
Section 1: 8-K (8-K)

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 8-K

**Current Report
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): February 15, 2017



Stericycle, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

1-37556
(Commission
File Number)

36-3640402
(IRS Employer
Identification Number)

**28161 North Keith Drive
Lake Forest, Illinois 60045**
(Address of principal executive offices including zip code)

(847) 367-5910
(Registrant's telephone number, including area code)

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CR 230.425)
- Soliciting material pursuant to Rule 425 under the Securities Act (17 CFR 240.14a-12)

- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02 Results of Operations and Financial Condition

On February 15, 2017 Stericycle, Inc. issued a press release announcing its financial results for the quarter and year ended December 31, 2016. A copy of this press release is attached hereto as Exhibit 99.1 and incorporated by reference.

Item 9.01 Financial Statements and Exhibits

(d) Exhibits

99.1 Press release issued by Stericycle, Inc. dated February 15, 2017.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: February 15, 2017

Stericycle, Inc.

By: /s/ DANIEL V. GINNETTI

Daniel V. Ginnetti
Executive Vice President and Chief Financial Officer

EXHIBIT INDEX

| Exhibit Number | Description |
|----------------|---|
| 99.1 | Press Release issued by Stericycle, Inc. dated February 15, 2017. |

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Section 2: EX-99.1 (EX-99.1)

EXHIBIT 99.1

FOR FURTHER INFORMATION CONTACT:

Investor Relations 847-607-2012

STERICYCLE, INC. REPORTS RESULTS FOR THE FOURTH QUARTER AND FULL YEAR ENDED 2016

Lake Forest, Illinois, February 15, 2017—Stericycle, Inc. (NASDAQ:SRCL), today reported financial results for the fourth quarter and the full year of 2016.

FOURTH QUARTER HIGHLIGHTS COMPARED TO PRIOR YEAR:

- Revenues of \$ 906.4 million, up 2.0%, including a 2.9% negative impact from foreign exchange
- GAAP gross profit of \$373.7 million, down 1.8%
- GAAP earnings per diluted share (“GAAP EPS”) decreased 82.4% to \$0.14 and Non-GAAP earnings per diluted share (“Non-GAAP EPS”) decreased 20.6% to \$1.00

FOURTH QUARTER RESULTS

Revenues for the quarter ended December 31, 2016 were \$906.4 million, up \$18.1 million or 2.0% from \$888.3 million in the fourth quarter of last year. Acquisitions contributed approximately \$5.0 million to the current period’s growth in revenues. Divestitures negatively impacted current period revenues by \$0.2 million. Revenues increased 4.9% compared to the fourth quarter of last year when adjusted for unfavorable foreign exchange impacts of \$25.8 million. Organic revenues grew 4.4%, or 5.2% when adjusted for manufacturing and industrial services. See Tables 1A-1C.

“We were very pleased with our fourth quarter operational performance. Additionally, our recall team delivered a record-breaking quarter which enhanced our results,” said Charlie Alutto, President and Chief Executive Officer.

Gross profit, reported in accordance with U.S. generally accepted accounting principles (“GAAP”), was \$373.7 million, down 1.8% from \$380.4 million in the fourth quarter of last year. GAAP gross profit as a percentage of revenue was 41.2% compared to 42.8% in the fourth quarter of last year. Non-GAAP gross profit, when adjusted for contract exit costs as identified in Table 2, was \$380.2 million, a decrease of 0.2% from \$380.9 million in the fourth quarter of last year. Non-GAAP gross profit as a percentage of revenues was 42.0% compared to 42.9% in the fourth quarter of last year.

“Shred-it synergies remain on track. We completed the integration of the inside sales and customer service teams and established standardized best practices for our operational teams. Additionally our cross selling efforts produced several sizable wins among our national and hospital accounts,” said Brent Arnold, Chief Operating Officer.

GAAP earnings per diluted share decreased 82.4% to \$0.14 from \$0.82 in the fourth quarter of last year. Non-GAAP earnings per diluted share, when adjusted for various items, decreased 20.6% to \$1.00 from \$1.26 in the fourth quarter of last year. See Tables 3 and 4.

