

## First Cut Stock Study Report

<b>Company Name:</b>	Stericycle, Inc	<b>Ticker:</b>	SRCL
<b>Date of Study:</b>	2/23/2014	<b>Price:</b>	\$ 114.66
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<b>Chapter Name (if applicable):</b>	Space Coast Chapter		

**Discuss why you consider this to be a high quality, growth company that should be investigated further. Please include comments on historical sales and EPS growth, pre-tax profit margin, return on equity, and debt.**

Stericycle offers an attractive broad range of necessary, all-economic conditions, niche services in emerging global medical hazardous waste market with diverse, sticky customer base. SRCL has a demonstrated growth strategy with history of successfully integrating acquisitions and improving margins. Stable, proven, experienced management team. Their competitive advantage based on operational efficiency and impeccable safety/compliance record; rated WIDE moat by Morningstar.

Sales and EPS R2 = 0.99. Visual inspection reflects strong, consistent, predictable sales, margins and earnings growths.

SALES growth on par or better than peers and industry, slowing slightly as company grows but still at strong level. Organic small company growth up 8%, large company 6%, international up 7% last 3 Q over Q. Current market share 14% (growing, was 13% prior year) of \$15B global market. Provides necessary regulated service for large, diverse customer base. Positioned as low cost/high margin operator. 38% revenue from large accounts (21% gross margin), balance small accounts with 2X the margins (45.2% gross margins)

EPS consistently in 15-16% range. EPS growth rate last 2 years going up due to stronger focus on targeting higher margin small waste generators and international expansion initiatives. Has share buyback program that also supports EPS somewhat.

Pre-tax profit margins 22% +/- trending up, 1.5-2 X higher than peers and industry. ROE strong level, earlier down trend reversed in '13, comparable to peer/industry trends. Pays no dividends, had two 2-for-1 stock splits ('02 and

'07), has buyback program. Proven integrator having successfully completed 340+ acquisitions since '93.

%debt-equity on par with peers and declining. SRCL has long history of managing that level of debt. Prides itself on funding acquisitions extensively from free cash flow and rapid top and bottom line investment paybacks.

**Briefly describe how the company makes money:**

Provides collection, transfer and disposal services of regulated hazardous medical wastes along with an array of related and complementary services to over 561K customers in USA and 11 foreign countries.

**Projected growth rate for sales: 12%**

**Why did you select this rate? Discuss from where future growth will come.**

12% [SnP]. Higher end of reasonable range 10.3% [2 yr ACE] -12.4% [M\*] supported by consistent long term execution of growth strategy based on aggressive world-wide acquisitions focused on high-margin, small quantity hazardous waste generator. Continued emphasis in organic growth in core and complementary services. Long history of extracting value from acquisitions.

**Projected growth rate for earnings per share: 12.7%**

**Why did you select this rate?**

12.7%, calculated using Preferred Method. Accepted default tax 35.1% and # shares 87.1M after buy-backs [VL]. Pre-tax profit margin 23% (low end of reasonable range 22.4% ['13] to 26.4% [VL]).

**Projected High P/E: 33**

**Why did you select this value?**

Current PE rounded up to just above current 32.2 PE, slightly lower than last 4 year avg 33.8.

**Projected Low P/E: 24.2**

**Why did you select this value?**

24.2, used 5 yr avg low PE.

**Projected Low Price: \$86.2**

**Why did you select this value?**

Price range \$86.2 to \$213.8. Low price based on low PE (24.2) x ttm EPS (\$3.56). Low price about \$5 below 80% current price ( $\$114.65 \times 80\% = \$91.72$ ). US/DS 3-to-1 price \$118.0 (above current price). US/DS at current price ( $\$114.65$ ) = 3.5, in BUY ZONE based on risk.



**At the current price, the stock is a (check one):**

Buy or Hold or Sell

**At the current price, the upside-downside ratio is: 3.5 to 1**

**Projected compounded rate of return: 13.3%**

**Your final recommendation (check one):**

Buy or Hold or Sell

**Explain:**

Return requirements: Current revenues \$2.1B - middle of medium size company range - target return 8-12% (on TR). Minimum acceptable rate of return set at 12%. At current price TR 13.3%, PAR 10.1%. Max price to pay for 12% TR = \$121.2; for 15% TR, max price to pay = \$106.2.

