

STERICYCLE INC
Form 10-Q
August 02, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2018

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 1-37556

Stericycle, Inc.

(Exact name of registrant as specified in its charter)

Delaware 36-3640402
(State or other jurisdiction of incorporation or organization) (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)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "accelerated filer", "large accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer	Non-accelerated filer
Smaller reporting company	Emerging Growth Company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

On July 27, 2018, there were 85,887,780 shares of the Registrant's Common Stock outstanding.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

STERICYCLE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(Unaudited)

In millions, except per share data

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues	\$883.3	\$917.7	\$1,778.3	\$1,810.1
Cost of revenues	530.0	536.0	1,066.5	1,059.7
Gross profit	353.3	381.7	711.8	750.4
Selling, general and administrative expenses	290.9	574.0	595.3	828.2
Income (loss) from operations	62.4	(192.3)	116.5	(77.8)
Interest expense, net	(24.6)	(23.7)	(49.6)	(47.0)
Other expense, net	(0.6)	(1.7)	(0.6)	(3.2)
Income (loss) before income taxes	37.2	(217.7)	66.3	(128.0)
Income tax (expense) benefit	(9.6)	73.5	(16.2)	42.4
Net income (loss)	27.6	(144.2)	50.1	(85.6)
Net loss (income) attributable to noncontrolling interests	0.1	0.2	0.1	(0.2)
Net income (loss) attributable to Stericycle, Inc.	27.7	(144.0)	50.2	(85.8)
Mandatory convertible preferred stock dividend	(8.3)	(9.2)	(17.1)	(18.6)
Gain on repurchase of preferred stock	7.2	4.4	14.5	9.0
Net income (loss) attributable to Stericycle, Inc. common shareholders	\$26.6	\$(148.8)	\$47.6	\$(95.4)
Earnings (loss) per common share attributable to Stericycle, Inc. common shareholders:				
Basic	\$0.31	\$(1.74)	\$0.56	\$(1.12)
Diluted	\$0.31	\$(1.74)	\$0.55	\$(1.12)
Weighted average number of common shares outstanding:				
Basic	85.6	85.3	85.6	85.2
Diluted	85.8	85.3	85.8	85.2

See accompanying Notes to Condensed Consolidated Financial Statements.

STERICYCLE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited)

In millions

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income (loss)	\$27.6	\$(144.2)	\$50.1	\$(85.6)
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(76.2)	24.1	(59.9)	50.6
Amortization of cash flow hedge into income, net of tax expense (\$0.1 and \$0.2, and \$0.2 and \$0.3) for the three and six months ended June 30, 2018 and 2017, respectively)	0.4	0.2	0.5	0.5
Change in fair value of cash flow hedge, net of tax expense (\$0.0 and \$0.1, and \$0.0 and \$0.1 for the three and six months ended June 30, 2018 and 2017, respectively)	-	0.2	-	0.2
Total other comprehensive (loss) income	(75.8)	24.5	(59.4)	51.3
Comprehensive loss	(48.2)	(119.7)	(9.3)	(34.3)
Less: comprehensive (loss) income attributable to noncontrolling interests	(0.8)	-	(0.7)	0.7
Comprehensive loss attributable to Stericycle, Inc. common shareholders	\$(47.4)	\$(119.7)	\$(8.6)	\$(35.0)

See accompanying Notes to Condensed Consolidated Financial Statements.

STERICYCLE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

In millions, except per share data

	June 30, 2018	December 31, 2017
ASSETS		
Current Assets:		
Cash and cash equivalents	\$45.0	\$42.2
Accounts receivable, less allowance for doubtful accounts of \$65.9 in 2018 and \$65.2 in 2017	629.6	624.1
Prepaid expenses	74.8	80.0
Other current assets	46.4	46.3
Assets held for sale	17.5	20.8
Total Current Assets	813.3	813.4
Property, plant and equipment, less accumulated depreciation of \$653.2 in 2018 and \$603.2 in 2017	744.4	741.0
Goodwill	3,598.4	3,604.0
Intangible assets, less accumulated amortization of \$446.0 in 2018 and \$392.5 in 2017	1,698.7	1,791.5
Other assets	59.8	38.4
Total Assets	\$6,914.6	\$6,988.3
LIABILITIES AND EQUITY		
Current Liabilities:		
Current portion of long-term debt	\$112.1	\$119.5
Bank overdrafts	6.7	7.0
Accounts payable	205.9	195.2
Accrued liabilities	621.2	588.1
Other current liabilities	55.0	54.5
Liabilities held for sale	0.5	5.1
Total Current Liabilities	1,001.4	969.4
Long-term debt, net	2,535.7	2,615.3
Deferred income taxes	357.4	371.1
Long-term taxes payable	56.8	55.8
Other liabilities	61.7	68.1
Total Liabilities	4,013.0	4,079.7
Commitments and contingencies		
Equity:		
Preferred stock (par value \$0.01 per share, 1.0 shares authorized), mandatory convertible preferred stock, Series A, 0.6 and 0.7 issued and outstanding in 2018 and 2017, respectively	-	-
Common stock (par value \$0.01 per share, 120.0 shares authorized, 85.7 and 85.5 issued and outstanding in 2018 and 2017, respectively)	0.9	0.9
Additional paid-in capital	1,145.1	1,153.2
Retained earnings	2,090.1	2,029.5
Accumulated other comprehensive loss	(345.8)	(287.0)

