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Securities registered pursuant to Section 12(b) of the Act:

Common stock, par value \$.01 per share	NASDAQ Global Select Market
Depository Shares, each representing a 1/10th ownership interest in a share of 5.25% Mandatory Convertible Preferred Stock, Series A, par value \$0.01 per share	NASDAQ Global Select Market
(Title of each class)	(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K, or any amendment to this Form 10-K.

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

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

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

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

The aggregate market value of voting and non-voting common equity held by non-affiliates computed by reference to the price at which common equity was last sold as of the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2017): \$6,512,899,920.

On February 19, 2018, there were 85,544,357 shares of the Registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Information required by Items 10, 11, 12 and 13 of Part III of this Report is incorporated by reference from the Registrant's definitive Proxy Statement for the 2018 Annual Meeting of Stockholders to be held on May 23, 2018.

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Item 1. Business

Unless the context requires otherwise, the “Company”, “Stericycle”, we, "us" or "our" refers to Stericycle, Inc., a Delaware corporation, and its subsidiaries on a consolidated basis. Stericycle was incorporated in 1989.

Overview

Services

Stericycle is a business-to-business services provider with a focus on regulated and compliance solutions. Our core purpose is to help our customers fulfill their promise by providing solutions that protect people and brands, promote health and safeguard the environment. Over our 28 year history, Stericycle has developed the scale, expertise and experience to handle many complicated and often behind-the-scenes services that allow our more than one million customers to focus on running their business. We operate in the United States (“U.S.”) and 20 other countries. Our worldwide networks include a total of 256 processing facilities, 2 landfills, 22 communication centers, 325 transfer sites, 75 customer service or administrative offices, and 110 warehouse or parking facilities.

256	2	22	325	75
Processing Facilities	Landfill Locations	Communication Centers	Transfer Sites	Office Locations

We are one of the leading providers in our core service lines, which include:

- Medical waste management services (including reusable sharps disposal management services)
- Pharmaceutical waste services
- Hazardous waste management services
- Secure information destruction (including document and hard drive destruction services)

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Compliance programs under the Steri-Safe®, Clinical Services, First Practice Management, SeguriMed and EnviroAssure brand names

Regulated recall and returns management communication, logistics, and data management services for expired, withdrawn or recalled products

Live voice and automated communication services including afterhours answering, appointment scheduling, appointment reminders, secure messaging, and event registration

We operate our business in 21 markets around the globe. Our full portfolio of services is available in the United States, Canada, Ireland, the Netherlands, Spain, and the United Kingdom (“U.K.”). Only regulated waste services are provided in Argentina, Brazil, Chile, Japan, Mexico, Portugal, Republic of Korea, and Romania. Only secure information destruction services are provided in Australia, Austria, Belgium, France, Germany, Luxembourg and Singapore. Secure information destruction services under the Shred-it brand are also provided in the United Arab Emirates through a joint venture with the Company’s portion of income reported as an equity investment.

Customers

Our broad offering of services appeals to a wide range of small and large business customers. The majority of our customers are healthcare businesses (hospitals, physician and dental practices, outpatient clinics, long-term care facilities, etc.). We also provide services to retailers, manufacturers, financial services providers, professional services providers, governmental entities, and other businesses.

In total, we serve more than one million customers worldwide. No single customer accounts for more than 1.2% of our total revenues, and our top ten customers collectively account for approximately 7.1% of total revenues. We provide service to the majority of these customers under multi-year contracts.

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Although we have several standard contracts, terms vary depending upon the customer's service requirements, types of services and geographies.

### Segments

Our three operating segments are:

- Domestic and Canada Regulated Waste and Compliance Services ("Domestic and Canada RCS")

- International Regulated Waste and Compliance Services ("International RCS")

- Domestic Communication and Related Services ("Domestic CRS")

Our Regulated Waste and Compliance Services segments for both Domestic and Canada, as well as International, include medical waste disposal, pharmaceutical waste disposal, and hazardous waste management; secure information destruction of documents and e-media, and compliance services.

Our Domestic Communication and Related Services segment consists of inbound/outbound communication, automated patient reminders, online scheduling, notifications, product retrievals, product returns, and quality audits.

Domestic CRS does not consistently meet the quantitative criteria to be a separate reportable segment and therefore is included in the "All Other" reporting segment. Costs related to our corporate headquarter and shared services functions are also included in "All Other."

Financial and other information related to our reporting segments is included in Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Part II, Item 8. Financial Statements and Supplementary Data; Note 16 - Segment Reporting.

### Business Strategy

#### Focus on Regulated Business-to-Business Operations

We focus on providing business-to-business services in areas of operations that are highly regulated. By helping our customers maintain compliance with complex regulations, we protect people and brands, promote health, and safeguard the environment. Governmental legislation and regulation increasingly requires the proper handling and disposal of items such as medical waste, hazardous waste, pharmaceutical waste, and personal and confidential information. Regulated waste can be defined as any material with government-imposed guidelines for handling the material for transportation or disposal. Medical waste, such as needles, syringes, gloves, cultures and potentially infectious agents, blood and blood products, can potentially cause an infectious disease. Hazardous waste is designated and governed by federal and local environmental protection agencies but generally includes waste that is considered dangerous or potentially harmful to our health or the environment. Hazardous wastes can be liquids, solids, gases, or sludge. Pharmaceutical waste may be hazardous or nonhazardous and consists of expired, recalled, or otherwise unused pharmaceuticals. Personal and confidential information includes documents and e-media containing protected healthcare information, financial information, or other confidential information. Additionally, the regulatory environment related to promoting overall health and protecting consumers from unsafe products continues to increase.

#### Focus on the Small Customer with Recurring Service Needs

We also focus on serving smaller businesses which often have an even greater need for support with compliance matters since they tend to lack the specialized staff that is found at larger businesses. With a small business,



regulatory and compliance matters are often managed by a business owner, office manager, or facility supervisor who manage multiple functions for the organization and often lack the time and resources to properly investigate and comply with a wide range of regulations that may impact

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their operations. In response to this need of small businesses, we developed comprehensive and customizable services to accommodate varying customer requirements. This business strategy has guided us as we have expanded into additional service offerings including hazardous or pharmaceutical waste management, communication services, and secure information destruction.

### Organic Growth

As a leading provider in regulated and compliance solutions, we continue to focus on enhancing our service offerings and platforms to exceed customer expectations. We have developed a strong and loyal customer base, with, we believe, a revenue retention rate of approximately 90% (based on our internal customer attrition analysis), and have been able to leverage these customer relationships to provide additional services. Our growth strategy focuses on selling additional services to existing customers as well as securing new customer relationships.

### Growth through Acquisition

The various regulated waste and compliance services that we provide tend to be in highly fragmented industries. We have proven that acquisitions are a steady and efficient way to scale operations, build critical customer density for transportation and treatment operations, and enter new markets or geographies, as well as provide opportunity to introduce our additional services to the acquired customers. In our early history, acquisitions were a key strategy to rapidly building our customer base and route density in the United States. We have been able to expand internationally through acquisition and now operate in 20 different markets outside the U.S. Over our history, Stericycle has completed 496 acquisitions, with 271 in the United States and 225 internationally. During 2017, we completed 30 acquisitions. We expect to continue our acquisition strategy, remaining focused on small, highly accretive, tuck-in acquisitions that broaden our various service capabilities while creating value for our shareholders.

### Business Transformation

Stericycle is focused on driving long-term growth, profitability and delivering enhanced shareholder value. As part of our business strategy, in the third quarter of 2017, we initiated a comprehensive multiyear Business Transformation with the objective to improve long-term operational and financial performance. The Business Transformation is based on a strategic vision to build a best-in-class enterprise performance management (“EPM”) operating model and includes streamlining our portfolio, realigning our processes and organizational structure to drive efficiency, and implementing an enterprise resource planning (“ERP”) system.

Key initiatives of the Business Transformation include:

- **Portfolio Rationalization:** Executing on a comprehensive review of the Company’s global service lines to identify and pursue the divestiture of non-strategic assets.
- **Operational Optimization:** Standardizing route planning logistics, modernizing field operations, and driving network efficiency across facilities.
- **Organizational Excellence and Efficiency:** Redesigning the Company’s organizational structure to optimize resources and align around a global shared business services model.
- **Commercial Excellence:** Aligning our sales and service organizations around the customer, standardizing our customer relationship management process, and expanding customer self-service options.
- **Strategic Sourcing:** Reducing spend through global procure-to-pay processes and leveraging organizational scale.



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Implementation of the Business Transformation began in 2017 with the identification and validation of key transformational opportunities as well as an organizational restructuring which occurred during the fourth quarter. Execution of the Business Transformation is expected to continue through 2022 with the implementation of a best-in-class system in the U.S. as a significant milestone for 2020 with the international roll-out the following year.

Refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8. Financial Statements and Supplementary Data; Note 3 – Restructuring, Divestitures, and Assets Held For Sale.

### Market Size and Growth Potential

We provide a wide range of services across multiple market segments and industries. We believe the size of the global market for the services we provide, in the geographies we currently operate in, is expected to be approximately \$38 billion in 2018. Industry growth is driven by a number of factors, including:

• **Aging Population:** The average age of the population in the countries where we operate is rising. As people age, they typically require more medical attention and a wider variety of tests, procedures and medications, leading to an increase in the quantity of regulated medical waste, hazardous waste, and pharmaceutical waste, as well as an increase in confidential healthcare records requiring secure destruction.

• **Pressure to Reduce Healthcare Costs While Improving Outcomes:** The healthcare industry is under pressure to reduce costs and at the same time improve healthcare outcomes for patients served. By outsourcing services not directly tied to the delivery of healthcare services, these organizations can potentially reduce costs and improve staff efficiencies. By leveraging third party experts, healthcare organizations may also limit their potential liability for regulatory compliance.

- **Enforcement of Regulations:** Enforcement of regulations relating to the management of regulated waste and protected information is increasing. Penalties for violations can be costly and high profile, thereby impacting a business' overall reputation. Greater enforcement combined with higher penalties results in more compliance and a corresponding increase in potential customers.

• **Safety and Security Regulation:** We believe that many businesses that are not currently using third party regulated waste management, secure information destruction, or recall and communication services are unaware either of the need for proper training of employees or of the regulatory requirements. Similarly, many businesses find that the proper handling of expired or recalled products requires an expertise and efficient processes that they lack.

• **Increased Business Focus on Sustainability:** Businesses large and small are continuing to realize that the focus on sustainability is now essential to operating efficiently and meeting the increasing demands of customers for environmental responsibility. Such pressures are driving proper disposal of pharmaceuticals, recycling efforts, creative disposal efforts for unused inventory, shred-all policies for paper, and other initiatives supported by our services.

- **Regulation of Privacy and Information Security and Concerns over Data Breaches:** The continued development and growth of the secure information destruction industry has been driven, in part, by the need for compliance with increasing government regulation with respect to privacy and information security. These regulations take different forms, with some requiring organizations to establish reasonable measures to protect against loss, theft and unauthorized access, use and disclosure, and others imposing data retention requirements that require businesses to destroy or render anonymous personal information when it's no longer required for a legal or legitimate business

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purpose. Secure information destruction services are increasingly a standard measure that organizations use to meet their legal safeguarding and retention requirements.

**Market Expansion due to Increased Outsourcing:** In regard to secure information destruction services and communication services, significant market growth is expected to come from increased reliance on outsourced service providers. Many small businesses currently do not use services or manage these needs with internal resources and solutions. Opportunity exists to convert these businesses as the trend to outsource support services continues.

**Fragmented Markets:** The industries in which we operate are highly fragmented with numerous small competitors operating within a limited geographic area and with a narrow focus on a specific service. Opportunities exist to drive efficiencies by consolidating operations.

**International Market Development:** The medical waste, hazardous waste, and secure information destruction regulations in certain international markets are at an early stage of development relative to North America and Europe. As emerging markets continue to advance their healthcare practices, environmental controls, and data privacy regulations, we expect to see further demand for our services on a global scale.

### Competitive Strengths

We believe that we benefit from the following competitive strengths, among others:

**Broad Range of Services:** We offer our customers a broad range of services. We work with businesses across a number of industries, including healthcare, manufacturing, and retail, to safely and efficiently dispose of regulated materials, ensure regulatory compliance, improve employee and customer safety, protect their brands, improve communications with their patients or clients, and manage corporate and personal risk.

**Strong Service Relationships with Customers:** We offer our customers necessary services which require access to their facilities, operating information, or customer data. This relationship, supported by a history of strong service, allows us access to decision makers to offer additional opportunities.

**Long-term Contracts:** The majority of services we provide involve long-term contracts that are often renewed.

**Established Network of Processing and Transportation Locations in Each Country:** We believe that our infrastructure network results in an efficient operation with alternate treatment or destruction options for our customers. The scale of our network also provides us the ability to be the single-source provider for customers with multiple locations across the country and gives us the flexibility to quickly redirect services or operations to another location if the need arises due to severe weather, power outages, or other situations.

**Routing Logistics:** We maintain a vast transportation network that is focused on route efficiency. This advantage has been built from a deliberate focus on route density and technological investments to optimize routing at both the individual truck and geographic market level.

