

Stericycle, Inc. (SRCL)

\$55.80 (As of 03/17/20)

Price Target (6-12 Months): **\$59.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 10/01/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: D

Growth: F

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 over 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.

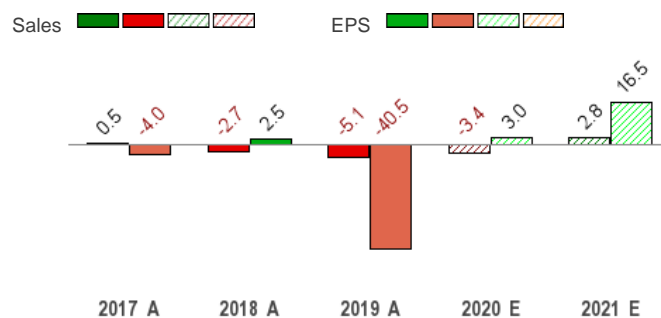
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$67.94 - \$40.06
20 Day Average Volume (sh)	854,090
Market Cap	\$5.1 B
YTD Price Change	-12.6%
Beta	1.27
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Waste Removal Services
Zacks Industry Rank	Top 44% (111 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.9%
Last Sales Surprise	-0.4%
EPS F1 Est- 4 week change	-5.9%
Expected Report Date	05/07/2020
Earnings ESP	-2.9%
P/E TTM	21.1
P/E F1	20.4
PEG F1	2.7
P/S TTM	1.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	847 E	852 E	842 E	845 E	3,284 E
2020	783 E	803 E	799 E	797 E	3,196 E
2019	830 A	846 A	833 A	800 A	3,309 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.79 E	\$0.78 E	\$0.82 E	\$0.89 E	\$3.18 E
2020	\$0.63 E	\$0.67 E	\$0.68 E	\$0.73 E	\$2.73 E
2019	\$0.57 A	\$0.56 A	\$0.80 A	\$0.72 A	\$2.65 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 03/17/2020. The reports text is as of 03/18/2020.

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.

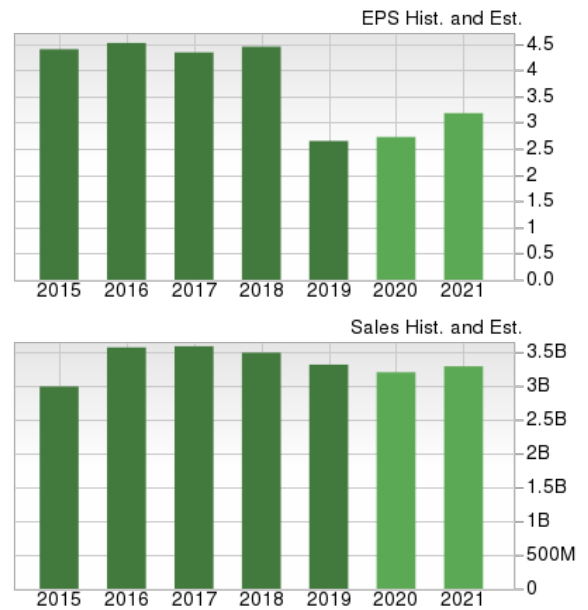
Globally, it operates 251 processing facilities, 2 landfills, 14 communication centers, 307 transfer sites, 67 office locations. The company focuses on small customers with recurring service needs, and organic growth.

In 2019, Stericycle reported total revenue of \$3.31 billion. It operates through three segments – **Domestic and Canada Regulated Waste and Compliance Services** or Domestic and Canada RCS (77% of 2019 revenues); **International Regulated Waste and Compliance Services** or International RCS (18%); and **Domestic Communication and Related Services** or Domestic CRS (5%).

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 57%, 27%, 7% and 9% of total revenues in 2019, respectively.

Geographically, Domestic and Canada region accounted for 82% of 2019 revenues. The remaining 18% 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 13.3% over the past year, outperforming the 8.4% decline of the industry it belongs to. 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 2019, 2018 and 2017, acquisitions contributed \$9.5 million, \$29.7 million and \$32.2 million to revenues, respectively. Notably, the company had completed 1, 21 and 30 acquisitions, respectively, in 2019, 2018 and 2017. 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. Notably, CRS revenues declined 30.4% year over year in 2019 and 18.2% in 2018. Also, lease exit costs associated with the closure/consolidation of call centers in Domestic CRS is a headwind.
- ▼ 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 2019, 2018 and 2017, foreign exchange rates had reduced revenues by \$67.8 million, \$26.8 million and \$12.3 million, respectively.
- ▼ Stericycle has a **highly leveraged balance sheet**. As of Dec 31, 2019, long-term debt was \$2.56 billion while cash and cash equivalents were \$34.7 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.