FULL YEAR HIGHLIGHTS COMPARED TO PRIOR YEAR

- Revenues of \$3.56 billion, up 19.3%, including a 2.9% negative impact from foreign exchange
- GAAP gross profit of \$1.50 billion, up 18.7%
- GAAP EPS decreased 30.2% to \$2.08 and Non-GAAP EPS decreased 4.6% to \$4.52

FULL YEAR RESULTS

Revenues for the full year 2016 were \$3.56 billion, up \$576.4 million or 19.3% from \$2.99 billion in the same period last year. Acquisitions contributed approximately \$570.1 million to the current year's growth in revenues. Divestitures negatively impacted current year revenues by \$0.2 million. Revenues increased 22.2% compared to the same period last year when adjusted for unfavorable foreign exchange impact of \$88.0 million. Organic revenues grew 3.2%, or 4.5% when adjusted for manufacturing and industrial services. See Tables 1A-1C.

GAAP gross profit was \$1.50 billion, up \$237.0 million or 18.7% from \$1.27 billion in the same period last year. GAAP gross profit as a percentage of revenues was 42.2% compared to 42.4% in the same period last year. Non-GAAP gross profit, when adjusted for contract exit costs and plant conversion expenses as identified in Table 2, was \$1.51

billion, up \$244.6 million or 19.3% from \$1.27 billion in the same period as last year. Non-GAAP gross profit as a percentage of revenues was flat at 42.5% in the fourth quarter of 2016 and 2015.

GAAP earnings per diluted share decreased 30.2% to \$2.08 from \$2.98 in 2015. Non-GAAP earnings per diluted share, when adjusted for various items, decreased 4.6% to \$4.52 from \$4.74 in the same period last year. See Tables 3 and 4.

Cash flow from operations for the year ended 2016 was \$547.4 million, up 40.2% from \$390.3 million in the same period last year.

CONFERENCE CALL INFORMATION

Conference call to be held February 15, 2017 4:00 p.m. Central time – Dial 866-516-6872 at least 5 minutes before start time. If you are unable to participate on the call, a replay will be available for 30 days by dialing 855-859-2056, access code 49243907. To hear a live simulcast of the call or access the audio archive, visit the investor relations page on www.stericycle.com.

PRESENTATION OF NON-GAAP INFORMATION

This press release includes certain non-GAAP financial measures, as defined in the SEC's Regulation G. The Company reports its financial results in compliance with GAAP, but believes that also discussing non-GAAP financial measures allows for a better period over period comparison by removing the impact of items that, in management's view, do not reflect the Company's underlying operating performance. These measures are also used to evaluate senior management and are a factor in determining their at-risk compensation.

Adjusted diluted earnings per share, adjusted net income attributable to Stericycle common shareholders, adjusted gross profit, and adjusted revenue growth are described in the Reconciliation of Certain Non-GAAP Measures section of this document.

These non-GAAP financial measures should not be considered in isolation or as a substitute for GAAP financial results, but should be read in conjunction with the unaudited condensed consolidated statement of income and other information presented herein. The non-GAAP financial measures in the press release may differ from similar measures used by other companies. A reconciliation of each non-GAAP financial measure to the most directly comparable GAAP measure is included in the accompanying tables.

DISCUSSION OF ADJUSTING ITEMS FOR NON-GAAP MEASURES

For the purpose of evaluating revenues, we present non-GAAP revenues to show the impact of foreign currency, revenues from acquisitions and Manufacturing and Industrial Services ("M&I"). Management reviews and analyzes revenues excluding the effect of foreign currency translation and revenue from acquisitions because we believe this better represents the Company's underlying business trends, including organic revenue growth. Separate presentation of M&I allows for visibility of a revenue stream that has shown greater volatility than our other service lines.

For the purpose of evaluating operating performance, we present our financials to show the impact of income and expenses in our non-GAAP earnings related to acquisitions. These adjustments include acquisition expense, integration expense, amortization expense, and the change in fair value of contingent consideration. This allows for comparison of period over period results without the impact of acquisition-related expenses.

For the purpose of evaluating operating performance, we additionally present our financials to show the impact of certain expenses and income in our non-GAAP earnings to allow for period over period comparison of financials without the impact of charges that may not occur each year and if so, are due to different factors. For the periods presented, these adjustments include litigation expense, restructuring and plant conversion expenses, contract exit costs, asset impairment charges, and insurance proceeds.