**Industry Leadership and Expertise:** Based on our infrastructure and revenues, we maintain a global leadership position across our various services lines, including regulated medical waste, retail and healthcare hazardous waste, secure information destruction, and product recalls and returns. We attract and retain highly experienced team members who have a deep understanding of the industries they serve, the regulatory climate, and the evolving needs of the customers we serve.

**Volume-based Leverage for Disposal, Treatment or Recycling:** As a leading service provider for regulated medical waste, hazardous waste, and secure information destruction, we can leverage large

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volumes of waste, recyclables, and paper to obtain better pricing on final treatment, disposal and/or recycling.

- **Secure Management of Information for Destruction:** With the acquisition of Shred-it, Stericycle is the global leader in secure information destruction. Our processes for managing information for destruction meet or exceed the requirements of the National Association for Information Destruction (“NAID”) AAA Certification and support our customers’ requirements to comply with the Gramm-Leach-Bliley Act (“GLBA”), the Fair and Accurate Credit Transaction Act (“FACTA”), and Health Insurance Portability and Accountability Act (“HIPAA”) Privacy Rules in the U.S., the General Data Protection Regulation (“GDPR”) covering Europe, and other data security regulations abroad.
- **Ability to Integrate Acquisitions:** Since 1993 we have completed 496 acquisitions in the United States and internationally. The acquisitions have allowed us to rapidly achieve economies of scale, especially related to route density for transportation efficiency, and the expansion of service offerings to new and existing customers. Our Business Transformation will improve our ability to integrate acquisitions and achieve synergies.
- **Experienced Senior Management Team:** We have experienced leadership. Our executive management team has over 125 years of management experience in the health care or specialty waste management industries.

Regulated Waste and Compliance Service Operations

### Collection and Transportation

The collection process for regulated waste streams begins at the customer location with segregation. To assure regulatory compliance, we will not accept material from customers unless it complies with our waste acceptance protocols and is properly stored or packaged in containers that we have either supplied or approved.

Our fleet of vehicles then collects containers at the customer location. The majority of collected waste is then transported directly to one of our processing facilities or to one of our transfer stations until it’s transported to a processing facility. Our use of transfer stations in a "hub and spoke" configuration improves the efficiency of our collection and transportation operations by expanding the geographic area that a particular processing facility can serve, thereby increasing the utilization of the facility and the volume of waste that it processes.

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### Processing and Disposal of Regulated Medical Waste

Upon arrival at a processing facility, containers or boxes of regulated waste undergo a quality control process to verify that they do not contain any unacceptable substances. Any container or box that is discovered to contain unacceptable waste goes through a corrective action process which could include redirecting the waste, returning the waste to the customer, and/or notifying the appropriate regulatory authorities. From there, regulated medical waste is processed using one of several treatments or processing technologies, predominantly at one of our wholly-owned facilities:

• **Autoclaving:** Autoclaving is the primary method of medical waste treatment. This process relies on steam at high temperature and pressure to kill pathogens and render materials non-infectious.

• **Alternative technologies:** We use a number of different non-incineration alternatives to autoclaves, predominantly outside of the U.S. The processes used by these technologies are effectively the same with the regulated waste heated to a specified temperature for a required time to kill the pathogens. This is not always under pressure. Depending on local requirements, the waste may be shredded before or after treatment to render it unrecognizable.

• **Incineration:** Incineration burns regulated waste at elevated temperatures and reduces it to ash. Incineration reduces the volume of waste, and it is the recommended treatment and disposal option for some types of regulated waste such as anatomical waste, residues from chemotherapy procedures and non-hazardous pharmaceutical waste. Air emissions from incinerators can contain certain byproducts that are subject to federal, state, and in some cases, local regulation. In some circumstances, the ash byproduct of incineration may be regulated.

Upon completion of the particular process, the resulting waste or incinerator ash is transported for disposal in a landfill owned by unaffiliated third parties. In some countries, where permitted by regulation, the treated waste is recovered, including recovery as fuel, in waste-to-energy processes.

### Processing and Disposal of Hazardous Wastes

Our technicians receive hazardous wastes either as expired goods requiring deconstruction or as defined hazardous wastes. Expired goods are deconstructed to recover metals and plastics for recycling thereby minimizing the total volume of waste disposed of as hazardous waste. Materials that are predefined as hazardous upon collection are bulked together or consolidated at treatment storage and disposal facilities for more efficient transport to the final disposal or processing destination. Whenever possible, we seek sustainable solutions for managing materials including alternative uses, recovery processes, recycling options, fuel blending, or energy recovery. When sustainable options do not exist, these wastes are sent to third parties for incineration, landfill or water treatment.

### Destruction and Recycling of Secure Information

If not shredded on site in a Shred-it truck with proprietary information destruction technology, documents are sent to a shredding facility for secure destruction. Documents are cross-cut shredded and then baled to be sold as sorted office paper (“SOP”) for recycling.

### Communication Solutions and Expert Solutions Business Overview

Our Communication Solutions service line provides a broad range of live voice or automated services to help our customers keep in touch with their patients and clients. Our team serves as a client representative providing answering services, appointment scheduling or reminders, event registration, and other activities. Providing these solutions requires sophisticated information management systems to redirect calls, store and quickly retrieve live voice protocols or client data, send automated communications, or provide easily accessible reporting and activity details to our customers. Beyond the





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information management system infrastructure, call center staffing and education levels are critical to success. We leverage sophisticated workflow analysis and staffing tools to ensure appropriate resources are in place in order to handle call volumes quickly and consistently across our multiple call centers during peak volumes.

Our Expert Solutions service line acts as a business partner to protect our client's customers and to protect our client's brands. We specialize in partnering with automotive, food/beverage, medical device, pharmaceutical, consumer goods manufacturers and retailers to guide them through critical recalls, retrievals, or audit processes to ensure brand protection. Services could include notification services to impacted customers, call center services to support a recall or retrieval, removing impacted product from distribution, processing recalled product and supporting remedy requirements, and compliance reporting. These solutions are highly customized based on the product being recalled or retrieved and the specific needs of the client.

### Competition

The industries and markets in which we operate are highly competitive, and barriers to entry are low. Our competitors consist of many different types of service providers, including national, regional and local companies. In the regulated waste and secure information destruction industries, another major source of competition is on-site treatment. For regulated medical waste, some large-quantity generators, particularly hospitals, may choose an onsite autoclave or other treatment process. For secure information destruction, many businesses may choose to use small, on-site shredders for their documents. Similarly, customers could handle recalls or communication needs internally.

In addition, we face potential competition from businesses that are attempting to commercialize a wide range of technologies that directly or indirectly reduce the need for regulated medical waste, hazardous waste or secure information destruction services.

### Governmental Regulation

The regulated medical waste, hazardous waste, secure information destruction, and recall industries are subject to numerous regulations. In many countries there are multiple regulatory agencies at the local and national level that affect our customers or our services. This regulatory framework imposes a variety of compliance requirements, including requirements to obtain and maintain government permits. We maintain numerous governmental permits, registrations, and licenses to conduct our business in the jurisdictions in which we operate. Our permits vary by jurisdiction based upon our activities within that jurisdiction and on the applicable laws and regulations of that jurisdiction. These permits grant us the authority, among other things:

- to construct and operate collection, transfer and processing facilities;
- to transport regulated waste within and between relevant jurisdictions; and
- to handle particular regulated substances.

Our permits must be periodically renewed and are subject to modification or revocation by the issuing authority. Periodic renewals are subject to public participation and can lead to additional regulatory oversight. We are also subject to regulations that govern the definition, generation, segregation, handling, packaging, transportation, treatment, storage and disposal of regulated waste. In addition, we are subject to extensive regulations to ensure public and employee health and safety at the federal, state and local levels.



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### U.S. Federal and Foreign Regulation

We are subject to substantial regulations enacted and enforced by the U.S. government and by the governments of the foreign jurisdictions in which we conduct regulated waste and secure information destruction operations. The regulatory requirements with which we must comply vary from jurisdiction to jurisdiction. The laws governing our domestic and international operations generally consist of statutes, legislation and regulations concerning environmental protection, employee health and welfare, transportation, the use of the mail, ethical business conduct, and proper handling and management of regulated waste streams, controlled substances and personal and confidential information.

### Environmental Protection

Certain service lines within our business are subject to extensive and evolving environmental regulations in all of the geographies in which we operate. Generally, the environmental laws we are subject to regulate the handling, transporting, and disposing of hazardous and non-hazardous waste, the release or threatened release of hazardous substances into the environment, the discharge of pollutants into streams, rivers, groundwater and other surface waters, and the emission of pollutants into the air. The principal environmental laws that govern our operations in the U.S. are state environmental regulatory agencies as they provide the specific legislative and or regulatory frameworks which require the management and treatment of regulated medical waste. Additionally, the Resource Conservation and Recovery Act of 1976 ("RCRA"), the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"), and the Clean Air Act of 1970 are the federal regulations that affect management of certain aspects of regulated medical waste and all RCRA hazardous wastes. CERCLA and state laws similar to it may impose strict, joint and several liabilities on the current and former owners and operators of facilities from which release of hazardous substances has occurred and on the generators and transporters of the hazardous substances that come to be located at these facilities. The ten incinerators at seven facilities we currently operate in the U.S. must comply with the emissions standards imposed by the applicable states permitting authorities pursuant to regulations promulgated under the Clean Air Act as well as state and/or municipal waste permit requirements.

Examples of environmental laws applicable to our international operations include the Waste Framework Directive, Environmental Liabilities Directive, Industrial Emissions Directive and the Shipments of Waste Regulations in the European Union ("EU"), Ley 154 (Residuos Patogenicos) in Argentina, Lei 12.305/2010 (Lei Ordinária) Institui A Política Nacional De Resíduos Sólidos in Brazil, and the Canadian Environmental Protection Act and related regulations in Canada. Additional environmental laws at the federal and/or local levels apply to regulated waste management in other markets in which we conduct business.

### Employee Health and Welfare

We are subject to numerous regulations promulgated to protect and promote worker health and welfare through the implementation and enforcement of standards designed to prevent illness, injury and death in the workplace. The primary federal laws relating to employee health and welfare applicable to our business in the U.S. are in the Occupational Safety and Health Act of 1970 ("OSHA"), which establishes specific employer responsibilities including engineering controls, administrative controls, training, policies and programs complying with the regulations and ultimately recordkeeping and reporting, all in an effort to ensure a safe workplace. Various OSHA standards apply to almost all aspects of our operations and govern such matters as exposure to blood borne pathogens, hazard communication, personal protective equipment, etc.

Employee health and welfare laws governing our business in global jurisdictions include examples such as the European Framework Directive on Safety and Health at Work (Directive 89/391 EEC), and various



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provisions of the Canada Labour Code and related occupational safety and health regulations in the provinces and territories of Canada.

### Transportation

Various laws regulating the transportation of waste and other potentially hazardous materials also apply to the services we provide. In the U.S., the Department of Transportation ("DOT") has promulgated regulations which deal with two different aspects of transportation: hazardous materials transport and safety in transportation. These regulations are defined within the Pipeline Hazardous Materials Safety Administration ("PHMSA") and the Federal Motor Carrier Safety Administration ("FMCSA"). These federal requirements plus additional state requirements are closely monitored internally. Due to our fleet size we are regularly subject to road side inspections. These inspections have a cumulative effect on our compliance history and require us to remain in good standing so as not to jeopardize our permits.

Examples of transportation laws we must comply with internationally include the Directive on the Inland Transportation of Dangerous Goods in the EU and the Transport of Dangerous Goods Act and related regulations in Canada, and globally the International Maritime Dangerous Goods Code and the IATA Dangerous Goods Regulations.

### Document Management

Numerous laws and regulations require proper protection of confidential customer information by business parties that have access to such information. In the U.S., the most commonly cited regulations include the Fair and Accurate Credit Transaction Act ("FACTA") Final Disposal Rule, the FACTA Red Flag Rule, the Health Insurance Portability and Accountability Act ("HIPAA") Privacy Rule, and the Gramm-Leach Bliley Act ("GLBA"). Furthermore the General Data Protection Regulation ("GDPR") provides the framework for data privacy and data protection for companies that do business in Europe.

For the transportation of secure information for destruction, we are regulated by the U.S. Department of Transportation as a commercial motor carrier. The processes for the destruction of secure information destruction processes are not regulated by any government agency. However, the National Association of Information Destruction ("NAID") maintains a certification to ensure that destruction processes support the needs of organizations to meet laws and regulations relating to the protection of confidential information. We currently hold the NAID AAA Certification. Further, the Payment Card Industry ("PCI") Security Standards Council has developed Data Security Standards which are imposed upon merchants utilizing credit cards and require destruction of documents and media in accordance with their standards.

### Ethical Business Conduct

Various international regulations governing ethical business practices apply to our business, including but not limited to, the U.S. Foreign Corrupt Practices Act ("FCPA"), the U.K. Bribery Act ("Bribery Act"), and the Brazilian Clean Companies Act. These laws may apply to our business on both a global and local basis, and ban unethical behavior such as the payment of bribes to government officials for the purpose of gaining an improper business advantage, improper maintenance of the company's books and records, as well as other financial transparency requirements.