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

Last Earnings Report

Stericycle Beats on Q4 Earnings, Revenues Lag Estimates

Stericycle reported mixed fourth-quarter 2019 results wherein earnings surpassed the Zacks Consensus Estimate but revenues missed the same.

Adjusted earnings per share of 72 cents beat the consensus mark by 2.9% but declined 30.1% year over year due to sorted office paper (SOP) pricing, higher operating costs, and higher effective tax rate, which were, partially offset by lower interest expense.

Total revenues of \$799.9 million missed the consensus mark by 0.4% and declined 6.2% year over year on a reported basis and 0.9% on an organic basis. The downfall was due to divestitures, which reduced revenues by \$36.2 million, and macroeconomic factors of SOP pricing and foreign exchange rates, which reduced revenues by \$19.3 million and \$9.0 million, respectively.

Decline in the company's Manufacturing and Industrial (M&I) and Communication and Related Services (CRS) businesses were partially offset by organic revenue growth (excluding SOP pricing) of 2% in Regulated Waste and Compliance Services (RWCS) and 1.8% in Secure Information Destruction (SID).

The company has made significant progress on its portfolio rationalization strategy and debt reduction efforts.

On Feb 7, 2020, Stericycle announced that it has inked a deal to sell its Domestic Environmental Solutions business to Harsco Corporation for \$462.5 million in cash, subject to customary adjustments. The deal includes Stericycle's M&I Services and the retail portion of Hazardous Waste Services reported under RWCS, which together employ approximately 2,000 team members across 61 facilities.

In December 2019, Stericycle completed the sale of its operations in Chile to an affiliate of Veolia for roughly \$30.7 million.

Revenues by Service

RWCS revenues declined 0.2% year over year to \$473.7 million. The segment accounted for 59% of total revenues.

SID revenues declined 6.7% year over year to \$217.9 million. The segment contributed 27% to total revenues.

CRS revenues fell 47.4% year over year to \$35.9 million. The segment accounted for 5% of total revenues.

M&I revenues of \$72.4 million fell 4.9% year over year. The segment contributed 9% to total revenues.

Revenues by Geography

Revenues from the **Domestic and Canada** were \$660.8 million, down 5.7% year over year on a reported basis and 2.1% organically. The region accounted for 83% of total revenues.

International revenues of \$139.1 million fell 8.5% year over year. The region contributed 17% to total revenues.

Profitability Performance

Adjusted gross profit in the reported quarter amounted to \$285.2 million, down 17.7% year over year. Adjusted gross profit margin was 35.7%, down from 40.6% in the prior-year quarter.

Adjusted EBITDA was \$152.8 million, down 15.3% year over year. The decrease was driven by SOP pricing of \$19.3 million and higher costs related to hazardous waste operations of \$9.8 million. Adjusted EBITDA margin was 19.1%, down from 21.2% reported in the prior-year quarter.

Adjusted operating income was \$122.6 million, down 18.5% year over year. Adjusted operating income margin was 15.3%, down from 17.6% in the prior-year quarter.

Balance Sheet & Cash Flow

Stericycle exited fourth-quarter 2019 with cash and cash equivalents of \$34.7 million compared with \$30.8 million at the end of the prior quarter. Long-term debt came in at \$2.56 billion compared with \$2.62 billion at the end of the prior quarter.

The company generated \$46.8 million of cash from operating activities and capex was \$33 million in the quarter. Free cash flow of \$13.8 million was generated in the reported quarter.

2020 Guidance

For 2020, Stericycle expects organic revenues in the range of \$3.22 to \$3.30 billion. Free cash flow is expected between \$150 million and \$200 million.

Quarter Ending **12/2019**

Report Date	Feb 27, 2020
Sales Surprise	-0.37%
EPS Surprise	2.86%
Quarterly EPS	0.72
Annual EPS (TTM)	2.65

Recent News

On **Feb 07, 2020**, Stericycle announced that it has inked a deal to sell its Domestic Environmental Solutions business (excluding the healthcare customer and unused consumer pharmaceutical take-back services) to Harsco Corporation for \$462.5 million in cash.

Valuation

Stericycle shares are up 13.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Business Services sector are down 8.4% and 15.9%, respectively, over the past year.

The S&P 500 index is down 16.5% in the past year.

