

STERIS plc
Form 10-Q
August 08, 2018
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q
(Mark One)

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 1-37614

STERIS plc

(Exact name of registrant as specified in its charter)

England and Wales

(State or other jurisdiction of
incorporation or organization)

98-1203539

(IRS Employer
Identification No.)

Rutherford House Stephenson's Way Chaddesden, Derby, England

DE21 6LY

(Address of principal executive offices)

(Zip code)

44 1332 387100

(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 such 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 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 definitions 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

(Do not check if a 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

Edgar Filing: STERIS plc - Form 10-Q

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

The number of ordinary shares outstanding as of August 3, 2018: 84,551,550

1

Table of Contents

STERIS plc and Subsidiaries
Form 10-Q
Index

| | Page |
|--|-----------|
| <u>Part I—Financial Information</u> | |
| <u>Item 1. Financial Statements</u> | <u>3</u> |
| <u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>29</u> |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u> | <u>39</u> |
| <u>Item 4. Controls and Procedures</u> | <u>39</u> |
| <u>Part II—Other Information</u> | |
| <u>Item 1. Legal Proceedings</u> | <u>40</u> |
| <u>Item 1A. Risk Factors</u> | <u>40</u> |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>41</u> |
| <u>Item 6. Exhibits</u> | <u>42</u> |
| <u>Signature</u> | <u>43</u> |

Table of Contents

PART 1—FINANCIAL INFORMATION

As used in this Quarterly Report on Form 10-Q, STERIS plc and its consolidated subsidiaries together are called “STERIS,” the “Company,” “we,” “us,” or “our,” unless otherwise noted.

ITEM 1. FINANCIAL STATEMENTS

STERIS PLC AND SUBSIDIARIES
 CONSOLIDATED BALANCE SHEETS
 (in thousands)

| | June 30, 2018 (Unaudited) | March 31, 2018 |
|---|---------------------------------|-------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$218,524 | \$201,534 |
| Accounts receivable (net of allowances of \$9,838 and \$12,472 respectively) | 481,482 | 528,066 |
| Inventories, net | 233,876 | 205,731 |
| Prepaid expenses and other current assets | 55,007 | 54,326 |
| Total current assets | 988,889 | 989,657 |
| Property, plant, and equipment, net | 984,235 | 1,010,524 |
| Goodwill and intangibles, net | 3,032,408 | 3,160,764 |
| Other assets | 46,282 | 39,389 |
| Total assets | \$5,051,814 | \$5,200,334 |
| Liabilities and equity | | |
| Current liabilities: | | |
| Accounts payable | \$130,738 | \$135,866 |
| Accrued income taxes | 7,415 | 379 |
| Accrued payroll and other related liabilities | 62,095 | 94,000 |
| Accrued expenses and other | 173,594 | 168,217 |
| Total current liabilities | 373,842 | 398,462 |
| Long-term indebtedness | 1,320,064 | 1,316,001 |
| Deferred income taxes, net | 154,849 | 159,971 |
| Other liabilities | 103,871 | 108,600 |
| Total liabilities | \$1,952,626 | \$1,983,034 |
| Commitments and contingencies (see Note 8) | | |
| Preferred shares, with £0.10 par value; 100 shares authorized; 100 issued and outstanding | 15 | 15 |
| Ordinary shares, with £0.10 par value; £17,006 shares aggregate par amount authorized; 84,651 and 84,747 ordinary shares issued and outstanding, respectively | 2,027,004 | 2,048,037 |
| Retained earnings | 1,181,517 | 1,146,223 |
| Accumulated other comprehensive loss | (121,096) | 11,685 |
| Total shareholders' equity | 3,087,440 | 3,205,960 |
| Noncontrolling interests | 11,748 | 11,340 |
| Total equity | 3,099,188 | 3,217,300 |
| Total liabilities and equity | \$5,051,814 | \$5,200,334 |

See notes to consolidated financial statements.

Table of Contents

STERIS PLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share amounts)
(Unaudited)

| | Three Months Ended June 30, | |
|---|--------------------------------|-----------|
| | 2018 | 2017 |
| Revenues: | | |
| Product | \$278,790 | \$273,605 |
| Service | 359,968 | 334,359 |
| Total revenues | 638,758 | 607,964 |
| Cost of revenues: | | |
| Product | 146,602 | 143,245 |
| Service | 223,106 | 208,953 |
| Total cost of revenues | 369,708 | 352,198 |
| Gross profit | 269,050 | 255,766 |
| Operating expenses: | | |
| Selling, general, and administrative | 158,406 | 156,336 |
| Research and development | 16,220 | 14,004 |
| Restructuring expenses | — | 51 |
| Total operating expenses | 174,626 | 170,391 |
| Income from operations | 94,424 | 85,375 |
| Non-operating expenses, net: | | |
| Interest expense | 11,740 | 12,466 |
| Interest income and miscellaneous expense | (367) | (1,345) |
| Total non-operating expenses, net | 11,373 | 11,121 |
| Income before income tax expense | 83,051 | 74,254 |
| Income tax expense | 12,773 | 16,039 |
| Net income | 70,278 | 58,215 |
| Less: Net income attributable to noncontrolling interests | 287 | 138 |
| Net income attributable to shareholders | \$69,991 | \$58,077 |
| Net income per share attributed to shareholders | | |
| Basic | \$0.83 | \$0.68 |
| Diluted | \$0.82 | \$0.68 |
| Cash dividends declared per share ordinary outstanding | \$0.31 | \$0.28 |

See notes to consolidated financial statements.

Table of Contents

STERIS PLC AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
 (in thousands)
 (Unaudited)

| | Three Months Ended June 30, | |
|---|--------------------------------|-----------|
| | 2018 | 2017 |
| Net income | \$70,278 | \$58,215 |
| Less: Net income attributable to noncontrolling interests | 287 | 138 |
| Net income attributable to shareholders | 69,991 | 58,077 |
| Other comprehensive (loss) income | | |
| Unrealized loss on available for sale securities, (net of taxes of \$0 and \$208, respectively) | — | (587) |
| Amortization of pension and postretirement benefit plans costs, (net of taxes of \$169 and \$250, respectively) | (410) | (404) |
| Change in cumulative currency translation adjustment | (130,401) | 94,116 |
| Total other comprehensive (loss) income | (130,811) | 93,125 |
| Comprehensive (loss) income | \$(60,820) | \$151,202 |

See notes to consolidated financial statements.

Table of Contents

STERIS PLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

| | Three Months Ended June 30, 2018 | 2017 |
|---|-------------------------------------|-----------|
| Operating activities: | | |
| Net income | \$ 70,278 | \$ 58,215 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation, depletion, and amortization | 46,854 | 43,651 |
| Deferred income taxes | 225 | (2,868) |
| Share-based compensation expense | 5,237 | 4,809 |
| Gain on the disposal of property, plant, equipment, and intangibles, net | (568) | (824) |
| Loss on sale of businesses, net | 444 | 124 |
| Other items | (21,081) | 924 |
| Changes in operating assets and liabilities, net of effects of acquisitions: | | |
| Accounts receivable, net | 39,225 | 32,040 |
| Inventories, net | (34,063) | (15,799) |
| Other current assets | (2,424) | (8,287) |
| Accounts payable | (1,883) | (10,244) |
| Accruals and other, net | (1,465) | (21,088) |
| Net cash provided by operating activities | 100,779 | 80,653 |
| Investing activities: | | |
| Purchases of property, plant, equipment, and intangibles, net | (27,726) | (36,492) |
| | 2,795 | 9 |

| | | | |
|---|------------|---|------------|
| Proceeds from the sale of property, plant, equipment, and intangibles | | | |
| Payments from the sale of businesses | (196 |) | — |
| Purchase of investments | (4,955 |) | — |
| Acquisition of businesses, net of cash acquired | — | | (18,399 |
| Other | (4,784 |) | — |
| Net cash used in investing activities | (34,866 |) | (54,882 |
| Financing activities: | | | |
| Payments on long-term obligations | — | | (7,500 |
| Proceeds under credit facilities, net | 18,443 | | 13,631 |
| Deferred financing fees and debt issuance costs | (298 |) | (44 |
| Acquisition related deferred or contingent consideration | (685 |) | (1,876 |
| Repurchases of ordinary shares | (33,844 |) | (8,451 |
| Cash dividends paid to ordinary shareholders | (26,265 |) | (23,858 |
| Stock option and other equity transactions, net | 3,435 | | 5,844 |
| Net cash used in financing activities | (39,214 |) | (22,254 |
| Effect of exchange rate changes on cash and cash equivalents | (9,709 |) | 8,405 |
| Increase in cash and cash equivalents | 16,990 | | 11,922 |
| Cash and cash equivalents at beginning of period | 201,534 | | 282,918 |
| Cash and cash equivalents at end of period | \$ 218,524 | | \$ 294,840 |

See notes to consolidated financial statements.

Table of Contents

STERIS PLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the Three Months Ended June 30, 2018 and 2017

(dollars in thousands, unless noted and except per share amounts)

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

STERIS plc (“Parent”) was organized in 2014 under the name Solar New HoldCo Limited as a private limited company for the purpose of effecting under the laws of England and Wales the combination (“Combination”) of STERIS Corporation, an Ohio corporation (“Old STERIS”), and Synergy Health plc, a public limited company organized under the laws of England and Wales (“Synergy”). Effective November 2, 2015 the Parent was re-registered as a public company under the name STERIS plc and the Combination closed. As a result of the Combination closing, STERIS plc became the ultimate parent company of Old STERIS and Synergy. Synergy has been re-registered under the name of Synergy Health Limited.

STERIS offers Customers capital equipment products, such as sterilizers and surgical tables; connectivity solutions such as operating room integration; consumable products, such as detergents, gastrointestinal endoscopy accessories, barrier product solutions, and other products and services, including: equipment installation and maintenance, microbial reduction of medical devices, instrument and scope repair solutions, among other services.

Our fiscal year ends on March 31. References in this Quarterly Report to a particular “year” or “year-end” mean our fiscal year. The significant accounting policies applied in preparing the accompanying consolidated financial statements of the Company are summarized below:

Interim Financial Statements

We prepared the accompanying unaudited consolidated financial statements of the Company according to accounting principles generally accepted in the United States (“U.S. GAAP”) for interim financial information and the instructions to the Quarterly Report on Form 10-Q and Rule 10-01 of Regulation S-X. This means that they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. Our unaudited interim consolidated financial statements contain all material adjustments (including normal recurring accruals and adjustments) management believes are necessary to fairly state our financial condition, results of operations, and cash flows for the periods presented.

These interim consolidated financial statements should be read together with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended March 31, 2018 dated May 30, 2018.

The Consolidated Balance Sheet at March 31, 2018 was derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

Principles of Consolidation

We use the consolidation method to report our investment in our subsidiaries. Therefore, the accompanying consolidated financial statements include the accounts of the Company and its wholly-owned and majority-owned subsidiaries. We eliminate inter-company accounts and transactions when we consolidate these accounts. Investments in equity of unconsolidated affiliates, over which the Company has significant influence, but not control, over the financial and operating policies, are accounted for primarily using the equity method. These investments are immaterial to the Company's Consolidated Financial Statements.

Use of Estimates

We make certain estimates and assumptions when preparing financial statements according to U.S. GAAP that affect the reported amounts of assets and liabilities at the financial statement dates and the reported amounts of revenues and expenses during the periods presented. These estimates and assumptions involve judgments with respect to many factors that are difficult to predict and are beyond our control. Actual results could be materially different from these estimates. We revise the estimates and assumptions as new information becomes available. This means that operating results for the three month period ended June 30, 2018 are not necessarily indicative of results that may be expected for future quarters or for the full fiscal year ending March 31, 2019.

Table of Contents

STERIS PLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)

For the Three Months Ended June 30, 2018 and 2017

(dollars in thousands, except as noted)

Revenue Recognition and Associated Liabilities

We adopted Accounting Standards Update ("ASU") 2014-09 "Revenue from Contracts with Customers" and the subsequently issued amendments on April 1, 2018 using the modified retrospective approach to contracts that were not completed as of April 1, 2018. Under this standard, certain capital equipment contracts are comprised of a single performance obligation, resulting in the deferral of the corresponding capital equipment revenue and cost of revenues until installation is complete. Previously, these capital equipment revenues and cost of revenues were recognized based upon shipping terms. We recorded a cumulative effect adjustment in the beginning of fiscal 2019 to Retained earnings of \$5,637, based on the current terms and conditions for certain open capital equipment contracts as of March 31, 2018. The impact of the adoption of this standard on our Consolidated Balance Sheets at June 30, 2018 is reflected in the table below. The adoption of this standard did not have a material impact on our Consolidated Statements of Income for the quarter ended June 30, 2018. Comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

| | As Reported | Total | ASC 605 June 30, |
|--------------------|----------------|-------------|---------------------|
| Balance Sheet 2018 | | Adjustments | 2018 |
| Total assets | \$5,051,814 | \$ (5,581) | \$5,046,233 |
| Total liabilities | 1,952,626 | (10,240) | 1,942,386 |
| Total equity | 3,099,188 | 4,659 | 3,103,847 |

Revenue is recognized when obligations under the terms of the contract are satisfied and control of the promised products or services have transferred to the Customer. Revenues are measured at the amount of consideration that we expect to be paid in exchange for the products or services. Product revenue is recognized when control passes to the Customer, which is generally based on contract or shipping terms. Service revenue is recognized when the Customer benefits from the service, which occurs either upon completion of the service or as it is provided to the Customer. Our Customers include end users as well as dealers and distributors who market and sell our products. Our revenue is not contingent upon resale by the dealer or distributor, and we have no further obligations related to bringing about resale. Our standard return and restocking fee policies are applied to sales of products. Shipping and handling costs charged to Customers are included in Product revenues. The associated expenses are treated as fulfillment costs and are included in Cost of revenues. Revenues are reported net of sales and value-added taxes collected from Customers. We have individual Customer contracts that offer discounted pricing. Dealers and distributors may be offered sales incentives in the form of rebates. We reduce revenue for discounts and estimated returns, rebates, and other similar allowances in the same period the related revenues are recorded. The reduction in revenue for these items is estimated based on historical experience and trend analysis to the extent that it is probable that a significant reversal of revenue will not occur. Estimated returns are recorded gross on the Consolidated Balance Sheets.