### Use of the Mail

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United States Postal Service ("USPS") has its own set of specific regulations defined in Publication 52 which governs the use of the postal system for mailing of hazardous, restricted and perishable materials. More specifically, mailback management offerings for sharps, medical waste, and pharmaceutical wastes, require us to obtain and maintain authorization permits from the USPS. We have obtained permits from the USPS to conduct our "mail-back" programs which provide a convenient service for customers who

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need such a service with approved containers for "sharps" (needles, knives, broken glass and the like) or other regulated wastes to be sent directly to a treatment facility.

### Controlled Substances

Our service offerings for the recall, return and destruction of controlled substance pharmaceuticals are subject to numerous laws and regulations under various international federal agencies, such as the Drug Enforcement Administration ("DEA") in the US. These regulations apply to both the closed loop management of controlled substances as well as the return of unused controlled substances from consumers. These regulations typically require facilities to obtain a registration of license and meet certain criteria in order to collect, process, and dispose of controlled substances. The regulations have very strict requirements for the management of employees, the type of security within facilities, recordkeeping, and the reporting of all controlled substances managed at the facility. Much like permitting, the registration must be updated regularly and subjects us to inspection and enforcement.

### U.S. and Foreign Local Regulation

We conduct business in all 50 states and Puerto Rico. Because the federal EPA does not promulgate regulations for regulated medical waste at a national level, each state has its own regulations related to the handling, treatment and storage of regulated medical waste. Many states have followed requirements similar to the Medical Waste Tracking Act of 1988 or have placed medical waste regulations under solid waste regulations. Hazardous waste in the U.S. is regulated under the RCRA. In addition, certain states may have their own regulations for handling, treatment and storage of hazardous wastes. Regulated garbage (sometimes referred to as "APHIS waste" taken from the Animal Plant and Health Inspection Service) is another area of regulatory requirements we are subject to pursuant to regulations promulgated by the United States Department of Agriculture ("USDA") and Customs and Border Patrol. The USDA typically inspects our facilities receiving such APHIS waste on a quarterly basis.

In each state where we operate a processing facility or a transfer station, we are required to comply with varying state and local laws and regulations which may also require a specific operating plan. In addition, many local governments have ordinances and regulations, such as zoning or wastewater regulations that affect our operations. Similarly, our international operations are subject to regulations enacted and enforced at the provincial, municipal, and local levels of government in addition to the national regulations with which we must comply.

### Patents, Trademarks and Proprietary Rights

With the acquisition of Shred-it, we hold patents in the U.S. for a three-staged shredder with patent applications pending in Canada and Europe. We also hold patents in the U.S., Canada, and Europe for Securshield, proprietary locks for shredding containers.

We own federal registrations for a number of trademarks/servicemarks including Stericycle®, Steri-Safe®, Stericycle ExpertRECALL®, Sustainable Solutions®, LiveAnswer®, Shred-it®, Securit®, Community Shred-it®, Making Sure it's Secure®, and our company logo service mark consisting of a nine-circle design. We also hold international registrations for Stericycle, the nine-circle design used in our logo, and the Shred-it name and design.





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## Potential Liability and Insurance

The regulated waste industry involves potentially significant risks of statutory, contractual, tort and common law liability claims. Potential liability claims could involve, for example:

- cleanup costs;
- personal injury;
- damage to the environment;
- employee matters;
- property damage; or
- alleged negligence or professional errors or omissions in the planning or performance of work.

We could also be subject to fines or penalties in connection with violations of regulatory requirements.

We carry several insurance coverages including property, workers Compensation, general liability, employer's liability, pollution Liability, privacy and security liability, event management, cyber-liability, and miscellaneous professional services errors and omissions coverages. We also carry umbrella policies that cover general Liability, auto and employers Liability. We regularly evaluate other lines of coverage to respond to specific business needs but consider our current insurance coverage sufficient to meet regulatory as well as customer requirements and to protect our employees, assets, and operations.

## Executive Officers of the Registrant

The following table contains certain information regarding our seven current executive officers:

Name	Position	Age
Charles A. Alutto	President and Chief Executive Officer	52
Joseph "Brent" Arnold	Executive Vice President and Chief Operating Officer	49
Daniel V. Ginnetti	Executive Vice President and Chief Financial Officer	49
Kurt M. Rogers	Executive Vice President, General Counsel and Corporate Secretary	46
Ruth-Ellen Abdulmassih	Executive Vice President and President, Communication and Related Services	56
Brenda R. Frank	Executive Vice President and Chief People Officer	48
Robert J. Guice	Executive Vice President, International	51

Charlie Alutto has served as President and Chief Executive Officer since January 2013 and as a Director since November 2012. He joined us in May 1997 following our acquisition of the company where he was then employed. He became an executive officer in February 2011 and served as President, Stericycle USA. He previously held various management positions with us, including vice president and managing director of SRCL Europe and corporate vice president of our large quantity generator business unit. Mr. Alutto received a B.S. degree in finance from Providence College and a M.B.A. degree in finance from St. John's University.

Brent Arnold was named as Chief Operating Officer during 2015. He joined Stericycle in April 2005 and has worked in various leadership positions including Senior Vice President of Operations, Senior Vice President of Sales and Marketing for the U.S., Corporate Vice President of our large and small quantity business units, and Executive Vice President and President, Stericycle USA. He has more than 27 years of experience primarily focused in the healthcare industry. Prior to joining Stericycle, he held various leadership roles at Baxter International Inc. and Cardinal Health,

Inc. Mr. Arnold received a B.S. degree in marketing from Indiana University.

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Dan Ginnetti was named as Chief Financial Officer during 2014. He joined Stericycle as Area Vice President of Finance in 2003. In 2004 he was promoted to Area Vice President for Stericycle's Western, and later, Midwestern business units. Following that, he was promoted to Senior Vice President of Operations for the United States and Canada. He returned to financial management in 2013 becoming Vice President of Corporate Finance and then CFO in August 2014. Prior to joining Stericycle, Mr. Ginnetti held various finance and accounting positions with The Ralph M. Parsons Company, a worldwide engineering firm, and Ryan Herco Products Corp., a national industrial plastics distributor. Mr. Ginnetti has a B.S. degree in Business Economics from the University of California, Santa Barbara.

Kurt Rogers was named Executive Vice President, General Counsel and Corporate Secretary during July of 2017. Mr. Rogers previously served as Chief Legal Officer and Secretary of Vonage Holdings Corp., a publicly-listed software technology and communications company, for more than seven years. Earlier, Mr. Rogers was a partner with international law firms Bingham McCutchen LLP (now Morgan, Lewis & Bockius LLP) and Latham & Watkins LLP and as an associate with Rogers & Wells LLP (now Clifford Chance LLP), where he represented clients in litigation, intellectual property and other matters. Mr. Rogers received a B.S. degree in Industrial and Labor Relations from Cornell University and his J.D. from Cornell Law School.

Ruth Abdulmassih was named Executive Vice President, Communication and Related Services during February of 2017. She joined Stericycle in November 2006 and has worked in various leadership positions in the Expert Solutions, Environmental Solutions and Communication Solutions businesses. Prior to her appointment, Ms. Abdulmassih was General Manager of the Communication and Related Services Business. She has 30 years of experience including working in various leadership roles in multiple businesses of Abbott Laboratories. Ms. Abdulmassih received a B.S. degree in Business/Marketing from Northwood Institute.

Brenda Frank has served as Executive Vice President and Chief People Officer since January 2016. She joined Stericycle with our acquisition of Shred-it in October 2015 where she spent six years as General Counsel and Executive Vice President of Human Resources and Franchise Relations. Ms. Frank has spent the last 20 years focusing on people, labor and employment, holding senior human resources and legal roles at global services companies such as ITOCHU INTERNATIONAL and Pitney Bowes. She started her career as a labor and employment attorney and litigator at Wilson Sonsini Goodrich & Rosati and Proskauer Rose. Ms. Frank received her B.S. in Accounting from S.U.N.Y Albany and her J.D. from New York University Law School.

Robert Guice was appointed Executive Vice President, International, effective September 2017. Mr. Guice joined Stericycle as Senior Vice President of Europe/Middle East/Africa/Asia with the Shred-it acquisition in October 2015. He had led international operations at Shred-it for more than 13 years. Prior to joining Shred-it, he spent two years with Iron Mountain Inc. and had several sales-related roles at Marconi Software Solutions (now Telent Plc) and International Computers Limited (now Fujitsu Ltd).

Available Information

We maintain an Internet website, [www.stericycle.com](http://www.stericycle.com), which provides a variety of information about the Company and where the Company's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports are available free of charge, as soon as reasonably practicable, following the time they are filed with or furnished to the Securities and Exchange Commission ("SEC"). Reports, proxy and information statements that are filed electronically with the SEC are available on the SEC's website, [www.sec.gov](http://www.sec.gov).



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### Item 1A. Risk Factors

Our consolidated results of operations, financial position, cash flows and reputation can be adversely affected by various risks. These risks include the principal factors listed below and the other matters set forth in this Form 10-K. There may be additional risks of which we are not presently aware or that we currently believe are immaterial that could have an adverse impact on our business.

We are subject to extensive governmental regulation, which is frequently difficult, expensive and time-consuming with which to comply; noncompliance could adversely affect our operations and efforts to grow our business results.

The regulated waste management and secure information destruction industries are subject to extensive federal, state and local laws and regulations relating to the collection, transportation, packaging, labeling, handling, documentation, reporting, treatment and disposal of regulated waste and the proper handling and protection of personal and confidential information. Our business requires us to obtain many permits, authorizations, approvals, certificates, and other types of governmental permissions and to comply with various regulations in every jurisdiction in which we operate. Federal, state and local regulations change often, and new regulations are frequently adopted. Changes in the regulations could require us to obtain new permits or to change the way in which we operate our business. We might be unable to obtain the new permits that we require, and the cost of compliance with new or changed regulations could be significant.

Many of the permits that we require, especially those to build and operate processing plants and transfer facilities, are difficult and time-consuming to obtain. They may also contain conditions or restrictions that limit our ability to operate efficiently, and they may not be issued as quickly as we need them (or at all). If we cannot obtain the permits, or if they contain unfavorable conditions, it could substantially impair our operations and reduce our revenues and/or profitability.

If we encounter regulatory compliance issues in the course of operating our businesses, we may experience adverse publicity, which may intensify if such non-compliance results in civil or criminal liability. This adverse publicity may harm our reputation, and result in difficulties in attracting new customers, or retaining existing customers.

The level of governmental enforcement of environmental regulations has an uncertain effect on our business and could reduce the demand for our services.

We believe that strict enforcement of laws and regulations relating to regulated waste collection and treatment and the proper handling and protection of personal and confidential information by governmental authorities can have a positive effect on our business. These laws and regulations increase the demand for our services. Relaxation of enforcement or other changes in governmental regulation of regulated waste and personal and confidential information could increase the number of competitors we face or reduce the need for our services.

Unfavorable market conditions, including those driven by economic or social trends, may impact the volume of regulated wastes or personal and confidential information we collect from customers.

The compliance-based services we provide rely on the generation of regulated wastes or personal and confidential information by our customers. The amount of material generated by our customers may be impacted by macro-economic trends associated with manufacturing and industrial markets, healthcare market dynamics, and trends associated with electronic and digital record keeping. Many of our services are provided on a subscription basis with

a monthly fee to minimize short-term or cyclical variability

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associated with these factors. However, some of our services are provided on a transactional basis, and long-term trends resulting from these factors could reduce the demand for our services, whether we provide them on a subscription or transactional basis.

We may experience difficulties executing on our multiyear Business Transformation.

We began a comprehensive, multiyear Business Transformation during the third quarter of 2017 with the intent of implementing a global EPM operating model. This new operating model is expected to standardize global end-to-end processes, align the company around key performance indicators, improve data management and decision making, and improve the Company's profitability. A global ERP system is the central component of our Business Transformation and will become the backbone of our performance management model. With an ERP, we will integrate all of our services lines and geographies onto one operating system. In addition to the implementation of a best-in-class system, there are five key initiatives of the Business Transformation which include: portfolio rationalization, operational optimization, organizational excellence and efficiency, commercial excellence, and strategic sourcing.

There is no assurance that the Business Transformation will achieve the anticipated benefits that we expect. Further, the ERP platform will require significant investment of human and financial resources and we may experience significant delays, increased costs and other difficulties. If the execution of our Business Transformation fails to achieve its intended benefits, our business, financial condition, and results of operation could be adversely affected.

Restrictions in our private placement notes and our Credit Agreement could adversely affect our business, financial condition, results of operations, ability to make distributions and value of our securities.

Our private placement notes and Credit Agreement contain customary affirmative covenants, including, among others, covenants pertaining to the delivery of financial statements; certain financial covenants; notices of default and certain other material events; payment of obligations; preservation of corporate existence, rights, privileges, permits, licenses, franchises and intellectual property; maintenance of property and insurance and compliance with laws, as well as customary negative covenants, including, among others, limitations on the incurrence of liens, investments and indebtedness; mergers and certain other fundamental changes; dispositions of assets; restricted payments; changes in our line of business; transactions with affiliates and burdensome agreements. These covenants could affect our ability to operate our business and may limit our ability to take advantage of potential business opportunities as they arise.

