

Stericycle, Inc. (SRCL)

\$61.87 (As of 01/09/20)

Price Target (6-12 Months): **\$72.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/01/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: F

Summary

Stericycle continues to progress well with its multiyear Business Transformation initiatives, aimed at improving long-term operational and financial performances. The company is focused on increasing its market share and geographic base through strategic acquisitions. It provides business-to-business services in highly regulated areas to help companies comply with tough regulations. Backed by these positives, shares of Stericycle have outperformed its industry in the past year. On the flip side, declining Communication and Related Services business has been weighing on its top line. Consistent reduction in price and inability to raise prices can reduce the company's earnings. Global presence exposes the company to foreign currency exchange rate risks. Also, high debt may limit the company's future expansion and worsen its risk profile.

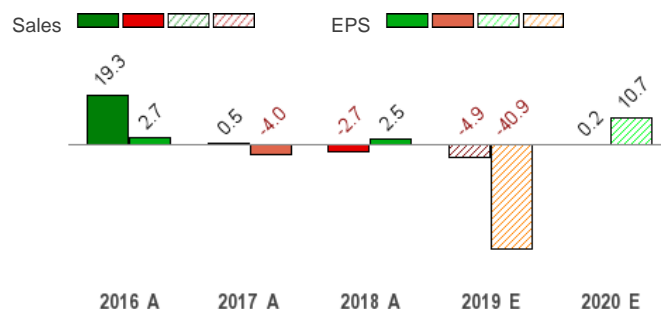
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$66.60 - \$38.92
20 Day Average Volume (sh)	504,821
Market Cap	\$5.6 B
YTD Price Change	-3.0%
Beta	1.28
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Waste Removal Services
Zacks Industry Rank	Top 27% (69 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	17.7%
Last Sales Surprise	-1.1%
EPS F1 Est- 4 week change	-0.8%
Expected Report Date	02/27/2020
Earnings ESP	0.0%
P/E TTM	20.9
P/E F1	21.3
PEG F1	2.8
P/S TTM	1.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	819 E	837 E	831 E	824 E	3,321 E
2019	830 A	846 A	833 A	803 E	3,315 E
2018	895 A	883 A	855 A	853 A	3,486 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.65 E	\$0.70 E	\$0.74 E	\$0.78 E	\$2.91 E
2019	\$0.57 A	\$0.56 A	\$0.80 A	\$0.70 E	\$2.63 E
2018	\$1.21 A	\$1.17 A	\$1.03 A	\$1.03 A	\$4.45 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/09/2020. The reports text is as of 01/10/2020.

Overview

Incorporated in 1989 and headquartered in Illinois, Stericycle, Inc. provides regulated business-to-business services in relation to the collection, disposal and processing of regulated and specialized waste.

Stericycle serves a diverse customer base of more than one million, with operations in 21 different markets outside the United States. It operates in all the major international markets including Argentina, Austria, Australia, Belgium, Brazil, Canada, France, Germany, Ireland, Japan, Mexico, the Netherlands, Portugal, Republic of Korea, Romania, Singapore, Spain and the United Kingdom.

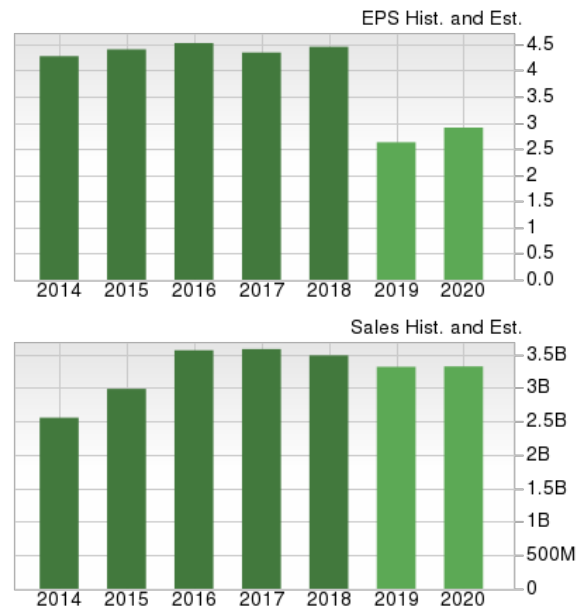
Globally, it operates 251 processing facilities, 2 landfills, 14 communication centers, 307 transfer sites, 67 office locations. The company focuses on small customers with recurring service needs, and organic growth.