Current price offers reasonable return/risk (13.3%, 3.5:1)

Buy strategy: Target position ~ \$10-12K for portfolio. Target price NTE \$118.2 (to satisfy both US/DS and MARR targets). Plan 50 shares limit bid for first buy, stockpile price for 2nd 50 shares at \$106 (for 15% on TR) and wait for Mr Market to misprice stock.

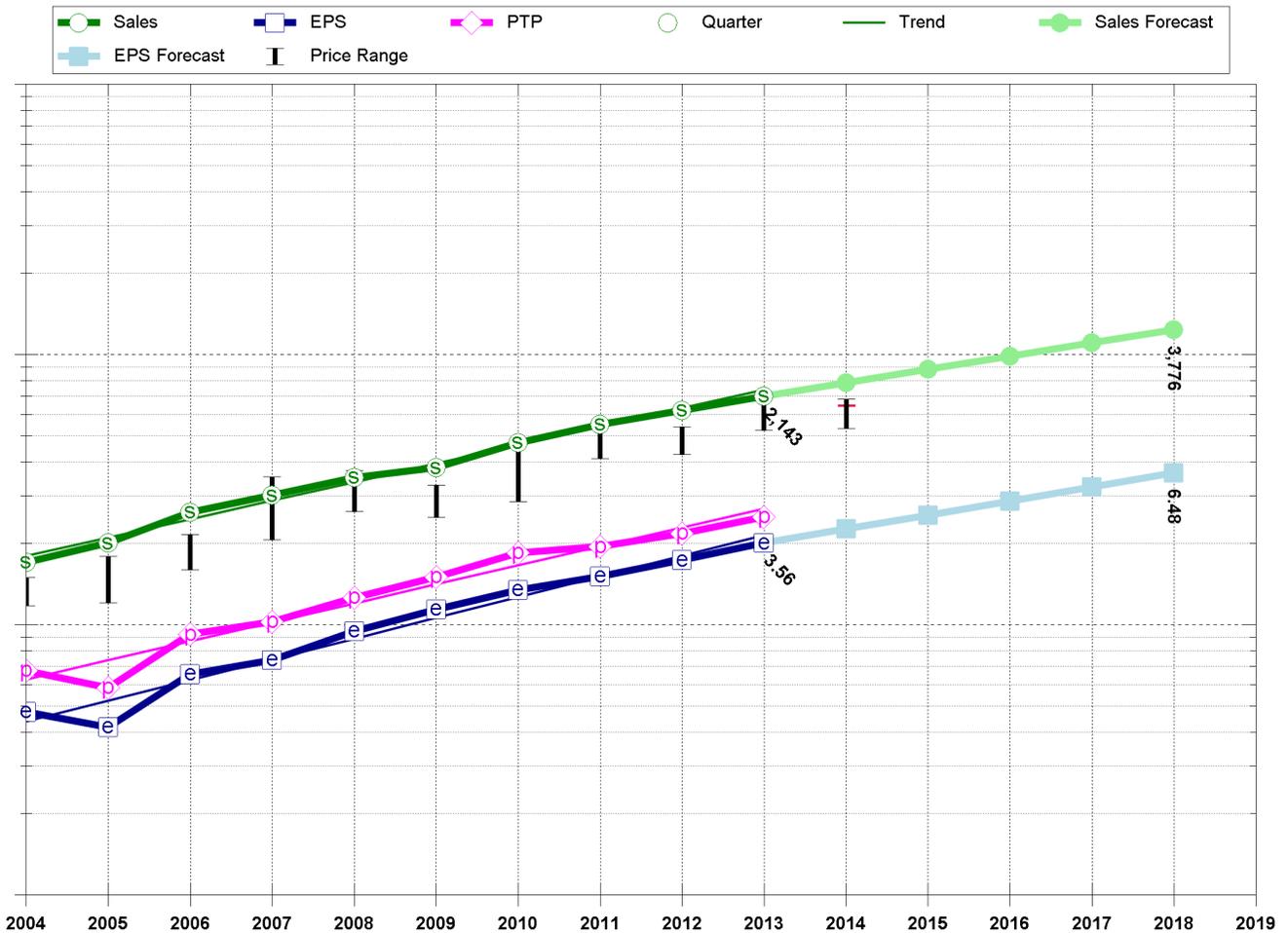
Company	Stericycle, Inc.		Date	2/21/2014	
Prepared by	HOULE		Data taken from	BI Stock Data	
Where traded	NAS		Industry	Waste Management	
Capitalization ---	Outstanding Amounts		Reference		
Preferred (\$M)	0.0	% Insiders	% Institution		
Common (M Shares)	87.1	1.8	89.5		
Debt (\$M)	1,431.0	% to Tot Cap	45.0	% Pot Dil	0.0