For the purpose of calculating the ultimate impact of our mandatory convertible preferred stock, we show the impact to our EPS by excluding the mandatory convertible preferred stock dividend and using the "if-converted" method of share dilution. This provides the reader insight to how our diluted shares will be affected after these preferred shares are converted to common shares.

RECONCILIATION OF CERTAIN NON-GAAP MEASURES
Table 1 – A: RECONCILIATION OF GAAP TO NON-GAAP REVENUE GROWTH – QTD Q4

| Global Revenue Details by Service | Three Months Ended December 31, 2016 and 2015 | | | | | |
|---|---|-----------------|----------------|-----------------------|-------------------------------|------------------|
| | In millions | | | Percentage Growth (%) | | |
| | 2016 | 2015 | Growth | Organic | Acquisitions and Divestitures | Foreign Exchange |
| Regulated Waste and Compliance Services | \$ 512.7 | \$ 520.3 | \$ (7.5) | 1.0 % | 0.4 % | (2.8 %) |
| Secure Information Destruction Services | 185.2 | 178.1 | 7.1 | 4.8 % | 1.7 % | (2.4 %) |
| Communication and Related Services | 112.4 | 86.6 | 25.9 | 31.4 % | 0.4 % | (1.9 %) |
| Manufacturing and Industrial Services | 96.0 | 103.4 | (7.4) | (1.5 %) | (0.5 %) | (5.1 %) |
| Total Revenues, as Reported | 906.4 | 888.3 | 18.1 | 4.4 % | 0.5 % | (2.9 %) |
| Less: Manufacturing and Industrial Services | (96.0) | (103.4) | | | | |
| Total Revenues, as Adjusted (Non-GAAP) | \$ 810.4 | \$ 784.9 | \$ 25.5 | 5.2 % | 0.7 % | (2.6 %) |
| Domestic and Canada Revenues | \$ 725.3 | \$ 687.5 | \$ 37.9 | 4.4 % | 1.1 % | 0.0 % |
| International Revenues | 181.1 | 200.8 | (19.8) | 4.5 % | (1.5 %) | (12.8 %) |
| Total Revenues, as Reported | \$ 906.4 | \$ 888.3 | \$ 18.1 | 4.4 % | 0.5 % | (2.9 %) |

Table 1 – B: RECONCILIATION OF GAAP TO NON-GAAP REVENUE GROWTH – YTD

| Global Revenue Details by Service | Years Ended December 31, 2016 and 2015 | | | | | | |
|---|--|------------------|-----------------|-----------------------|-------------------------------|------------------|---------------|
| | In millions | | | Percentage Growth (%) | | | |
| | 2016 | 2015 | Growth | Organic | Acquisitions and Divestitures | Foreign Exchange | Total |
| Regulated Waste and Compliance Services | \$ 2,063.0 | \$2,064.9 | \$ (1.9) | 2.1 % | 0.5 % | (2.7 %) | (0.1 %) |
| Secure Information Destruction Services | 747.5 | 178.1 | 569.4 | N/A | N/A | N/A | N/A |
| Communication and Related Services | 370.4 | 334.1 | 36.3 | 10.5 % | 1.8 % | (1.5 %) | 10.9 % |
| Manufacturing and Industrial Services | 381.5 | 408.8 | (27.4) | (4.8 %) | 2.4 % | (4.3 %) | (6.7 %) |
| Total Revenues, as Reported | 3,562.3 | 2,985.9 | 576.4 | 3.2 % | 19.1 % | (2.9 %) | 19.3 % |
| Less: Manufacturing and Industrial Services | (381.5) | (408.8) | | | | | |
| Total Revenues, as Adjusted (Non-GAAP) | \$ 3,180.9 | \$2,577.1 | \$ 603.8 | 4.5 % | 21.7 % | (2.8 %) | 23.4 % |
| Domestic and Canada Revenues | \$ 2,810.7 | \$2,269.1 | \$ 541.5 | 2.7 % | 21.3 % | (0.1 %) | 23.9 % |
| International Revenues | 751.7 | 716.8 | 34.9 | 4.6 % | 12.2 % | (12.0 %) | 4.9 % |
| Total Revenues, as Reported | \$ 3,562.3 | \$2,985.9 | \$ 576.4 | 3.2 % | 19.1 % | (2.9 %) | 19.3 % |

