STERIS plc (STE)

Updated November 28th, 2024, by Yiannis Zourmpanos

Key Metrics

Current Price:	$217	**5 Year CAGR Estimate:**	12.1%	**Market Cap:**	$21.7 B
Fair Value Price:	$229	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	11/19/2024
% Fair Value:	95%	**5 Year Valuation Multiple Estimate:**	1.1%	**Dividend Payment Date:**	12/19/2024
Dividend Yield:	1.1%	**5 Year Price Target**	$368	**Years Of Dividend Growth:**	14
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**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. STERIS has a market capitalization of more than $21 billion and a solid history of paying dividends.

On November 6th, 2024, the company announced financial results for the second quarter of fiscal year 2025. STERIS reported a strong second quarter for fiscal 2025, with total revenue up 8.3% to $1.3 billion, that was driven by gains in Healthcare and Applied Sterilization Technologies (AST) segments. Net income rose to $150.2 million ($1.51 per diluted share), compared to $119.8 million ($1.20 per diluted share) in the same period last year. Adjusted net income grew to $212.2 million ($2.14 per diluted share), up from $184.9 million ($1.86 per diluted share) in Q2 fiscal 2024.

The Healthcare segment led growth with a 9% revenue increase to $944.2 million, reflecting 12% consumable growth, 14% service revenue growth, and a 2% decline in capital equipment sales. AST revenue rose 9% to $256.7 million, supported by 6% growth in service revenue and higher capital equipment sales. Life Sciences revenue declined 4% to $127.9 million, impacted by the divestiture of its CECS business, though consumables grew 21%.

CEO Dan Carestio emphasized the strength of STERIS's diversified business model and reiterated the full-year outlook for fiscal 2025. The company expects revenue growth of 6.5%-7.5% and adjusted earnings per share between $9.05 and $9.25. STERIS generated $344.5 million in free cash flow for the first half of fiscal 2025, up from $284.7 million last year, driven by higher earnings and improved working capital. With a robust balance sheet, continued operational efficiency, and a focus on consumable and service growth, STERIS remains well-positioned to deliver sustained performance throughout the fiscal year.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	**2025**	**2030**
EPS	$2.25	$1.56	$1.28	$3.39	$3.55	$4.76	$4.63	$2.48	$1.07	$3.81	***$9.15***	***$14.74***
DPS	$0.90	$0.98	$1.09	$1.21	$1.33	$1.45	$1.57	$1.69	$1.84	$2.03	***$2.28***	***$3.67***
Shares[1]	59.4	70.7	85.5	85.0	84.6	84.8	85.2	97.5	99.7	98.8	***100.0***	***134.8***

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.

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$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%. We maintain our EPS forecast for 2025, using the midpoint of the management's estimate at $9.15. Thus, with a forecasted annual growth of 10.0%, the projected EPS in 2030 is $14.74. 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 2030.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	30.5	20.1	18.5	20.5	22.6	25.7	27.8	27.6	194.8	55.4	***23.7***	***25.0***
Avg. Yld.	1.3%	1.4%	1.3%	1.2%	1.0%	0.9%	0.8%	0.8%	0.9%	0.9%	***1.1%***	***1.0%***

STERIS plc trades at a forward P/E of 23.7, below its normalized long-term average P/E of around 26.0. STERIS trades below its historical valuation multiples, but we consider a P/E of 25 as a fair reflection of the stock's valuation, suggesting a target price of $368 by 2030.

