



Stericycle, Inc. is a regulated medical waste management company whose services and operations are comprised of collection, transportation, treatment, disposal and recycling, together with related training and education programs, consulting services and product sales. (Yahoo! Finance)

Ticker Symbol: SRCL  
 Price (3/12/03): 47.07  
 52-Week Range: 34.36-52.01  
 Shares Outstanding: 41.85 M  
 Market Cap: 1.97 B

## Investment Thesis

- Most medical waste management companies came about in the 1980's as a result of stricter government regulation concerning medical waste. Their rationale was the because of the new regulations there was a need for a service, and they could provide that service. These new medical waste management companies generally made their appeals through yellow page advertisements and various flyers, but no one tried to figure out how to serve the needs of each particular customer (i.e. a dentist requires different services than an eye surgeon). In stepped Stericycle: founded in 1989, it has effectively married the technological know-how of its operations management with its marketing strategy in order to become incredibly efficient in managing information, acquiring accounts, servicing accounts, and making these accounts profitable.
- Stericycle currently has 290,000 customers, up from a total of 12 less than 10 years ago, and is expanding margins through the sale of ancillary products (i.e. SteriSafe Consulting) to existing customers.
- Stericycle is the only company with a national, fully integrated network and a broad array of services for healthcare providers, providing an explanation for its lower costs relative to competitors as a result of scale.
- As hospitals and doctors continue to outsource, Stericycle will continue to gain additional customers as a result of its ability to provide these cost-effective services.
- Through aggressive marketing practices in areas where Stericycle already serves customers, their increased customer density improves productivity and expands margins.
- Acquisitions have been a major source of increasing customer density or as a means of geographic expansion whereby they can leverage their infrastructure. In the last 10 years, Stericycle has made more than 70 acquisitions.
  - One concern involves recent accusations of anticompetitive pricing practices by Stericycle. They were sued under state and federal anti-trust laws in Arizona and Utah where they settled for \$329,000 and \$580,000, respectively.

**Stericycle's fundamental strategy has been to build shareholder wealth through margin expansion and further penetration of their service areas, which it has done rather successfully.**

| Ratios: | SRCL  | WMI   | AW   | RSG   | Sub- Sector |
|---------|-------|-------|------|-------|-------------|
| P/E     | 23.42 | 16.94 | 12.8 | 14.85 | 24.5        |
| PEG     | 1.32  | 1.54  | 1.52 | 1.55  | 1.59        |

**Because consensus estimates for 5-year growth rates in the sub-sector are high (13.68%), we chose to use the PEG as a key valuation ratio. Therefore, Stericycle's equity appears to be a safe hold on both a qualitative and quantitative basis.**

### Analyst Info:

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