## Stock Selection Guide

Symbol: SRCL

### 1 VISUAL ANALYSIS of Sales, Earnings, and Price

FY2013 Quarter Ending (12/13)	Sales (\$M)	Earnings Per Share
Latest Quarter	567.9	0.90
Year Ago Quarter	503.6	0.80
Percentage Change	12.8%	11.8%



- |                                   |       |  |       |
|-----------------------------------|-------|--|-------|
| (1) Historical Sales Growth       | 17.0% | (3) Historical Earnings Per Share Growth       | 19.3% |
| (2) Estimated Future Sales Growth | 12.0% | (4) Estimated Future Earnings Per Share Growth | 12.7% |

## 2 EVALUATING Management

Stericycle, Inc.

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Last 5 Year Avg.
Pre-tax Profit on Sales	25.1%	18.4%	22.3%	21.0%	22.2%	24.4%	24.5%	22.2%	21.8%	22.4%	23.1%
% Earned on Equity	15.4%	12.5%	16.6%	16.0%	21.5%	20.3%	19.4%	19.0%	17.2%	17.9%	18.8%
% Debt To Capital	29.1%	40.9%	42.7%	47.1%	54.2%	53.9%	51.3%	53.6%	46.8%	45.0%	50.1%

## 3 PRICE-EARNINGS HISTORY as an indicator of the future

This shows how stock prices have fluctuated with earnings and dividends. It is building block for translating earnings into future stock prices.

PRESENT PRICE 114.7

HIGH THIS YEAR 121.61

LOW THIS YEAR 94.50

		A	B	C	D	E	F	G	H
	Year	Price		Earnings	Price Earnings Ratio		Dividend	% Payout	% High Yield
		High	Low	Per Share	High A / C	Low B / C	Per Share	F / C * 100	F / B * 100
1	2009	58.3	44.4	2.03	28.8	21.9	0.00	0.0	0.0
2	2010	82.2	50.6	2.39	34.4	21.2	0.00	0.0	0.0
3	2011	95.7	73.1	2.69	35.6	27.2	0.00	0.0	0.0
4	2012	96.0	75.8	3.08	31.2	24.6	0.00	0.0	0.0
5	2013	121.6	93.2	3.56	34.1	26.2	0.00	0.0	0.0
	AVERAGE		67.4		32.8	24.2		0.0	
	CURRENT/TTM			3.56			0.00	0.0	
AVERAGE PRICE EARNINGS RATIO 28.5					CURRENT PRICE EARNINGS RATIO 32.2				

## 4 EVALUATING RISK and REWARD over the next 5 years

Assuming one recession and one business boom every 5 years, calculations are made of how high and how low the stock might sell. The upside-downside ratio is the key to evaluating risk and reward.

### A HIGH PRICE - NEXT 5 YEARS

Avg. High P/E 33.00 X Estimate High Earnings/Share 6.48 = Forecasted High Price \$ 213.8

### B LOW PRICE - NEXT 5 YEARS

(a) Avg. Low P/E 24.20 X Estimate Low Earnings/Share 3.56 = Forecasted Low Price \$ 86.2

(b) Avg. Low Price of Last 5 Years 67.4

(c) Recent Market Low Price 75.75

(d) Price Dividend Will Support  $\frac{\text{Present Dividend}}{\text{High Yield}} = \frac{0.000}{0.00\%} = 0.0$

Selected Forecasted Low Price \$ 86.2

### C ZONING using 25%-50%-25%

Forecasted High Price 213.8 Minus Forecasted Low Price 86.2 = 127.6 Range. 25% of Range 31.9

