STERIS plc (STE)

Updated December 4th, 2023, by Yiannis Zourmpanos

Key Metrics

Current Price:	$199	**5 Year CAGR Estimate:**	12.9%	**Market Cap:**	$19.9 B
Fair Value Price:	$218	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	02/23/2024[1]
% Fair Value:	91%	**5 Year Valuation Multiple Estimate:**	1.8%	**Dividend Payment Date:**	03/22/2024[2]
Dividend Yield:	1.0%	**5 Year Price Target**	$350	**Years Of Dividend Growth:**	13
Dividend Risk Score:	A	**Retirement Suitability Score:**	D	**Rating:**	Buy

Overview & Current Events

STERIS plc (STE) 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 December 4th, 2023, STERIS has a market capitalization of approximately $19.7 billion and has a short history of paying dividends.

On November 7th, 2023, the company announced financial results for its fiscal 2024 second quarter. STERIS reported Q2 non-GAAP EPS of $2.03, beating market estimates by $0.03 and revenue of $1.34 billion, representing an 11.7% increase from the previous year.

STE has reported a notable turnaround in its second quarter of fiscal 2024, with a net income of $115.3 million or $1.16 per share. This is a significant improvement from the net loss of $315.3 million in the same quarter last year, which was affected by an impairment charge. Adjusted net income rose to $202.2 million, up from last year's $199.6 million. In the Healthcare segment, revenue surged by 19% to $870.1 million, driven by increases across capital equipment, consumables, and services. The segment's operating income also grew, reaching $204.1 million. For Applied Sterilization Technologies (AST), revenue saw a modest 1% rise to $235.1 million, with service revenue growth offset by a decline in capital equipment. The segment's operating income remained stable at $110.8 million. Also, Life Sciences reported a 6% revenue increase to $133.1 million, with a notable 18% rise in capital equipment revenue. Operating income in this segment improved to $50.3 million. However, the Dental segment experienced a 5% revenue decline to $104.2 million, with operating income dropping to $24.5 million. This reflects challenges in both volume and market conditions.

Finally, STE reaffirmed its fiscal 2024 outlook, projecting a 9 to 10% as-reported revenue growth and 6 to 7% constant currency organic growth, aligning with an estimated 9.74% year-over-year growth. Adjusted earnings per share are expected to range between $8.60 and $8.80, closely matching the $8.75 consensus.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$2.99	$3.39	$3.76	$4.15	$4.89	$5.64	$6.17	$7.92	$8.50	$8.20	***$8.70***	***$14.01***
DPS	$0.90	$0.98	$1.09	$1.21	$1.33	$1.45	$1.57	$1.69	$1.80	$1.84	***$2.08***	***$3.35***
Shares[3]	59.7	85.9	85.0	84.8	84.5	84.9	85.4	100.1	100.0	100.0	***100.0***	***138.4***

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.

[1] Estimated ex-dividend and payment date.
[2] Estimated dividend payment date.
[3] The shares are in millions.
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 December 4th, 2023, by Yiannis Zourmpanos

The most significant development of STERIS plc in 2023 was the completion of several tuck-in acquisitions. These acquisitions expanded their product and service offerings in the AST and Healthcare segments. The total aggregate consideration for these acquisitions was approximately $49.8 million, including a potential contingent consideration of $7.3 million. This development allowed STERIS to enhance its capabilities and further strengthen its position in the market.

STERIS plc has reported strong growth in the past five years with an EPS CAGR of 29.5%. As a result, we have slightly increased our EPS forecast for 2024, using the midpoint of the company's estimate at $8.70. Thus, with a forecasted annual growth of 10.0%, the projected EPS in 2029 is $14.01. Despite the fluctuations in EPS, STE has consistently increased its DPS, but at a slower growth for the last two years. However, we expect the DPS to remain on a rising trajectory through 2029.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	**2024**	**2029**
Avg. P/E	19.5	20.1	18.5	20.5	22.6	25.7	27.8	27.6	24.5	25.8	***22.9***	***25.0***
Avg. Yld.	1.7%	1.4%	1.6%	1.5%	1.3%	1.0%	1.0%	0.8%	0.9%	0.9%	***1.0%***	***1.0%***

STERIS plc trades at a forward P/E of 23.3, close to its long-term 10-year average P/E of 22.9, but lower than its 5-year average P/E of 26.3. STERIS trades above its historical valuation multiples, and we consider a P/E of 25 as a fair reflection of the stock's valuation.

