

Stericycle, Inc. (SRCL)

\$55.15 (As of 05/28/20)

Price Target (6-12 Months): **\$47.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 05/21/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: F

Summary

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. On the flip side, 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. Partly due to these positives, shares of Stericycle have outperformed its industry in the past year.

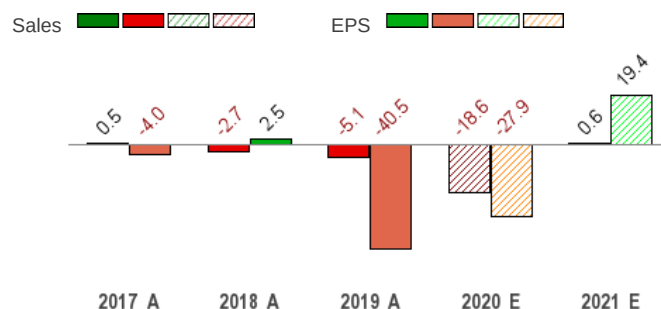
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$67.94 - \$38.45
20 Day Average Volume (sh)	598,328
Market Cap	\$5.0 B
YTD Price Change	-13.6%
Beta	1.11
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Waste Removal Services
Zacks Industry Rank	Bottom 45% (140 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-20.0%
Last Sales Surprise	-2.5%
EPS F1 Est- 4 week change	-28.4%
Expected Report Date	08/06/2020
Earnings ESP	0.0%
P/E TTM	21.2
P/E F1	28.9
PEG F1	3.8
P/S TTM	1.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	674 E	678 E	690 E	692 E	2,709 E
2020	785 A	579 E	635 E	659 E	2,693 E
2019	830 A	846 A	833 A	800 A	3,309 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.55 E	\$0.57 E	\$0.61 E	\$0.72 E	\$2.28 E
2020	\$0.52 A	\$0.27 E	\$0.50 E	\$0.54 E	\$1.91 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 05/28/2020. The reports text is as of 05/29/2020.

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.

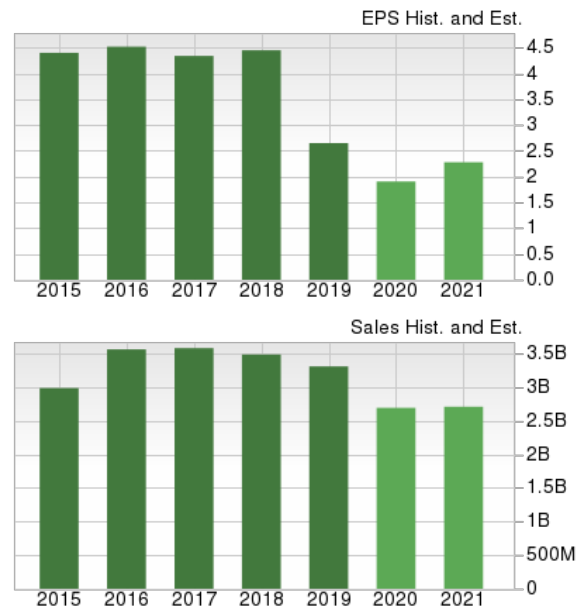
Globally, it operates 251 processing facilities, 2 landfills, 14 communication centers, 307 transfer sites, 67 office locations. The company focuses on small customers with recurring service needs, and organic growth.

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 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 **debt-laden balance sheet**. Total debt at the end of first-quarter 2020 was \$3.02 billion, compared with \$3.12 billion at the end of the prior quarter. The debt-to-capital ratio of 0.58 is higher than the previous quarter's 0.57. An increase in debt to capitalization ratio indicates higher risk of insolvency in challenging times. Further, the company's cash and cash equivalent of \$36 million at the end of the first quarter was well below this debt level, underscoring that the company doesn't have enough cash to meet this debt burden. Also, the cash level, can't meet the short-term debt of \$186 million.

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

Risks

- 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.
 - Stericycle is progressing well with its comprehensive **multiyear Business Transformation** initiative. 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.
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Last Earnings Report

Stericycle Lags Q1 Earnings Estimates

Stericycle reported lower-than-expected first-quarter 2020 results.