In 2018, Stericycle reported total revenue of \$3.48 billion. It operates through three segments – **Domestic and Canada Regulated Waste and Compliance Services** or Domestic and Canada RCS (74% of 2018 revenues); **International Regulated Waste and Compliance Services** or International RCS (19%); and **Domestic Communication and Related Services** or Domestic CRS (7%).

Domestic and Canada, and International Regulated Waste and Compliance Services provide medical and pharmaceutical waste disposal, hazardous waste management and sustainability solutions for expired or unused inventory, secure information destruction of documents and e-media, training and consulting through Steri-Safe and Clinical Services programs, and other regulatory compliance services. Domestic Communication and Related Services segment includes inbound/outbound communication, online scheduling, notifications, automated patient reminders, product retrievals, product returns, and quality audits.

By service lines, Regulated Waste and Compliance Services, Secure Information Destruction Services, Communication and Related Services, and Manufacturing and Industrial Services accounted for 55%, 26%, 9% and 9% of total revenues in 2018, respectively.

Geographically, Domestic and Canada region accounted for 81% of 2018 revenues. The remaining 19% came from International operations.



Reasons To Buy:

- ▲ The waste management industry stands to benefit from growing adoption of advanced **waste collection and recycling techniques**. Increasing environmental concerns and expected increase in non-hazardous waste as a result of rapid economic growth are expected to enhance business opportunities for waste management companies. Companies are increasingly undertaking municipal solid waste and non-hazardous industrial waste recycling measures. Furthermore, government initiatives to introduce sustainable waste management mechanisms and put a check on illegal dumping are also expected to drive demand. The Environmental Protection Agency's (EPA) Resource Conservation and Recovery Act (RCRA), aimed at reducing open dumping and managing hazardous and non-hazardous waste, will significantly benefit the industry. All these factors bode well for Stericycle.
- ▲ Prospects over Stericycle's comprehensive **multiyear Business Transformation** are benefitting the stock that has gained 56.3% over the past year, outperforming the 20.2% rally of the industry. The program is aimed at improving long-term operational and financial performance. Initiated in 2017, the five key initiatives within the program include portfolio rationalization, operational optimization, organizational excellence and efficiency, commercial excellence and strategic sourcing. As part of the portfolio rationalization strategy within Business Transformation, Stericycle completed five divestitures — the North American telephone answering services business, a retail pharmaceutical returns business, all of its Mexican operations, its remaining hazardous waste business in the United Kingdom and the U.S. non-core clean room services business. The company is looking for strategic alternatives for the CRS business and other non-core assets and geographies. It has divested the U.K.-based texting business, which had been part of CRS. The company is progressing well with the ERP implementation. In 2018, Stericycle realized adjusted EBITDA of \$64 million from these initiatives. It expects to witness \$850 million to \$1 billion of adjusted EBITDA benefits over the tenure of the program. Adjusted EBITDA and adjusted earnings are anticipated to register annual growth rate of 5-9% and 6-10%, respectively, between 2018 and 2022.
- ▲ Stericycle continues to grow on the back of **acquisitions** in both the domestic and international markets. In the first nine months of 2019, acquisitions contributed \$9.3 million to revenues. In 2018, 2017 and 2016, acquisitions contributed \$29.7 million, \$32.2 million and \$570.1 million to revenues, respectively. Notably, the company had completed 21, 30 and 31 acquisitions, respectively, in 2018, 2017 and 2016. The acquisition pool of the company remains robust in multiple geographies and lines of business. The global acquisition strategy increases Stericycle's customer base by providing a long-term growth platform for selling multiple services. The company is continuously on the lookout for strategic acquisitions that will grow its market share and expand geographic base.
- ▲ By providing **business-to-business services in highly regulated areas**, Stericycle intends to help its customers and businesses to comply with the tough regulatory policies. It mainly targets smaller businesses with high demand for regulatory assistance compared to larger businesses, due to the lack of specialized staff. To this end, Stericycle is offering services, depending on the varying customer needs. We believe that this business strategy will help the company earn profits as well as expand into additional service offerings like hazardous or pharmaceutical waste management, communication services and secure information destruction. Moreover, the government regulatory bodies require proper and immediate implementation of rules and regulations, to protect the overall health environment. This is a major positive for Stericycle which is focused on providing regulated business-to-business services.