In transactions that contain multiple performance obligations, such as when products, maintenance services, and other services are combined, we recognize revenue as each product is delivered or service is provided to the Customer. We allocate the total arrangement consideration to each performance obligation based on its relative standalone selling price, which is the price for the product or service when it is sold separately.

Payment terms vary by the type and location of the Customer and the products or services offered. Generally, the time between when revenue is recognized and when payment is due is not significant. We do not evaluate whether the selling price contains a financing component for contracts that have a duration of less than one year.

We do not capitalize sales commissions as substantially all of our sales commission programs have an amortization period of one year or less.

Certain costs to fulfill a contract are capitalized and amortized over the term of the contract if they are recoverable, directly related to a contract and generate resources that we will use to fulfill the contract in the future. At June 30, 2018, assets related to costs to fulfill a contract were not material to our Consolidated Financial Statements. Refer to Note 9, titled "Business Segment Information" for disaggregation of revenue.

Table of Contents

STERIS PLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)

For the Three Months Ended June 30, 2018 and 2017

(dollars in thousands, except as noted)

Product Revenue

Product revenues consist of revenues generated from sales of consumables and capital equipment. These contracts are primarily based on a Customer's purchase order and may include a Distributor, Dealer or Group Purchasing Organization (GPO) agreement. We recognize revenue for sales of product when control passes to the Customer, which generally occurs either when the products are shipped or when they are received by the Customer. Revenue related to certain capital equipment products is deferred until installation is complete as the capital equipment and installation are highly integrated and form a single performance obligation.

Service Revenue

Within our Healthcare Products and Life Sciences segments, service revenues consist of revenue generated from parts and labor associated with the maintenance, repair and installation of capital equipment. These contracts are primarily based on a Customer's purchase order and may include a Distributor, Dealer, or GPO agreement. For maintenance, repair and installation of capital equipment, revenue is recognized upon completion of the service.

We also offer preventive maintenance and separately priced extended warranty agreements to our Customers, which require us to maintain and repair our products over the duration of the contract. Generally, these contract terms are cancelable without penalty and range from one to five years. Amounts received under these Customer contracts are initially recorded as a service liability and are recognized as service revenue ratably over the contract term using a time-based input measure.

Within our Healthcare Specialty Services segment, revenues relate primarily to outsourced reprocessing services and instrument repairs. Contracts for outsourced reprocessing services are primarily based on an agreement with a Customer, ranging in length from several months to 15 years. Outsourced reprocessing services revenue is recognized ratably over the contract term using a time-based input measure, adjusted for volume and other performance metrics, to the extent that it is probable that a significant reversal of revenue will not occur. Contracts for instrument repairs are primarily based on a Customer's purchase order, and the associated revenue is recognized upon completion of the repair.

Within our Applied Sterilization Technologies segment, service revenues include contract sterilization and laboratory services. Sales contracts for contract sterilization and laboratory services are primarily based on a Customer's purchase order and associated Customer agreement and revenues are generally recognized upon completion of the service.

Contract Liabilities

Payments received from Customers are based on invoices or billing schedules as established in contracts with Customers. Deferred revenue is recorded when payment is received in advance of performance under the contract. Deferred revenue is recognized as revenue upon completion of the performance obligation, which generally occurs within one year. During the first three months of fiscal 2019, \$12,421 of the March 31, 2018 deferred revenue balance was recorded as revenue.

Refer to Note 6, titled "Additional Consolidated Balance Sheet Information" for Deferred revenue balances.

Service Liabilities

Payments received in advance of performance for cancelable preventative maintenance and separately priced extended warranty contracts are recorded as service liabilities. Service liabilities are recognized as revenue as performance is rendered under the contract. Prior to the adoption of ASC 606, these amounts were included in Deferred revenues. Refer to Note 6, titled "Additional Consolidated Balance Sheet Information" for Service liability balances.

Remaining Performance Obligations

Remaining performance obligations reflect only the performance obligations related to agreements for which we have a firm commitment from a Customer to purchase and exclude variable consideration related to unsatisfied performance obligations. With regard to products, these remaining performance obligations include capital equipment

and consumable orders which have not shipped. With regard to service, these remaining performance obligations primarily include installation, certification, and outsourced reprocessing services. As of June 30, 2018, the transaction price allocated to remaining performance obligations was approximately \$745,000. We expect to recognize approximately 50% of the transaction price within one year and approximately 40% beyond one year. The remainder has yet to be scheduled for delivery.

Recently Issued Accounting Standards Impacting the Company

Recently Issued Accounting Standards Impacting the Company are presented in the following table:

9

Table of Contents

STERIS PLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)

For the Three Months Ended June 30, 2018 and 2017

(dollars in thousands, except as noted)

| Standard | Date of Issuance | Description | Date of Adoption | Effect on the financial statements or other significant matters |
|--|------------------|---|---------------------------|---|
| Standards that have recently been adopted | | | | |
| ASU 2014-09, "Revenue from Contracts with Customers" and subsequently issued amendments | May 2014 | The standard replaced existing revenue recognition standards and significantly expands the disclosure requirements for revenue arrangements. It may be adopted either retrospectively or on a modified retrospective basis to new contracts and existing contracts with remaining performance obligations as of the effective date. The standard update is effective for annual periods beginning after December 15, 2017 and interim periods within those periods. Early adoption is not permitted before the original public entity effective date of December 15, 2016. The standard changed how equity investments are measured and presented changes in the fair value of financial liabilities measured under the fair value option. Presentation and disclosure requirements for financial instruments were also affected. Entities are required to measure equity investments that do not result in consolidation and are not recorded under the equity method at fair value with changes in fair value recognized in net income. The standard clarifies guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale securities. The accounting for other financial instruments, such as loans, investments in debt securities, and financial liabilities is largely unchanged. The standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. | First Quarter Fiscal 2019 | Additional information is disclosed in Footnote 1 under the heading, "Revenue Recognition and Associated Liabilities". |
| ASU 2016-01, "Financial Instruments - Overall - Recognition and Measurement of Financial Assets and Liabilities" (Subtopic 825-10) | January 2016 | The standard clarifies guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale securities. The accounting for other financial instruments, such as loans, investments in debt securities, and financial liabilities is largely unchanged. The standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. | First Quarter Fiscal 2019 | We adopted the standard on a modified retrospective basis at the beginning of fiscal 2019 and we recorded a cumulative effect adjustment to our opening retained earnings balance of \$1,970 that increased retained earnings and decreased accumulated other comprehensive income. |
| ASU 2016-16, "Income Taxes, Intra-Entity Transfers of Assets Other Than Inventory" (Topic 740) | October 2016 | The standard improves the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. The new standard requires the recognition of income tax consequences resulting from an intra-entity transfer of an asset other than inventory when the transfer occurs. The standard is effective for annual periods beginning after December 15, | First Quarter Fiscal 2019 | We adopted this standard effective April 1, 2018 with no material impact to our Consolidated Balance Sheets. The impact to our Consolidated Statements of Income will depend on |

2017. Early adoption is permitted.

the value of future
intra-entity transfers.

Table of Contents

STERIS PLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)

For the Three Months Ended June 30, 2018 and 2017

(dollars in thousands, except as noted)

| | | | | |
|--|-----------------|--|------------------------------------|---|
| ASU 2017-01 "Clarifying the Definition of a Business" | January 2017 | The standard update narrows the definition of a business by providing a screen to determine when an integrated set of assets and activities is not a business. The screen specifies that an integrated set of assets and activities is not a business if substantially all of the fair value of the gross assets acquired or disposed of is concentrated in a single or a group of similar identifiable assets. The standard update is effective for annual periods beginning after December 15, 2017 and interim periods within | First Quarter Fiscal 2019 | We adopted this standard effective April 1, 2018. The impact will depend on future occurrence of the relevant transactions or conditions addressed by the standard. |
|--|-----------------|--|------------------------------------|---|

| | | | | |
|---|-----------------------|--|--|--|
| <p>ASU 2017-07 "Compensation - Retirement Benefits - Improving the Presentation of Net Periodic Pension and Net Periodic Postretirement Benefit Cost" (Topic 715)</p> | <p>March 2017</p> | <p>that period. Early adoption is permitted. This standard requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside the subtotal of income from operations, if one is presented. The standard is effective for annual periods, including interim periods within those annual periods, beginning after December 15,</p> | <p>First Quarter Fiscal 2019</p> | <p>We retrospectively adopted the standard in the first quarter of fiscal 2019. Prior periods have been recast for the adoption of this standard. Changes have been reflected in the Cost of Revenues, Selling, general and administrative expenses, Interest income and miscellaneous expense lines of our Consolidated Statement of Income. Amounts are not considered material for additional disclosure.</p> |
|---|-----------------------|--|--|--|

| | | | | |
|--|---------------------|---|--|---|
| <p>ASU 2017-09 "Compensation - Stock Compensation" (Topic 718)</p> | <p>May 2017</p> | <p>2017. Early adoption is permitted. The standard provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. This standard is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted.</p> | <p>First Quarter Fiscal 2019</p> | <p>We adopted this standard effective April 1, 2018. The impact will depend on future occurrence of the relevant terms or conditions addressed by the standard.</p> |
|--|---------------------|---|--|---|

Table of Contents

STERIS PLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)

For the Three Months Ended June 30, 2018 and 2017

(dollars in thousands, except as noted)

Standards that have not yet been adopted

| | | | | |
|---|--------------------------|--|------------|--|
| <p>ASU 2016-02, "Leases" (Topic 842)</p> | <p>February 2016</p> | <p>The standard will require lessees to record all leases, whether finance or operating, on the balance sheet. An asset will be recorded to represent the right to use the leased asset, and a liability will be recorded to represent the lease obligation. The standard is effective for annual periods beginning after December 15, 2018 and interim periods within that period. Early adoption is permitted.</p> | <p>N/A</p> | <p>We are currently evaluating the impact that the standard will have on our consolidated financial statements. We are also evaluating our lease portfolio, software packages, process and policy change requirements. We anticipate that most of our operating leases will result in the recognition of additional assets and corresponding liabilities in our Consolidated Balance Sheet, however we do not expect the standard to have a material impact on our financial position. The actual impact will depend on our lease portfolio at the time of adoption. For more information regarding our total operating lease commitments refer to Note 5, "Property, Plant and Equipment" of our Annual Report on Form 10-K for the year ended March 31, 2018 dated May 30, 2018.</p> |
| <p>ASU 2016-13, "Measurement of Credit Losses on Financial Instruments"</p> | <p>June 2016</p> | <p>The standard requires a financial asset (or group of financial assets) measured at amortized cost to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. Credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses. The standard is effective for annual periods beginning after December 15, 2019. Early adoption is permitted.</p> | <p>N/A</p> | <p>We are in the process of evaluating the impact that the standard will have on our consolidated financial statements.</p> |

Table of Contents

STERIS PLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)

For the Three Months Ended June 30, 2018 and 2017

(dollars in thousands, except as noted)

| | | | | |
|--|------------------|--|-----|--|
| ASU 2017-12 "Targeted Improvements to Accounting for Hedging Activities" (Topic 815) | August 2017 | <p>The standard provides targeted improvements to accounting for hedging activities by expanding an entity's ability to hedge non-financial and financial risk components and reduce complexity in fair value hedges of interest rate risk. The guidance eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. The guidance also eases certain documentation and assessment requirements and modifies the accounting for components excluded from the assessment of hedge effectiveness. The standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. Early adoption is permitted in any interim period after issuance of the standard. The standard should be applied using a modified retrospective approach for cash flow and net investment hedge relationships that exist on the date of adoption, and prospectively for presentation and disclosure requirements.</p> | N/A | We do not expect this standard to have a material impact on our consolidated financial statements. |
| ASU 2018-02 "Income Statement - Reporting Comprehensive Income" (Topic 220) | February 2018 | <p>The standard allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act and requires certain disclosures about stranded tax effects. The underlying guidance requiring that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. This standard is effective for fiscal years beginning after December 15, 2018 and interim periods within those years. Early adoption is permitted.</p> | N/A | We are in the process of evaluating the impact that the standard will have on our consolidated financial statements. |

A detailed description of our significant and critical accounting policies, estimates, and assumptions is included in our consolidated financial statements included in our Annual Report on Form 10-K for the year ended March 31, 2018 dated May 30, 2018. Our significant and critical accounting policies, estimates, and assumptions have not changed materially from March 31, 2018.

Table of Contents

STERIS PLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)

For the Three Months Ended June 30, 2018 and 2017

(dollars in thousands, except as noted)

2. Business Acquisitions and Divestitures

During fiscal 2018, we completed several minor purchases which continued to expand our product offerings in the Healthcare Products, Healthcare Specialty Services and Applied Sterilization Technologies segments. The aggregate purchase price associated with these transactions was approximately \$52,900, (\$23,100 of which was paid during the first quarter), net of cash acquired and including potential contingent consideration of \$5,400. The purchase price for the acquisitions was financed with both cash on hand and with credit facility borrowings. Purchase price allocations are finalized within a measurement period not to exceed one year from closing. Any provisional adjustments recorded were not material.