Earnings per share of 52 cents missed the Zacks Consensus Estimate by 20% and fell 8.8% year over year, mainly due to lower sorted office paper (SOP) pricing. This was partially offset by margin improvement, lower effective tax rate and related tax expenses, and reduced interest expenses.

Total revenues of \$785 million missed the consensus mark by 2.5% and declined 5.4% year over year on a reported basis. The downfall was due to divestitures that hurt revenues by \$38.4 million, and SOP pricing and foreign exchange rates that impacted revenues by \$16.4 million and \$10.2 million, respectively. Revenues were up 0.5% on an organic basis.

Due to economic uncertainty induced by the COVID-19 pandemic, Stericycle has withdrawn its full year financial guidance.

Revenues by Service

Regulated Waste and Compliance Services (RWCS) revenues declined 0.4% year over year to \$467.3 million. The segment contributed 60% to total revenues. Secure Information Destruction (SID) revenues declined 6% year over year to \$218.1 million. The segment contributed 28% to total revenues. CRS revenues fell 45.1% year over year to \$33.6 million. The segment contributed 4% to total revenues. Manufacturing and Industrial (M&I) revenues of \$66 million fell 2.5% year over year. The segment contributed 8% to total revenues. Organic revenue growth for RWCS, SID and Manufacturing and Industrial M&I was 3.3%, 1.4% and 2.2% respectively. CRS organic revenues declined 0.5% year over year.

Revenues by Geography

Revenues from North America were \$627.5 million, down 0.6% year over year. The region contributed 80% to total revenues. International revenues of \$130.4 million fell 12.2% year over year. The region contributed 17% to total revenues.

Profitability Performance

Adjusted gross profit in the reported quarter amounted to \$286.6 million, down 4.7% year over year. Adjusted gross profit margin was 36.5%, up from 36.2% in the prior-year quarter.

Adjusted operating income was \$93.8 million, down 10.6% year over year. Adjusted operating income margin was 11.9%, down from 12.6% in the prior-year quarter.

Balance Sheet & Cash Flow

Stericycle exited first-quarter 2020 with cash and cash equivalents of \$36 million compared with \$34.7 million at the end of Dec 31, 2019. Long-term debt came in at \$2.5 billion compared with \$2.6 billion at the end of the prior quarter.

The company generated \$82.1 million of net cash from operating activities and capex was \$39.6 million in the quarter. Free cash flow of \$42.5 million was generated in the reported quarter.

Quarter Ending **03/2020**

Report Date	May 07, 2020
Sales Surprise	-2.46%
EPS Surprise	-20.00%
Quarterly EPS	0.52
Annual EPS (TTM)	2.60

Recent News

On **Apr 06, 2020**, Stericycle announced that it has completed its divestiture of the Domestic Environmental Solutions business (excluding the healthcare customer and unused consumer pharmaceutical take-back services) to Harsco Corporation for \$462.5 million in cash.

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 down 15% in the year-to-date period but up 20.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Business Services sector are down 20.7% and 5.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 18% and up 0.7%, respectively.

The S&P 500 index is down 5.7% in the year-to-date period but up 8.9% in the past year.

The stock is currently trading at trailing 12-month EV/EBITDA of 9.81X, which compares to 9.76X for the Zacks sub-industry, 11.87X for the Zacks sector and 11.23X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.54X and as low as 7.75X, with a 5-year median of 11.75X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$47.00 price target reflects 22.84X 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	9.81	9.76	11.87	11.23
	5-Year High	20.54	12.32	13.34	12.86
	5-Year Low	7.75	8.59	8.53	8.26
	5-Year Median	11.75	10.32	10.5	10.8
P/E F 12M	Current	26.8	32.31	29	22.06
	5-Year High	29.1	32.31	29	22.06
	5-Year Low	8.36	20.02	18.68	15.23
	5-Year Median	16.41	23.4	20.69	17.49
P/S F 12M	Current	1.87	2.38	3.96	3.42
	5-Year High	4.17	2.51	3.96	3.44
	5-Year Low	0.91	1.72	3.05	2.53
	5-Year Median	1.71	2.09	3.57	3.01