Table 1 – C: DISAGGREGATED REVENUE GROWTH – 2016

| In millions | Three Months Ended | |
|---------------------|--------------------|------------------------------|
| | December 31, 2016 | Year Ended December 31, 2016 |
| | Organic | \$ 39.1 |
| Acquisitions | 5.0 | 570.1 |
| Divestitures | (0.2) | (0.2) |
| Foreign Exchange | (25.8) | (88.0) |
| Total Growth | \$ 18.1 | \$ 576.4 |

Table 2: RECONCILIATION OF GAAP TO NON-GAAP GROSS PROFIT

| In millions | | | | | | | | | |
|---|---------------------------------|----------|----------|----------|--------------------------|----------|------------|----------|--|
| | Three Months Ended December 31, | | | | Years Ended December 31, | | | | |
| | 2016 | | 2015 | | 2016 | | 2015 | | |
| | \$ | % of Rev | \$ | % of Rev | \$ | % of Rev | \$ | % of Rev | |
| Gross Profit, as Reported | \$ 373.7 | 41.2% | \$ 380.4 | 42.8% | \$ 1,503.2 | 42.2% | \$ 1,266.2 | 42.4% | |
| Contract exit costs | 6.5 | 0.7% | - | 0.0% | 8.3 | 0.2% | - | 0.0% | |
| Plant Conversion Expenses | - | 0.0% | 0.5 | 0.1% | 0.8 | 0.0% | 1.5 | 0.1% | |
| Gross Profit, as Adjusted (Non-GAAP) | \$ 380.2 | 42.0% | \$ 380.9 | 42.9% | \$ 1,512.3 | 42.5% | \$ 1,267.7 | 42.5% | |

Table 3: RECONCILIATION OF GAAP TO NON-GAAP NET INCOME ATTRIBUTABLE TO STERICYCLE COMMON SHAREHOLDERS

| In millions, except share and per share data | | | | | |
|--|---------------------------------|-----------------|--------------------------|-----------------|--|
| | Three Months Ended December 31, | | Years Ended December 31, | | |
| | 2016 | 2015 | 2016 | 2015 | |
| Net Income Attributable to Stericycle, Inc. Common Shareholders, As Reported | \$ 12.3 | 70.7 | \$ 177.8 | 256.9 | |
| Adjustments: | | | | | |
| Amortization Expense ^a | 27.0 | 18.5 | 129.3 | 45.5 | |
| Acquisition Expenses | 1.8 | (0.8) | 9.6 | 39.1 | |
| Integration Expenses | 26.6 | 20.4 | 87.6 | 51.7 | |
| Litigation and Professional Service Expenses | 7.5 | 0.6 | 12.9 | 59.7 | |
| Changes in Fair Value of Contingent Consideration | 0.0 | - | (2.1) | (0.6) | |
| Restructuring and Plant Conversion Expenses | 2.3 | 4.6 | 4.0 | 22.7 | |
| Contract Exit Costs | 1.2 | - | 24.0 | - | |
| Asset impairment charges ^b | 31.0 | 1.8 | 31.0 | 1.8 | |
| Insurance Proceeds | - | - | (3.1) | - | |
| Add Back Convertible Preferred Stock Dividend | 9.6 | 10.1 | 39.4 | 10.1 | |
| Total Adjustments | 106.9 | 55.3 | 332.7 | 230.0 | |
| Tax Effect of above adjustments ^c | (29.0) | (10.4) | (98.2) | (70.8) | |
| Net Income Attributable to Stericycle, Inc. Common Shareholders, as Adjusted (Non-GAAP) | \$ 90.3 | \$ 115.6 | \$ 412.3 | \$ 416.1 | |
| EPS, as Reported | \$ 0.14 | \$ 0.82 | \$ 2.08 | \$ 2.98 | |
| EPS, as Adjusted (Non-GAAP) | \$ 1.00 | \$ 1.26 | \$ 4.52 | \$ 4.74 | |
| Weighted average number of common shares outstanding - diluted | 85,433,490 | 85,949,461 | 85,610,219 | 86,162,609 | |
| Additional Dilution Under If-Converted Method | 5,348,094 | 5,481,207 | 5,528,257 | 1,648,318 | |
| Diluted Weighted Average Number of Common Shares Outstanding Under If-Converted Method | 90,781,584 | 91,430,668 | 91,138,476 | 87,810,927 | |