On November 20, 2017, we sold our Synergy Health Healthcare Consumable Solutions ("HCS") business to Vernacare. Annual revenues for the HCS business were approximately \$40,000 and were included in the Healthcare Products segment. We recorded proceeds of approximately \$8,000, net of cash divested and including a working capital adjustment. We also recognized a pre-tax loss on the sale of approximately \$13,900 in Selling, general, and administrative expense in the Consolidated Statement of Income.

3. Inventories, Net

We use the last-in, first-out ("LIFO") and first-in, first-out ("FIFO") cost methods to value inventory. Inventory valued using the LIFO cost method is stated at the lower of cost or market. Inventory valued using the FIFO cost method is stated at the lower of cost or net realizable value. An actual valuation of inventory under the LIFO method is made only at the end of the fiscal year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on management's estimates of expected year-end inventory levels and are subject to the final fiscal year-end LIFO inventory valuation. Inventory costs include material, labor, and overhead. Inventories, net consisted of the following:

| | June 30, 2018 | March 31, 2018 |
|---|------------------|-------------------|
| Raw materials | \$86,249 | \$83,741 |
| Work in process | 35,648 | 34,904 |
| Finished goods | 149,461 | 124,005 |
| LIFO reserve | (17,900) | (17,280) |
| Reserve for excess and obsolete inventory | (19,582) | (19,639) |
| Inventories, net | \$233,876 | \$205,731 |

4. Property, Plant and Equipment

Information related to the major categories of our depreciable assets is as follows:

| | June 30, 2018 | March 31, 2018 |
|--|------------------|-------------------|
| Land and land improvements ⁽¹⁾ | \$54,053 | \$55,417 |
| Buildings and leasehold improvements | 438,869 | 449,316 |
| Machinery and equipment | 569,620 | 575,607 |
| Information systems | 148,366 | 145,726 |
| Radioisotope | 474,906 | 476,578 |
| Construction in progress ⁽¹⁾ | 94,019 | 87,745 |
| Total property, plant, and equipment | 1,779,833 | 1,790,389 |
| Less: accumulated depreciation and depletion | (795,598) | (779,865) |

Edgar Filing: STERIS plc - Form 10-Q

Property, plant, and equipment, net \$984,235 \$1,010,524

(1) Land is not depreciated. Construction in progress is not depreciated until placed in service.

Table of Contents

STERIS PLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)

For the Three Months Ended June 30, 2018 and 2017

(dollars in thousands, except as noted)

5. Debt

Indebtedness was as follows:

| | June 30, 2018 | March 31, 2018 |
|--|------------------|-------------------|
| Credit Agreement and Swing Line Facility | \$348,367 | \$331,206 |
| Private Placement Notes | 974,949 | 988,190 |
| Deferred financing costs | (3,252) | (3,395) |
| Total long term debt | \$1,320,064 | \$1,316,001 |

Additional information regarding our indebtedness is included in the notes to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended March 31, 2018 dated May 30, 2018.

6. Additional Consolidated Balance Sheet Information

Additional information related to our Consolidated Balance Sheets is as follows:

| | June 30, 2018 | March 31, 2018 |
|---|------------------|-------------------|
| Accrued payroll and other related liabilities: | | |
| Compensation and related items | \$27,740 | \$30,270 |
| Accrued vacation/paid time off | 11,268 | 11,011 |
| Accrued bonuses | 9,943 | 31,716 |
| Accrued employee commissions | 9,069 | 17,168 |
| Other postretirement benefit obligations-current portion | 1,907 | 1,906 |
| Other employee benefit plans obligations-current portion | 2,168 | 1,929 |
| Total accrued payroll and other related liabilities | \$62,095 | \$94,000 |
| Accrued expenses and other: | | |
| Deferred revenues | \$49,062 | \$31,621 |
| Service liabilities | 40,790 | 43,077 |
| Self-insured risk reserves-current portion | 7,222 | 7,349 |
| Accrued dealer commissions | 14,431 | 16,121 |
| Accrued warranty | 6,728 | 6,872 |
| Asset retirement obligation-current portion | 1,762 | 1,798 |
| Other | 53,599 | 61,379 |
| Total accrued expenses and other | \$173,594 | \$168,217 |
| Other liabilities: | | |
| Self-insured risk reserves-long-term portion | \$15,008 | \$15,008 |
| Other postretirement benefit obligations-long-term portion | 11,704 | 12,194 |
| Defined benefit pension plans obligations-long-term portion | 26,762 | 29,407 |
| Other employee benefit plans obligations-long-term portion | 3,097 | 3,221 |
| Accrued long-term income taxes | 18,953 | 18,922 |
| Asset retirement obligation-long-term portion | 9,509 | 9,841 |
| Other | 18,838 | 20,007 |
| Total other liabilities | \$103,871 | \$108,600 |

Table of Contents

STERIS PLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)

For the Three Months Ended June 30, 2018 and 2017

(dollars in thousands, except as noted)

7. Income Tax Expense

The Tax Cuts and Jobs Act (the “TCJA”) was enacted on December 22, 2017. The TCJA reduces the U.S. federal corporate income tax rate from 35.0% to 21.0%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign sourced earnings. The Company is applying the guidance in Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cut and Jobs Act when accounting for the enactment-date effects of the TCJA. At June 30, 2018, the Company has not completed its accounting for the tax effects of the TCJA; however, it has made reasonable estimates of the tax effects. During the three months ended June 30, 2018, the Company has not recorded any adjustments to the provisional amounts recorded at March 31, 2018 related to the remeasurement of its deferred balances and the one-time transition tax. In all cases, the Company is continuing to make and refine its calculations as additional analysis is completed. In addition, the Company’s estimates may also be affected as it gains a more thorough understanding of the TCJA and certain aspects of the TCJA are clarified by the taxing authorities.

The TCJA also subjects a U.S. shareholder to current tax on global intangible low-taxed income (“GILTI”) earned by certain foreign subsidiaries and allows a benefit for foreign-derived intangible income (“FDII”). The Company has made sufficient progress in its calculation to reasonably estimate the tax impact related to GILTI and FDII for the year ended March 31, 2019 and included it in the estimated annual effective tax rate. The impact of GILTI and FDII was not significant for the three months ended June 30, 2018. The Company will continue to refine its calculations, which may result in changes to the expected impact for fiscal year 2019.

The effective income tax rates for the three month periods ended June 30, 2018 and 2017 were 15.4% and 21.6%, respectively. The fiscal 2019 rate was favorably impacted compared to the prior year period primarily by the decrease in the U.S. federal statutory tax rate.

Income tax expense is provided on an interim basis based upon our estimate of the annual effective income tax rate, adjusted each quarter for discrete items. In determining the estimated annual effective income tax rate, we analyze various factors, including projections of our annual earnings and taxing jurisdictions in which the earnings will be generated, the impact of state and local income taxes, our ability to use tax credits and net operating loss carry forwards, and available tax planning alternatives.

We operate in numerous taxing jurisdictions and are subject to regular examinations by various United States federal, state and local, as well as non-United States jurisdictions. We are no longer subject to United States federal examinations for years before fiscal 2015 and, with limited exceptions, we are no longer subject to United States state and local, or non-United States, income tax examinations by tax authorities for years before fiscal 2011. We remain subject to tax authority audits in various jurisdictions wherever we do business. We do not expect the results of these examinations to have a material adverse effect on our consolidated financial statements.

Table of Contents

STERIS PLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)

For the Three Months Ended June 30, 2018 and 2017

(dollars in thousands, except as noted)

8. Commitments and Contingencies

We are, and will likely continue to be, involved in a number of legal proceedings, government investigations, and claims, which we believe generally arise in the course of our business, given our size, history, complexity, and the nature of our business, products, Customers, regulatory environment, and industries in which we participate. These legal proceedings, investigations and claims generally involve a variety of legal theories and allegations, including, without limitation, personal injury (e.g., slip and falls, burns, vehicle accidents), product liability or regulation (e.g., based on product operation or claimed malfunction, failure to warn, failure to meet specification, or failure to comply with regulatory requirements), product exposure (e.g., claimed exposure to chemicals, asbestos, contaminants, radiation), property damage (e.g., claimed damage due to leaking equipment, fire, vehicles, chemicals), commercial claims (e.g., breach of contract, economic loss, warranty, misrepresentation), financial (e.g., taxes, reporting), employment (e.g., wrongful termination, discrimination, benefits matters), and other claims for damage and relief. We believe we have adequately reserved for our current litigation and claims that are probable and estimable, and further believe that the ultimate outcome of these pending lawsuits and claims will not have a material adverse effect on our consolidated financial position or results of operations taken as a whole. Due to their inherent uncertainty, however, there can be no assurance of the ultimate outcome or effect of current or future litigation, investigations, claims or other proceedings (including without limitation the matters discussed below). For certain types of claims, we presently maintain insurance coverage for personal injury and property damage and other liability coverages in amounts and with deductibles that we believe are prudent, but there can be no assurance that these coverages will be applicable or adequate to cover adverse outcomes of claims or legal proceedings against us.

On May 31, 2012, our Albert Browne Limited subsidiary received a warning letter from the FDA regarding chemical indicators manufactured in the United Kingdom. These devices are intended for the monitoring of certain sterilization and other processes. The FDA warning letter states that the agency has concerns regarding operational business processes. We do not believe that the FDA's concerns are related to product performance, or that they result from Customer complaints. We have reviewed our processes with the agency and finalized our remediation measures, and are awaiting FDA reinspection. We do not currently believe that the impact of this event will have a material adverse effect on our financial results.

Civil, criminal, regulatory or other proceedings involving our products or services could possibly result in judgments, settlements or administrative or judicial decrees requiring us, among other actions, to pay damages or fines or effect recalls, or be subject to other governmental, Customer or other third party claims or remedies, which could materially effect our business, performance, prospects, value, financial condition, and results of operations.

For additional information regarding these matters, see the following portions of our Annual Report on Form 10-K for the year ended March 31, 2018 dated May 30, 2018: Item 1 titled "Business - Information with respect to our Business in General - Government Regulation", and the "Risk Factors" in Item 1A titled "Product related regulations and claims".

From time to time, STERIS is also involved in legal proceedings as a plaintiff involving contract, patent protection, and other claims asserted by us. Gains, if any, from these proceedings are recognized when they are realized.

We are subject to taxation from United States federal, state and local, and non-U.S. jurisdictions. Tax positions are settled primarily through the completion of audits within each individual jurisdiction or the closing of statutes of limitation. Changes in applicable tax law or other events may also require us to revise past estimates. We describe income taxes further in Note 7 to our consolidated financial statements titled, "Income Tax Expense" in this Quarterly Report on Form 10-Q.

9. Business Segment Information

We operate and report our financial information in four reportable business segments: Healthcare Products, Healthcare Specialty Services, Life Sciences, and Applied Sterilization Technologies. Corporate, which is presented separately, contains costs that are associated with being a publicly traded company and certain other corporate costs.

Our Healthcare Products segment offers infection prevention and procedural solutions for healthcare providers worldwide, including consumable products, equipment maintenance and installation services, and capital equipment. Our Healthcare Specialty Services segment provides a range of specialty services for healthcare providers including hospital sterilization services, and instrument and scope repairs.

Table of Contents

STERIS PLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)

For the Three Months Ended June 30, 2018 and 2017

(dollars in thousands, except as noted)

Our Life Sciences segment offers consumable products, equipment maintenance and specialty services for pharmaceutical manufacturers and research facilities, and capital equipment.

Our Applied Sterilization Technologies segment offers a contract sterilization and laboratory services for medical device and pharmaceutical Customers and others.

We disclose a measure of segment income that is consistent with the way management operates and views the business. The accounting policies for reportable segments are the same as those for the consolidated Company. In fiscal 2019, we ceased the allocation of certain corporate costs to our segments to align with internal management measures. The prior period operating income measures have been recast for comparability.

Segment income is calculated as the segment's gross profit less direct costs and indirect costs if the resources are dedicated to a single segment. Corporate costs include corporate and administrative functions, public company costs, legacy post-retirement benefits, and certain services and facilities related to distribution and research and development that are shared by multiple segments. Adjustments include acquisition related costs, amortization of acquired intangibles, restructuring costs and other charges that management believes may or may not recur with similar materiality or impact on operating income in future periods. Management believes that by adjusting for these items they gain better insight and greater transparency into the operating performance of the segments, thus aiding them in more meaningful financial trend analysis and operational decision making.

For the three months ended June 30, 2018, revenues from a single Customer did not represent ten percent or more of any reportable segment's revenues. Additional information regarding our segments is included in our consolidated financial statements included in our Annual Report on Form 10-K for the year ended March 31, 2018, dated May 30, 2018.

Financial information for each of our segments is presented in the following table:

| | Three Months Ended June 30, | |
|--|--------------------------------|-----------|
| | 2018 | 2017 |
| Revenues: | | |
| Healthcare Products | \$292,010 | \$289,064 |
| Healthcare Specialty Services | 122,249 | 113,434 |
| Life Sciences | 84,955 | 80,935 |
| Applied Sterilization Technologies | 139,544 | 124,531 |
| Total revenues | \$638,758 | \$607,964 |
| Operating income (loss): | | |
| Healthcare Products | \$61,722 | \$63,124 |
| Healthcare Specialty Services | 12,954 | 14,344 |
| Life Sciences | 29,865 | 26,870 |
| Applied Sterilization Technologies | 56,151 | 47,994 |
| Corporate | (46,042) | (45,833) |
| Total operating income before adjustments | \$114,650 | \$106,499 |
| Less: Adjustments | | |
| Amortization of acquired intangible assets ⁽¹⁾ | \$18,055 | \$16,302 |
| Acquisition and integration related charges ⁽²⁾ | 1,671 | 4,029 |
| Tax restructuring costs | 287 | — |
| (Gain) on fair value adjustment of acquisition related contingent consideration ⁽¹⁾ | (842) | — |
| Net loss on divestiture of businesses ⁽¹⁾ | 444 | 124 |

Edgar Filing: STERIS plc - Form 10-Q

| | | |
|---|----------|----------|
| Amortization of inventory and property "step up" to fair value ⁽¹⁾ | 611 | 618 |
| Restructuring charges | — | 51 |
| Total operating income | \$94,424 | \$85,375 |

18

Table of Contents

STERIS PLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)

For the Three Months Ended June 30, 2018 and 2017

(dollars in thousands, except as noted)

(1) For more information regarding our recent acquisitions and divestitures see Note 2 titled, "Business Acquisitions and Divestitures", as well as our Annual Report on Form 10-K for the year ended March 31, 2018, dated May 30, 2018.