Safety, Quality, Competitive Advantage, & Recession Resiliency

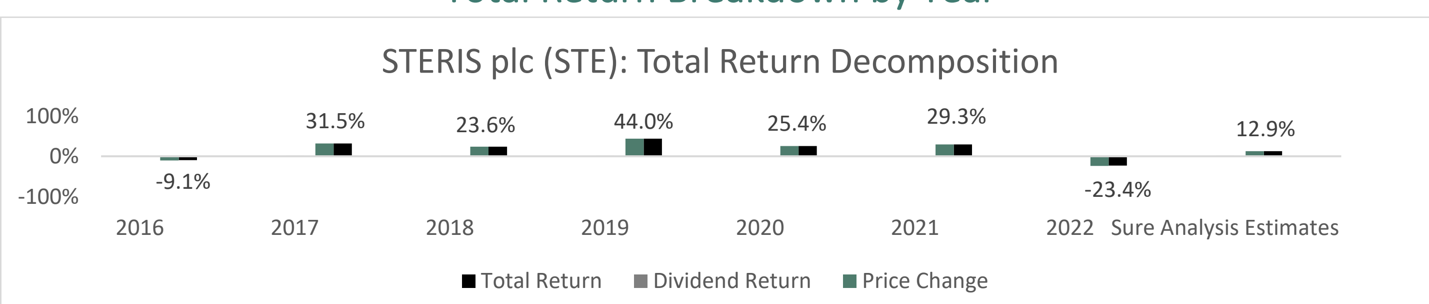
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	**2024**	**2029**
Payout	30%	29%	29%	29%	27%	26%	25%	21%	21%	22%	***24%***	***24%***

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 58.71%, 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' stock has risen since our last report, and we remain confident that 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 12.9% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 10.0%, 1.0% dividend yield, and a valuation tailwind.

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 December 4th, 2023, by Yiannis Zourmpanos

Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	1,622	1,850	2,239	2,613	2,620	2,782	3,031	3,108	4,585	4,958
Gross Profit	650	774	895	1,026	1,093	1,175	1,320	1,343	2,016	2,160
Gross Margin	40.0%	41.8%	40.0%	39.3%	41.7%	42.2%	43.6%	43.2%	44.0%	43.6%
SG&A Exp.	381	493	627	682	632	670	717	731	1,503	1,299
Operating Profit	220	227	212	285	400	442	538	545	426	759
Op. Margin	13.6%	12.3%	9.5%	10.9%	15.3%	15.9%	17.7%	17.6%	9.3%	15.3%
Net Profit	129	135	111	110	291	304	408	397	244	107
Net Margin	8.0%	7.3%	4.9%	4.2%	11.1%	10.9%	13.5%	12.8%	5.3%	2.2%
Free Cash Flow	123	161	128	251	292	350	376	450	397	395
Income Tax	59	74	60	74	63	64	91	121	72	52

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1,887	2,097	5,346	4,924	5,200	5,073	5,441	6,574	11,424	10,820
Cash & Equivalents	153	168	249	283	202	221	320	221	348	209
Acc. Receivable	314	325	472	483	528	565	586	609	799	928
Inventories	155	161	193	198	206	208	264	315	575	695
Goodwill & Int.	748	861	3,280	2,956	3,161	2,928	2,922	3,924	7,733	6,835
Total Liabilities	846	1,024	2,308	2,114	1,983	1,887	2,023	2,683	4,879	4,735
Accounts Payable	102	99	140	133	136	153	149	157	226	280
Long-Term Debt	493	621	1,568	1,478	1,316	1,183	1,151	1,651	3,088	3,079
Total Equity	1,039	1,072	3,023	2,799	3,206	3,178	3,405	3,881	6,532	6,077
D/E Ratio	0.48	0.58	0.52	0.53	0.41	0.37	0.34	0.43	0.47	0.51

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	7.1%	6.8%	3.0%	2.1%	5.7%	5.9%	7.8%	6.6%	2.7%	1.0%
Return on Equity	13.1%	12.8%	5.4%	3.8%	9.7%	9.5%	12.4%	10.9%	4.7%	1.7%
ROIC	8.7%	8.4%	3.5%	2.5%	6.6%	6.8%	9.1%	7.9%	3.2%	1.1%
Shares Out.	59.7	85.9	85.0	84.8	84.5	84.9	85.4	100.1	100.0	100.3
Revenue/Share	27.15	30.81	31.45	30.35	30.57	32.55	35.39	36.18	46.63	49.46
FCF/Share	2.06	2.68	1.80	2.92	3.41	4.09	4.39	5.24	4.04	3.94

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