Our ability to comply with the covenants and restrictions contained in the private placement notes and our Credit Agreement may be affected by events beyond our control, including prevailing economic, financial, and industry conditions. If market or other economic conditions deteriorate, our ability to comply with these covenants may be impaired. A failure to comply with these provisions could result in a default or an event of default. Upon an event of default, unless waived, the lenders could elect to terminate its commitments, cease making further loans, require cash collateralization of letters of credit, cause its loans to become due and payable in full and force us and our subsidiaries into bankruptcy or liquidation. If the payment of our debt is accelerated, our assets may be insufficient to repay such debt in full, and the holders of our stock could experience a partial or total loss of their investment. See Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Liquidity and Capital Resources.

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Servicing debt and funding other obligations requires a significant amount of cash, and our ability to generate sufficient cash depends on many factors, some of which are beyond our control.

Our ability to make payments on and refinance our indebtedness and to fund our operations and capital expenditures depends on our ability to generate cash flow and secure financing in the future. Our ability to generate future cash flow depends, among other things, upon:

- future operating performance;
- general economic conditions;
- competition; and
- legislative and regulatory factors affecting our operations and business.

Some of these factors are beyond our control. There is no assurance that our business will generate cash flow from operations or that future debt or equity financings will be available to us to enable us to pay our indebtedness or to fund other needs. As a result, we may need to refinance all or a portion of our indebtedness on or before maturity. There is no assurance that we will be able to refinance any of our indebtedness on favorable terms, or at all. Any inability to generate sufficient cash flow or refinance our indebtedness on favorable terms could have an adverse effect on our financial condition.

The amount of our indebtedness could adversely affect our business.

As of December 31, 2017, we had a total of \$2.75 billion of outstanding indebtedness, including long-term debt and short-term debt and not reduced by unamortized debt issuance costs. We also have the ability to incur additional indebtedness subject to our financial covenants.

Our leverage could have adverse consequences on our business, including the following:

- we may be required to dedicate a substantial portion of our available cash to payments of principal and interest on our indebtedness;
- our ability to access credit markets on terms we deem acceptable may be impaired; and
- we may be limited in our flexibility to adjust to changing market conditions.

Risks from our international operations could adversely affect our business, financial condition and results of operations.

We have established operations in the United States and 20 other countries. Foreign operations carry special risks including:

- exchange rate and interest rate fluctuations;
- substantial inflation in certain markets;
- dependence in certain markets on government entities as customers;
- delays in the collection of accounts receivable related to certain government funding practices;
- government controls;
- import and export license requirements;
- political or economic instability;
- changes in or compliance with U.S., local or other applicable laws and regulations, including laws and regulations concerning anti-corruption, anti-bribery (i.e. U.S. Foreign Corrupt Practices Act), global trade, trade sanctions, competition, privacy and data protection;
- trade restrictions;
- changes in tariffs and taxes;



- industry or macro-economic trends;
- permitting and regulatory standards;
- differences in local laws, regulations, practices, and business customs;

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restrictions on repatriating foreign profits back to the United States or movement of funds to other countries; difficulties in staffing and managing international operations; increases and volatility in labor costs; and property ownership restrictions in certain countries.

Any of the foregoing or other factors associated with doing business abroad could adversely affect our business, financial condition and results of operations.

We face continuing risks relating to compliance with the U.S. Foreign Corrupt Practices Act (“FCPA”) and other anti-corruption and anti-bribery laws.

On June 12, 2017, the SEC issued a subpoena to the Company, requesting documents and information relating to the Company’s compliance with the FCPA or other foreign or domestic anti-corruption laws with respect to certain of the Company’s operations in Latin America. In addition, the Department of Justice has notified the Company that it is investigating this matter in parallel with the SEC. The Company is cooperating with these agencies. The Company is also conducting an internal investigation of these and other matters, including outside of Latin America, under the oversight of the Audit Committee of the Board of Directors and with the assistance of outside counsel, and this investigation has found evidence of improper conduct. These matters (and other matters which may arise or of which we become aware in the future) may be deemed to violate the FCPA and other anti-corruption and anti-bribery laws. Such determinations could subject us to, among other things, enforcement actions by the SEC or the DOJ or other regulatory bodies, fines, penalties, or litigation, which could adversely affect our business, financial condition and results of operations. In addition, any significant settlement amount may require us to incur additional indebtedness, adversely affect our liquidity and ability to service our indebtedness, or require us to restructure or amend the terms of our indebtedness. See Part II, Item 8. Financial Statements and Supplementary Data; Note 18 – Legal Proceedings in the Consolidated Financial Statements for more information regarding currently pending legal proceedings.

We are subject to a number of pending lawsuits.

We are a defendant in a number of pending lawsuits and may be named as a defendant in future lawsuits. These current and future matters may result in significant liabilities and diversion of our management’s time, attention and resources. Given the uncertain nature of litigation generally, we are not able in all cases to estimate the amount or range of loss that could result from an unfavorable outcome in these matters. In view of these uncertainties, the outcome of these matters may result in charges in excess of any established reserves and, to the extent available, liability insurance. Protracted litigation, including any adverse outcomes, may have an adverse impact on our reputation, business, financial condition or results of operations. In addition, any significant judgment or settlement amount may require us to incur additional indebtedness, adversely affect our liquidity and ability to service our indebtedness, or require us to restructure or amend the terms of our indebtedness. See Part II, Item 8. Financial Statements and Supplementary Data; Note 18 - Legal Proceedings in the Consolidated Financial Statements for more information regarding currently pending legal proceedings.

Changing market conditions in the healthcare industry, including healthcare consolidation and healthcare reform, could drive down our profits and slow our growth.

Within the United States, the healthcare industry is evolving to meet competing demands for increased healthcare coverage of a growing and aging population and economic pressures to reduce healthcare costs. As a result of these dynamics, hospital networks are consolidating physician practices into their networks, independent practices are consolidating together, and healthcare providers are focused on cutting costs within their businesses. These changes exert downward pricing pressure on services that we



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provide to healthcare customers which could adversely affect our profitability and growth. Commitments made in connection with the settlement of the MDL Action, as discussed in Part II, Item 8. Financial Statements and Supplementary Data; Note 18 - Legal Proceedings may affect our ability to increase prices in the future and a deterioration in our customer relationships as a result of the MDL Action may affect our ability to sell additional services to our customers, both of which could adversely affect our profitability and growth.

Aggressive pricing by existing competitors and the entrance of new competitors could drive down our profits and slow our growth.

The industries in which we participate are very competitive because of low barriers to entry, among other reasons. This competition has required us in the past to reduce our prices to our customers, may require us to reduce our prices in the future or may affect our ability to increase prices in the future. Substantial price reductions or our inability to increase prices could significantly reduce our earnings.

We face direct competition from a large number of small, local competitors. Because it requires very little financial investment to compete in the collection and transportation of regulated wastes or the secure destruction of personal and confidential information, there are many regional and local companies in these industries. We face competition from these businesses, and competition from them is likely to exist in new locations to which we may expand in the future. In addition, large national companies with substantial resources operate in the markets we serve. For example, in the United States, Waste Management, Inc., Clean Harbors, and Iron Mountain all offer competing services.

If we fail to maintain an effective system of internal controls over financial reporting, including remediating known material weaknesses in our internal controls as of December 31, 2017, we may not be able to report our financial results timely and accurately or prevent fraud, which could adversely affect investor confidence in our company, our results of operations and our stock price.

As disclosed in more detail in Part II, Item 9A. Controls and Procedures of this Report, we have identified certain material weaknesses as of December 31, 2017, in our internal controls over financial reporting. Due to these material weaknesses, we have also concluded our disclosure controls and procedures were not effective as of December 31, 2017.

Notwithstanding the material weaknesses that existed as of December 31, 2017, management has concluded that the consolidated financial statements included in this Annual Report fairly present, in all material respects, our financial position, results of operations and cash flows as of the dates, and for the periods, presented, in conformity with U.S. GAAP. Our management has taken action to remediate these material weaknesses, as discussed in more detail under Part II, Item 9A. Controls and Procedures of this Report, and is committed to continue investing significant time and resources and taking actions to remediate the material weaknesses in our internal control over financial reporting as we work to further integrate acquisitions, streamline disparate information technology systems, and enhance our control environment. Any failure to maintain or implement required new or improved controls, or any difficulties we encounter in their implementation, could result in additional significant deficiencies or material weaknesses, and result in material misstatements in our financial statements that could result in a restatement of financial statements.

Attacks on our information technology systems could damage our reputation, negatively impact our businesses and expose us to litigation risk.

We use computers in substantially all aspects of our business operations. We also use mobile devices, social networking and other online activities to connect with our employees and our customers. We rely heavily on various proprietary and third party information systems. Our reputation for the secure



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handling of customer and other sensitive information is critical to the success of our business. Although we have implemented safeguards and taken steps to prevent potential cyber incidents and security breaches, our preventative measures may not be entirely effective as the information technology and network infrastructure may still be vulnerable to attacks by hackers or breaches due to employee error, malfeasance, computer viruses, power outages, natural disasters, acts of terrorism or other disruptions. A cybersecurity incident and breach of our information systems could lead to theft, destruction, misappropriation or release of sensitive and/or confidential information or intellectual property which could result in business disruption, negative publicity, violation of privacy laws, loss of customers, brand damage, adverse financial and operational results, and potential litigation.

Our management depends on relevant and reliable information for decision making purposes, including key performance indicators and financial reporting. A lack of relevant and reliable information could preclude us from optimizing our overall performance. Any significant loss of data, failure to maintain reliable data, disruptions affecting our information systems, or delays or difficulties in transitioning to new systems could adversely affect our business, financial condition and results of operations. In addition, our ability to continue to operate our businesses without significant interruption in the event of a disaster or other disruption depends in part on the ability of our information systems to operate in accordance with our disaster recovery and business continuity plans. If our information systems fail and our redundant systems or disaster recovery plans are not adequate to address such failures, or if our business interruption insurance does not sufficiently compensate us for any losses that we may incur, our revenues and profits could be reduced and the reputation of our brands and our business could be adversely affected. In addition, remediation of such problems could result in significant, unplanned capital investments.

Fluctuations in the commodity market related to the demand and price for recycled paper may affect our business, financial condition and results of operations.

We sell nearly all of the shredded paper from our secure information destruction business to paper companies and recycled paper brokers. Sorted office paper is marketed as a commodity and is subject to significant demand and price fluctuations beyond our control. Historically, economic and market shifts, fluctuations in capacity and changes in foreign currency exchange rates have created cyclical changes in prices, sales volume and margins for pulp and paper products. The length and magnitude of industry cycles have varied over time and by product, but generally reflect changes in macroeconomic conditions and levels of industry capacity. The overall levels of demand for the pulp and paper products, and consequently its sales and profitability, reflect fluctuations in levels of end-user demand, which depend in part on general macroeconomic conditions in North America and worldwide, as well as increasing use of digitalization. As a result, the market demand for recycled paper can be volatile due to factors beyond our control. Lack of demand for our shredded paper material could adversely affect our business, financial condition and results of operations.

We may incur significant charges as a result of our portfolio optimization strategy; our portfolio optimization strategy may not achieve the desired results.

As part of our long-term strategy for improving our profitability and return on invested capital, we continue to evaluate the performance of our entire portfolio of assets and businesses. Based on this evaluation, we may sell certain assets or businesses or exit particular markets. Any divestitures resulting from this strategy may cause us to record significant write-offs, including those related to goodwill and other intangible assets. In addition, divestitures we complete may not yield the targeted improvements in our business. Any charges that we are required to record or the failure to achieve the intended financial results associated with our portfolio optimization strategy could have a material adverse effect on our business, financial condition or results of operations.



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A change or deterioration in our relations with our employees or an increase in labor and employment costs could have a materially adverse effect on our business, financial condition and results of operations.

Labor and employment is one of our highest costs and increases in employment costs could materially affect our cost structure and our profitability. We compete with other businesses in our markets for qualified employees and the labor supply is sometimes tight in our markets. A shortage of qualified employees or further unionization would require us to incur additional costs related to wages and benefits; inefficiencies in operations; unanticipated costs in sourcing temporary or third party labor; legal fees and interference with customer relationships.

The Company is a party to 15 collective bargaining agreements in the U.S. and Canada, covering approximately 645 employees, or approximately 4.0%, of our total U.S. and Canadian workforce. These agreements expire on a scheduled basis depending upon the negotiated length of the contract's term. Collective bargaining agreement negotiations occur every year depending upon which agreements expire and whether one or both parties seek the modification of terms.

While we believe the Company will maintain good working relations with its employees on acceptable terms, there can be no assurance that we will be able to negotiate the terms of future agreements with unions in a manner acceptable to the Company. There is also no guarantee that current non-union employees will not seek union representation resulting in additional collective bargaining agreements with associated increased costs to the Company. Potential work disruptions from labor disputes may disrupt our businesses and adversely affect our brand, customer relations, financial condition and results of operations.

If we are unable to acquire regulated waste, secure information destruction and other businesses, our revenue and profit growth may be slowed.