(2) Acquisition and integration related charges include transaction costs and integration expenses associated with acquisitions..

Additional information regarding our fiscal 2019 and fiscal 2018 first quarter revenue is disclosed in the following tables:

| | Three Months Ended June 30, | |
|---|--------------------------------|-----------|
| | 2018 | 2017 |
| Healthcare Products: | | |
| Capital equipment | \$107,496 | \$105,565 |
| Consumables | 100,414 | 103,688 |
| Service | 84,100 | 79,811 |
| Total Healthcare Products Revenues | \$292,010 | \$289,064 |
| Total Healthcare Specialty Services Revenues | \$122,249 | \$113,434 |
| Life Sciences: | | |
| Capital equipment | \$19,114 | \$18,281 |
| Consumables | 40,221 | 38,319 |
| Service | 25,620 | 24,335 |
| Total Life Sciences Revenues | \$84,955 | \$80,935 |
| Applied Sterilization Technologies Service Revenues | \$139,544 | \$124,531 |
| Total Revenues | \$638,758 | \$607,964 |

| | Three Months Ended June 30, | |
|-----------------|--------------------------------|-----------|
| | 2018 | 2017 |
| Revenues: | | |
| United Kingdom | \$47,480 | \$52,722 |
| United States | 447,540 | 422,959 |
| Other locations | 143,738 | 132,283 |
| Total Revenues | \$638,758 | \$607,964 |

10. Shares and Preferred Shares

Ordinary shares

We calculate basic earnings per share based upon the weighted average number of shares outstanding. We calculate diluted earnings per share based upon the weighted average number of shares outstanding plus the dilutive effect of share equivalents calculated using the treasury stock method.

Table of Contents

STERIS PLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)

For the Three Months Ended June 30, 2018 and 2017

(dollars in thousands, except as noted)

The following is a summary of shares and share equivalents outstanding used in the calculations of basic and diluted earnings per share:

| | Three Months Ended June 30, | |
|---|-----------------------------------|--------|
| | 2018 | 2017 |
| Denominator (shares in thousands): | | |
| Weighted average shares outstanding—basic | 84,685 | 85,090 |
| Dilutive effect of share equivalents | 824 | 630 |
| Weighted average shares outstanding and share equivalents—diluted | 85,509 | 85,720 |

Options to purchase the following number of shares were outstanding but excluded from the computation of diluted earnings per share because the combined exercise prices, unamortized fair values, and assumed tax benefits upon exercise were greater than the average market price for the shares during the periods, so including these options would be anti-dilutive:

| | Three Months Ended June 30, | |
|-------------------------|--------------------------------------|------|
| (shares in thousands) | 2018 | 2017 |
| Number of share options | 141 | 569 |

Preferred Shares

Pursuant to an engagement letter dated October 23, 2015, we issued 100,000 preferred shares, par value of £0.10 each, for an aggregate consideration of approximately \$15, in satisfaction of debt owed to a service provider. The holders of the preferred shares are entitled to a fixed cumulative preferential annual dividend of 5 percent (on the amount paid periodically on the preferred shares respectively held by them). On a return of capital of the Company whether on liquidation or otherwise, the holders of the preferred shares shall be entitled to receive out of the assets of the Company available for distribution to its shareholders the sum of £0.10 per preferred share plus any accrued but unpaid dividends, but will not be entitled to any further participation in the assets of the Company. The holders of the preferred shares will have no right to attend, speak or vote, whether in person or by proxy, at any general meeting of the Company or any meeting of a class of members of the Company in respect of the preferred shares and will not be entitled to receive any notice of meetings.

11. Repurchases of Ordinary Shares

On August 9, 2016, the Company announced that its Board of Directors had authorized the purchase of up to \$300 million of our ordinary shares. We may enter into share repurchase contracts until August 2, 2021 to effect these purchases. Shares may be repurchased from time to time through open market transactions, including 10b5-1 plans. The repurchase program may be suspended or discontinued at any time. During the first three months of fiscal 2019, we repurchased 259,000 of our ordinary shares for the aggregate amount of \$26,159 pursuant to this authorization. During the first three months of fiscal 2019, we obtained 89,730 of our ordinary shares in the aggregate amount of \$7,753 in connection with share based compensation award programs.

Table of Contents

STERIS PLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)

For the Three Months Ended June 30, 2018 and 2017

(dollars in thousands, except as noted)

12. Share-Based Compensation

We maintain a long-term incentive plan that makes available shares for grants, at the discretion of the Compensation Committee of the Board of Directors, to officers, directors, and key employees in the form of stock options, restricted shares, restricted share units, stock appreciation rights and share grants. We satisfy share award incentives through the issuance of new ordinary shares.

Stock options provide the right to purchase our shares at the market price on the date of grant, or for options granted in fiscal 2019, 110% of the market price on the date of grant, subject to the terms of the option plan and agreements.

Generally, one-fourth of the stock options granted become exercisable for each full year of employment following the grant date. Stock options granted generally expire 10 years after the grant date, or in some cases earlier if the option holder is no longer employed by us. Restricted shares and restricted share units generally cliff vest after a four year period or vest in tranches of one-fourth of the number granted for each full year of employment after the grant date.

As of June 30, 2018, 4,422,269 ordinary shares remained available for grant under the long-term incentive plan.

The fair value of stock option awards was estimated at their grant date using the Black-Scholes-Merton option pricing model. This model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable, characteristics that are not present in our option grants. If the model permitted consideration of the unique characteristics of employee stock options, the resulting estimate of the fair value of the stock options could be different. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in our Consolidated Statements of Income. The expense is classified as cost of goods sold or selling, general and administrative expenses in a manner consistent with the employee's compensation and benefits.

The following weighted-average assumptions were used for options granted during the first three months of fiscal 2019 and 2018:

| | Fiscal 2019 | | Fiscal 2018 | |
|----------------------------------|-------------|---|-------------|---|
| Risk-free interest rate | 2.62 | % | 2.00 | % |
| Expected life of options | 6.2 years | | 5.6 years | |
| Expected dividend yield of stock | 1.48 | % | 1.59 | % |
| Expected volatility of stock | 19.83 | % | 22.11 | % |

The risk-free interest rate is based upon the U.S. Treasury yield curve. The expected life of options is reflective of historical experience, vesting schedules and contractual terms. The expected dividend yield of stock represents our best estimate of the expected future dividend yield. The expected volatility of stock is derived by referring to our historical stock prices over a time frame similar to that of the expected life of the grant. An estimated forfeiture rate of 2.37% and 2.25% was applied in fiscal 2019 and 2018, respectively. This rate is calculated based upon historical activity and represents an estimate of the granted options not expected to vest. If actual forfeitures differ from this calculated rate, we may be required to make additional adjustments to compensation expense in future periods. The assumptions used above are reviewed at the time of each significant option grant, or at least annually.

A summary of share option activity is as follows:

| | Number of Options | Weighted Average Exercise Price | Average Remaining Contractual Term | Aggregate Intrinsic Value |
|-------------------------------|-------------------|---------------------------------|------------------------------------|---------------------------|
| Outstanding at March 31, 2018 | 2,021,662 | \$ 58.56 | | |
| Granted | 406,472 | 114.22 | | |
| Exercised | (75,054) | 41.34 | | |

Edgar Filing: STERIS plc - Form 10-Q

| | | | | | |
|------------------------------|-----------|----|-------|-----------|-----------|
| Forfeited | (5,365 |) | 72.63 | | |
| Outstanding at June 30, 2018 | 2,347,715 | \$ | 68.72 | 7.1 years | \$ 88,949 |
| Exercisable at June 30, 2018 | 1,404,706 | \$ | 53.78 | 5.8 years | \$ 71,956 |

We estimate that 911,463 of the non-vested stock options outstanding at June 30, 2018 will ultimately vest.

Table of Contents

STERIS PLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)

For the Three Months Ended June 30, 2018 and 2017

(dollars in thousands, except as noted)

The aggregate intrinsic value in the table above represents the total pre-tax difference between the \$105.01 closing price of our ordinary shares on June 30, 2018 over the exercise prices of the stock options, multiplied by the number of options outstanding or outstanding and exercisable, as applicable. The aggregate intrinsic value is not recorded for financial accounting purposes and the value changes daily based on the daily changes in the fair market value of ordinary shares.

The total intrinsic value of stock options exercised during the first three months of fiscal 2019 and fiscal 2018 was \$4,582 and \$7,538, respectively. Net cash proceeds from the exercise of stock options were \$3,435 and \$5,844 for the first three months of fiscal 2019 and fiscal 2018, respectively.

The weighted average grant date fair value of stock option grants was \$17.53 and \$15.19 for the first three months of fiscal 2019 and fiscal 2018, respectively.

Stock appreciation rights (“SARS”) carry generally the same terms and vesting requirements as stock options except that they are settled in cash upon exercise and therefore, are classified as liabilities. The fair value of the outstanding SARS as of June 30, 2018 and 2017 was \$1,089 and \$1,750, respectively.

A summary of the non-vested restricted share and share unit activity is presented below:

| | Number of Restricted Shares | Number of Restricted Share Units | Weighted-Average Grant Date Fair Value |
|------------------------------|-----------------------------------|---|--|
| Non-vested at March 31, 2018 | 763,201 | 35,431 | \$ 68.65 |
| Granted | 168,659 | 8,334 | 103.72 |
| Vested | (218,981) | (9,266) | 58.47 |
| Forfeited | (13,755) | — | 72.62 |
| Non-vested at June 30, 2018 | 699,124 | 34,499 | \$ 80.23 |

Restricted shares granted are valued based on the closing stock price at the grant date. The value of restricted shares and units that vested during the first three months of fiscal 2019 was \$13,346.

As of June 30, 2018, there was a total of \$54,502 in unrecognized compensation cost related to non-vested share-based compensation granted under our share-based compensation plan. We expect to recognize the cost over a weighted average period of 2.48 years.

13. Financial and Other Guarantees

We generally offer a limited parts and labor warranty on capital equipment. The specific terms and conditions of those warranties vary depending on the product sold and the countries where we conduct business. We record a liability for the estimated cost of product warranties at the time product revenues are recognized. The amounts we expect to incur on behalf of our Customers for the future estimated cost of these warranties are recorded as a current liability on the accompanying Consolidated Balance Sheets. Factors that affect the amount of our warranty liability include the number and type of installed units, historical and anticipated rates of product failures, and material and service costs per claim. We periodically assess the adequacy of our recorded warranty liabilities and adjust the amounts as necessary.

Changes in our warranty liability during the first three months of fiscal 2019 were as follows:

| | Warranties |
|-------------------------------------|------------|
| Balance, March 31, 2018 | \$ 6,872 |
| Warranties issued during the period | 2,755 |
| Settlements made during the period | (2,899) |
| Balance, June 30, 2018 | \$ 6,728 |

14. Derivatives and Hedging

22

Table of Contents

STERIS PLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)

For the Three Months Ended June 30, 2018 and 2017

(dollars in thousands, except as noted)

From time to time, we enter into forward contracts to hedge potential foreign currency gains and losses that arise from transactions denominated in foreign currencies, including inter-company transactions. We may also enter into commodity swap contracts to hedge price changes in nickel that impact raw materials included in our cost of revenues. During the first quarter of fiscal 2019, we also entered into forward foreign currency contracts in order to hedge a portion of our expected non-U.S. dollar denominated earnings against our reporting currency, the U.S. dollar. These foreign currency exchange contracts will mature during fiscal 2019. We did not elect hedge accounting for these forward foreign currency contracts; however, we may seek to apply hedge accounting in future scenarios. We do not use derivative financial instruments for speculative purposes.

None of these contracts are designated as hedging instruments and do not receive hedge accounting treatment; therefore, changes in their fair value are not deferred but are recognized immediately in the Consolidated Statements of Income. At June 30, 2018, we held foreign currency forward contracts to buy 186.6 million Mexican pesos, 13.6 million Canadian dollars; and to sell 6.1 million euros. At June 30, 2018 we held commodity swap contracts to buy 456.8 thousand pounds of nickel.

| Balance sheet location | Asset Derivatives | | Liability Derivatives | |
|----------------------------|-----------------------------|------------------------------|-----------------------------|------------------------------|
| | Fair Value at June 30, 2018 | Fair Value at March 31, 2018 | Fair Value at June 30, 2018 | Fair Value at March 31, 2018 |
| Prepaid & Other | \$ 785 | \$ 187 | \$ — | \$ — |
| Accrued expenses and other | \$ — | \$ — | \$ 226 | \$ — |

The following table presents the impact of derivative instruments and their location within the Consolidated Statements of Income:

| | Location of gain (loss) recognized in income | Amount of gain (loss) recognized in income | |
|------------------------------------|--|--|-----------|
| | | Three Months Ended June 30, 2018 | 2017 |
| Foreign currency forward contracts | Selling, general and administrative | \$ (358) | \$ (837) |
| Commodity swap contracts | Cost of revenues | \$ 364 | \$ (170) |

Additionally, we hold our debt in multiple currencies to fund our operations and investments in certain subsidiaries. We designate portions of foreign currency denominated intercompany loans as hedges of portions of net investments in foreign operations. Net debt designated as non-derivative net investment hedging instruments totaled \$53.7 million at June 30, 2018. These hedges are designed to be fully effective and any associated gain or loss is recognized in Accumulated Other Comprehensive Income and will be reclassified to income in the same period when a gain or loss related to the net investment in the foreign operation is included in income.