Stericycle is progressing well with its comprehensive multiyear Business Transformation.

Reasons To Sell:

▼ Stericycle's **Communication and Related Services ("CRS") businesses have been weak** for quite some time, weighing on its top line. The CRS business is witnessing lower revenues due to decline in recall events and lower call volumes in communication solutions. In the first nine months of 2019, CRS revenues declined 25.1% year over year on a reported basis and 20.6% organically. In 2018, the same decreased 18.2% year over year on a reported basis as well as organically. Also, lease exit costs associated with the closure/consolidation of call centers in Domestic CRS is a headwind.

Declining CRS businesses, stiff competition, foreign currency exchange rate fluctuations and high debt weigh on Stericycle's prospects.

- ▼ Stericycle operates in a **highly-competitive industry**. The barriers to entry in the regulated waste collection and disposal business are very low. In addition to stiff competition from large national companies, many small, regional and local companies also compete aggressively in terms of pricing. This had earlier forced Stericycle to reduce prices to retain its existing customers and attract new ones. The threat of pricing pressure is expected to prevail in the future as well. Consistent reduction in price and the inability to increase prices can significantly reduce the company's earnings. This forces us to be bearish on the stock to some extent.
- ▼ Stericycle's vast international presence exposes it to the **risks associated with foreign currency exchange rate fluctuations**. The company serves a diverse customer base of more than one million customers, with operations in 20 different markets outside the United States. It operates in all the major international markets including Argentina, Austria, Australia, Belgium, Brazil, Canada, Chile, France, Germany, Ireland, Japan, Luxembourg, Mexico, the Netherlands, Portugal, Republic of Korea, Romania, Singapore, Spain and the United Kingdom, with businesses transactions in different currencies other than the U.S. dollar. Notably, foreign exchange rates reduced the company's revenues by \$58.8 million during the first nine months of 2019. In 2018 and 2017, foreign exchange rates had reduced revenues by \$26.8 million and \$12.3 million, respectively.
- ▼ Stericycle has a **highly leveraged balance sheet**. As of Sep 30, 2019, long-term debt was \$2.62 billion while cash and cash equivalents were \$30.8 million. Such a cash position implies that Stericycle needs to generate adequate amount of operating cash flow to service its debt. Also, high debt may limit the company's future expansion and worsen its risk profile.
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Last Earnings Report

Stericycle Beats on Q3 Earnings, Revenues Lag

Stericycle reported third-quarter 2019 adjusted earnings per share of 80 cents, which beat the Zacks Consensus Estimate by 12 cents. However, the bottom lined declined 22.3% year over year due to sorted office paper (SOP) pricing, foreign exchange impacts, higher operating costs, higher interest expense and the absence of gains on share repurchases in the reported quarter (as compared with the year-ago quarter), which were, partially offset by a tax benefit.

Total revenues of \$833.1 million missed the consensus mark by \$9.5 million and declined 2.6% year over year on a reported basis and 0.7% on an organic basis. The top line was hurt by macroeconomic factors of SOP pricing and foreign exchange rates, which reduced revenues by \$18.4 million and \$13.3 million, respectively, and \$12.7 million decline in the company's Communication and Related Services (CRS) business (due to decline in recall events). These were, however, partially offset by organic growth of \$14 million in Secure Information Destruction and \$7.4 million in Regulated Waste and Compliance Services (RWCS).

Revenues by Service

RWCS revenues declined 0.4% year over year on a reported basis but increased 1.6% organically to \$474.9 million. The segment accounted for 57% of total revenues.

