

STERICYCLE INC
Form 10-Q
May 09, 2016

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 March 31, 2016 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 (IRS Employer
incorporation or organization) Identification Number)

28161 North Keith Drive

Lake Forest, Illinois 60045

(Address of principal executive offices, including zip code)

(847) 367-5910

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(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 (§232.405 of this chapter) 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, or a smaller reporting company. See the definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐
Non-accelerated filer ☐ Smaller reporting company ☐

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

On April 29, 2016 there were 84,912,603 shares of the Registrant's Common Stock outstanding.

Stericycle, Inc.

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PART I. – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

STERICYCLE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

In thousands, except share and per share data

	March 31, 2016	December 31, 2015
ASSETS		
Current Assets:		
Cash and cash equivalents	\$45,655	\$ 55,634
Short-term investments	64	69
Accounts receivable, less allowance for doubtful accounts of \$22,964 in 2016 and \$22,329 in 2015	622,709	614,494
Prepaid expenses	46,198	46,740
Other current assets	42,732	44,891
Total Current Assets	757,358	761,828
Property, plant and equipment, less accumulated depreciation of \$453,753 in 2016 and \$426,019 in 2015	677,525	665,602
Goodwill	3,790,016	3,758,177
Intangible assets, less accumulated amortization of \$170,507 in 2016 and \$151,025 in 2015	1,840,844	1,842,561
Other assets	46,801	49,282
Total Assets	\$7,112,544	\$ 7,077,450
LIABILITIES AND EQUITY		
Current Liabilities:		
Current portion of long-term debt	\$114,066	\$ 161,409
Accounts payable	133,779	149,202
Accrued liabilities	218,933	197,329
Deferred revenues	17,543	16,989
Other current liabilities	68,192	62,420
Total Current Liabilities	552,513	587,349
Long-term debt, net of current portion	3,038,083	3,052,639
Deferred income taxes	617,011	608,272
Other liabilities	86,448	81,352
Equity:		
Preferred stock (par value \$0.01 per share, 1,000,000 shares authorized), Mandatory Convertible Preferred Stock, Series A, 770,000 issued and outstanding in 2016 and 2015	8	8
Common stock (par value \$0.01 per share, 120,000,000 shares authorized, 84,829,822 issued and outstanding in 2016 and 84,852,584 issued and outstanding in 2015)	848	849
Additional paid-in capital	1,172,962	1,143,020
Accumulated other comprehensive loss	(265,018)	(282,631)

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Retained earnings	1,897,636	1,868,645
Total Stericycle, Inc.'s Equity	2,806,436	2,729,891
Noncontrolling interest	12,053	17,947
Total Equity	2,818,489	2,747,838
Total Liabilities and Equity	\$7,112,544	\$ 7,077,450

The accompanying notes are an integral part of these condensed consolidated financial statements.

STERICYCLE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

In thousands, except share and per share data

	Three Months Ended March 31,	
	2016	2015
Revenues	\$874,181	\$663,319
Costs and Expenses:		
Cost of revenues (exclusive of depreciation shown below)	482,356	367,340
Depreciation - cost of revenues	22,641	14,648
Selling, general and administrative expenses (exclusive of depreciation and amortization shown below)	202,488	141,363
Depreciation – selling, general and administrative expenses	7,499	4,118
Amortization	18,274	8,797
Total Costs and Expenses	733,258	536,266
Income from Operations	140,923	127,053
Other Income (Expense):		
Interest income	21	35
Interest expense	(24,062)	(18,633)
Other expense, net	(1,251)	(598)
Total Other Expense	(25,292)	(19,196)
Income Before Income Taxes	115,631	107,857
Income tax expense	38,036	32,047
Net Income	77,595	75,810
Less: net income attributable to noncontrolling interests	809	352
Net Income Attributable to Stericycle, Inc.	76,786	75,458
Less: mandatory convertible preferred stock dividend	10,106	—
Net Income Attributable to Stericycle, Inc. Common Shareholders	\$66,680	\$75,458
Earnings Per Common Share Attributable to Stericycle, Inc. Common Shareholders:		
Basic	\$0.79	\$0.89
Diluted	\$0.78	\$0.87
Weighted Average Number of Common Shares Outstanding:		
Basic	84,705,000	85,037,823
Diluted	85,845,501	86,357,006

The accompanying notes are an integral part of these condensed consolidated financial statements.