Table of Contents

STERIS PLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)

For the Three Months Ended June 30, 2018 and 2017

(dollars in thousands, except as noted)

15. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. We estimate the fair value of financial assets and liabilities using available market information and generally accepted valuation methodologies. The inputs used to measure fair value are classified into three tiers. These tiers include Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring the entity to develop its own assumptions.

The following table shows the fair value of our financial assets and liabilities at June 30, 2018 and March 31, 2018:

| | Fair Value Measurements | | | | | | | |
|---|-------------------------|-----------|--|-----------|--|-----------|---------------------------------------|----------|
| | Carrying Value | | Quoted Prices in Active Markets for Identical Assets | | Significant Other Observable Inputs | | Significant Unobservable Inputs | |
| | | | Level 1 | | Level 2 | | Level 3 | |
| | June 30 | March 31 | June 30 | March 31 | June 30 | March 31 | June 30 | March 31 |
| Assets: | | | | | | | | |
| Cash and cash equivalents | \$218,524 | \$201,534 | \$218,524 | \$201,534 | \$ — | \$ — | \$ — | \$ — |
| Forward and swap contracts ⁽¹⁾ | 785 | 187 | — | — | 785 | 187 | — | — |
| Equity investments ⁽²⁾ | 10,854 | 12,961 | 10,854 | 12,961 | — | — | — | — |
| Other investments | 3,238 | 3,421 | 3,238 | 3,421 | — | — | — | — |
| Liabilities: | | | | | | | | |
| Forward and swap contracts ⁽¹⁾ | \$226 | \$— | \$— | \$— | \$ 226 | \$ — | \$ — | \$ — |
| Deferred compensation plans ⁽²⁾ | 1,729 | 1,694 | 1,729 | 1,694 | — | — | — | — |
| Long term debt ⁽³⁾ | 1,320,064 | 1,316,001 | — | — | 1,297,983 | 1,305,181 | — | — |
| Contingent consideration obligations ⁽⁴⁾ | 7,019 | 8,068 | — | — | — | — | 7,019 | 8,068 |

⁽¹⁾ The fair values of forward and swap contracts are based on period-end forward rates and reflect the value of the amount that we would pay or receive for the contracts involving the same notional amounts and maturity dates.

⁽²⁾ We maintain a frozen domestic non-qualified deferred compensation plan covering certain employees, which allows for the deferral of payment of previously earned compensation for an employee-specified term or until retirement or termination. Amounts deferred can be allocated to various hypothetical investment options (compensation deferrals have been frozen under the plan). We hold investments to satisfy the future obligations of the plan. Employees who made deferrals are entitled to receive distributions of their hypothetical account balances (amounts deferred, together with earnings (losses)). We also hold an investment in the common stock of Servizi Italia, S.p.A, a leading provider of integrated linen washing and outsourced sterile processing services to hospital Customers. Beginning in fiscal 2019, changes in the fair value of these investments are recorded in the "Interest income and miscellaneous expense line" of the Consolidated Statement of Income. During the first quarter of fiscal 2019, we recorded a loss of \$1,377 related to these investments.

⁽³⁾ We estimate the fair value of our long-term debt using discounted cash flow analyses, based on our current incremental borrowing rates for similar types of borrowing arrangements.

⁽⁴⁾ Contingent consideration obligations arise from business acquisitions. The fair values are based on discounted cash flow analyses reflecting the possible achievement of specified performance measures or events and captures the contractual nature of the contingencies, commercial risk, and the time value of money. Contingent consideration obligations are classified in the consolidated balance sheets as accrued expense (short-term) and other liabilities (long-term), as appropriate based on the contractual payment dates.

Table of Contents

STERIS PLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)

For the Three Months Ended June 30, 2018 and 2017

(dollars in thousands, except as noted)

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis at June 30, 2018 are summarized as follows:

| | Contingent Consideration |
|----------------------------------|-----------------------------|
| Balance at March 31, 2018 | \$ 8,068 |
| Additions | — |
| Payments | (144) |
| Reductions | (841) |
| Currency translation adjustments | (64) |
| Balance at June 30, 2018 | \$ 7,019 |

Table of Contents

STERIS PLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)

For the Three Months Ended June 30, 2018 and 2017

(dollars in thousands, except as noted)

16. Reclassifications Out of Accumulated Other Comprehensive Income (Loss)

Amounts in Accumulated Other Comprehensive Income (Loss) are presented net of the related tax. Currency Translation is not adjusted for income taxes. Changes in our Accumulated Other Comprehensive Income (Loss) balances, net of tax, for the three months ended June 30, 2018 were as follows:

| | Gain (Loss) on Available for Sale Securities | Defined Benefit Plans ⁽²⁾ | Currency Translation ⁽³⁾ | Total Accumulated Other Comprehensive Income (Loss) |
|---|--|--|---|---|
| Balance at March 31, 2018 | \$ 1,970 | \$(6,742) | \$ 16,457 | \$ 11,685 |
| Other Comprehensive Income (Loss) before reclassifications | — | 153 | (130,401) | (130,248) |
| Amounts reclassified from Accumulated Other Comprehensive (Loss) | — | (563) | — | (563) |
| Net current-period Other Comprehensive (Loss) | — | (410) | (130,401) | (130,811) |
| Cumulative adjustment to Retained Earnings ⁽¹⁾ | (1,970) | — | — | (1,970) |
| Balance at June 30, 2018 | \$ — | \$(7,152) | \$(113,944) | \$ (121,096) |

⁽¹⁾ As a result of the adoption of ASC 2016-01 we recorded a cumulative effect adjustment to our opening fiscal 2019 retained earnings balance that increased retained earnings and decreased accumulated other comprehensive income. See Footnote 1 titled "Nature of Operations and Summary of Significant Accounting Policies" for further details.

⁽²⁾ Amortization (gain) of defined benefit pension items is reported in the Interest income and miscellaneous expense line of our Consolidated Statements of Income.

⁽³⁾ The effective portion of gain or loss on net debt designated as non-derivative net investment hedging instruments is recognized in Accumulated Other Comprehensive Income and is reclassified to income in the same period when a gain or loss related to the net investment is included in income.

Amounts in Accumulated Other Comprehensive Income (Loss) are presented net of the related tax. Currency Translation is not adjusted for income taxes. Changes in our Accumulated Other Comprehensive Income (Loss) balances, net of tax, for the three months ended June 30, 2017 were as follows:

| | Gain (Loss) on Available for Sale Securities ⁽¹⁾ | Defined Benefit Plans ⁽²⁾ | Currency Translation ⁽³⁾ | Total Accumulated Other Comprehensive Income (Loss) |
|--|--|--|---|---|
| Balance at March 31, 2017 | \$ 178 | \$(2,355) | \$ (238,525) | \$ (240,702) |
| Other Comprehensive Income (Loss) before reclassifications | (604) | 120 | 94,116 | 93,632 |
| Amounts reclassified from Accumulated Other Comprehensive Income (Loss) | 17 | (524) | — | (507) |
| Net current-period Other Comprehensive (Loss) | (587) | (404) | 94,116 | 93,125 |
| Balance at June 30, 2017 | \$ (409) | \$(2,759) | \$(144,409) | \$ (147,577) |

⁽¹⁾ Realized gain (loss) on available for sale securities is reported in the Interest income and miscellaneous expense line of the Consolidated Statements of Income.

(2) Amortization (gain) of defined benefit pension items is reported in the Interest income and miscellaneous expense line of our Consolidated Statements of Income.

(3) The effective portion of gain or loss on net debt designated as non-derivative net investment hedging instruments is recognized in Accumulated Other Comprehensive Income and is reclassified to income in the same period when a gain or loss related to the net investment is included in income.

Table of Contents

STERIS PLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)

For the Three Months Ended June 30, 2018 and 2017

(dollars in thousands, except as noted)

17. Loans Receivable

In connection with a fiscal 2019 first quarter equity investment of \$4,955, we agreed to provide a credit facility of up to approximately \$10,000 for a term of up to five years. The loan carries an interest rate of 4% compounded daily and payable annually. Outstanding borrowings under the agreement totaled \$3,788 at June 30, 2018.

In connection with the fiscal 2017 divestiture of Synergy Health Netherlands Linen Management Services, we entered into a loan agreement to provide financing of up to €15,000 for a term of up to 15 years. The loan carries an interest rate of 4% for the first four years and 12% thereafter. Outstanding borrowings under the agreement totaled \$4,097 at June 30, 2018.

Amounts for loan receivables as noted above are recorded in the "Other assets" line of our Consolidated balance sheets. Interest income is not material.

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of STERIS plc

Results of Review of Interim Financial Statements

We have reviewed the accompanying consolidated balance sheet of STERIS plc and subsidiaries (the Company) as of June 30, 2018, the related consolidated statements of income, comprehensive income and cash flows for the three-month periods ended June 30, 2018 and 2017, and the related notes (collectively referred to as the “consolidated interim financial statements”). Based on our reviews, we are not aware of any material modifications that should be made to the consolidated interim financial statements for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheet of the Company as of March 31, 2018, the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the year then ended, and the related notes and schedule (not presented herein); and in our report dated May 30, 2018, we expressed an unqualified audit opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of March 31, 2018, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Basis for Review Results

These financial statements are the responsibility of the Company's management. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the SEC and the PCAOB. We conducted our review in accordance with the standards of the PCAOB. A review of interim financial statements consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

/s/ Ernst & Young LLP

Cleveland, Ohio
August 8, 2018

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

In Management's Discussion and Analysis of Financial Condition and Results of Operations (the "MD&A"), we explain the general financial condition and the results of operations for STERIS including:

- what factors affect our business;
- what our earnings and costs were in each period presented;
- why those earnings and costs were different from prior periods;
- where our earnings came from;
- how this affects our overall financial condition;
- what our expenditures for capital projects were; and
- where cash will come from to fund future debt principal repayments, growth outside of core operations, repurchases of shares, pay cash dividends and fund future working capital needs.

As you read the MD&A, it may be helpful to refer to information in our consolidated financial statements, which present the results of our operations for the first quarter of fiscal 2019 and fiscal 2018. It may also be helpful to read the MD&A in our Annual Report on Form 10-K for the year ended March 31, 2018, dated May 30, 2018. In the MD&A, we analyze and explain the period-over-period changes in the specific line items in the Consolidated Statements of Income. Our analysis may be important to you in making decisions about your investments in STERIS.

Financial Measures

In the following sections of the MD&A, we may, at times, refer to financial measures that are not required to be presented in the consolidated financial statements under U.S. GAAP. We sometimes use the following financial measures in the context of this report: backlog; debt-to-total capital; and days sales outstanding. We define these financial measures as follows:

• **Backlog** – We define backlog as the amount of unfilled capital equipment purchase orders at a point in time. We use this figure as a measure to assist in the projection of short-term financial results and inventory requirements.

• **Debt-to-total capital** – We define debt-to-total capital as total debt divided by the sum of total debt and shareholders' equity. We use this figure as a financial liquidity measure to gauge our ability to borrow and fund growth.

• **Days sales outstanding ("DSO")** – We define DSO as the average collection period for accounts receivable. It is calculated as net accounts receivable divided by the trailing four quarters' revenues, multiplied by 365 days. We use this figure to help gauge the quality of accounts receivable and expected time to collect.

We, at times, may also refer to financial measures which are considered to be "non-GAAP financial measures" under SEC rules. We have presented these financial measures because we believe that meaningful analysis of our financial performance is enhanced by an understanding of certain additional factors underlying that performance. These financial measures should not be considered an alternative to measures required by accounting principles generally accepted in the United States. Our calculations of these measures may differ from calculations of similar measures used by other companies and you should be careful when comparing these financial measures to those of other companies. Additional information regarding these financial measures, including reconciliations of each non-GAAP financial measure, is available in the subsection of MD&A titled, "Non-GAAP Financial Measures."

Revenues – Defined

As required by Regulation S-X, we separately present revenues generated as either product revenues or service revenues on our Consolidated Statements of Income for each period presented. When we discuss revenues, we may, at times, refer to revenues summarized differently than the Regulation S-X requirements. The terminology, definitions, and applications of terms that we use to describe revenues may be different from terms used by other companies. We use the following terms to describe revenues:

• **Revenues** – Our revenues are presented net of sales returns and allowances.

• **Product Revenues** – We define product revenues as revenues generated from sales of consumable and capital equipment products.

Service Revenues – We define service revenues as revenues generated from parts and labor associated with the maintenance, repair, and installation of our capital equipment. Service revenues also include hospital sterilization services, instrument and scope repairs, as well as revenues generated from contract sterilization and laboratory services offered through our Applied Sterilization Technologies segment.

Table of Contents

Capital Equipment Revenues – We define capital equipment revenues as revenues generated from sales of capital equipment, which includes steam sterilizers, low temperature liquid chemical sterilant processing systems, including SYSTEM 1 and 1E, washing systems, VHP® technology, water stills, and pure steam generators; surgical lights and tables; and integrated OR.

Consumable Revenues – We define consumable revenues as revenues generated from sales of the consumable family of products, which includes SYSTEM 1 and 1E consumables, V-Pro consumables, gastrointestinal endoscopy accessories, sterility assurance products, skin care products, cleaning consumables, and surgical instruments.

Recurring Revenues – We define recurring revenues as revenues generated from sales of consumable products and service revenues.