Buy Zone 86.2 to 118.1

Hold Zone 118.1 to 181.9

Sell Zone 181.9 to 213.8

Present Market Price of 114.65 is in the **Buy** Zone

### D UPSIDE DOWNSIDE RATIO (POTENTIAL GAIN VS. RISK OR LOSS)

$\frac{\text{High Price} - \text{Present Price}}{\text{Present Price} - \text{Low Price}} = \frac{213.8 - 114.65}{114.65 - 86.2} = \frac{99.19}{28.45} = 3.5$  To 1

### E PRICE TARGET (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)

$\frac{\text{High Price}}{\text{Present Market Price}} = \frac{213.8}{114.65} = 1.87$  X 100 = 186.52 - 100 = 86.5 % Appreciation

## 5 5-YEAR POTENTIAL

This combines price appreciation with dividend yield to get an estimate of total return. It provides a standard for comparing income and growth stocks.

A  $\frac{\text{Present Full Year's Dividend \$ } 0.00}{\text{Present Price of Stock } 114.65} = 0.00 = 0.0\%$  Present Yield

### B AVERAGE YIELD - USING FORECAST HIGH P/E

$\frac{\text{Avg. \% Payout } 0.0\%}{\text{Forecast High PE } 33.00} = 0.0\%$

### AVERAGE YIELD - USING FORECAST AVERAGE P/E

$\frac{\text{Avg. \% Payout } 0.0\%}{\text{Forecast Average PE } 28.60} = 0.0\%$

### C COMPOUND ANNUAL RETURN - USING FORECAST HIGH P/E

Annualized Appreciation 13.3 %  
Average Yield 0.0 %  
Annualized Rate of Return 13.3 %

### COMPOUND ANNUAL RETURN - USING FORECAST AVG P/E

Annualized Appreciation 10.1 %  
Average Yield 0.0 %  
Annualized Rate of Return 10.1 %