- a) Beginning in the quarter ended March 31, 2016, the Company has started to exclude amortization expense from non-GAAP EPS. For comparable reporting, the Company's previously reported 2015 results are adjusted to reflect the change.
- b) Asset impairment charges included \$28.5 million in "Selling, general and administrative expenses exclusive of depreciation" and \$2.5 million with "Other (expense)/ income, net" on our Consolidated Statement of Income.
- c) The tax effect of the adjustments is calculated based on applying the appropriate tax rate for the jurisdictions in which the adjustment occurred for the respective periods.

Table 4: RECONCILIATION OF GAAP TO NON-GAAP EPS

| | Three Months Ended December 31, | | | | Years Ended December 31, | | | |
|--|---------------------------------|------------|-----------|--------|--------------------------|------------|-----------|--------|
| | | | Change | | | | Change | |
| | 2016 | 2015 | \$ | % | 2016 | 2015 | \$ | % |
| EPS, as Reported | \$ 0.14 | \$ 0.82 | \$ (0.68) | -82.4% | \$ 2.08 | \$ 2.98 | \$ (0.90) | -30.2% |
| Amortization Expense | 0.20 | 0.14 | | | 0.98 | 0.35 | | |
| Acquisition Expenses | 0.01 | 0.00 | | | 0.07 | 0.34 | | |
| Integration Expenses | 0.21 | 0.15 | | | 0.65 | 0.39 | | |
| Litigation and Professional Service Expenses | 0.05 | 0.05 | | | 0.09 | 0.46 | | |
| Changes in Fair Value of Contingent Consideration | 0.00 | 0.00 | | | (0.02) | (0.01) | | |
| Restructuring and Plant Conversion Expenses | 0.02 | 0.04 | | | 0.04 | 0.18 | | |
| Contract Exit Costs | 0.01 | 0.00 | | | 0.21 | 0.00 | | |
| Asset Impairment Charges | 0.31 | 0.02 | | | 0.31 | 0.02 | | |
| Insurance Proceeds | 0.00 | 0.00 | | | (0.04) | 0.00 | | |
| Add Back Convertible Preferred Stock Dividend | 0.11 | 0.12 | | | 0.46 | 0.12 | | |
| Total Impact of All Adjustments Including Convertible Preferred Stock Dividend | (0.06) | (0.08) | | | (0.31) | (0.09) | | |
| EPS, as Adjusted (Non-GAAP) | \$ 1.00 | \$ 1.26 | \$ (0.26) | -20.6% | \$ 4.52 | \$ 4.74 | \$ (0.22) | -4.6% |
| Diluted Weighted Average Number of Common Shares Outstanding Under If-Converted Method | 90,781,584 | 91,430,668 | | | 91,138,476 | 87,810,927 | | |

For more information about Stericycle, please visit our website at www.stericycle.com.

Safe Harbor Statement: This press release may contain forward-looking statements that involve risks and uncertainties, some of which are beyond our control (for example, general economic and market conditions). Our actual results could differ significantly from the results described in the forward-looking statements. Factors that could cause such differences include changes in governmental regulation of the collection, transportation, treatment and disposal of regulated waste or the proper handling and protection of personal and confidential information, increases in transportation and other operating costs, the level of governmental enforcement of regulations governing regulated waste collection and treatment or the proper handling and protection of personal and confidential information, our obligations to service our substantial indebtedness and to comply with the covenants and restrictions contained in our private placement notes, term loan credit facility and revolving credit facility, our ability to execute our acquisition strategy and to integrate acquired businesses, competition and demand for services in the regulated waste and secure information destruction industries, political, economic and currency risks related to our foreign operations, impairments of goodwill or other indefinite-lived intangibles, variability in the demand for services we provide on a project or non-recurring basis, exposure to environmental liabilities, fluctuations in the price we receive for the sale of paper, disruptions in or attacks on our information technology systems, compliance with existing and future legal and regulatory requirements, as well as other factors described in our filings with the U.S. Securities and Exchange Commission, including our most recently filed Annual Report on Form 10-K. As a result, past financial performance should not be considered a reliable indicator of future performance, and investors should not use historical trends to anticipate future results or trends. We make no commitment to disclose any subsequent revisions to forward-looking statements.