General Company Overview and Executive Summary

STERIS plc (“Parent”) was organized in 2014 under the laws of England and Wales under the name Solar New HoldCo Limited as a private limited company for the purpose of effecting under the laws of England and Wales the combination (“Combination”) of STERIS Corporation, an Ohio corporation (“Old STERIS”), and Synergy Health plc, a public limited company organized under the laws of England and Wales (“Synergy”). Effective November 2, 2015, the Parent was re-registered as a public company under the name of STERIS plc and the Combination closed. As a result of the Combination closing, STERIS plc became the ultimate parent company of Old STERIS and Synergy. Synergy has been re-registered under the name of Synergy Health Limited.

Our mission is to help our Customers create a healthier and safer world by providing innovative healthcare and life science product and service solutions around the globe. Our dedicated employees around the world work together to supply a broad range of solutions by offering a combination of capital equipment, consumables, and services to healthcare, pharmaceutical, industrial, and governmental Customers.

We operate and report our financial information in four reportable business segments: Healthcare Products, Healthcare Specialty Services, Life Sciences, and Applied Sterilization Technologies. We describe our business segments in Note 9 to our consolidated financial statements, titled "Business Segment Information."

The bulk of our revenues are derived from the healthcare and pharmaceutical industries. Much of the growth in these industries is driven by the aging of the population throughout the world, as an increasing number of individuals are entering their prime healthcare consumption years, and is dependent upon advancement in healthcare delivery, acceptance of new technologies, government policies, and general economic conditions. The pharmaceutical industry has been impacted by increased regulatory scrutiny of cleaning and validation processes, mandating that manufacturers improve their processes. Within healthcare, there is increased concern regarding the level of hospital acquired infections around the world; increased demand for medical procedures, including preventive screenings such as endoscopies and colonoscopies; and a desire by our Customers to operate more efficiently, all which are driving increased demand for many of our products and services.

We continue to invest in manufacturing in-sourcing projects and lean process improvements for the purpose of improving quality, cost and delivery of our products to our Customers.

U.S. Tax Reform. On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “TCJA”). The TCJA makes broad and complex changes to the U.S. tax code that will affect the Company’s fiscal year ending March 31, 2019 and forward, including, but not limited to, (1) reduction of the U.S. federal corporate income tax rate; (2) elimination of the corporate alternative minimum tax (“AMT”); (3) the creation of the base erosion anti-abuse tax (“BEAT”), a new minimum tax; (4) a general elimination of U.S. federal income taxes on dividends from non-U.S. subsidiaries; (5) a new provision designed to tax global intangible low-taxed income (“GILTI”), which allows for the possibility of using foreign tax credits (“FTCs”) and a deduction of up to 50 percent to offset the income tax liability (subject to some limitations); (6) a new limitation on deductible interest expense; (7) the repeal of the domestic production activity deduction; (8) limitations on the deductibility of certain executive compensation; (9) limitations on the use of FTCs to reduce the U.S. income tax liability; and (10) limitations on net operating losses (“NOLs”) generated after December 31, 2017, to 80.0 percent of taxable income.

Table of Contents

Highlights. Revenues for the first quarter of fiscal 2019 were \$638.8 million, representing an increase of 5.1%, over the first quarter of fiscal 2018 revenues of \$608.0 million. This increase reflects organic growth in all business segments and favorable fluctuations in currencies, which was partially offset by the impact of our fiscal 2018 divestiture of Synergy Health Healthcare Consumable Solutions ("HCS").

Gross margin percentage for the first quarter of fiscal 2019 remained flat at 42.1%, as compared to the first quarter of fiscal 2018. Favorable impact of the divestiture of HCS and pricing were offset by the negative impact of fluctuations in currencies, personnel investments in outsourced reprocessing and other adjustments.

Operating income during the first quarter of fiscal 2019 was \$94.4 million, compared to \$85.4 million for the first quarter of fiscal 2018. The year over year increase is primarily attributable to the higher gross margin and lower acquisition related expenses.

Cash flows from operations were \$100.8 million and free cash flow was \$75.8 million in the first three months of fiscal 2019 compared to cash flows from operations of \$80.7 million and free cash flow of \$44.2 million in the first three months of fiscal 2018, respectively (see the subsection below titled "Non-GAAP Financial Measures" for additional information and related reconciliation of cash flows from operations to free cash flow). The fiscal 2019 increases in cash from operations and free cash flow over fiscal 2018 were primarily due to improvements in working capital, the timing of capital expenditures and higher earnings.

Our debt-to-total capital ratio was 30.0% at June 30, 2018 and 29.1% at March 31, 2018. During the first three months of fiscal 2019, we declared and paid quarterly cash dividends of \$0.31 per ordinary share.

Additional information regarding our financial performance during the first quarter of fiscal 2019 is included in the subsection below titled "Results of Operations."

NON-GAAP FINANCIAL MEASURES

We, at times, refer to financial measures which are considered to be "non-GAAP financial measures" under SEC rules. We, at times, also refer to our results of operations excluding certain transactions or amounts that are non-recurring or are not indicative of future results, in order to provide meaningful comparisons between the periods presented.

These non-GAAP financial measures are not intended to be, and should not be, considered separately from or as an alternative to the most directly comparable GAAP financial measures.

These non-GAAP financial measures are presented with the intent of providing greater transparency to supplemental financial information used by management and the Board of Directors in their financial analysis and operational decision-making. These amounts are disclosed so that the reader has the same financial data that management uses with the belief that it will assist investors and other readers in making comparisons to our historical operating results and analyzing the underlying performance of our operations for the periods presented.

We believe that the presentation of these non-GAAP financial measures, when considered along with our GAAP financial measures and the reconciliation to the corresponding GAAP financial measures, provide the reader with a more complete understanding of the factors and trends affecting our business than could be obtained absent this disclosure. It is important for the reader to note that the non-GAAP financial measure used may be calculated differently from, and therefore may not be comparable to, a similarly titled measure used by other companies.

We define free cash flow as net cash provided by operating activities as presented in the Consolidated Statements of Cash Flows less purchases of property, plant, equipment, and intangibles plus proceeds from the sale of property, plant, equipment, and intangibles, which are also presented within investing activities in the Consolidated Statements of Cash Flows. We use this as a measure to gauge our ability to fund future debt principal repayments and growth outside of core operations, repurchase shares, and pay cash dividends.

The following table summarizes the calculation of our free cash flow for the three months ended June 30, 2018 and 2017:

| | Three Months Ended June 30, | |
|--|--------------------------------|-----------|
| (dollars in thousands) | 2018 | 2017 |
| Net cash provided by operating activities | \$100,779 | \$80,653 |
| Purchases of property, plant, equipment and intangibles, net | (27,726) | (36,492) |

Edgar Filing: STERIS plc - Form 10-Q

| | | |
|--|----------|----------|
| Proceeds from the sale of property, plant, equipment and intangibles | 2,795 | 9 |
| Free cash flow | \$75,848 | \$44,170 |

31

Table of Contents

Results of Operations

In the following subsections, we discuss our earnings and the factors affecting them for the first quarter of fiscal 2019 compared with the same fiscal 2018 period. We begin with a general overview of our operating results and then separately discuss earnings for our operating segments.

Revenues. The following tables compare our revenues for the three months ended June 30, 2018 to the revenues for the three months ended June 30, 2017:

| (dollars in thousands) | Three Months Ended June 30, | | Change | Percent Change | |
|------------------------|--------------------------------|-----------|----------|-------------------|---|
| | 2018 | 2017 | | | |
| Total revenues | \$638,758 | \$607,964 | \$30,794 | 5.1 | % |

Revenues by type:

| | | | | | |
|----------------------------|---------|---------|--------|-------|---|
| Service revenues | 359,968 | 334,359 | 25,609 | 7.7 | % |
| Consumable revenues | 147,571 | 147,862 | (291) | (0.2) | % |
| Capital equipment revenues | 131,219 | 125,743 | 5,476 | 4.4 | % |

Revenues by geography:

| | | | | | |
|-------------------------|---------|---------|---------|-------|---|
| United Kingdom revenues | 47,480 | 52,722 | (5,242) | (9.9) | % |
| United States revenues | 447,540 | 422,959 | 24,581 | 5.8 | % |
| Other foreign revenues | 143,738 | 132,283 | 11,455 | 8.7 | % |

Revenues increased \$30.8 million, or 5.1%, to \$638.8 million for the three months ended June 30, 2018, as compared to \$608.0 million for the same period in the prior year. This increase reflects organic growth in all business segments and favorable fluctuations in currencies, which was partially offset by the impact of our HCS divestiture which occurred during fiscal 2018.

Consumable revenues slightly decreased by 0.2% for the first three months of fiscal 2019 compared to the first three months of fiscal 2018, as growth in the Life Sciences segment was offset by a decline in the Healthcare Products segment as a result of our fiscal 2018 HCS divestiture. Capital equipment revenues increased 4.4%, reflecting growth in both the Healthcare Products and Life Science segments. Service revenues increased 7.7% for the first three months of fiscal 2019, as compared to the same period in fiscal 2018, reflecting growth in all business segments.

United Kingdom revenues decreased \$5.2 million, or 9.9%, to \$47.5 million for the three months ended June 30, 2018, as compared to \$52.7 million for the same period in the prior year primarily due to the fiscal 2018 divestiture of HCS. United States revenues increased \$24.6 million, or 5.8%, to \$447.5 million for the three months ended June 30, 2018, as compared to \$423.0 million for the same period in the prior year reflecting strength in capital equipment, consumable and service offerings within the Healthcare Products, Healthcare Specialty Services and Applied Sterilization Technologies segments.

Revenue from other foreign locations increased \$11.5 million, or 8.7%, to \$143.7 million for the three months ended June 30, 2018, as compared to \$132.3 million for the same period in the prior year reflecting growth in Canada and within the Europe, Middle East & Africa ("EMEA"), Asia Pacific and Latin American regions.

Table of Contents

Gross Profit. The following table compares our gross profit for the three months ended June 30, 2018 to the three months ended June 30, 2017:

| (dollars in thousands) | Three Months Ended | | Change | Percent Change |
|-------------------------------|--------------------|------------|-----------|----------------|
| | June 30, 2018 | 2017 | | |
| Gross profit: | | | | |
| Product | \$ 132,188 | \$ 130,360 | \$ 1,828 | 1.4 % |
| Service | 136,862 | 125,406 | 11,456 | 9.1 % |
| Total gross profit | \$ 269,050 | \$ 255,766 | \$ 13,284 | 5.2 % |
| Gross profit percentage: | | | | |
| Product | 47.4 | % 47.6 | % | |
| Service | 38.0 | % 37.5 | % | |
| Total gross profit percentage | 42.1 | % 42.1 | % | |

Our gross profit is affected by the volume, pricing, and mix of sales of our products and services, as well as the costs associated with the products and services that are sold.

Gross profit percentage for the first three months of fiscal 2019 remained flat at 42.1% as compared to the gross profit percentage in the first three months of fiscal 2018. The favorable impacts of the divestiture of HCS (40 basis points) and pricing (50 basis points) were offset by the unfavorable impact of fluctuations in currencies (10 basis points), and personnel investments in outsourced reprocessing and other adjustments (80 basis points).

Operating Expenses. The following table compares our operating expenses for the three months ended June 30, 2018 to the three months ended June 30, 2017:

| (dollars in thousands) | Three Months Ended June 30, | | Change | Percent Change |
|--------------------------------------|-----------------------------|------------|----------|----------------|
| | 2018 | 2017 | | |
| Operating expenses: | | | | |
| Selling, general, and administrative | \$ 158,406 | \$ 156,336 | \$ 2,070 | 1.3 % |
| Research and development | 16,220 | 14,004 | 2,216 | 15.8 % |
| Restructuring expenses | — | 51 | (51) | NM |
| Total operating expenses | \$ 174,626 | \$ 170,391 | \$ 4,235 | 2.5 % |

NM - Not meaningful.

Selling, General, and Administrative Expenses. Significant components of total selling, general, and administrative expenses ("SG&A") are compensation and benefit costs, fees for professional services, travel and entertainment, facilities costs, and other general and administrative expenses. SG&A increased 1.3% in the first three months of fiscal 2019 over the same period in fiscal 2018.

Research and Development. For the three month period ended June 30, 2018, research and development expenses increased 15.8% over the same prior year period. This increase was primarily due to increased spending within the Healthcare Products segment. Research and development expenses are influenced by the number and timing of in-process projects and labor hours and other costs associated with these projects. Our research and development initiatives continue to emphasize new product development, product improvements, and the development of new technological platform innovations. During the first quarter of fiscal 2019, our investments in research and development continued to be focused on, but were not limited to, enhancing capabilities of sterile processing combination technologies, procedural products and accessories, and devices and support accessories used in gastrointestinal endoscopy procedures.

Table of Contents

Non-Operating Expenses, Net. Non-operating expenses, net consists of interest expense on debt, offset by interest earned on cash, cash equivalents, short-term investment balances, and other miscellaneous income. The following table compares our net non-operating expenses for the three months ended June 30, 2018 and 2017:

| (dollars in thousands) | Three Months Ended June 30, | | |
|---|--------------------------------|----------|---------|
| | 2018 | 2017 | Change |
| Non-operating expenses, net: | | | |
| Interest expense | \$11,740 | \$12,466 | \$(726) |
| Interest income and miscellaneous expense | (367) | (1,345) | 978 |
| Non-operating expenses, net | \$11,373 | \$11,121 | \$252 |

Interest expense decreased \$0.7 million during the first quarter of fiscal 2019 as compared to the first quarter of fiscal 2018 primarily due to reduced interest rates on our 2008 and 2012 Private Placement notes and lower floating rate debt levels in the fiscal 2019 period (refer to our Note 5 to our consolidated financial statements, titled "Debt" for more information). Interest income and miscellaneous expense is not material.