Safety, Quality, Competitive Advantage, & Recession Resiliency

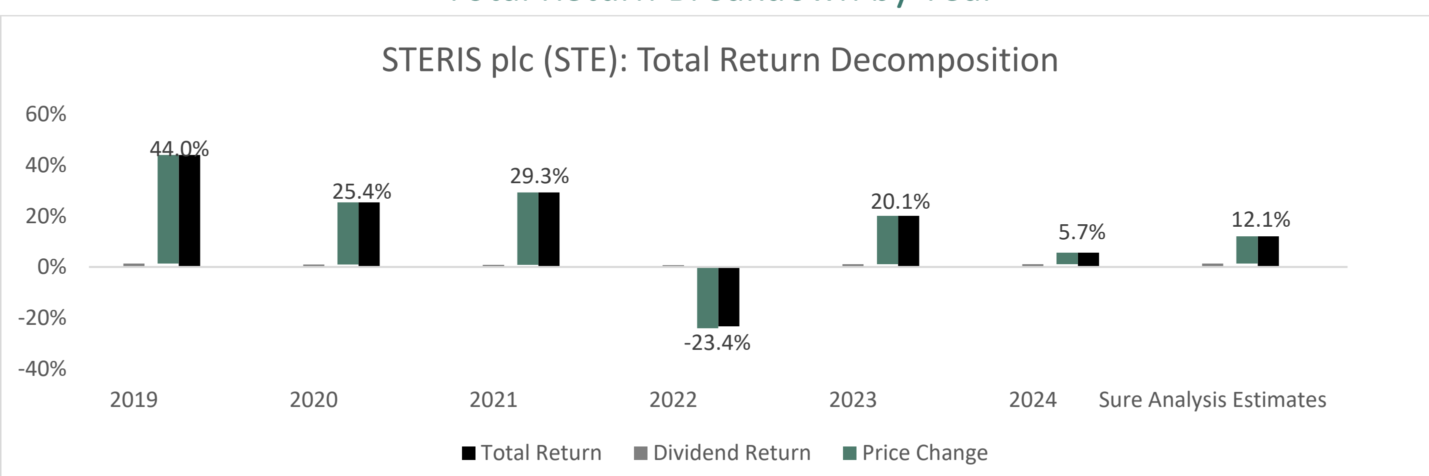
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	40%	63%	85%	36%	37%	30%	34%	68%	172%	53%	***25%***	***25%***

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 36.3%, 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 dropped since our last report, but we remain confident that the acquisition synergies will materialize and be reflected in the company's financials in the following years. Thus, we upgrade STE to buy rating premised upon the 12.1% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 10.0%, a 1.1% dividend yield, and a valuation tailwind.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	1,850	2,239	2,613	2,620	2,782	3,031	3,108	4,585	4,958	5,139
Gross Profit	774	895	1,026	1,093	1,175	1,320	1,343	2,016	2,160	2,218
Gross Margin	41.8%	40.0%	39.3%	41.7%	42.2%	43.6%	43.2%	44.0%	43.6%	43.2%
SG&A Exp.	493	627	682	632	670	717	731	1,503	1,299	1,252
Operating Profit	227	212	285	400	442	538	545	426	759	862
Op. Margin	12.3%	9.5%	10.9%	15.3%	15.9%	17.7%	17.6%	9.3%	15.3%	16.8%
Net Profit	135	111	110	291	304	408	397	244	107	378
Net Margin	7.3%	4.9%	4.2%	11.1%	10.9%	13.5%	12.8%	5.3%	2.2%	7.4%
Free Cash Flow	161	128	251	292	350	376	450	397	395	613
Income Tax	74	60	74	63	64	91	121	72	52	150

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	2,097	5,346	4,924	5,200	5,073	5,441	6,574	11,424	10,820	11,060
Cash & Equivalents	168	249	283	202	221	320	221	348	209	207
Acc. Receivable	325	472	483	528	565	586	609	799	928	1,008
Inventories	161	193	198	206	208	264	315	575	695	675
Goodwill & Int.	861	3,280	2,956	3,161	2,928	2,922	3,924	7,733	6,835	6,190
Total Liabilities	1,024	2,308	2,114	1,983	1,887	2,023	2,683	4,879	4,735	4,748
Accounts Payable	99	140	133	136	153	149	157	226	280	252
Long-Term Debt	621	1,568	1,478	1,316	1,183	1,151	1,651	3,088	3,079	3,206
Total Equity	1,072	3,023	2,799	3,206	3,178	3,405	3,881	6,532	6,077	6,302
D/E Ratio	0.58	0.52	0.53	0.41	0.37	0.34	0.43	0.47	0.51	0.51

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	6.8%	3.0%	2.1%	5.7%	5.9%	7.8%	6.6%	2.7%	1.0%	3.5%
Return on Equity	12.8%	5.4%	3.8%	9.7%	9.5%	12.4%	10.9%	4.7%	1.7%	6.1%
ROIC	8.4%	3.5%	2.5%	6.6%	6.8%	9.1%	7.9%	3.2%	1.1%	4.1%
Shares Out.	85.9	85.0	84.8	84.5	84.9	85.4	100.1	100.0	100.3	99.4
Revenue/Share	30.81	31.45	30.35	30.57	32.55	35.39	36.18	46.63	49.46	51.72
FCF/Share	2.68	1.80	2.92	3.41	4.09	4.39	5.24	4.04	3.94	6.17

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