STERICYCLE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

In thousands

| | December 31, | |
|--|---------------------|---------------------|
| | 2016 (Unaudited) | 2015 |
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 44,189 | \$ 55,634 |
| Short-term investments | 62 | 69 |
| Accounts receivable, net | 633,650 | 614,494 |
| Prepaid expenses | 47,864 | 46,740 |
| Assets held for sale | 8,147 | - |
| Other current assets | 38,207 | 44,891 |
| Total Current Assets | <u>772,119</u> | <u>761,828</u> |
| Property, plant and equipment, net | 724,086 | 665,602 |
| Goodwill | 3,596,882 | 3,758,177 |
| Intangible assets, net | 1,861,973 | 1,842,561 |
| Other assets | 29,555 | 36,995 |
| Total Assets | <u>\$ 6,984,615</u> | <u>\$ 7,065,163</u> |
| LIABILITIES AND EQUITY | | |
| Current Liabilities: | | |
| Current portion of long-term debt | \$ 72,974 | \$ 161,409 |
| Accounts payable | 148,055 | 149,202 |
| Accrued liabilities | 234,504 | 197,329 |
| Deferred revenues | 17,902 | 16,989 |
| Liabilities held for sale | 1,871 | - |
| Other current liabilities | 65,990 | 62,420 |
| Total Current Liabilities | <u>541,296</u> | <u>587,349</u> |
| Long-term debt, net of current portion | 2,878,149 | 3,040,352 |
| Deferred income taxes | 651,177 | 608,272 |
| Other liabilities | 98,137 | 81,352 |
| Equity: | | |
| Mandatory convertible preferred stock | 7 | 8 |
| Common stock | 852 | 849 |
| Additional paid-in capital | 1,166,457 | 1,143,020 |
| Accumulated other comprehensive loss | (367,783) | (282,631) |
| Retained earnings | 2,005,674 | 1,868,645 |
| Total Stericycle, Inc. Equity | <u>2,805,207</u> | <u>2,729,891</u> |
| Noncontrolling interests | 10,649 | 17,947 |
| Total Equity | <u>2,815,856</u> | <u>2,747,838</u> |
| Total Liabilities and Equity | <u>\$ 6,984,615</u> | <u>\$ 7,065,163</u> |