Income Tax Expense. The following table compares our income tax expense and effective income tax rates for the three months ended June 30, 2018 and June 30, 2017:

| (dollars in thousands) | Three Months Ended June 30, | | Change | Percent Change |
|---------------------------|--------------------------------|----------|-----------|-------------------|
| | 2018 | 2017 | | |
| Income tax expense | \$12,773 | \$16,039 | \$(3,266) | (20.4)% |
| Effective income tax rate | 15.4 % | 21.6 % | | |

We record income tax expense during interim periods based on our estimate of the annual effective income tax rate, adjusted each quarter for discrete items. We analyze various factors to determine the estimated annual effective income tax rate, including projections of our annual earnings and taxing jurisdictions in which the earnings will be generated, the impact of state and local income taxes, our ability to use tax credits and net operating loss carryforwards, and available tax planning alternatives.

The effective income tax rates for the three month periods ended June 30, 2018 and 2017 were 15.4% and 21.6%, respectively. The fiscal 2019 rate was favorably impacted compared to the prior year period primarily by the decrease in the U.S. federal statutory tax rate from 35.0% to 21.0%.

Business Segment Results of Operations. We operate and report in four reportable business segments: Healthcare Products, Healthcare Specialty Services, Life Sciences, and Applied Sterilization Technologies. Corporate, which is presented separately, contains costs that are associated with being a publicly traded company and certain other corporate costs.

Our Healthcare Products segment offers infection prevention and procedural solutions for healthcare providers worldwide, including consumable products, equipment maintenance and installation services, and capital equipment. Our Healthcare Specialty Services segment provides a range of specialty services for healthcare providers including hospital sterilization services, and instrument and scope repairs.

Our Life Sciences segment offers consumable products, equipment maintenance and specialty services for pharmaceutical manufacturers and research facilities, and capital equipment.

Our Applied Sterilization Technologies segment offers contract sterilization and laboratory services for medical device and pharmaceutical Customers and others.

We disclose a measure of segment income that is consistent with the way management operates and views the business. The accounting policies for reportable segments are the same as those for the consolidated Company. In fiscal 2019, we ceased the allocation of certain corporate costs to our segments to align with internal management measures. The prior period operating income measures have been recast for comparability. Segment income is calculated as the segment's gross profit less direct costs and indirect costs if the resources are dedicated to a single segment. Corporate costs include corporate and administrative functions, public company costs, legacy post-retirement benefits, and certain services and facilities related to distribution and research and development that are shared by multiple segments. Adjustments include acquisition related costs, amortization of acquired intangibles,

restructuring costs and other charges that management believes may or may not recur with similar materiality or impact on operating income in future periods. Management believes that by adjusting for these items they gain better insight and greater transparency into the operating performance of the segments, thus aiding them in more meaningful financial trend analysis and operational decision making.

Table of Contents

Additional information regarding our segments is included in our consolidated financial statements included in its Annual Report on Form 10-K for the year ended March 31, 2018, dated May 30, 2018.

The following tables compares business segment revenues, segment operating income and total operating income for the three months ended June 30, 2018 and 2017:

| | Three Months Ended June 30, | |
|--|--------------------------------|-----------|
| | 2018 | 2017 |
| Revenues: | | |
| Healthcare Products | \$292,010 | \$289,064 |
| Healthcare Specialty Services | 122,249 | 113,434 |
| Life Sciences | 84,955 | 80,935 |
| Applied Sterilization Technologies | 139,544 | 124,531 |
| Total revenues | \$638,758 | \$607,964 |
| Operating income (loss): | | |
| Healthcare Products | \$61,722 | \$63,124 |
| Healthcare Specialty Services | 12,954 | 14,344 |
| Life Sciences | 29,865 | 26,870 |
| Applied Sterilization Technologies | 56,151 | 47,994 |
| Corporate | (46,042) | (45,833) |
| Total operating income before adjustments | \$114,650 | \$106,499 |
| Less: Adjustments | | |
| Amortization of acquired intangible assets ⁽¹⁾ | \$18,055 | \$16,302 |
| Acquisition and integration related charges ⁽²⁾ | 1,671 | 4,029 |
| Tax restructuring costs | 287 | — |
| (Gain) on fair value adjustment of acquisition related contingent consideration ⁽¹⁾ | (842) | — |
| Net loss on divestiture of businesses ⁽¹⁾ | 444 | 124 |
| Amortization of inventory and property "step up" to fair value ⁽¹⁾ | 611 | 618 |
| Restructuring charges | — | 51 |
| Total operating income | \$94,424 | \$85,375 |

⁽¹⁾ For more information regarding our recent acquisitions and divestitures see Note 2 to our consolidated financial statements titled, "Business Acquisitions and Divestitures", as well as our Annual Report on Form 10-K for the year ended March 31, 2018, dated May 30, 2018.

⁽²⁾ Acquisition and integration related charges include transaction costs and integration expenses associated with acquisitions.

Healthcare Product revenues increased 1.0% to \$292.0 million for the three months ended June 30, 2018, as compared to \$289.1 million in the same prior year period. The first three months of fiscal 2019 revenues reflect growth in service and capital equipment revenues of 5.4%, and 1.8%, respectively, and a decline in consumable revenues of 3.2%. The fiscal 2019 increase reflects organic growth and the favorable fluctuations in currencies, which was partially offset by the fiscal 2018 divestiture of HCS. At June 30, 2018, the Healthcare Products segment's backlog amounted to \$177.1 million, an increase of \$42.0 million, or 31.1%, compared to the backlog of \$135.0 million at June 30, 2017.

Healthcare Specialty Services revenues increased 7.8% to \$122.2 million for the three months ended June 30, 2018, as compared to \$113.4 million in the same prior year period. The fiscal 2019 increase reflects organic growth and the favorable fluctuations in currencies.

Life Sciences revenues increased 5.0% to \$85.0 million for the first three months ended June 30, 2018, as compared to \$80.9 million for the same prior year period. This increase reflects growth of 4.6%, 5.0% and 5.3% in capital equipment, consumable and service revenues, respectively. The fiscal 2019 increase reflects organic growth and the favorable fluctuations in currencies. At June 30, 2018, the Life Sciences segment's backlog amounted to \$63.4 million, a decrease of 4.7% or \$3.1 million, compared to the backlog of \$66.5 million at June 30, 2017.

Applied Sterilization Technologies segment revenues increased 12.1% to \$139.5 million for the quarter ended June 30, 2018, as compared to \$124.5 million for the same prior year quarter. The fiscal 2019 increase reflects organic growth and the favorable fluctuations in currencies.

Table of Contents

The Healthcare Products segment's operating income decreased \$1.4 million to \$61.7 million as compared to \$63.1 million in the same prior year period. The segment's operating margins were 21.1% and 21.8% for the first three months of fiscal 2019 and 2018, respectively. The decreases in the fiscal 2019 period were primarily due to higher R&D expenses incurred in fiscal 2019, the negative impact of fluctuations in currencies and the fiscal 2018 divestiture of HCS.

The Healthcare Specialty Services segment's operating income decreased by \$1.4 million to \$13.0 million as compared to \$14.3 million in the same prior year period. The segment's operating margins were 10.6% and 12.6% for the first three months of fiscal 2019 and fiscal 2018, respectively. The decreases in the fiscal 2019 period were primarily due to personnel investments in outsourced reprocessing in the United States.

The Life Sciences segment's operating income increased \$3.0 million to \$29.9 million as compared to \$26.9 million in the same prior year period. The segment's operating margins were 35.2% and 33.2% for the first three months of fiscal 2019 and fiscal 2018, respectively. The increases in the fiscal 2019 period were primarily driven by increased volume and favorable product mix.

The Applied Sterilization Technologies segment's operating income increased \$8.2 million to \$56.2 million as compared to \$48.0 million during the same prior year period. The segment's operating margins were 40.2% and 38.5% for the first three months of fiscal 2019 and fiscal 2018, respectively. The increases in the fiscal 2019 period were primarily driven by increased volumes.

Liquidity and Capital Resources

The following table summarizes significant components of our cash flows for the three months ended June 30, 2018 and 2017:

| (dollars in thousands) | Three Months Ended | |
|---|--------------------|------------|
| | 2018 | 2017 |
| Net cash provided by operating activities | \$100,779 | \$80,653 |
| Net cash (used in) investing activities | \$(34,866) | \$(54,882) |
| Net cash (used in) provided by financing activities | \$(39,214) | \$(22,254) |
| Debt-to-total capital ratio | 30.0 | % 33.8 % |
| Free cash flow | \$75,848 | \$44,170 |

Net Cash Provided by Operating Activities – The net cash provided by our operating activities was \$100.8 million for the first three months of fiscal 2019 and \$80.7 million for the first three months of fiscal 2018.

Net Cash Used In Investing Activities – The net cash used in investing activities totaled \$34.9 million for the first three months of fiscal 2019 and \$54.9 million for the first three months of fiscal 2018. The following discussion summarizes the significant changes in our investing cash flows for the first three months of fiscal 2019 and fiscal 2018:

• Purchases of property, plant, equipment, and intangibles, net – Capital expenditures were \$27.7 million for the first three months of fiscal 2019 and \$36.5 million during the same prior year period.

• Proceeds from the sale of property, plant, equipment, net – Proceeds from the sale of property, plant and equipment were \$2.8 million during the first three months of fiscal 2019, the majority of which was from the sale of a Healthcare Products facility located in the U.K. There was minimal activity in fiscal 2018.

• Acquisitions of businesses, net of cash acquired – During the first three months of fiscal 2018, we used \$18.4 million for the purchase of businesses. For more information on our acquisitions, refer to our Note 2 to our consolidated financial statements, "Business Acquisitions and Divestitures".

• Purchases of Investments – During the first three months of fiscal 2019, we completed an equity investment for approximately \$5.0 million.

• Other- During the first three months of fiscal 2019, we provided \$4.8 million under our borrowing agreements. For more information on these loan agreements, refer to our Note 17 to our consolidated financial statements, "Loans Receivable".

Net Cash Used In Financing Activities – The net cash used in financing activities amounted to \$39.2 million for the first three months of fiscal 2019 compared with net cash used in financing activities of \$22.3 million for the first three

months of fiscal 2018. The following discussion summarizes the significant changes in our financing cash flows for the first three months of fiscal 2019 and fiscal 2018:

36

Table of Contents

Payments on long-term obligations - Payments on long-term obligations totaled \$7.5 million in the first three months of fiscal 2018.

Proceeds under credit facility, net – Net proceeds under credit facilities totaled \$18.4 million in the first three months of fiscal 2019 compared to \$13.6 million in the first three months of fiscal 2018.

Repurchases of ordinary shares – During the first three months of fiscal 2019, we settled on purchases of 259,300 of our ordinary shares in the aggregate amount of \$26.1 million. During the first three months of fiscal 2019, we obtained 89,730 of our ordinary shares in connection with share-based compensation award programs in the aggregate amount of \$7.8 million. During the first three months of fiscal 2018, we settled on purchases of 36,547 of our ordinary shares in the aggregate amount of \$2.9 million. During the first three months of fiscal 2018, we obtained 93,563 of our ordinary shares in connection with share-based compensation award programs in the aggregate amount of \$5.5 million.

Cash dividends paid to ordinary shareholders – During the first three months of fiscal 2019, we paid total cash dividends of \$26.3 million, or \$0.31 per outstanding share. During the first three months of fiscal 2018, we paid total cash dividends of \$23.9 million, or \$0.28 per outstanding share.

Stock option and other equity transactions, net – We generally receive cash for issuing shares under our stock option programs. During the first three months of fiscal 2019 and fiscal 2018, we received cash proceeds totaling \$3.4 million and \$5.8 million, respectively, under these programs.

Cash Flow Measures. Free cash flow was \$75.8 million in the first three months of fiscal 2019 compared to \$44.2 million in the prior year first three months (see the subsection above titled "Non-GAAP Financial Measures" for additional information and related reconciliation of cash flows from operations to free cash flow). The fiscal 2019 increase in free cash flow over fiscal 2018 was primarily due to improvements in working capital, the timing of capital expenditures and higher earnings. Our debt-to-total capital ratio was 30.0% at June 30, 2018 and 33.8% at June 30, 2017.

Sources of Credit and Contractual and Commercial Commitments. Information related to our sources of credit and contractual and commercial commitments is included in our Annual Report on Form 10-K for the year ended March 31, 2018, dated May 30, 2018. Our commercial commitments were approximately \$66.5 million at June 30, 2018 reflecting a net decrease of \$0.5 million in surety bonds and other commercial commitments from March 31, 2018. We had \$348.4 million of outstanding borrowings under the Credit Agreement as of June 30, 2018. We had \$5.2 million of letters of credit outstanding under the Credit Agreement at June 30, 2018.

Cash Requirements. We intend to use our existing cash and cash equivalent balances and cash generated from operations for short-term and long-term capital expenditures and our other liquidity needs. Our capital requirements depend on many uncertain factors, including our rate of sales growth, our Customers' acceptance of our products and services, the costs of obtaining adequate manufacturing capacities, the timing and extent of our research and development projects, changes in our operating expenses and other factors. To the extent that existing and anticipated sources of cash are not sufficient to fund our future activities, we may need to raise additional funds through additional borrowings or the sale of equity securities. There can be no assurance that our existing financing arrangements will provide us with sufficient funds or that we will be able to obtain any additional funds on terms favorable to us or at all.

Critical Accounting Policies, Estimates, and Assumptions

Information related to our critical accounting policies, estimates, and assumptions is included in our Annual Report on Form 10-K for the year ended March 31, 2018, dated May 30, 2018. Our critical accounting policies, estimates, and assumptions have not changed materially from March 31, 2018.