The stock is currently trading at trailing 12-month EV/EBITDA of 9.32X, which compares to 9.58X for the Zacks sub-industry, 9.53X for the Zacks sector and 8.81X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.54X and as low as 8.16X, with a 5-year median of 11.96X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$59.00 price target reflects 18.52X 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	9.32	9.58	9.53	8.81
	5-Year High	20.54	12.26	13.24	12.88
	5-Year Low	8.16	8.68	8.52	8.31
	5-Year Median	11.96	10.27	10.46	10.79
P/E F 12M	Current	17.52	21.69	18.45	13.87
	5-Year High	29.39	26.88	25.11	19.34
	5-Year Low	8.36	19.88	18.45	13.87
	5-Year Median	16.48	22.51	20.47	17.42
P/B TTM	Current	2.18	3.33	3.22	3.21
	5-Year High	6.36	4.34	6.68	4.55
	5-Year Low	1.09	3	3.22	2.85
	5-Year Median	2.27	3.5	5.19	3.63

As of 03/17/2020

Industry Analysis Zacks Industry Rank: Top 44% (111 out of 253)



Top Peers

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

Industry Comparison Industry: Waste Removal Services				Industry Peers		
	SRCL Neutral	X Industry	S&P 500	RSG Neutral	WCN Neutral	WM Neutral
VGM Score	F	-	-	C	C	C
Market Cap	5.09 B	553.65 M	17.72 B	26.05 B	22.86 B	46.26 B
# of Analysts	8	4.5	13	8	9	8
Dividend Yield	0.00%	0.00%	2.51%	1.98%	0.85%	2.00%
Value Score	D	-	-	D	D	D
Cash/Price	0.01	0.04	0.06	0.00	0.01	0.08
EV/EBITDA	31.07	9.77	10.97	12.01	16.81	13.37
PEG Ratio	2.30	2.87	1.54	2.94	3.16	2.80
Price/Book (P/B)	2.18	1.49	2.39	3.21	3.30	6.54
Price/Cash Flow (P/CF)	6.85	8.38	9.36	11.86	15.57	13.01
P/E (F1)	17.68	23.18	13.98	23.18	29.67	23.68
Price/Sales (P/S)	1.54	1.54	1.87	2.53	4.24	2.99
Earnings Yield	4.89%	4.27%	7.13%	4.31%	3.37%	4.22%
Debt/Equity	1.25	0.80	0.70	0.96	0.63	1.88
Cash Flow (\$/share)	8.14	0.59	7.01	6.89	5.57	8.38
Growth Score	F	-	-	A	B	A
Hist. EPS Growth (3-5 yrs)	-6.82%	11.38%	10.85%	12.52%	11.81%	14.53%
Proj. EPS Growth (F1/F0)	2.88%	8.44%	5.38%	5.43%	7.43%	4.55%
Curr. Cash Flow Growth	-27.67%	4.96%	6.15%	3.25%	8.62%	4.96%
Hist. Cash Flow Growth (3-5 yrs)	9.45%	5.38%	8.55%	5.45%	28.79%	6.90%
Current Ratio	0.93	0.93	1.24	0.52	1.12	1.97
Debt/Capital	55.53%	48.86%	42.57%	48.86%	38.79%	65.26%
Net Margin	-10.48%	-0.41%	11.57%	10.42%	10.52%	10.81%
Return on Equity	9.70%	3.82%	16.74%	13.44%	10.66%	28.14%
Sales/Assets	0.49	0.49	0.54	0.46	0.41	0.59
Proj. Sales Growth (F1/F0)	-3.41%	4.83%	3.33%	4.55%	7.72%	4.83%
Momentum Score	F	-	-	D	B	D
Daily Price Chg	20.28%	0.00%	5.62%	7.25%	6.88%	9.05%
1 Week Price Chg	-10.16%	-10.91%	-11.01%	-11.03%	-11.91%	-10.08%
4 Week Price Chg	-12.98%	-28.67%	-28.54%	-18.58%	-17.16%	-13.70%
12 Week Price Chg	-12.76%	-30.72%	-25.74%	-8.86%	-4.10%	-3.26%
52 Week Price Chg	13.74%	-33.33%	-18.88%	3.58%	2.41%	7.57%
20 Day Average Volume	854,090	89,437	3,651,283	1,879,025	1,816,143	3,740,532
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.11%	0.00%	0.00%
(F1) EPS Est 4 week change	-5.85%	-2.64%	-0.58%	-0.17%	-0.23%	-0.51%
(F1) EPS Est 12 week change	-7.13%	-1.52%	-1.18%	1.23%	0.03%	-1.20%
(Q1) EPS Est Mthly Chg	-0.72%	-1.48%	-0.77%	-1.48%	-0.51%	0.05%

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	F
Momentum Score	F
VGM Score	F

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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