As of 05/28/2020

Industry Analysis Zacks Industry Rank: Bottom 45% (140 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Advanced Disposal Services Inc. (ADSW)	Neutral	3
Covanta Holding Corporation (CVA)	Neutral	3
Casella Waste Systems, Inc. (CWST)	Neutral	3
US Ecology, Inc. (ECOL)	Neutral	3
Republic Services, Inc. (RSG)	Neutral	3
Waste Connections, Inc. (WCN)	Neutral	3
Waste Management, Inc. (WM)	Neutral	3
Clean Harbors, Inc. (CLH)	Underperform	5

Industry Comparison Industry: Waste Removal Services				Industry Peers		
	SRCL	X Industry	S&P 500	RSG	WCN	WM
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	3
VGM Score	C	-	-	B	C	B
Market Cap	5.04 B	629.14 M	21.49 B	27.02 B	24.76 B	44.95 B
# of Analysts	7	5	14	8	9	8
Dividend Yield	0.00%	0.00%	1.98%	1.91%	0.79%	2.05%
Value Score	D	-	-	B	D	C
Cash/Price	0.01	0.07	0.06	0.01	0.05	0.07
EV/EBITDA	30.57	10.64	12.50	12.70	17.95	13.11
PEG Ratio	3.68	4.56	2.87	3.07	6.12	3.34
Price/Book (P/B)	2.21	1.89	2.95	3.34	3.70	6.69
Price/Cash Flow (P/CF)	6.77	8.13	11.81	12.33	16.91	12.72
P/E (F1)	28.23	35.72	21.33	30.65	40.78	28.32
Price/Sales (P/S)	1.54	1.58	2.28	2.60	4.50	2.90
Earnings Yield	3.46%	1.47%	4.50%	3.26%	2.45%	3.53%
Debt/Equity	1.24	1.10	0.76	1.10	0.78	1.94
Cash Flow (\$/share)	8.14	0.59	6.96	6.89	5.57	8.38
Growth Score	B	-	-	C	B	C
Hist. EPS Growth (3-5 yrs)	-9.04%	12.97%	10.87%	13.07%	12.97%	14.56%
Proj. EPS Growth (F1/F0)	-28.09%	-15.46%	-10.48%	-17.07%	-15.07%	-14.52%
Curr. Cash Flow Growth	-27.67%	4.96%	5.39%	3.25%	8.62%	4.96%
Hist. Cash Flow Growth (3-5 yrs)	9.45%	5.98%	8.55%	5.45%	28.79%	6.90%
Current Ratio	1.47	1.39	1.29	0.89	1.98	1.84
Debt/Capital	55.45%	54.09%	44.54%	52.44%	43.70%	65.95%
Net Margin	-10.08%	-3.02%	10.59%	10.45%	10.63%	10.87%
Return on Equity	9.80%	4.08%	16.26%	13.47%	10.71%	27.69%
Sales/Assets	0.50	0.50	0.55	0.46	0.40	0.57
Proj. Sales Growth (F1/F0)	-18.63%	-0.03%	-2.53%	-3.69%	-1.70%	-5.78%
Momentum Score	F	-	-	B	B	B
Daily Price Chg	1.64%	0.00%	-0.65%	1.10%	3.35%	2.11%
1 Week Price Chg	6.44%	1.96%	4.99%	2.08%	1.56%	3.12%
4 Week Price Chg	13.01%	7.66%	4.28%	8.36%	9.64%	6.48%
12 Week Price Chg	-9.37%	-11.92%	-3.05%	-10.57%	-7.90%	-9.52%
52 Week Price Chg	21.56%	-28.72%	0.01%	1.06%	0.51%	-1.76%
20 Day Average Volume	598,328	34,584	2,425,602	1,218,103	915,638	2,145,215
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-28.39%	-10.00%	-1.70%	-3.44%	-8.70%	-0.03%
(F1) EPS Est 12 week change	-32.17%	-59.16%	-16.00%	-21.42%	-20.95%	-18.23%
(Q1) EPS Est Mthly Chg	-63.39%	-63.39%	-3.25%	-5.44%	-10.38%	1.87%

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	B
Momentum Score	F
VGM Score	C

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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