## Study Notes

Subject	Description
Abbreviations used:	LQ/SQ - large/small quantity generators CAGR - compound annual growth rate HAZMAT - hazardous material BOD - board of directors TR - total return, PAR - projected average (PE) return MARR - minimum acceptable rate of return ttm - trailing 12 months NTE - not to exceed GM/OM/NM - gross/operating/net margin US/DS - upside/down side ratio
Current metrics 2/23/14	At time of study current price = \$114.66, PE = 32.2, EPSttm = \$3.56
Peers: RSG/ WCN/ WM	CLH and DAR replaced with WM and RSG. More relevant peers and have better fundamentals for comparisons than defaults.
Mission Statement	Mission is to combine integrated solutions with superior customer service to promote safety, compliance and risk management for our customers.
How Make Money?	Provides collection, transfer and disposal services of regulated hazardous wastes along with an array of related and complementary services to over 561K customers in USA and 11 foreign countries. Current mkt share 14% (growing, was 13% prior year) of \$15B global market. Provides necessary regulated service for large, diverse customer base. Positioned as low cost/high margin operator. 38% revenue from large accounts (21% gross margin), balance small accounts (45.2% GM)
Customers	Medical HAZMAT generators. 561K accounts (531K year earlier), 95%+ revenue retention, largest customer less than 2% of revenues. Predictable revenues: 95%+ of revenue stream under long term contracts with auto renewal. Contracts include pass through price increase provisions.
Competition	[10k] asserts low entry barriers to competitors but highly regulated business favors SRCL to keep casual competitors out. Overall favorable trend. M* rates as WIDE MOAT. Competition from wide variety of regional and local providers. Large quantity generators may do own on-site treatment.
Competitive Advantage	Operational efficiency and impeccable safety/compliance record. SRCL offers broad range of high quality services managing highly regulated HAZMAT. It operates integrated national regulated waste management networks in the United States, Argentina, Brazil, Canada, Chile, Ireland, Japan, Mexico, Portugal, Romania, Spain, and the United Kingdom. The substantial and dynamic HAZMAT regulations enacted and enforced by the US and foreign jurisdictions serves as impediment to casual competitors. Ranked 94th in BetterInvesting's top 100 companies in '13, included in top 100 since 2009.
Growth Strategy	Aggressive worldwide acquisitions focusing on SQ regulated waste generators (high margin). Continued emphasis in organic growth in core and complementary services. International growth and geographic expansion. Long history of extracting value from acquisitions.
Business & Economic Cycle Impact	Mature company ('96) with history of steady growth and improving margins. Insulated from economic cycles. Demographics point to increased hazardous waste generation as population ages.
Head Winds	Shrinking SQ international acquisition opportunities? International route network akin to US questionable (though targeted countries have similar HAZMAT regulations). [M*]
Tail Winds	Positioned to up-sell ancillary, high margin services. HAZMAT regulations will continue to protect demand for SRCL's services. Rising costs and regulatory burden favors outsourcing this function, particularly as liability for improper waste disposal lies with generator. [M*]
Historical Sales Growth	R2=0.99. 17% last 9, 15.4% last 5, 12.0% YovY, 12.8% QovQ. On par or better than peers and industry. Sales growth slightly slowing as company grows but still good level. Organic small company growth up 8%, large company 6%, international up 7% last 3 QoverQ.
Historical EPS Growth	Consistent 15-16% range. EPS growth rate last 2 years going up. Has share buyback program that's supporting EPS somewhat.
Historical high/low PEs	5 year high/low PE spreads constant, narrow band trending up. Historical support for high multiples.
Management Assessment	PTP% 22%+/-, trending up, 1.5-2 X higher than peers and industry. ROE down trend reversed in '13, similar multiple advantage to peers/industry. Pays no dividends, had two 2-for-1 stock splits ('02 and '07), has buyback program. Proven integrator having successfully completed 340+ acquisitions since '93 (55 in last year). [10k]
Leverage Assessment	%debt-equity on par with peers and declining. SRCL has long history managing that level of debt. Prides itself on funding acquisitions from free cash flow.
Projected Revenue Growth	CAGR 12% [SnP]. Reasonable range 10.3% [2 yr ACE] -12.4% [M*],
Projected PTP% sales	23%. Reasonable range 22.4% ('13) to 26.4% [VL]. Gross, operating and net margins higher than industry average and SnP500. Achieving margin expansion (45.2% GM, up from 44.7% '12) through expanded focus on small generators who are more likely to outsource and easier to up-sell. Large accounts have steady 21% GM. Small accounts 62% of customer mix, expanding.
Projected taxes	35% [VL]
Projected # shares	87.1M [VL] reflects BOD approved share buybacks.
Projected EPS growth	12.7%, calculated using Preferred Method.

Projected high EPS	\$6.48, calculated from ttm baseline.
Projected High PE	33. Current PE rounded up just above current 32.2 PE, slightly lower than last 4 year avg 33.8.
Projected Low PE	24.2, used 5 yr avg low PE.
Low EPS	\$3.56, used ttm EPS
Projected Price Range	\$86.2 to \$213.8. Low price about \$5 below 80% current price ( $\$114.65 \times 80\% = \$91.72$ ). US/DS 3-to-1 price \$118.0 (above current price). US/DS at current price ( $\$114.65$ ) = 3.5, in BUY ZONE based on risk.
Other Valuation Benchmarks	SnP: fair value = \$111.70, BUY - 4 STARS, 12 mo target \$135 M*: fair value = \$100, consider buy = \$70, wide moat VL: '16-'18 price range \$120-\$160, CAGR 1% to 8%
Return Requirements	Current revenues \$2.1B - middle of medium size company range - target return 8-12% (on TR). MARR set at 12%.
Expected Returns	At current price TR 13.3%, PAR 10.1%. Max price to pay for 12% TR = \$121.2, for 15% = \$106.2.
Recommendation(s)	BUY. Current price offers reasonable return/risk. Company offers attractive broad range of niche services in emerging global market with diverse, sticky customer base. Company has demonstrated growth strategy with history of successfully integrating acquisitions and improving margins. Stable, proven, experienced management team.
Buy Strategy	Target position ~ \$10-12K for portfolio. Target price NTE \$118.2 (satisfying both US/DS and MARR targets). Plan 50 shares limit bid for first buy, stockpile price for 2nd 50 shares at \$106 (for 15% on TR) and wait for Mr Market to misprice stock.