Contingencies

We are, and will likely continue to be, involved in a number of legal proceedings, government investigations, and claims, which we believe generally arise in the course of our business, given our size, history, complexity, and the nature of our business, products, Customers, regulatory environment, and industries in which we participate. These legal proceedings, investigations and claims generally involve a variety of legal theories and allegations, including, without limitation, personal injury (e.g., slip and falls, burns, vehicle accidents), product liability or regulation (e.g., based on product operation or claimed malfunction, failure to warn, failure to meet specification, or failure to comply

with regulatory requirements), product exposure (e.g., claimed exposure to chemicals, asbestos, contaminants, radiation), property damage (e.g., claimed damage due to leaking equipment, fire, vehicles, chemicals), commercial claims (e.g., breach of contract, economic loss, warranty, misrepresentation), financial (e.g., taxes, reporting), employment (e.g., wrongful termination, discrimination, benefits matters), and other claims for damage and relief.

Table of Contents

We record a liability for such contingencies to the extent we conclude that their occurrence is both probable and estimable. We consider many factors in making these assessments, including the professional judgment of experienced members of management and our legal counsel. We have made estimates as to the likelihood of unfavorable outcomes and the amounts of such potential losses. In our opinion, the ultimate outcome of these proceedings and claims is not anticipated to have a material adverse affect on our consolidated financial position, results of operations, or cash flows. However, the ultimate outcome of proceedings, government investigations, and claims is unpredictable and actual results could be materially different from our estimates. We record expected recoveries under applicable insurance contracts when we are assured of recovery. Refer to Note 8 of our consolidated financial statements titled, "Commitments and Contingencies" for additional information.

We are subject to taxation from United States federal, state and local, and non-U.S. jurisdictions. Tax positions are settled primarily through the completion of audits within each individual tax jurisdiction or the closing of a statute of limitation. Changes in applicable tax law or other events may also require us to revise past estimates. The IRS routinely conducts audits of our federal income tax returns.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, that have or are reasonably likely to have, a material current or future impact on our financial condition, changes in financial condition, revenues, expenses, results of operations, liquidity, capital expenditures or capital.

Forward-Looking Statements

This Quarterly Report on Form 10-Q may contain statements concerning certain trends, expectations, forecasts, estimates, or other forward-looking information affecting or relating to STERIS or its industry, products or activities that are intended to qualify for the protections afforded "forward-looking statements" under the Private Securities Litigation Reform Act of 1995 and other laws and regulations. Forward-looking statements speak only as to the date specified in this Quarterly Report and may be identified by the use of forward-looking terms such as "may," "will," "expects," "believes," "anticipates," "plans," "estimates," "projects," "targets," "forecasts," "outlook," "impact," "potential," "improve," "optimistic," "deliver," "comfortable," "trend", and "seeks," or the negative of such terms or other variations on such terms or comparable terminology. Many important factors could cause actual results to differ materially from those in the forward-looking statements including, without limitation, disruption of production or supplies, changes in market conditions, political events, pending or future claims or litigation, competitive factors, technology advances, actions of regulatory agencies, and changes in laws, government regulations, labeling or product approvals or the application or interpretation thereof. Other risk factors are described herein and in STERIS's other securities filings, including Item 1A of STERIS's Annual Report on Form 10-K for the year ended March 31, 2018. Many of these important factors are outside of STERIS's control. No assurances can be provided as to any result or the timing of any outcome regarding matters described in this Quarterly Report or otherwise with respect to any regulatory action, administrative proceedings, government investigations, litigation, warning letters, cost reductions, business strategies, earnings or revenue trends or future financial results. References to products are summaries only and should not be considered the specific terms of the product clearance or literature. Unless legally required, STERIS does not undertake to update or revise any forward-looking statements even if events make clear that any projected results, express or implied, will not be realized. Other potential risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements include, without limitation, (a) STERIS's ability to meet expectations regarding the accounting and tax treatment of the Tax Cuts and Jobs Act ("TCJA") or the possibility that anticipated benefits resulting from the TCJA will be less than estimated, (b) changes in tax laws or interpretations that could increase our consolidated tax liabilities, including, changes in tax laws that would result in STERIS being treated as a domestic corporation for United States federal tax purposes, (c) the potential for increased pressure on pricing or costs that leads to erosion of profit margins, (d) the possibility that market demand will not develop for new technologies, products or applications or services, or business initiatives will take longer, cost more or produce lower benefits than anticipated, (e) the possibility that application of or compliance with laws, court rulings, certifications, regulations, regulatory actions, including without limitation those relating to FDA, warning notices or letters, government investigations, the outcome of any pending FDA requests, inspections or submissions, or other requirements or standards may delay, limit or prevent new product introductions, affect the production and marketing of existing products or services or

otherwise affect STERIS's performance, results, prospects or value, (f) the potential of international unrest, economic downturn or effects of currencies, tax assessments, tariffs, and/or other trade barriers, adjustments or anticipated rates, raw material costs or availability, benefit or retirement plan costs, or other regulatory compliance costs, (g) the possibility of reduced demand, or reductions in the rate of growth in demand, for STERIS's products and services, (h) the possibility of delays in receipt of orders, order cancellations, or delays in the manufacture or shipment of ordered products or in the provisions of services, (i) the possibility that anticipated growth, cost savings, new product acceptance, performance or approvals, or other results may not be achieved, or that transition, labor, competition, timing, execution, regulatory, governmental, or other issues or risks associated with STERIS's businesses, industry or initiatives including, without limitation, those matters described in STERIS's Annual Report on Form 10-K for the year ended March 31, 2018 and other securities filings, may adversely impact STERIS's performance, results, prospects or value, (j) the impact on STERIS and its operations,

Table of Contents

or tax liabilities, of the “Brexit” or the exit of other member countries from the EU, and the Company's ability to respond to such impacts, (k) the impact on STERIS and its operations of new legislation, regulations or orders, including, but not limited to any new trade or tax legislations, regulations or orders, that may be implemented by the U.S. Administration or Congress, or of any responses thereto, (l) the possibility that anticipated financial results or benefits of recent acquisitions, or of STERIS's restructuring efforts, or of recent divestitures, will not be realized or will be other than anticipated, and (m) the effects of contractions in credit availability, as well as the ability of STERIS's Customers and suppliers to adequately access the credit markets when needed.

Availability of Securities and Exchange Commission Filings

We make available free of charge on or through our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to these reports as soon as reasonably practicable after we file such material with, or furnish such material to, the Securities Exchange Commission ("SEC.") You may access these documents on the Investor Relations page of our website at <http://www.steris-ir.com>. The information on our website and the SEC's website is not incorporated by reference into this report. You may also obtain copies of these documents by visiting the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549, or by accessing the SEC's website at <http://www.sec.gov>. You may obtain information on the Public Reference Room by calling the SEC at 1-800-SEC-0330.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the ordinary course of business, we are subject to interest rate, currency, and commodity risks. Information related to these risks and our management of these exposures is included in Part II, Item 7A, “Quantitative and Qualitative Disclosures about Market Risk,” in our Annual Report on Form 10-K for the year ended March 31, 2018, dated May 30, 2018. Our exposures to market risks have not changed materially since March 31, 2018.

Fluctuations in currency rates could affect our revenues, cost of revenues and income from operations and could result in currency exchange gains and losses. During the first quarter of fiscal 2019, we entered into forward currency contracts in order to hedge a portion of our expected non-U.S. dollar denominated earnings against our reporting currency, the U.S. dollar. These currency exchange contracts will mature during fiscal 2019. We have executed forward currency contracts to hedge a portion of results denominated in euros, Mexican pesos and Canadian dollars. We did not elect hedge accounting for these forward currency contracts; however, we may seek to apply hedge accounting in future scenarios. As a result, we may experience volatility due to (i) the timing mismatch of unrealized hedge gains or losses versus recognition of the underlying hedged earnings, and (ii) the impact of unrealized and realized hedge gains or losses being reported in selling, general and administrative expenses, whereas the offsetting economic gains and losses of the underlying hedged earnings are reported in the various line items of our Consolidated Statements of Income.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision of and with the participation of our management, including the Principal Executive Officer (“PEO”) and Principal Financial Officer (“PFO”), we evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as of the end of the period covered by this Quarterly Report. Based on that evaluation, including the assessment and input of our management, the PEO and PFO concluded that, as of the end of the period covered by this Quarterly Report, our disclosure controls and procedures were effective.

There were no changes in our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Securities Exchange Act of 1934, that occurred during the quarter ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Information regarding our legal proceedings is included in this Form 10-Q in Note 8 to our consolidated financial statements titled, "Commitments and Contingencies" and in Item 7 of Part II, titled "Management's Discussion and Analysis of Financial Conditions and Results of Operations," of our Annual Report on Form 10-K for the year ended March 31, 2018, dated May 30, 2018.

ITEM 1A. RISK FACTORS

For a complete discussion of the Company's risk factors, you should carefully review the risk factors included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2018.

Other than the update to the risk factor set forth below, there have been no material changes to the risk factors set forth in Item 1A. "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended March 31, 2018 dated May 30, 2018.

Tax and trade risks

Current economic and political conditions make tax rules in any jurisdiction subject to significant change.

The U.S. Tax Cuts and Jobs Act ("TCJA") was signed into law on December 22, 2017. Additional regulations and guidance have been and are likely to be issued clarifying the application of this new legislation. We cannot predict the overall impact that the regulations or guidance may have on our business. In addition, we may not be able to determine conclusively the applicability or enforceability of such additional regulations or guidance on tax planning or tax positions that we have taken or may take going forward. It is reasonable to expect that global taxing authorities will be reviewing current legislation for potential modifications in reaction to the implementation of the TCJA. In addition, further changes in the tax laws of other jurisdictions could arise, including as a result of the base erosion and profit shifting (BEPS) project undertaken by the Organization for Economic Cooperation and Development (OECD). The OECD, which represents a coalition of member countries, has issued recommendations that, in some cases, would make substantial changes to numerous long-standing tax positions and principles. These contemplated changes, to the extent adopted by OECD members and/or other countries, could increase tax uncertainty and may adversely impact our provision for income taxes.

Furthermore, as a result of the withdrawal of the UK from the EU ("Brexit"), entities such as the Company that are organized under the laws of England and Wales, are expected to lose the benefit of the tax treaties between the U.S. and EU and, without further action by those entities or by the respective governments, may consequentially be subject to higher tax liabilities, which may be significant.

The lack of clarity surrounding tax rules and regulations in the jurisdictions where the Company does business as a result of Brexit, TCJA, OECD, and otherwise creates uncertainty for the Company. In addition to higher tax liabilities, the outcome of potential changes to tax rules and regulations applicable to the Company may adversely affect the Company's business, operations, and financial condition.

Table of Contents

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On August 9, 2016, the Company announced that its Board of Directors had authorized the purchase of up to \$300 million (net of taxes, fees and commissions) of our ordinary shares. We may enter into share repurchase contracts until August 2, 2021 to effect these purchases. Shares may be repurchased from time to time through open market transactions, including 10b5-1 plans. The repurchase program may be suspended or discontinued at any time. During the first three months of fiscal 2019, we repurchased 259,000 of our ordinary shares pursuant to this authorization. During the first three months of fiscal 2019, we obtained 89,730 of our ordinary shares in connection with share based compensation award programs.

The following table summarizes the ordinary shares repurchase activity during the first quarter of fiscal 2019 under our ordinary share repurchase program:

| | (a) Total Number of Shares Purchased | (b) Average Price Paid Per Share | (c) Total Number of Shares Purchased as Part of Publicly Announced Plans | (d) Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans at Period End (in thousands) |
|------------|--|--|--|--|
| April 1-30 | 87,000 | \$ 94.59 | 87,000 | \$ 142,832 |
| May 1-31 | 88,000 | 101.31 | 88,000 | 133,917 |
| June 1-30 | 84,000 | \$ 105.78 | 84,000 | \$ 125,031 |
| Total | 259,000 | ⁽¹⁾ 100.50 | ⁽¹⁾ 259,000 | 125,031 |

⁽¹⁾ Does not include 8 shares purchased during the quarter at an average price of \$101.96 per share by the STERIS Corporation 401(k) Plan on behalf of an executive officer of the Company who may be deemed to be an affiliated purchaser.

Table of Contents

ITEM 6. EXHIBITS

Exhibits required by Item 601 of Regulation S-K

Exhibit
Number Exhibit Description

- 3.1 Certificate of Incorporation of STERIS plc (filed as Exhibit 3.1 to STERIS plc Form 8-K filed November 6, 2015 (Commission File No. 1-37614) and incorporated herein by reference).
- 3.2 Amended Articles of Association of STERIS plc (Amended by Special Resolution passed on August 2, 2016) (filed as Exhibit 3.2 to STERIS plc Form 10-Q for the fiscal quarter ended September 30, 2016 (Commission File No. 1-37614), and incorporated herein by reference).
- 4.1 Specimen Form Stock Certificate (filed as Exhibit 4.1 to STERIS plc Form 10-K for the fiscal year ended March 31, 2016 (Commission File No. 1-37614) and incorporated herein by reference).
- 15.1 Letter Re: Unaudited Interim Financial Information.
- 31.1 Certification of the Principal Executive Officer Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a).
- 31.2 Certification of the Principal Financial Officer Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a).
- 32.1 Certification of the Principal Executive Officer and Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

EX-101 Instance Document.

EX-101 Schema Document.

EX-101 Calculation Linkbase Document.

EX-101 Definition Linkbase Document.

EX-101 Labels Linkbase Document.

EX-101 Presentation Linkbase Document.

Table of Contents

SIGNATURE

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.

STERIS plc

/s/ KAREN L. BURTON

Karen L. Burton

Vice President, Corporate Controller and Chief Accounting Officer

August 8, 2018