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Total Stericycle, Inc.'s Equity	2,890.3	2,896.6
Noncontrolling interests	11.3	12.0
Total Equity	2,901.6	2,908.6
Total Liabilities and Equity	\$6,914.6	\$6,988.3

See accompanying Notes to Condensed Consolidated Financial Statements.

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STERICYCLE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

In millions

	Six Months Ended June 30,	
	2018	2017
OPERATING ACTIVITIES:		
Net income (loss)	\$50.1	\$(85.6)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	63.5	58.3
Intangible amortization	64.8	58.6
Stock-based compensation expense	12.8	11.9
Deferred income taxes	(13.6)	(137.9)
Asset impairment charges and loss on disposal of assets held for sale	18.9	13.2
Other, net	(1.5)	0.5
Changes in operating assets and liabilities, net of the effects of acquisitions and divestitures:		
Accounts receivable	(23.5)	5.2
Prepaid expenses	(2.6)	(20.2)
Accounts payable	13.8	(1.7)
Accrued liabilities	39.2	333.8
Other assets and liabilities	9.1	2.8
Net cash provided by operating activities	231.0	238.9
INVESTING ACTIVITIES:		
Capital expenditures	(64.0)	(63.1)
Payments for acquisitions, net of cash acquired	(29.0)	(21.1)
Proceeds from sale of business	8.2	-
Other, net	1.4	0.4
Net cash used in investing activities	(83.4)	(83.8)
FINANCING ACTIVITIES:		
Repayments of long-term debt and other obligations	(29.8)	(33.3)
Proceeds from foreign bank debt	6.9	1.9
Repayment of foreign bank debt	(11.6)	(11.0)
Repayment of term loan	(23.8)	(50.0)
Proceeds from senior credit facility	707.4	899.0
Repayment of senior credit facility	(766.7)	(925.0)
Proceeds from (repayments of) bank overdrafts, net	0.2	(1.8)
Payments of capital lease obligations	(2.7)	(1.8)
Proceeds from issuance of common stock, net of shares withheld for taxes	8.8	4.4
Payments for repurchase of mandatory convertible preferred stock	(14.8)	(22.1)
Dividends paid on mandatory convertible preferred stock	(17.1)	(18.6)
Payments to noncontrolling interest	-	(0.7)
Net cash used in financing activities	(143.2)	(159.0)
Effect of exchange rate changes on cash and cash equivalents	(1.6)	3.9

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Net change in cash and cash equivalents	2.8	-
Cash and cash equivalents at beginning of period	42.2	44.2
Cash and cash equivalents at end of period	\$45.0	\$44.2

SUPPLEMENTAL CASH FLOW INFORMATION:

Net issuances of obligations for acquisitions	\$21.7	\$15.2
Capital expenditures in accounts payable	\$5.5	\$4.0
Interest paid during the period, net of capitalized interest	\$42.5	\$42.4
Income taxes paid during the period, net of refunds	\$18.4	\$97.2

See accompanying Notes to Condensed Consolidated Financial Statements.

STERICYCLE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF

CHANGES IN EQUITY

(Unaudited)

In millions

	Stericycle, Inc. Equity								
	Preferred Stock		Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity
	Shares	Amount	Shares	Amount					
Balance as of January 1, 2017	0.7	\$ -	85.2	\$ 0.8	\$ 1,166.5	\$ 2,006.1	\$ (367.6)	\$ 10.6	\$ 2,816.4
Net income						42.4		0.6	43.0
Currency translation adjustment							79.3	1.2	80.5
Change in qualifying cash flow hedge, net of tax							1.3		1.3
Issuance of common stock for exercise of options and employee stock purchases, net of shares withheld for tax			0.3	0.1	17.2				17.3
Purchase and cancellation of convertible preferred stock	-	-			(51.5)	17.3			(34.2)
Preferred stock dividend									