STERICYCLE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

In thousands, except share and per share data

| | Three Months Ended December 31, | | | | Years Ended December 31, | | | |
|---|---------------------------------|----------|------------|----------|--------------------------|----------|--------------|----------|
| | 2016 | | 2015 | | 2016 | | 2015 | |
| | \$ | % of Rev | \$ | % of Rev | \$ | % of Rev | \$ | % of Rev |
| | (Unaudited) | | | | (Unaudited) | | | |
| Revenues | \$ 906,396 | 100.0% | \$ 888,304 | 100.0% | \$ 3,562,342 | 100.0% | \$ 2,985,908 | 100.0% |
| Cost of revenues ("COR") exclusive of depreciation | 513,159 | 56.6% | 489,030 | 55.1% | 1,970,584 | 55.3% | 1,658,081 | 55.5% |
| Depreciation | 19,564 | 2.2% | 18,919 | 2.1% | 88,546 | 2.5% | 61,642 | 2.1% |
| Total cost of revenues | 532,723 | 58.8% | 507,949 | 57.2% | 2,059,130 | 57.8% | 1,719,723 | 57.6% |
| Gross profit, as reported | 373,673 | 41.2% | 380,355 | 42.8% | 1,503,212 | 42.2% | 1,266,185 | 42.4% |
| Gross profit, as adjusted (non-GAAP) | 380,239 | 42.0% | 380,862 | 42.9% | 1,512,253 | 42.5% | 1,267,693 | 42.5% |
| Selling, general and administrative expenses ("SG&A") exclusive of depreciation | 290,103 | 32.0% | 222,297 | 25.0% | 1,029,397 | 28.9% | 758,301 | 25.4% |
| Depreciation | 9,655 | 1.1% | 7,519 | 0.8% | 34,752 | 1.0% | 20,272 | 0.7% |
| Total SG&A expense, as reported | 299,758 | 33.1% | 229,816 | 25.9% | 1,064,149 | 29.9% | 778,573 | 26.1% |
| Total SG&A expense, as adjusted (non-GAAP) | 211,495 | 23.3% | 185,075 | 20.8% | 779,341 | 21.9% | 560,216 | 18.8% |
| Income from operations, as reported | 73,915 | 8.2% | 150,539 | 16.9% | 439,063 | 12.3% | 487,612 | 16.3% |
| Income from operations, as adjusted (non-GAAP) exclusive of adjusting items shown below | 168,744 | 18.6% | 195,787 | 22.0% | 732,912 | 20.6% | 707,477 | 23.7% |
| Adjusting items: | | | | | | | | |
| Plant conversion expenses (COR) | - | 0.0% | 507 | 0.1% | 760 | 0.0% | 1,508 | 0.1% |
| Contract exit costs (COR) | 6,566 | 0.7% | - | 0.0% | 8,281 | 0.2% | - | 0.0% |
| Amortization (SG&A) | 26,989 | 3.0% | 18,541 | 2.1% | 129,300 | 3.6% | 45,498 | 1.5% |
| Acquisition expenses (SG&A) | 1,784 | 0.2% | (818) | -0.1% | 9,646 | 0.3% | 39,138 | 1.3% |
| Integration expenses (SG&A) | 26,579 | 2.9% | 20,432 | 2.3% | 87,587 | 2.5% | 51,689 | 1.7% |
| Litigation and professional services expenses (SG&A) | 7,459 | 0.8% | 645 | 0.1% | 12,904 | 0.4% | 59,651 | 2.0% |
| Change in fair value of contingent consideration (SG&A) | 34 | 0.0% | - | 0.0% | (2,051) | -0.1% | (640) | 0.0% |
| Restructuring and plant conversion expenses (SG&A) | 2,329 | 0.3% | 4,160 | 0.5% | 3,226 | 0.1% | 21,240 | 0.7% |
| Contract exit costs (SG&A) | (5,379) | -0.6% | - | 0.0% | 15,724 | 0.4% | - | 0.0% |
| Asset impairment charges (SG&A) | 28,468 | 3.1% | 1,781 | 0.2% | 28,472 | 0.8% | 1,781 | 0.1% |
| Total adjustments | 94,829 | 10.5% | 45,248 | 5.1% | 293,849 | 8.2% | 219,865 | 7.4% |
| Other income (expense): | | | | | | | | |
| Interest expense, net | (24,620) | -2.7% | (24,908) | -2.8% | (97,709) | -2.7% | (77,274) | -2.6% |
| Other (expense)/ income, net | (7,149) | -0.8% | 4,525 | 0.5% | (7,586) | -0.2% | 569 | 0.0% |
| Total other expense | (31,769) | -3.5% | (20,383) | -2.3% | (105,295) | -3.0% | (76,705) | -2.6% |
| Income before income taxes | 42,146 | 4.6% | 130,156 | 14.7% | 333,768 | 9.4% | 410,907 | 13.8% |
| Income tax expense | 23,635 | 2.6% | 49,618 | 5.6% | 126,259 | 3.5% | 142,894 | 4.8% |
| Net income | 18,511 | 2.0% | 80,538 | 9.1% | 207,509 | 5.8% | 268,013 | 9.0% |
| Less: net income attributable to noncontrolling interests | 157 | 0.0% | (289) | 0.0% | 1,540 | 0.0% | 967 | 0.0% |
| Net income attributable to Stericycle, Inc. | 18,354 | 2.0% | 80,827 | 9.1% | 205,969 | 5.8% | 267,046 | 8.9% |
| Less: mandatory convertible preferred stock dividend | 9,561 | 1.1% | 10,106 | 1.1% | 39,414 | 1.1% | 10,106 | 0.3% |
| Less: gain on repurchase of preferred stock | (3,538) | -0.4% | - | 0.0% | (11,285) | -0.3% | - | 0.0% |
| Net income attributable to Stericycle, Inc. common shareholders | \$ 12,331 | 1.4% | \$ 70,721 | 8.0% | \$ 177,840 | 5.0% | \$ 256,940 | 8.6% |
| Earnings per share - diluted | \$ 0.14 | | \$ 0.82 | | \$ 2.08 | | \$ 2.98 | |
| Weighted average number of common shares outstanding - diluted | 85,433,490 | | 85,949,461 | | 85,610,219 | | 86,162,609 | |