Historically, our growth strategy has been based in part on our ability to acquire and integrate other businesses. We do not know whether in the future we will be able to:

- identify suitable businesses to buy;
- complete the purchase of those businesses on terms acceptable to us; and
- avoid or overcome any concerns expressed by regulators.

We compete with other potential buyers for the acquisition of regulated waste and secure information destruction companies and other businesses. This competition may result in fewer opportunities to purchase companies that are for sale. It may also result in higher purchase prices for the businesses that we want to purchase.

We also do not know whether our growth strategy will continue to be effective. Our business is significantly larger than before, and new acquisitions may not have the incremental benefits that we have obtained in the past.

The implementation of our acquisition strategy could be affected in certain instances by the concerns of federal, state and foreign regulators, which could result in our not being able to realize the full synergies or profitability of particular acquisitions.

We may become subject to inquiries and investigations by federal, state or foreign antitrust or other regulators from time to time in the course of completing acquisitions of other regulated waste and secure information destruction businesses. In order to obtain regulatory clearance for a particular acquisition, we could be required to modify certain operating practices of the acquired business or to divest ourselves of one or more assets of the acquired business. Changes in the terms of our acquisitions required by





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regulators or agreed to by us in order to settle regulatory investigations could impede our acquisition strategy or reduce the anticipated synergies or profitability of our acquisitions. The likelihood and outcome of inquiries and investigations from federal, state or foreign regulators in the course of completing acquisitions cannot be predicted.

We may not realize the synergies and growth opportunities that are anticipated from acquisitions.

The benefits we expect to achieve as a result of acquisitions that we complete will depend, in part, on our ability to realize targeted synergies and anticipated growth opportunities. Our success in realizing these synergies and growth opportunities, and the timing of this realization, depends on the successful integration of other business and operations with our pre-existing business and operations. Even if we are able to integrate these businesses and operations successfully, this integration may not result in the realization of the full benefits of the synergies and growth opportunities we currently expect within the anticipated time frame or at all.

We will incur integration costs in connection with our acquisition strategy.

Our business strategy includes growth through acquisition. Each acquisition includes a detailed execution plan to integrate the acquired operations into Stericycle's existing infrastructure to achieve synergies. We expect to incur costs to implement such cost savings measures. We anticipate that we will incur certain non-recurring charges in connection with this integration, including costs and charges associated with integrating operations, processes and systems. We cannot identify the timing, nature and amount of all such charges. The significant acquisition-related integration costs could adversely affect our results of operations in the period in which such charges are recorded or our cash flow in the period in which any related costs are actually paid. We believe that synergies will come from the elimination of duplicative costs such as selling, general and administrative expenses, as well as the realization of other efficiencies related to the integration of the businesses such as the optimization of logistics, truck and plant utilization, improvements in route density and facility optimization, and contact center efficiencies. We also believe such synergies will offset incremental acquisition-related costs over time, but this net benefit may not be achieved in the near term, or at all.

Market conditions could adversely change and our earnings could decline resulting in charges to impair intangible assets, such as goodwill.

As a result of our various acquisitions, the Consolidated Balance Sheet at December 31, 2017 contains goodwill of \$3.60 billion and other intangible assets, net of accumulated amortization of \$1.79 billion. In accordance with Accounting Standards Codification Topic 350, Intangibles - Goodwill and Other, we evaluate on an ongoing basis whether facts and circumstances indicate any impairment to the value of indefinite-lived intangible assets such as goodwill. As circumstances after an acquisition can change, we may not realize the value of these intangible assets. During 2017, we wrote off \$21.0 million of permits, tradenames and customer relationships due to Operational Optimization. We also recognized a \$65.0 million non-cash goodwill impairment charge related to our Latin America reporting unit. We recognized this impairment due to a reduction of forecasted future cash flows in Latin America as discussed in the Impairment section of Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations. The recognition of these impairments, or potential future impairments, could have a material adverse impact on our results of operations.

The handling of regulated waste exposes us to the risk of environmental liabilities.

As a company engaged in regulated waste management, we face risks of liability for environmental contamination. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA") and similar state laws impose strict liability on current or former owners and operators of facilities that

release hazardous substances into the environment as well as on the businesses that

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generate those substances and the businesses that transport them to the facilities. Responsible parties may be liable for substantial investigation and clean-up costs even if they operated their businesses properly and complied with applicable federal and state laws and regulations. Liability under CERCLA may be joint and several, which means that if we were found to be a business with responsibility for a particular CERCLA site, we could be required to pay the entire cost of the investigation and clean-up even though we were not the party responsible for the release of the hazardous substance and even though other companies might also be liable.

Our pollution liability insurance excludes liabilities under CERCLA. Thus, if we were to incur liability under CERCLA and if we could not identify other parties responsible under the law whom we are able to compel to contribute to our expenses, the cost to us could be substantial and could impair our profitability and reduce our liquidity. Our customer service agreements make clear that the customer is responsible for making sure that only appropriate materials are disposed of. If there were a claim against us that a customer might be legally liable for, we might not be successful in recovering our damages from the customer.

Tax interpretations and changes in tax regulations and legislation could adversely affect us.

Tax interpretations, regulations and legislation in the various jurisdictions in which we operate are subject to measurement uncertainty and the interpretations can impact net income, income tax expense or recovery, and deferred income tax assets or liabilities. Tax rules and regulations, including those relating to foreign jurisdictions, are subject to interpretation and require judgment by us that may be challenged by the taxation authorities upon audit. Although we believe our assumptions, judgements and estimates are reasonable, changes in tax laws or our interpretation of tax laws and the resolution of any tax audits could significantly impact the amounts provided for income taxes in our consolidated financial statements.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The changes included in the Tax Act are broad and complex. The final impact of the Tax Act may differ from the estimates provided elsewhere in this report, possibly materially, due to, among other things, changes in interpretations of the Tax Act, any legislative action to address questions that arise because of the Tax Act, any changes in accounting standards for income taxes or related interpretations in response to the Tax Act, or any updates or changes to the provisional estimates the Company has utilized to calculate the transition tax, including impacts from changes to current year earnings and foreign exchange rates of foreign subsidiaries.

We face risks associated with project work and services that are provided on a non-recurring basis.

While the majority of our business is based on long-term contracts for regularly scheduled service, we do have a portion of revenue which is derived from short-term projects or services that we provide on a non-recurring basis. Product recall and retrieval events, one-time purge events for secure information destruction, and certain hazardous waste services that we provide on a project or non-recurring basis are not predictable in terms of frequency, size or duration. Our customers' need for these services could be influenced by regulatory changes, fluctuations in commodity market performance, natural disasters and acts of God, or other factors beyond our control. Variability in the demand for these services could adversely affect our business, financial condition and results of operations.

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The handling and treatment of regulated waste carries with it the risk of personal injury to employees and others.

Our business requires our employees to handle materials that may be infectious or hazardous to life and property in other ways. While we try to handle such materials with care and in accordance with accepted and safe methods, the possibility of accidents, leaks, spills, and acts of God always exists.

Examples of incidents that may present possible exposure to hazardous materials include:

- truck accidents;
- damaged or leaking containers;
- improper storage of regulated waste by customers;
- improper placement by customers of materials into the waste stream that we are not authorized or able to process, such as certain body parts and tissues; or
- malfunctioning treatment plant equipment (i.e. power outages, ineffective backup systems).

Human beings, animals or property could be injured, sickened or damaged by exposure to regulated waste. This in turn could result in lawsuits in which we are found liable for such injuries, and substantial damages could be awarded against us.

While we carry liability insurance intended to cover these contingencies, particular instances may occur that are not insured against or that are inadequately insured against. An uninsured or underinsured loss could be substantial and could impair our profitability and reduce our liquidity.

The handling of secure information for destruction exposes us to potential data security risks that could result in monetary damages against us and could otherwise damage our reputation, and adversely affect our business, financial condition and results of operations.

The protection of customer, employee, and company data is critical to our business. The regulatory environment in the United States and Canada surrounding information security and privacy is increasingly demanding, with the frequent imposition of new and constantly changing requirements. Certain legislation, including the FACTA, the HIPAA, the Economic Espionage Act in the United States, the Personal Information Protection and Electronic Documents Act in Canada and the General Data Protection Regulation in the EU, require documents to be securely destroyed to avoid identity theft and inadvertent leakage of confidential and sensitive information. A significant breach of customer, employee, or company data could attract a substantial amount of media attention, damage our customer relationships and reputation, and result in lost sales, fines, or lawsuits. In addition, an increasing number of countries have introduced and/or increased enforcement of comprehensive privacy laws or are expected to do so. The continued emphasis on information security as well as increasing concerns about government surveillance may lead customers to request us to take additional measures to enhance security and/or assume higher liability under our contracts. As a result of legislative initiatives and customer demands, we may have to modify our operations to further improve data security. Any such modifications may result in increased expenses and operational complexity, and adversely affect our reputation, business, financial condition and results of operations.

Our participation in multi-employer pension plans may subject us to liabilities that could materially adversely affect our liquidity, cash flows and results of operations.

We participate in multi-employer pension plans administered by employer and union trustees. To the extent that those plans are underfunded, the Employee Retirement Income Security Act of 1974, as amended by the Multi-Employer Pension Plan Amendments Act of 1980 ("ERISA"), may subject us to substantial liabilities in the event we, whether partially or totally, cease to have obligations to contribute to the plans. Under current law regarding multi-employer

defined benefit plans, circumstances such as a

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plan's termination, an employer's partial or complete withdrawal from, or the mass withdrawal of all contributing employers from, an underfunded multi-employer defined benefit plan can trigger our obligation to make payments to the plan for our proportionate share of the multi-employer plan's unfunded vested liabilities. Furthermore, the Pension Protection Act of 2006 added new funding rules generally applicable to plan years beginning after 2007 for multi-employer plans that are classified as "endangered," "seriously endangered," or "critical" status. If plans in which we participate are in critical status or underfunded, we could be required to make additional contributions.

Based upon the information available to us from plan administrators as of March 31, 2017, certain of the multi-employer pension plans in which we participate are underfunded. The Pension Protection Act requires that underfunded pension plans improve their funding ratios within prescribed intervals based on the level of their underfunding. We have been notified that certain plans are in "critical" status and these plans may require additional contributions. The amount of additional funds we may be obligated to contribute in the future cannot be estimated, as such amounts will be based on future levels of employee work that require the specific use of the union employees covered by these plans, investment returns and the level of underfunding of such plans. Additional funding could adversely affect our liquidity, cash flows and results of operations. For more information, see Part II, Item 8. Financial Statements and Supplementary Data; Note 11 – Retirement and Other Employee Benefit Programs in the Consolidated Financial Statements.

Increases in transportation costs may adversely affect our business and reduce our earnings.

We maintain a vast transportation network and an extensive fleet of transportation vehicles. A significant increase in market prices for trucks or fuel could adversely affect our business through higher transportation costs and reduce our operating margins and reported earnings.

Some of our customers have suffered financial difficulties affecting their credit risk, which could negatively impact our operating results.

We provide service to a number of customers, including governmental entities and municipalities, some of which have suffered significant financial difficulties in recent years. Some of these entities could be unable to pay amounts owed to us or renew contracts with us at previous or increased rates. The inability of our customers to pay us in a timely manner or to pay increased prices, particularly large national accounts, could negatively affect our operating results.

The loss of our senior executives could affect our ability to manage our business profitably.

We depend on a small number of senior executives. Our future success will depend upon, among other things, our ability to keep these executives and to hire other highly qualified employees at all levels. We compete with other potential employers for employees, and we may not be successful in hiring and keeping the executives and other employees that we need. We do not have written employment agreements with any of our executive officers, and officers and other key employees could leave us with little or no prior notice, either individually or as part of a group. Our loss of, or inability to hire, key employees could impair our ability to manage our business and direct its growth.

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Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We lease office space for our corporate office in Lake Forest, Illinois. Domestically, we own or lease 123 processing facilities, which are primarily autoclaves and incinerator facilities for medical waste and shredders for secure information destruction. All of our processing facilities also serve as collection sites. We own or lease 214 additional transfer sites, 13 communication centers, 18 customer service or administrative offices, and 72 warehouse or parking facilities. Internationally, we own or lease 133 processing facilities, the majority of which are autoclave and incinerator facilities for medical waste. We also own or lease 111 additional transfer sites, 9 communication centers, 57 customer service or administrative offices, 38 warehouse or parking facilities, and 2 landfills. We believe that these processing and other facilities are adequate for our present and anticipated future needs.

Item 3. Legal Proceedings

See Part II, Item 8. Financial Statements and Supplementary Data; Note 18 - Legal Proceedings in the Consolidated Financial Statements.

Item 4. Mine Safety Disclosures

Not Applicable.



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## PART II

## Item 5. Market Price for the Registrant's Common Equity and Related Stockholder Matters

The Company's common stock is listed on the Nasdaq Global Select Market under the ticker symbol "SRCL." There were 88 shareholders of record as of February 19, 2018.

We did not declare or pay any cash dividends during 2017 or 2016 on our common stock. We currently expect that we will retain future earnings for use in the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future.

See Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following table provides the high and low sales prices of our Common Stock for each calendar quarter during our two most recent fiscal years:

Quarter	High	Low
First quarter 2017	\$85.76	\$73.71
Second quarter 2017	87.00	76.32
Third quarter 2017	82.76	69.00
Fourth quarter 2017	72.69	62.50
First quarter 2016	\$126.19	\$105.99
Second quarter 2016	128.20	93.27
Third quarter 2016	107.25	77.01
Fourth quarter 2016	80.09	71.61

Under resolutions that our Board of Directors adopted, we have been authorized to purchase a cumulative total of 24,621,640 shares of our common stock on the open market. As of December 31, 2017, we had purchased a cumulative total of 21,960,871 shares. No common stock purchases were made during 2017. See Part II, Item 8. Financial Statements and Supplementary Data; Note 13 – Preferred Stock in the Consolidated Financial Statements for a description of our repurchases of depository shares of mandatory convertible preferred stock during 2017. We apply the common stock equivalent of repurchases of the preferred stock against the number of shares of our common stock authorized for repurchase by the Board of Directors.

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Performance Graph

The following graph compares the cumulative total return (i.e., share price appreciation plus dividends) on our common stock over the five-year period ended December 31, 2017 with the cumulative total return for the same period on the Nasdaq National Market Composite Index, the S&P 500 Index, the Russell 3000 Index, and the Dow Jones U.S. Waste & Disposal index. The graph assumes that \$100 was invested on December 31, 2012 in our common stock and in the shares represented by each of the four indices, and that all dividends were reinvested.

The stock price performance of our common stock reflected in the following graph is not necessarily indicative of future performance.

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## Item 6. Selected Financial Data

In millions, except per share data

	Years Ended December 31,				
	2017	2016	2015	2014	2013
<b>Statements of Income Data</b>					
Revenues	\$3,580.7	\$3,562.3	\$2,985.9	\$2,555.6	\$2,142.8
Depreciation and amortization	249.5	252.5	127.4	104.6	88.4
(Loss) income from operations	(7.6 )	433.8	487.6	556.3	535.6
Mandatory convertible preferred stock dividend	36.3	39.4	10.1	-	-
Gain on repurchase of preferred stock	(17.3 )	(11.3 )	-	-	-
Net income attributable to Stericycle, Inc. common shareholders <sup>(1)</sup>	23.4	178.2	256.9	326.5	311.4
Earnings per common share attributable to Stericycle, Inc. common shareholders - diluted <sup>(1)</sup>	\$0.27	\$2.08	\$2.98	\$3.79	\$3.56
<b>Statements of Cash Flow Data</b>					
Net cash flow provided by (used for):					
Operating activities <sup>(2)</sup>	\$508.6	\$560.8	\$386.1	\$448.5	\$405.3
Investing activities	(193.0 )	(195.6 )	(2,533.9)	(462.8 )	(235.0 )
Financing activities <sup>(2)</sup>	(321.2 )	(376.8 )	2,185.4	(30.0 )	(136.0 )
<b>Balance Sheets Data</b>					
Cash and cash equivalents	\$42.2	\$44.2	\$55.6	\$22.2	\$67.2
Total assets	6,988.3	6,980.1	7,065.2	4,373.3	3,888.0
Long-term debt, net	2,615.3	2,877.3	3,040.4	1,527.2	1,280.7
Stericycle, Inc. equity	\$2,896.6	\$2,805.8	\$2,729.9	\$1,895.0	\$1,750.5

<sup>(1)</sup>See Part II, Item 8. Financial Statements and Supplementary Data; Note 14 - Earnings per Common Share ("EPS") in the Consolidated Financial Statements for information concerning the computation of diluted EPS.

<sup>(2)</sup>To conform to the current period cash flows presentation, we reclassified \$13.6 million net repayments of bank overdrafts from Operating Activities to Financing Activities for the year ended December 31, 2016 and \$4.3 million net proceeds from bank overdrafts from Operating Activities to Financing Activities for the year ended December 31, 2015. No changes in presentation were made for the years ended December 31, 2014 and 2013. For more details on the items below, see Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

In 2017, net income attributable to Stericycle, Inc. common shareholders included the following after-tax effects: \$20.0 million of Business Transformation costs; \$77.4 million of intangible amortization; \$26.2 million of acquisition and integration expenses; \$46.8 million of Operational Optimization expenses; \$7.1 million of net loss on divestitures; \$203.5 million of litigation, settlement and regulatory compliance expenses; \$36.3 million of dividends paid on our Series A mandatory convertible preferred stock; \$67.2 million non-cash goodwill impairment charge in Latin America; \$15.3 million of consulting and professional services related to the implementation of the new revenue recognition and lease accounting standards and internal control remediation activities; and \$129.8 million tax benefit from the provisional recording of the impact of U.S. tax reform. The net effect of these items negatively impacted diluted EPS by \$4.07. For the purpose of calculating the ultimate EPS impact of our mandatory convertible preferred stock, we calculate the impact by excluding the mandatory convertible preferred stock dividend and using the "if-converted" method of share dilution.



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In 2016, net income attributable to Stericycle, Inc. common shareholders included the following after-tax effects: \$83.5 million of intangible amortization; \$38.1 million of acquisition and integration expenses; \$40.4 million of Operational Optimization expenses; \$23.2 million of loss on divestitures; \$4.4 million of litigation, settlement and regulatory compliance expenses; \$39.4 million of dividends paid on our Series A mandatory convertible preferred stock; \$3.1 million of non-cash operating permit and other impairment charge; \$5.5 million of consulting and professional services related to internal control remediation activities and implementation of the new revenue recognition standard; and \$3.1 million gain from an insurance settlement. The net effect of these items negatively impacted diluted EPS by \$2.45. For the purpose of calculating the ultimate EPS impact of our mandatory convertible preferred stock, we calculate the impact by excluding the mandatory convertible preferred stock dividend and using the “if-converted” method of share dilution.

In 2015, net income attributable to Stericycle, Inc. common shareholders included the following after-tax effects: \$29.8 million of intangible amortization; \$55.4 million of acquisition and integration expenses; \$24.0 million of Operational Optimization expenses; \$39.8 million of litigation, settlement and regulatory compliance expenses; and \$10.1 million of dividends paid on our Series A mandatory convertible preferred stock. The net effect of these items negatively impacted diluted EPS by \$1.76. For the purpose of calculating the ultimate EPS impact of our mandatory convertible preferred stock, we calculate the impact by excluding the mandatory convertible preferred stock dividend and using the “if-converted” method of share dilution.

In 2014, net income attributable to Stericycle, Inc. common shareholders included the following after-tax effects: \$27.8 million of acquisition and integration expenses; \$10.1 million of Operational Optimization expenses; and \$4.0 million of litigation, settlement and regulatory compliance expenses. The net effect of these items negatively impacted diluted EPS by \$0.48.

In 2013, net income attributable to Stericycle, Inc. common shareholders included the following after-tax effects: \$12.3 million of acquisition and integration expenses; \$3.1 million of Operational Optimization expenses; and \$1.4 million of litigation, settlement and regulatory compliance expenses. The net effect of these items negatively impacted diluted EPS by \$0.19.

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## Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of Stericycle’s financial condition and results of operations should be read in conjunction with our Consolidated Financial Statements and related notes in Part II, Item 8. Financial Statements and Supplementary Data of this Report.

## Overview

Stericycle is a multinational business-to-business services company with a core purpose to protect people and brands, promote health, and safeguard the environment. Stericycle works with its customers to ensure regulatory compliance, minimize environmental impact, manage business and personal risk, improve safety, and facilitate communication. Services include medical waste disposal, sharps disposal management, product recalls and retrievals, OSHA and HIPAA compliance programs, pharmaceutical returns and disposal, sustainability services, retail hazardous waste management, hospital waste stream management, secure information destruction, and inbound/outbound communication solutions. Stericycle provides its services in the United States and 20 other markets around the world.

For further information on the Company’s business, segments, and services, see Part I, Item 1. Business.

The following table identifies key strategies and other significant matters impacting our business for the years ended December 31, 2017, 2016, and 2015:

In millions

	Years Ended December 31,		
	2017	2016	2015
Business Transformation	\$31.3	\$-	\$-
Intangible Amortization	118.4	129.3	45.5
Acquisitions and Integration	40.7	60.9	79.9
Operational Optimization	71.1	59.1	34.8
Divestitures	9.5	27.1	-
Litigation, Settlements and Regulatory Compliance	327.7	7.2	59.7
Impairment	65.0	1.4	-
Other	24.8	8.2	-
<b>Total pre-tax</b>	<b>\$688.5</b>	<b>\$293.2</b>	<b>\$219.9</b>
<b>Capital Allocation (Preferred Dividends)</b>	<b>\$36.3</b>	<b>\$39.4</b>	<b>\$10.1</b>
U.S. Tax Reform	(129.8)	-	-
<b>Total after-tax</b>	<b>\$(93.5)</b>	<b>\$39.4</b>	<b>\$10.1</b>

## Business Transformation

Stericycle is focused on driving long-term growth, profitability and delivering enhanced shareholder value. As part of our business strategy, in the third quarter of 2017, we initiated a comprehensive multiyear Business Transformation with the objective to improve long-term operational and financial performance. The Business Transformation is based on a strategic vision to build a best-in-class enterprise performance management (“EPM”) operating model to enable the Company to operate more efficiently, provide an enhanced experience to customers, better capitalize on future growth opportunities and establish greater controls and oversight to drive more consistent results. Additionally, a key

component to the Business Transformation is the implementation of an enterprise resource planning (“ERP”) system which will

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leverage standard processes throughout the organization to accelerate decision making, expedite acquisition integration, remediate compliance and control issues, and enable real-time analytics.

Key initiatives of the Business Transformation include:

- **Portfolio Rationalization:** Executing on a comprehensive review of the Company's global service lines to identify and pursue the divestiture of non-strategic assets.
  - **Operational Optimization:** Standardizing route planning logistics, modernizing field operations, and driving network efficiency across facilities.
  - **Organizational Excellence and Efficiency:** Redesigning the Company's organizational structure to optimize resources and align around a global shared business services model.
  - **Commercial Excellence:** Aligning our sales and service organizations around the customer, standardizing our customer relationship management process, and expanding customer self-service options.
  - **Strategic Sourcing:** Reducing spend through global procure-to-pay processes and leveraging organizational scale.
- As part of the Business Transformation, the Company expects to record approximately \$275 million to \$300 million in expenses and capital expenditures over five years.

Business Transformation costs include the following types of activities:

- Employee termination,
- Asset impairment,
- Consulting and professional services including system integration, project management, ERP advisory, and information technology related costs,
- Internal resources, including project related incentive compensation, and
- Other related expenses.

For the year ended December 31, 2017, we recorded \$31.3 million in costs related to the Business Transformation, which included \$16.4 million for consulting and professional services primarily related to business case development, execution and governance, \$10.8 million for employee termination, \$2.4 million non-cash impairment of long-lived assets, \$1.0 million of other related expenses which are reflected as part of Selling, General and Administrative ("SG&A") on the Consolidated Statements of Income, and \$0.7 million for employee termination which is reflected as part of Cost of revenues ("COR") on the Consolidated Statements of Income. In the fourth quarter of 2017, we capitalized \$10.9 million of licenses for the ERP system, which is classified within Property, plant and equipment (Construction in progress) on the Consolidated Balance Sheets.

### Intangible Amortization

For the years ended December 31, 2017, 2016, and 2015, the Company recorded \$118.4 million, \$129.3 million, and \$45.5 million, respectively, of intangible amortization expense from acquisitions.

### Acquisition and Integration

We have proven that acquisitions are a steady and efficient way to scale operations, build critical customer density for transportation and treatment operations, and enter new markets or geographies, as



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well as provide opportunity to introduce our additional services to the acquired customers. In our early history, acquisitions were a key strategy to rapidly building our customer base and route density in the United States. We have been able to expand internationally through acquisition and now operate in 20 different markets outside the U.S. Over our history, Stericycle has completed 496 acquisitions, with 271 in the United States and 225 internationally. We expect to continue our acquisition strategy, remaining focused on small, highly accretive, tuck in acquisitions that broaden our various service capabilities while creating value for our shareholders.

The following table summarizes the locations and services of our acquisitions for the years ended December 31, 2017, 2016, and 2015:

Acquisition Locations	Total Number of Acquisitions	Service		
		Regulatory Wash	Secure Information Destruction	Communication Services
United States	21	2	18	1
Canada	1	-	1	-
France	1	-	1	-
Netherlands	2	1	1	-
Portugal	1	1	-	-
Republic of Korea	2	2	-	-
Spain	2	1	1	-
<b>Total 2017 Acquisitions</b>	<b>30</b>	<b>7</b>	<b>22</b>	<b>1</b>
United States	21	5	15	1
Australia	3	-	3	-
Republic of Korea	1	1	-	-
Romania	2	2	-	-
Spain	3	2	1	-
United Kingdom	1	1	-	-
<b>Total 2016 Acquisitions</b>	<b>31</b>	<b>11</b>	<b>19</b>	<b>1</b>
United States	19	13	4	2
Brazil	2	2	-	-
Canada	2	-	1	1
Ireland	1	1	-	-
Mexico	3	3	-	-
Netherlands	2	2	-	-
Republic of Korea	6	6	-	-
Romania	4	4	-	-
Spain	4	4	-	-
<b>Total 2015 Acquisitions</b>	<b>43</b>	<b>35</b>	<b>5</b>	<b>3</b>

Our acquisition and integration costs include the following types of activities:

- Consulting and professional services incurred in connection with the identification, valuation, due diligence, and execution of an acquisition or potential acquisition, and acquisition internal resources,
- Consulting and professional services incurred in connection with integrating newly acquired businesses, which may include the integration of the sales or collection processes and systems, rebranding to the Company's name, closure

activities, employee termination related to personnel redundancies, contract and lease exit costs, and other integration related activities,  
• Accelerated depreciation, and

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### ◆ Change in fair value of contingent consideration.

