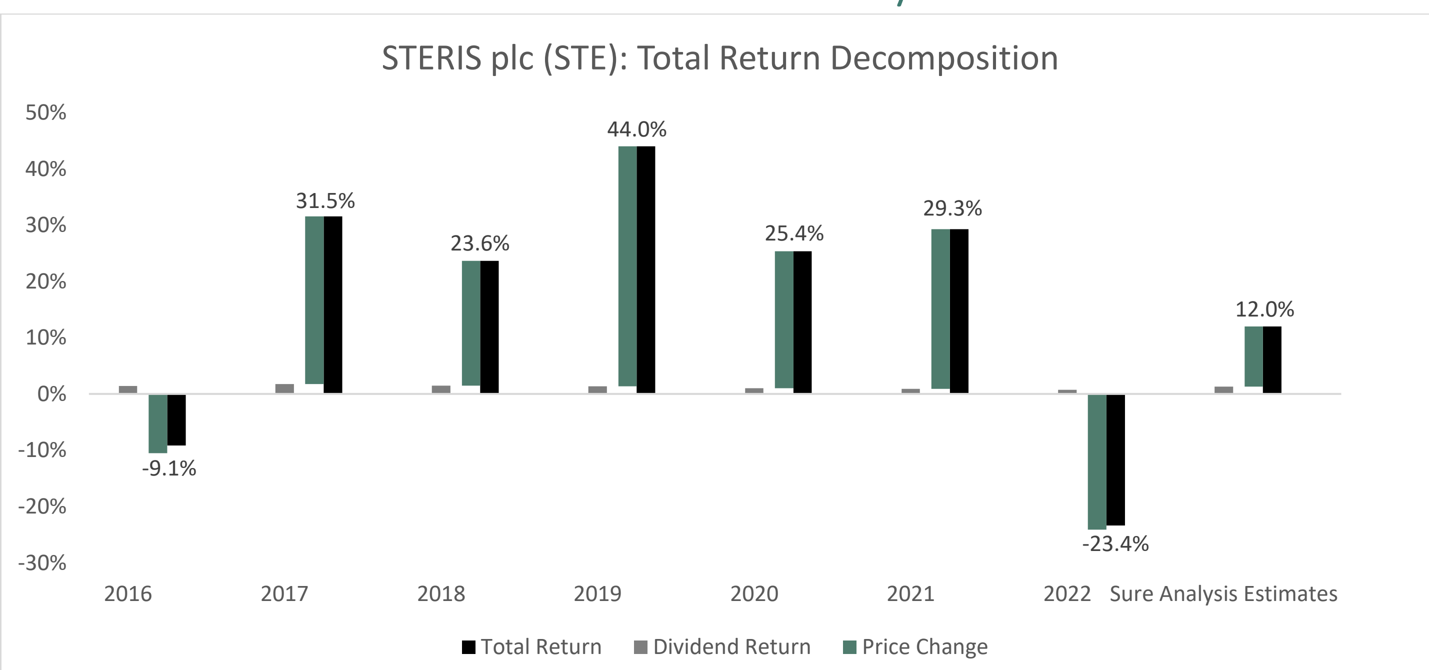
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	34%	30%	29%	29%	29%	27%	26%	25%	21%	21%	***24%***	***26%***

STERIS plc is a leading provider of infection prevention and other healthcare solutions. Its competitive advantage lies in its ability to offer a comprehensive range of products and services that enable healthcare facilities to improve patient outcomes while reducing costs. STERIS plc has also demonstrated resilience during recessions, supported by its steady EPS performance during the 2007 recession. The company has a manageable debt-to-equity ratio of around 0.54, indicating a healthy balance sheet. This financial stability and competitive edge position STERIS plc for long-term success in the healthcare industry.

Final Thoughts & Recommendation

STERIS plc saw a valuation headwind in 2022, but we remain confident the acquisition synergies will materialize and reflected in the company's financials in the following years. Thus, the buy rating is premised upon the 12.0% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 10.0% and 1.0% dividend yield.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

STERIS plc (STE)

Updated March 6th, 2023, by Yiannis Zourmpanos

Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	1,502	1,622	1,850	2,239	2,613	2,620	2,782	3,031	3,108	4,585
Gross Profit	621	650	774	895	1,026	1,093	1,175	1,320	1,343	2,016
Gross Margin	41.4%	40.0%	41.8%	40.0%	39.3%	41.7%	42.2%	43.6%	43.2%	44.0%
SG&A Exp.	338	381	493	627	682	632	670	717	731	1,503
Operating Profit	242	220	227	212	285	400	442	538	545	426
Op. Margin	16.1%	13.6%	12.3%	9.5%	10.9%	15.3%	15.9%	17.7%	17.6%	9.3%
Net Profit	160	129	135	111	110	291	304	408	397	244
Net Margin	10.7%	8.0%	7.3%	4.9%	4.2%	11.1%	10.9%	13.5%	12.8%	5.3%
Free Cash Flow	140	123	161	128	251	292	350	376	450	397
Income Tax	67	59	74	60	74	63	64	91	121	72
Income Tax	1,502	1,622	1,850	2,239	2,613	2,620	2,782	3,031	3,108	4,585

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	1,761	1,887	2,097	5,346	4,924	5,200	5,073	5,441	6,574	11,424
Cash & Equivalents	142	153	168	249	283	202	221	320	221	348
Acc. Receivable	276	314	325	472	483	528	565	586	609	799
Inventories	144	155	161	193	198	206	208	264	315	575
Goodwill & Int.	704	748	861	3,280	2,956	3,161	2,928	2,922	3,924	7,733
Total Liabilities	814	846	1,024	2,308	2,114	1,983	1,887	2,023	2,683	4,879
Accounts Payable	79	102	99	140	133	136	153	149	157	226
Long-Term Debt	492	493	621	1,568	1,478	1,316	1,183	1,151	1,651	3,088
Total Equity	945	1,039	1,072	3,023	2,799	3,206	3,178	3,405	3,881	6,532
D/E Ratio	0.52	0.48	0.58	0.52	0.53	0.41	0.37	0.34	0.43	0.47

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	10.1%	7.1%	6.8%	3.0%	2.1%	5.7%	5.9%	7.8%	6.6%	2.7%
Return on Equity	18.1%	13.1%	12.8%	5.4%	3.8%	9.7%	9.5%	12.4%	10.9%	4.7%
ROIC	12.9%	8.7%	8.4%	3.5%	2.5%	6.6%	6.8%	9.1%	7.9%	3.2%
Shares Out.	59.0	59.7	85.9	85.0	84.8	84.5	84.9	85.4	100.1	100.0
Revenue/Share	25.51	27.15	30.81	31.45	30.35	30.57	32.55	35.39	36.18	46.63
FCF/Share	2.38	2.06	2.68	1.80	2.92	3.41	4.09	4.39	5.24	4.04

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.