# STERIS plc (STE)

*Updated May 17th, 2023, by Yiannis Zourmpanos*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $206 | **5 Year CAGR Estimate:** | 11.7% | **Market Cap:** | $20.6B |
| **Fair Value Price:** | $214 | **5 Year Growth Estimate:** | 10.0% | **Ex-Dividend Date:** | 06/13/2023 |
| **% Fair Value:** | 96% | **5 Year Valuation Multiple Estimate:** | 0.8% | **Dividend Payment Date:** | 06/28/2023 |
| **Dividend Yield:** | 0.9% | **5 Year Price Target** | $344 | **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 May 10th, 2023, the company announced financial results for its fiscal 2023 fourth quarter. According to the latest earnings update, STERIS plc reported Q4 Non-GAAP EPS of $2.30, beating market estimates by $0.15, and revenue of $1.38 billion, representing a 15.0% increase from the previous year.

The company provided an updated guidance for fiscal 2024. According to forward rates through March 31st, 2024, reported revenue is expected to rise by 7 to 8% in fiscal 2024, reflecting the anticipated beneficial impact of currency movements. In addition, organic revenue growth at constant exchange rates is projected to rise by 6 to 7%. With an effective tax rate of about 23%, adjusted earnings per diluted share are projected to be in the $8.55 to $8.75 range. Free cash flow is estimated to be over $700 million, while capital expenditures are projected to be around $375 million.

## 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 | ***$8.55*** | ***$13.77*** |
| **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, following the update guidance, we have revised upwards matching the company's lower diluted EPS guidance at $8.55, and we have forecasted an annual growth of 10.0%, which implies an EPS of $13.77 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.

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## 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 | ***24.1*** | ***25.0*** |
| **Avg. Yld.** | 1.9% | 1.7% | 1.4% | 1.6% | 1.5% | 1.3% | 1.0% | 1.0% | 0.8% | 0.9% | ***0.9%*** | ***0.9%*** |

STERIS plc trades at a forward P/E of 24.1, 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 $344 by 2028 and an upside potential of 67%.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

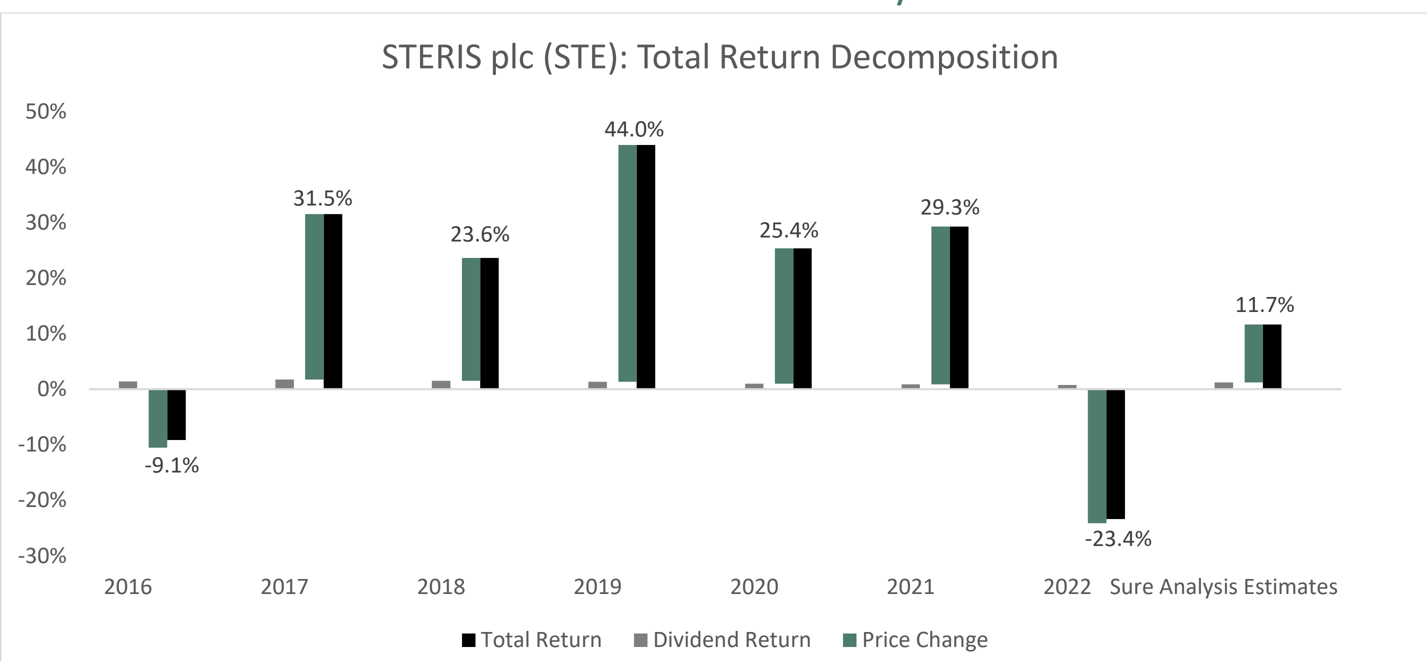
| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Payout** | 34% | 30% | 29% | 29% | 29% | 27% | 26% | 25% | 21% | 21% | ***22%*** | ***26%*** |

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 will be reflected in the company's financials in the following years. Thus, the buy rating is reaffirmed, premised upon the 11.7% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 10.0%, 0.9% dividend yield, and a valuation tailwind.

## Total Return Breakdown by Year

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*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.*

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## 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.*