For the years ended December 31, 2017, 2016, and 2015, the Company recorded \$40.7 million, \$60.9 million, and \$79.9 million, respectively, of acquisition and integration expenses which are reflected as part of SG&A on the Consolidated Statements of Income.

Acquisition and integration expenses for the year ended December 31, 2017 included \$10.6 million acquisition expenses, \$30.5 million integration expenses, and a \$0.4 million favorable change in the fair value of contingent consideration.

Acquisition and integration expenses for the year ended December 31, 2016 included \$9.6 million acquisition expenses, \$53.3 million integration expense (primarily related to the fourth quarter 2015 Shred-it acquisition), and a \$2.0 million favorable change in fair value of contingent consideration.

Acquisition and integration expenses for the year ended December 31, 2015 included \$39.1 million acquisition expenses (primarily related to the fourth quarter 2015 Shred-it acquisition), \$41.4 million integration expense, and a \$0.6 million favorable change in fair value of contingent consideration.

The results of operations of our acquired businesses have been included in the Consolidated Statements of Income from the date of the acquisitions. Pro forma results of operations for these acquisitions are not presented because the pro forma effects, individually or in the aggregate, were not material to the Company's results of operations.

### Operational Optimization

For the years ended December 31, 2017, 2016, and 2015, the Company recorded \$71.1 million, \$59.1 million, and \$34.8 million, respectively, of Operational Optimization expenses which are reflected as part of SG&A on the Consolidated Statements of Income.

Plant throughput and route density are competitive strengths of Stericycle. We maintain such strengths by making adjustments to our network of transportation and treatment facilities to optimize overall logistics and processing capabilities within a service line while reducing operational costs. As part of these efforts, we seek to reduce network redundancies by consolidating facilities, closing the redundant facility, and restructuring the local organization and operation for efficiency.

Our Operational Optimization costs include the following types of activities:

- ◆ Consulting and professional services,
- ◆ Employee termination,
- ◆ Closure activities,
- ◆ Contract and lease exit costs,
- ◆ Environmental and retirement obligations,
- ◆ Impairments and accelerated depreciation, and
- ◆ Other related expenses.

From 2015 to 2017, we closed/consolidated a number of Communications and Related Services business sites (mostly call centers), reducing them from 80 to 31. By better leveraging technology and cross-training agents, we were able to reduce redundant facilities and resources and improve overall customer service levels.



Part II

In 2016, as a result of the Company's evaluation and optimization of their portfolio of services, Stericycle ceased operating the patient transport business in the U.K. and exited from related contracts during 2016 and 2017.

During the first quarter of 2017, management began executing a realignment of our operations to reduce labor redundancies and facility costs in our Latin American countries. Various operating locations, primarily in Brazil, have been consolidated to increase efficiency while reducing headcount.

As part of our optimization efforts in 2017, we incurred operating permit and long-lived asset non-cash impairment charges at our plant in Japan related to facility rationalization.

For the year ended December 31, 2017, we recorded \$71.1 million of Operational Optimization expenses:

\$41.6 million in the U.S. of which \$1.6 million employee termination, and \$3.2 million lease exit costs related to the closure/consolidation of call centers in our Domestic Communications and Related Services business, \$8.9 million non-cash impairment charges related to operating permits and rationalization of tradenames, \$9.2 million consulting and professional services to reduce operational redundancies, and \$18.7 million to improve efficiency such as optimizing overall logistics, and centralizing our customer service and sales functions for our secure information destructions locations.

\$15.7 million operational optimization costs in Latin America, of which \$3.2 million employee termination, \$4.2 million closure and exit costs were due to rationalizing our operations, environmental matters, and \$8.3 million non-cash impairment charges for long-lived assets, operating permits and customer relationships;

\$8.8 million of charges related to facility rationalization in Japan, including \$8.7 million of non-cash impairment charges for long-lived assets and operating permits; and

\$0.5 million of employee severance charges and \$4.5 million closure and exit charges for facility rationalization and contract exit charges in the U.K.

For the year ended December 31, 2017, all the charges described above were included in SG&A, except for \$0.4 million which was included in COR.

For the year ended December 31, 2016, we recorded \$59.1 million of Operational Optimization expenses:

\$4.5 million related to employee termination;

\$26.5 million of charges to exit certain of our patient transport services contracts and plant conversion expense in the U.K.;

\$16.1 million, mostly in the U.S., to improve efficiency such as optimizing overall logistics and processing capabilities for our security information destruction locations, and centralizing customer service and sales functions for our medical waste business, including \$6.8 million lease exit costs related to the closure/consolidation of call centers in our Communications and Related Services business; and

\$12.0 million of consulting and professional services to identify opportunities to reduce operational redundancies.

For the year ended December 31, 2016, all the charges described above were included in SG&A, except for \$9.0 million which was in COR.



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For the year ended December 31, 2015, we recorded \$34.8 million of Operational Optimization expenses:

- \$8.6 million related to employee termination;
- \$8.1 million non-cash impairment charges for long-lived assets and intangible assets;
- \$10.2 million in the U.S. to improve efficiency, including \$of 3.6 million lease exit costs related to the closure/consolidation of call centers in our Communications and Related Services business; and
- \$7.9 million of costs incurred due to plant conversion and facility rationalization in the U.K.

For the year ended December 31, 2015, all the charges described above were included in SG&A, except for \$1.5 million which was included in COR.

Divestitures

For the years ended December 31, 2017 and 2016, the Company recorded \$9.5 million and \$27.1 million, respectively, of divestiture expenses which are reflected as part of SG&A on the Consolidated Statements of Income. The Company did not record any divestiture related expense for the year ended December 31, 2015.

The Company evaluates their portfolio of services on an ongoing basis with a country-by-country and service line-by-service line approach to assess the long-term potential and identify potential business candidates for divestiture. Our decision criterion for divestiture is based on:

- outlook for long-term market conditions,
- potential impact to complimentary services or customer relationships,
- ability to leverage infrastructure and customer base for growth,
- potential for margin improvement,
- divestiture value today versus future divestiture value,
- return on invested capital, and
- implications for ERP.

Divestiture costs include:

- Consulting and professional services,
- Impairments,
- Loss (gain) on disposal, and
- Other related expenses.

As a result of this portfolio optimization effort, Stericycle divested a niche Manufacturing and Industrial hazardous waste business in the U.K. during 2016 and 2017. Furthermore, in late 2017 Stericycle divested its secure information destruction business in South Africa.

For the year ended December 31, 2017, the Company recorded \$9.5 million of divestiture related expenses which included \$6.8 million of non-cash asset impairment charges related to changes in the fair value of assets held for sale in the U.K., and a \$5.7 million loss from the sale of certain assets and liabilities





## Part II

in the U.K., partially offset by a gain of \$3.0 million related to the sale of our secure information destruction business in South Africa.

For the year ended December 31, 2016, the Company recorded \$27.1 million of divestiture related expense which included a \$25.5 million charge on certain of our U.K. operations that were classified as assets held for sale, primarily non-cash impairment charges for customer relationships, operating permits, goodwill and long-lived assets, and a \$1.6 million loss from the sale of certain assets in the U.K.

With the anticipated implementation of a global enterprise resource planning system, Stericycle will continue its strategic portfolio review with the intent of identifying additional non-strategic service lines or markets for divestiture prior to the implementation of the ERP technology platform.

### Litigation, Settlements and Regulatory Compliance

We operate in highly regulated industries and must address regulatory inquiries or respond to investigations from time to time. We are also involved in a variety of civil litigation from time to time. Our financial results may also include considerations of non-recurring matters including settlements, environmental remediation, and legal related consulting and professional fees which are reflected as part of SG&A on the Consolidated Statements of Income.

Most notable, in 2017, the Company executed a definitive written settlement agreement (the “Settlement”) for the small quantity medical waste customer class action lawsuit that was initiated in 2013. Under the terms of the Settlement, we will establish a common fund of \$295.0 million from which will be paid all compensation to members of the settlement class, attorneys’ fees to class counsel, incentive awards to the named class representatives, and all costs of notice and administration. Our existing contracts with customers will remain in force, while we will also establish as part of the Settlement guidelines for future price increases and provide customers additional transparency regarding such increases. The Settlement also addresses additional matters, including the availability of alternative dispute resolution for members of the settlement class. In the Settlement, we admitted no fault or wrongdoing whatsoever, and entered into the Settlement in order to avoid the cost and uncertainty of litigation.

In June 2017, the Securities Exchange Commission (“SEC”) issued a subpoena to the Company, requesting documents and information relating to the Company’s compliance with the Foreign Corrupt Practices Act (“FCPA”) or other foreign or domestic anti-corruption laws with respect to certain of the Company’s operations in Latin America. In addition, the Department of Justice (“DOJ”) has notified the Company that it is investigating this matter in parallel with the SEC. The Company is cooperating with these agencies. The Company is also conducting an internal investigation of these and other matters, including outside of Latin America, under the oversight of the Audit Committee of the Board of Directors and with the assistance of outside counsel, and this investigation has found evidence of improper conduct. We have not accrued for any potential associated contingent liabilities as we cannot reasonably estimate the possible loss or range of possible losses that we may incur. As the factual and legal issues presented in this matter are sufficiently unique, in our judgment, we are unable to make such an estimate.

For the year ended December 31, 2017, the Company recorded \$327.7 million of legal, settlement and regulatory compliance expenses, of which \$295.0 million was for the Settlement and \$32.7 million was for regulatory compliance, consulting and professional services, primarily related to certain non-recurring litigation matters.

## Part II

For the year ended December 31, 2016, the Company recorded \$7.2 million in regulatory compliance, consulting and professional services, primarily related to certain non-recurring litigation matters.

For the year ended December 31, 2015, the Company recorded \$59.7 million of legal, settlement and regulatory compliance expenses, of which \$28.5 million related to the Qui Tam Action Settlement, \$28.2 million related to the Junk Fax Lawsuit Settlement, and \$3.0 million of certain non-recurring litigation matters.

### Impairment

In our Form 10-Q for the quarter ended September 30, 2017, we disclosed that we were in the process of completing the valuation of our reporting units with the assistance of our external valuation specialist. At that time, we were evaluating the impact of the prolonged declining market trends in Latin America and continued softness in the Company's Manufacturing and Industrial regional hazardous waste business. We have experienced cost pressures in Latin America due to the strength of local competition resulting in an increasing inability to pass through inflationary price increases. In addition, the cost savings initiatives that were anticipated in 2017 have taken longer than expected to implement and are extending into 2018. In the fourth quarter 2017, we finalized our long rang plan ("LRP") to reflect these challenging conditions in Latin America partially offset by incorporating the impact Business Transformation will have on our prospective results.

As a result, the Company recorded a \$65.0 million non-cash goodwill impairment charge related to the Company's Latin America reporting unit which is reflected as part of SG&A on the Consolidated Statements of Income. The impairment charge recognized was the amount by which the carrying value of the Latin America reporting unit exceeded its fair value. The result of the factors described above on our LRP was an overall decline in the forecasted financial information included in our income approach valuation model. In addition, we concluded it was appropriate to risk-adjust the discount rate used as compared to the prior year.

There were no other impairments recorded in 2017 other than those already referenced above.

For the year ended December 31, 2016, the Company recorded a \$1.4 million non-cash permit impairment charge in Japan which is reflected as part of SG&A on the Consolidated Statements of Income. There were no other impairments recorded in 2016 other than those already referenced above.

There were no other impairments recorded in the year ended December 31, 2015 other than those already referenced above.

### Other

During the year ended December 31, 2017, we recorded \$24.8 million of consulting and professional services related to the implementation of the new revenue recognition and lease accounting standards as well as internal control remediation activities which are reflected as part of SG&A on the Consolidated Statements of Income.

For the year ended December 31, 2016, we recorded \$8.8 million of consulting and professional services related to internal control remediation activities and implementation of the new revenue recognition standard which are reflected as part of SG&A on the Consolidated Statements of Income. We also recorded \$2.5 million non-cash impairment charge, offset by a \$3.1 million gain from an insurance settlement which is reflected as part of Other (expense) income, net on the Consolidated Statements of Income.



## Part II

There were no other special project costs for the year ended December 31, 2015.

### Capital Allocation

Stericycle has maintained a structured capital allocation strategy that balances investment in the business, debt reduction, and returns to shareholders.

Our Capital Allocation items include the following types of activities:

- Stock issuance costs,
- Dividends on Preferred Stock,
- Debt modification costs in connection with related non-recurring matters,
- Early extinguishment of debt gains and losses, and
- Other related expenses.