STERICYCLE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands

| | Years Ended December 31, | |
|--|--------------------------|--------------------|
| | 2016 (Unaudited) | 2015 |
| Operating Activities: | | |
| Net income | \$ 207,509 | \$ 268,013 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Stock compensation expense | 20,455 | 21,750 |
| Excess tax benefit of stock options exercised | - | (16,897) |
| Depreciation | 123,298 | 81,914 |
| Amortization | 129,300 | 45,498 |
| Deferred income taxes | 7,020 | (10,294) |
| Asset impairment charges | 28,472 | 8,107 |
| Other, net | 975 | (640) |
| Changes in operating assets and liabilities, net of effect of acquisitions and divestitures: | | |
| Accounts receivable | (41,884) | (55,890) |
| Accounts payable | 6,041 | 26,366 |
| Accrued liabilities | 34,502 | 26,060 |
| Deferred revenue | 1,382 | (4,615) |
| Other assets and liabilities | 30,311 | 956 |
| Net cash provided by operating activities | <u>547,381</u> | <u>390,328</u> |
| Investing Activities: | | |
| Payments for acquisitions, net of cash acquired | (63,917) | (2,419,437) |
| Proceeds from investments | 7 | 294 |
| Proceeds from insurance settlement | 2,358 | - |
| Proceeds from sale of business | 790 | - |
| Proceeds from sale of property and equipment | 1,316 | - |
| Capital expenditures | (136,160) | (114,761) |
| Net cash used in investing activities | <u>(195,606)</u> | <u>(2,533,904)</u> |
| Financing Activities: | | |
| Repayments of long-term debt and other obligations | (89,215) | (93,172) |
| Proceeds from foreign bank debt | 76,237 | 53,747 |
| Repayments of foreign bank debt | (84,114) | (87,308) |
| Proceeds from term loan | - | 1,550,000 |
| Repayments of term loan | (250,000) | (300,000) |
| Proceeds from private placement of long-term note | - | 600,000 |
| Repayments of private placement of long-term note | - | (100,000) |
| Proceeds from senior credit facility | 1,464,902 | 1,907,402 |
| Repayments of senior credit facility | (1,393,323) | (2,004,385) |
| Repayments of capital lease obligations | (5,313) | (3,865) |
| Payments of deferred financing costs | (605) | (9,903) |
| Payment for hedge | - | (8,833) |
| Payments for repurchase of common stock | (40,814) | (130,576) |
| Payments for repurchase of mandatory convertible preferred stock | (30,910) | - |
| Proceeds from issuances of mandatory convertible preferred stock | - | 746,900 |
| Proceeds from issuances of common stock | 37,504 | 60,124 |
| Dividends paid on mandatory convertible preferred stock | (39,414) | (10,106) |
| Excess tax benefit of stock options exercised | - | 16,897 |
| Payments to noncontrolling interests | (8,190) | (5,714) |
| Net cash (used in)/ provided by financing activities | <u>(363,255)</u> | <u>2,181,208</u> |
| Effect of exchange rate changes on cash and cash equivalents | 35 | (4,234) |
| Net (decrease)/ increase in cash and cash equivalents | <u>(11,445)</u> | <u>33,398</u> |
| Cash and cash equivalents at beginning of period | <u>55,634</u> | <u>22,236</u> |
| Cash and cash equivalents at end of period | <u>\$ 44,189</u> | <u>\$ 55,634</u> |
| Non-cash activities: | | |
| Net issuances of obligations for acquisitions | \$ 44,230 | \$ 80,189 |

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