Secure Information Destruction Services revenues declined 2.2% year over year on a reported basis and 2% organically to \$222.6 million. The segment contributed 27% to total revenues.

CRS revenues fell 17.7% year over year on a reported basis and 12.4% organically to \$58.9 million. The segment accounted for 7% of total revenues.

Manufacturing and Industrial Services revenues of \$76.7 million fell 3% year over year on a reported basis but improved 0.4% organically. The segment contributed 9% to total revenues.

Revenues by Geography

Revenues from the **Domestic and Canada** were \$689.6 million, down 2% year over year on a reported basis and 2.1% organically. The region accounted for 83% of total revenues.

International revenues of \$143.5 million fell 5% year over year but improved 5.9% organically. The region contributed 17% to total revenues.

Profitability Performance

Adjusted gross profit in the reported quarter amounted to \$299.2 million, down 12.8% year over year. Adjusted gross profit margin was 35.9%, down from 40.2% in the prior-year quarter.

Adjusted EBITDA was \$150.5 million, down 18.2% year over year. The decline was driven by \$20.5 million from SOP pricing and foreign exchange impact and \$11.0 million in higher operating costs related to hazardous waste operations. Adjusted EBITDA margin was 18.1%, down from 21.5% reported in the prior-year quarter.

Adjusted operating income was \$118.8 million, down 21.7% year over year. Adjusted operating income margin was 14.3%, down from 17.8% in the prior-year quarter.

Balance Sheet & Cash Flow

Stericycle exited third-quarter 2019 with cash and cash equivalents of \$30.8 million compared with \$34.5 million at the end of the prior quarter. Long-term debt came in at \$2.62 billion compared with \$2.69 billion at the end of the prior quarter.

The company generated \$130.2 million of cash from operating activities and capex was \$53 million in the quarter. Free cash flow of \$77.2 million was generated in the reported quarter. This was utilized to reduce around \$83 million of net debt (the largest decrease since the third quarter of 2017).

2019 Guidance

The company updated its 2019 guidance to reflect the impact of divestitures closed through October 31.

Revenues are now anticipated in the range of \$3.30 to \$3.34 billion compared with the prior anticipation of \$3.35-\$3.41 billion. Adjusted EPS for 2019 is now anticipated in the range of \$2.55-\$2.70 million compared with the previously guided range of \$2.50-\$2.85 million. Adjusted EBITDA is now anticipated to lie between \$575 million and \$595 million compared with the prior guided range of \$575-\$615 million. Capital expenditures are now expected between \$180 million and \$200 million compared with the prior guided range of \$170-\$190 million.

Quarter Ending **09/2019**

Report Date	Oct 31, 2019
Sales Surprise	-1.13%
EPS Surprise	17.65%
Quarterly EPS	0.80
Annual EPS (TTM)	2.96

Valuation

Stericycle shares are up 56.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Business Services sector are up 20.2% and 27.4%, respectively, over the past year.

The S&P 500 index is up 25.2% in the past year.

The stock is currently trading at trailing 12-month EV/EBITDA of 13.98X, which compares to 11.01X for the Zacks sub-industry, 11.98X for the Zacks sector and 11.99X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.2X and as low as 8.26X, with a 5-year median of 12.22X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$72.00 price target reflects 24.62X forward 12-month earnings.

The table below shows summary valuation data for SRCL

Valuation Multiples - SRCL					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	13.98	11.01	11.98	11.99
	5-Year High	20.20	12.22	12.56	12.86
	5-Year Low	8.26	8.68	8.75	8.48
	5-Year Median	12.22	10.24	10.37	10.67
P/E F 12M	Current	21.04	26.03	25.2	18.82
	5-Year High	29.39	26.28	25.2	19.34
	5-Year Low	8.36	19.88	18.76	15.17
	5-Year Median	16.48	22.47	20.56	17.44
P/S F12M	Current	1.7	2.37	3.97	3.49
	5-Year High	4.17	2.42	5.13	3.49
	5-Year Low	0.91	1.69	3.09	2.54
	5-Year Median	1.76	2.05	3.63	3

