STERIS plc (STE)

Updated March 14th, 2024, by Yiannis Zourmpanos

Key Metrics

Current Price:	$234	**5 Year CAGR Estimate:**	9.3%	**Market Cap:**	$23.4 B
Fair Value Price:	$218	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	02/22/2024
% Fair Value:	108%	**5 Year Valuation Multiple Estimate:**	-1.5%	**Dividend Payment Date:**	03/22/2024
Dividend Yield:	0.9%	**5 Year Price Target**	$350	**Years Of Dividend Growth:**	14
Dividend Risk Score:	A	**Retirement Suitability Score:**	D	**Rating:**	Hold

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. STERIS has a market capitalization of more than $23 billion and solid history of paying dividends.

On February 7th, 2024, the company announced financial results for the third quarter of fiscal year 2024. STERIS reported Q3 non-GAAP EPS of $2.22, beating market estimates by $0.05 and revenue of $1.40 billion, which represented a 15.0% increase from the previous year.

Steris plc (STE) posted solid results, including a 15% year-on-year revenue rise to $1.40 billion on a 10% constant-currency organic advance. Financial success is attributed to robust growth in Healthcare, driven by growth in procedure volumes in the U.S. and betterment in supply chain constraints in Life Sciences. Net income jumped to $140.7 million, or $1.42 a diluted share, from $123.8 million in the year-earlier period. Adjusted net income rose 77% to $220.9 million, or $2.22 per diluted share. In Healthcare, revenue grew by 19%, demonstrating solid consumables, capital equipment, and service revenues. Growth in single-use consumable revenues fueled increases in Applied Sterilization Technologies and Life Science revenues, but declined in Dental. The company's free cash flow improved significantly and reached $457 million in the first nine months of fiscal 2024. For this fiscal year, the company has revised the growth rate in revenues to 10% to 11% and its adjusted earnings per diluted share to $8.60 to $8.70, signifying the confidence of the company in its ability to deliver continued outperformance in the Healthcare segment and ongoing strategic focus to triumph over macro challenges.

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[1]	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.

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

[1] 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.

$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 high end 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. 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	Now	2029
Avg. P/E	19.5	20.1	18.5	20.5	22.6	25.7	27.8	27.6	24.5	25.8	***26.9***	***25.0***
Avg. Yld.	1.7%	1.4%	1.6%	1.5%	1.3%	1.0%	1.0%	0.8%	0.9%	0.9%	***0.9%***	***1.0%***

STERIS plc trades at a forward P/E of 23.3, close to its long-term 10-year average P/E of 26.9 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

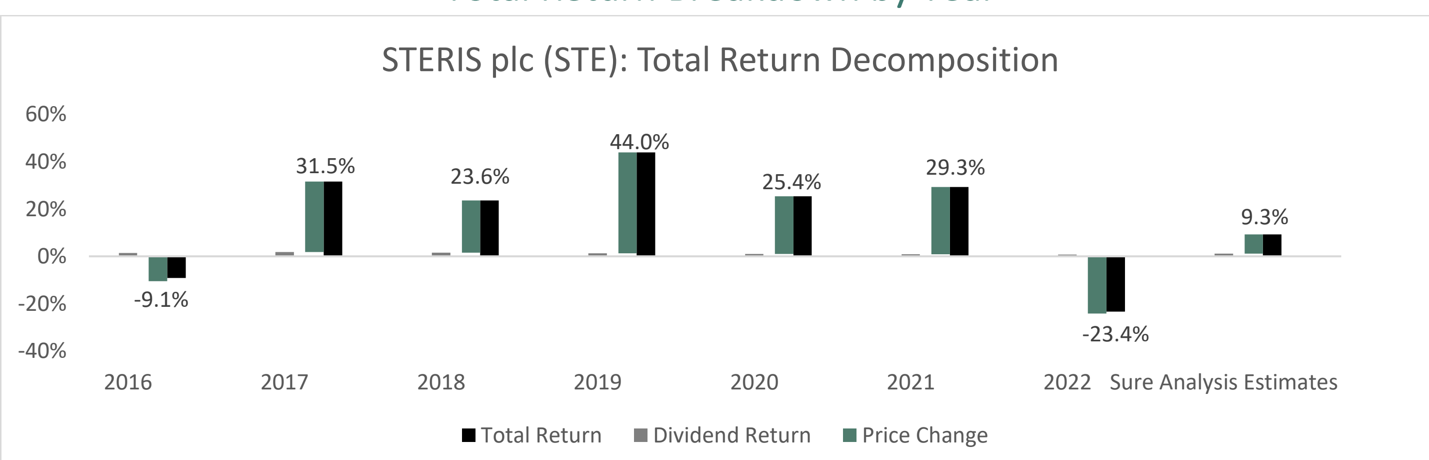
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	30%	29%	29%	29%	27%	26%	25%	21%	21%	22%	***24%***	***24%***

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 be reflected in the company's financials in the following years. Thus, the hold rating is premised upon the 9.3% 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 headwind.

Total Return Breakdown by Year



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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.