STERICYCLE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

In thousands

	Three Months Ended March 31,	
	2016	2015
Net Income	\$77,595	\$75,810
Other Comprehensive Income/ (Loss):		
Foreign currency translation adjustments	17,164	(64,501)
Amortization of cash flow hedge into income, net of tax ((\$172) and (\$54), for the three months ended March 31, 2016 and 2015, respectively)	269	90
Change in fair value of cash flow hedge, net of tax ((\$89) and \$2,381 for the three months ended March 31, 2016 and 2015, respectively)	242	(4,424)
Total Other Comprehensive Loss	17,675	(68,835)
Comprehensive Income	95,270	6,975
Less: comprehensive income/ (loss) attributable to noncontrolling interests	871	(468)
Comprehensive Income Attributable to Stericycle, Inc. Common Shareholders	\$94,399	\$7,443

The accompanying notes are an integral part of these condensed consolidated financial statements.

STERICYCLE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

In thousands

	Three Months Ended March 31,	
	2016	2015
OPERATING ACTIVITIES:		
Net income	\$77,595	\$75,810
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock compensation expense	6,105	5,487
Excess tax benefit of stock options exercised	—	(8,222)
Depreciation	30,140	18,766
Amortization	18,274	8,797
Deferred income taxes	6,932	(2,957)
Other, net	(2,644)	5,313
Changes in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable	(3,918)	(14,491)
Accounts payable	(15,203)	5,443
Accrued liabilities	21,151	35,924
Deferred revenues	487	(628)
Other assets and liabilities	18,030	3,312
Net cash provided by operating activities	156,949	132,554
INVESTING ACTIVITIES:		
Payments for acquisitions, net of cash acquired	(24,884)	(34,210)
Proceeds from investments	7	257
Proceeds from sale of property and equipment	766	—
Capital expenditures	(34,185)	(21,356)
Net cash used in investing activities	(58,296)	(55,309)
FINANCING ACTIVITIES:		
Repayments of long-term debt and other obligations	(6,879)	(9,780)
Proceeds from foreign bank debt	15,607	4,851
Repayments of foreign bank debt	(18,721)	(38,252)
Proceeds from term loan	—	250,000
Repayment of term loan	(171,000)	—
Proceeds from senior credit facility	457,959	394,097
Repayments of senior credit facility	(353,520)	(670,254)
Payments of capital lease obligations	(1,381)	(988)
Payment of cash flow hedge	—	(8,833)
Purchases and cancellations of treasury stock	(37,693)	(11,516)
Proceeds from issuance of common stock	22,310	27,452
Dividends paid on mandatory convertible preferred stock	(10,106)	—
Excess tax benefit of stock options exercised	—	8,222
Payments to noncontrolling interests	(4,997)	(2,603)

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Net cash used in financing activities	(108,421)	(57,604)
Effect of exchange rate changes on cash and cash equivalents	(211)	(3,594)
Net (decrease)/ increase in cash and cash equivalents	(9,979)	16,047
Cash and cash equivalents at beginning of period	55,634	22,236
Cash and cash equivalents at end of period	\$45,655	\$38,283
NON-CASH INVESTING ACTIVITIES:		
Issuances of obligations for acquisitions	\$13,013	\$21,543

The accompanying notes are an integral part of these condensed consolidated financial statements.

STERICYCLE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Three Months Ended March 31, 2016 and Year Ended December 31, 2015

(Unaudited)

In thousands

	Stericycle, Inc. Equity		Preferred Stock		Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total Equity
	Shares	Amount	Shares	Amount	Shares	Amount					
Balance at January 1, 2015	—	\$ —	84,884	\$ 849		\$ 289,211	\$ 1,743,371	\$ (138,419)	\$ 22,173		\$ 1,917,185
Net income							267,046			967	268,013
Currency translation adjustment								(140,809)		161	(140,648)
Change in qualifying cash flow hedge, net of tax								(3,403)			(3,403)
Issuance of common stock for exercise of options, restricted stock units and employee stock purchases			973	10		68,630					68,640
Issuance of mandatory convertible preferred stock	7708					746,892					746,900
Purchase and cancellation of treasury stock			(1,004)	(10)			(131,666)				(131,676)
Preferred stock dividend							(10,106)				(10,106)
Stock compensation expense						21,750					21,750
Excess tax benefit of stock options exercised						16,897					16,897
Reduction to noncontrolling interests due to additional ownership						(360)					(360)