As of 01/09/2020

Industry Analysis Zacks Industry Rank: Top 27% (69 out of 254)



Top Peers

Advanced Disposal Services Inc. (ADSW)	Outperform
Clean Harbors, Inc. (CLH)	Neutral
Covanta Holding Corporation (CVA)	Neutral
Casella Waste Systems, Inc. (CWST)	Neutral
US Ecology, Inc. (ECOL)	Neutral
Republic Services, Inc. (RSG)	Neutral
Waste Connections, Inc. (WCN)	Neutral
Waste Management, Inc. (WM)	Neutral

Industry Comparison Industry: Waste Removal Services				Industry Peers		
	SRCL Neutral	X Industry	S&P 500	RSG Neutral	WCN Neutral	WM Neutral
VGM Score	D	-	-	B	C	C
Market Cap	5.64 B	55.19 M	23.94 B	29.03 B	24.72 B	49.27 B
# of Analysts	8	4.5	13	7	8	7
Dividend Yield	0.00%	0.00%	1.78%	1.78%	0.79%	1.77%
Value Score	D	-	-	C	D	C
Cash/Price	0.01	0.02	0.04	0.00	0.01	0.06
EV/EBITDA	98.11	11.62	13.97	13.01	18.95	13.77
PEG Ratio	2.74	3.08	2.03	3.12	3.64	3.03
Price/Book (P/B)	2.28	2.74	3.33	3.64	3.64	7.26
Price/Cash Flow (P/CF)	8.40	12.66	13.73	13.87	18.31	14.63
P/E (F1)	21.06	25.76	18.79	26.15	32.02	24.94
Price/Sales (P/S)	1.68	1.92	2.64	2.83	4.67	3.19
Earnings Yield	4.70%	3.83%	5.32%	3.83%	3.13%	4.01%
Debt/Equity	1.19	0.95	0.72	0.97	0.63	1.94
Cash Flow (\$/share)	7.37	0.73	6.94	6.56	5.12	7.94
Growth Score	C	-	-	B	B	B
Hist. EPS Growth (3-5 yrs)	-4.33%	8.88%	10.56%	11.90%	10.68%	14.09%
Proj. EPS Growth (F1/F0)	10.63%	10.81%	7.49%	5.92%	11.00%	6.99%
Curr. Cash Flow Growth	3.81%	11.29%	14.83%	9.81%	12.02%	17.01%
Hist. Cash Flow Growth (3-5 yrs)	9.90%	5.32%	9.00%	4.98%	26.04%	2.95%
Current Ratio	0.94	0.94	1.23	0.49	1.11	1.86
Debt/Capital	54.25%	49.13%	42.99%	49.13%	38.48%	65.95%
Net Margin	-13.26%	-0.03%	11.08%	10.58%	10.70%	11.35%
Return on Equity	10.52%	4.26%	17.16%	13.13%	10.62%	28.63%
Sales/Assets	0.50	0.56	0.55	0.47	0.41	0.62
Proj. Sales Growth (F1/F0)	0.18%	4.48%	4.20%	4.39%	7.30%	4.48%
Momentum Score	F	-	-	C	F	D
Daily Price Chg	0.02%	0.01%	0.53%	0.83%	0.51%	0.04%
1 Week Price Chg	-3.23%	0.01%	-0.30%	0.01%	0.77%	1.26%
4 Week Price Chg	-5.90%	2.50%	1.92%	2.69%	5.04%	4.94%
12 Week Price Chg	16.19%	0.67%	6.54%	5.63%	1.63%	-0.13%
52 Week Price Chg	56.83%	-6.43%	22.58%	22.01%	21.41%	24.62%
20 Day Average Volume	504,821	56,859	1,580,816	957,716	663,891	1,397,672
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.80%	0.00%	0.00%	0.00%	0.21%	0.00%
(F1) EPS Est 12 week change	-6.35%	-2.10%	-0.50%	-2.10%	-4.55%	-1.01%
(Q1) EPS Est Mthly Chg	-0.26%	0.00%	0.00%	0.00%	0.00%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	C
Momentum Score	F
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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