Dividends on shares of the Series A Preferred Stock are payable on a cumulative basis when, as and if declared by our Board of Directors, or an authorized committee thereof, at an annual rate of 5.25% on the liquidation preference of \$1,000 per share (and, correspondingly, \$100.00 per share with respect to the depository shares). The dividends may be payable in cash, or subject to certain limitations, in shares of our common stock, or any combination of cash and shares of our common stock, on March 15, June 15, September 15 and December 15 of each year, commencing on December 15, 2015, and to, and including, September 15, 2018.

We declared and paid dividends of \$36.3 million, \$39.4 million, and \$10.1 million to the preferred stock shareholders during the years ended December 31, 2017, 2016, and 2015, respectively.

### Tax Reform

As a result of the U.S. Tax Cuts and Jobs Act of 2017 (the “Tax Act”) which was signed into law on December 22, 2017, the Company has calculated its best estimate of the impact of the Tax Act on its year end 2017 income tax benefit/provision and as a result has recorded \$129.8 million as an income tax benefit in the fourth quarter of 2017. For further discussion, see Part II, Item 8. Financial Statements and Supplementary Data; Note 8 – Income Taxes in the Consolidated Financial Statements.

## Part II

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Consolidated:

The following summarizes the Company's consolidated operations:

In millions, except per share data

	Years Ended December 31,				Change	
	2017		2016			
	\$	% Revenue	\$	% Revenue	\$	%
Revenues	\$3,580.7	100.0 %	\$3,562.3	100.0 %	\$18.4	0.5 %
Cost of revenues	2,118.2	59.2 %	2,075.4	58.3 %	42.8	2.1 %
Gross profit	1,462.5	40.8 %	1,486.9	41.7 %	(24.4 )	(1.6 %)
Selling, general and administrative expenses	1,470.1	41.1 %	1,053.1	29.6 %	417.0	39.6 %
(Loss) income from operations	(7.6 )	(0.2 %)	433.8	12.2 %	(441.4 )	(101.8 %)
Interest expense, net	(93.7 )	(2.6 %)	(97.8 )	(2.7 %)	4.1	(4.2 %)
Other expense, net	(6.6 )	(0.2 %)	(7.9 )	(0.2 %)	1.3	(16.5 %)
(Loss) income before income taxes	(107.9 )	(3.0 %)	328.1	9.2 %	(436.0 )	(132.9 %)
Income tax (benefit) expense	(150.9 )	(4.2 %)	120.2	3.4 %	(271.1 )	(225.5 %)
Net income	43.0	1.2 %	207.9	5.8 %	(164.9 )	(79.3 %)
Net income attributable to noncontrolling interests	0.6	0.0 %	1.6	0.0 %	(1.0 )	(62.5 %)
Net income attributable to Stericycle, Inc.	42.4	1.2 %	206.3	5.8 %	(163.9 )	(79.4 %)
Mandatory convertible preferred stock dividend	36.3	1.0 %	39.4	1.1 %	(3.1 )	(7.9 %)
Gain on repurchase of preferred stock	(17.3 )	(0.5 %)	(11.3 )	(0.3 %)	(6.0 )	53.1 %
Net income attributable to common shareholders	\$23.4	0.7 %	\$178.2	5.0 %	\$(154.8 )	(86.9 %)
Earnings per share - diluted	\$0.27		\$2.08		\$(1.81 )	(87.0 %)

Revenues: In analyzing our Company's performance, it is necessary to understand that our various regulated services share a common infrastructure and customer base. We market our regulated and compliance services by offering various pricing options to meet our customers' preferences, and customers move between these different billing paradigms. For example, our customers may contract with us for "Medical Waste Disposal" services that are billed based on the weight of waste collected, processed and disposed during a particular period, and in a subsequent period, the same customer could move to our standard service ("Steri-Safe OSHA Compliance Program"), which packages the same regulated medical waste services with training and education services for a contracted subscription fee. Another example is a customer that purchases our "Medical Waste Disposal" and "Sharps Disposal Management" services which provides the customer with the same regulated services under a different pricing and billing arrangement. We do not track the movement of customers between the various types of regulated services we offer. Although we can identify directional trends in our services, because the regulated services are similar in nature and there are inherent inaccuracies in disaggregation, we believe that aggregating these revenues communicates the appropriate metric. We analyze our revenue growth by identifying changes related to organic growth, acquired growth, divestitures and changes due to currency exchange fluctuations.

Consolidated revenues increased \$18.4 million, or 0.5%, in 2017 to \$3.58 billion from \$3.56 billion in 2016. Overall organic revenues growth contributed \$20.1 million, or 0.6%. Organic growth excludes the effect of foreign exchange and acquisitions and divestitures with less than a full year of revenues in the comparative period. Acquisitions contributed \$32.2 million to revenues. Divestitures reduced revenues by \$21.6 million. The net effect of acquisitions and divestitures resulted in a 0.3% increase in revenues in



Part II

2017. The effect of foreign exchange rates unfavorably impacted total revenues in 2017 by \$12.3 million, or 0.3%, as foreign currencies declined against the U.S. dollar.

Gross profit: Consolidated gross profit decreased \$24.4 million, or 1.6%, in 2017 to \$1.46 billion from \$1.49 billion in 2016. As a percentage of revenues, consolidated gross profit decreased to 40.8% in 2017 compared to 41.7% in 2016. The decline in gross profit was primarily due to lower revenues from our Manufacturing and Industrial (“M&I”) customers, which have a higher fixed cost structure, and approximately \$18.0 million of non-cash fixed assets depreciation increases and write-offs. Domestically, pricing pressure on our small quantity regulated waste and compliance customers negatively impacted our gross profit as a percentage of revenues. In addition, international gross profit is lower than domestic gross profit because our international operations have fewer small account customers, which tend to generate higher gross profit. Historically, our international operations generate most of their revenues from large account customers, such as hospitals. As our international revenues increase, consolidated gross profit percentages experience downward pressure due to this “business mix” shift, which may be offset by additional international small account market penetration, integration savings, and domestic business expansion.

SG&A: Consolidated SG&A expenses increased \$417.0 million, or 39.6%, in 2017 to \$1.47 billion from \$1.05 billion in 2016. The increase was primarily attributable to: \$295.0 million charge for the Settlement for the small quantity customer class action lawsuit, a \$65.0 million non-cash goodwill impairment charge in Latin America, \$32.7 million in regulatory compliance, consulting and professional expenses, primarily related to certain non-recurring litigation matters, \$30.6 million of Business Transformation related expenses, and \$24.8 million of consulting and professional services related to the implementation of the new revenue recognition and lease accounting standards and internal control remediation work. As a percentage of revenues, excluding the \$295.0 million Settlement charge and the \$65.0 million non-cash goodwill impairment charge, SG&A increased to 31.0% in 2017 compared to 29.6% in 2016.

(Loss) income from operations: Consolidated (loss) income from operations decreased \$441.4 million, or 101.8%, in 2017 to (\$7.6) million loss from \$433.8 million income in 2016. Comparison of income from operations between 2017 and 2016 was primarily driven by the items described in Gross profit and SG&A above.

Interest expense: Net interest expense decreased in 2017 to \$93.7 million from \$97.8 million in 2016 due to a reduction of our average outstanding debt balance, partially offset by an increase in interest rates in the U.S.

Income tax (benefit) expense: Income tax (benefit) was \$(150.9) million in 2017 compared to income tax expense of \$120.2 million in 2016. The effective tax rates for the years 2017 and 2016 were (139.9%) and 36.6%, respectively. The change in 2017 rate, when compared to the prior year, was primarily due to the impact of the Tax Act signed into law on December 22, 2017. The Company recognized an income tax (benefit) of \$(129.8) million as a result of revaluing our U.S. net deferred tax liabilities from 35% to the newly enacted U.S. corporate income tax rate of 21%, partially offset by a one-time transition tax on our unremitted foreign earnings and profits which we will elect to pay over an eight-year period, and expected foreign withholding taxes.

## Part II

## Information by Segment

## Domestic and Canada RCS:

In millions

	Years Ended December 31,				Change	
	2017		2016		\$	%
	\$	% Revenue	\$	% Revenue		
Revenues	\$2,551.9	100.0 %	\$2,508.8	100.0 %	\$43.1	1.7 %
Gross profit	1,091.7	42.8 %	1,121.3	44.7 %	(29.6 )	(2.6 %)
SG&A	789.8	30.9 %	515.8	20.6 %	274.0	53.1 %
Income from operations	301.9	11.8 %	605.5	24.1 %	(303.6)	(50.1 %)

Revenues: Domestic and Canada RCS revenues increased \$43.1 million, or 1.7%, in 2017 to \$2.55 billion from \$2.51 billion in 2016. Organic revenue growth contributed \$19.0 million, or 0.8%, and acquisitions contributed \$20.9 million, or 0.8%, to revenues. Our Secure Information Destruction revenues were strong due to higher sales activity for both recurring and one-time purge services combined with higher recycling revenue. The strengthening of the Canadian dollar had a favorable impact on 2017 revenues by \$3.2 million, or 0.1%. Services related to Manufacturing and Industrial (“M&I”) experienced a decline of \$19.7 million from last year, which reduced overall organic growth by 0.9%. This decline was due to fewer on-call services related to softness in the U.S. industrial market. In addition, we have experienced pricing pressure on our small quantity regulated waste and compliance customers resulting from hospital consolidation of physician practices and increased competitive activities in the market.

Gross profit: Domestic and Canada RCS gross profit decreased \$29.6 million, or 2.6%, in 2017 to \$1.09 billion from \$1.12 billion in 2016. As a percentage of revenues, gross profit decreased to 42.8% in 2017 compared to 44.7% in 2016, primarily due to lower revenues from our M&I customers, which have a higher fixed cost structure, and approximately \$18.0 million of non-cash fixed assets depreciation increases and write-offs. Pricing pressure on our small quantity regulated waste and compliance customers negatively impacted our gross profit as a percentage of revenues. We also experienced higher costs related to wages and fuel.

SG&A: Domestic and Canada RCS SG&A expenses increased \$274.0 million, or 53.1%, in 2017 to \$789.8 million from \$515.8 million in 2016, primarily due to the \$295.0 million charge for the Settlement for the small quantity customer class action lawsuit. As a percentage of revenues, excluding the \$295.0 million Settlement, SG&A decreased to 19.4% in 2017 compared to 20.6% in 2016.

Income from operations: Domestic and Canada RCS income from operations decreased \$303.6 million, or 50.1%, in 2017 to \$301.9 million from \$605.5 million in 2016. Comparison of income from operations between 2017 and 2016 was primarily driven by the items described in Gross profit and SG&A above.

## International RCS:

In millions

	Years Ended December 31,		Change	
	2017	2016	\$	%
	\$	\$		



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	% Revenue			% Revenue					
Revenues	\$707.6	100.0	%	\$751.7	100.0	%	\$(44.1)	(5.9	%)
Gross profit	218.9	30.9	%	228.5	30.4	%	(9.6 )	(4.2	%)
SG&A	296.0	41.8	%	256.8	34.2	%	39.2	15.3	%
Loss from operations	(77.1 )	(10.9	%)	(28.3 )	(3.8	%)	(48.8)	172.4	%

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Revenues: International RCS revenue decreased \$44.1 million, or 5.9%, in 2017 to \$707.6 million from \$751.7 million in 2016. 2017 organic revenue decline in the International RCS segment was \$13.4 million, or 1.8%, primarily due to exiting certain patient transport service contracts in the U.K. and a decline in M&I waste services in our Latin American countries. Acquisitions in the International RCS segment contributed \$6.4 million to revenues. Divestitures related to the sale of certain assets in the U.K. reduced revenues by \$21.6 million. The net effect of acquisitions and divestitures resulted in a 2.0% decrease in revenues in 2017. The effect of foreign exchange rates unfavorably impacted international revenues in 2017 by \$15.5 million, or 2.1%, as foreign currencies declined against the U.S. dollar.

Gross profit: International RCS gross profit decreased \$9.6 million, or 4.2%, in 2017 to \$218.9 million from \$228.5 million in 2016. As a percentage of revenues, gross profit increased to 30.9% in 2017 compared to 30.4% in 2016 as a result of divesting a lower margin patient transport business in the U.K.

SG&A: International RCS SG&A expenses increased \$39.2 million, or 15.3%, in 2017 to \$296.0 million from \$256.8 million in 2016, primarily due to a \$65.0 million non-cash goodwill impairment charge in Latin America, partially offset by the divestiture of the patient transport business in the U.K. in 2017. As a percentage of revenues, excluding a \$65.0 million non-cash goodwill impairment charge in Latin America, SG&A decreased to 32.6% in 2017 compared to 34.2% in 2016.

Loss from operations: International RCS loss from operations increased \$48.8 million in 2017 to \$77.1 million from \$28.3 million in 2016. Comparison of loss from operations between 2017 and 2016 was primarily driven by the items described in SG&A above.

All Other:

In millions

	Years Ended December 31,				Change	
	2017	2016	2017	2016	2017	2016
	\$	% Revenue	\$	% Revenue	\$	%
Revenues	\$321.2	100.0 %	\$301.8	100.0 %	\$19.4	6.4 %
Gross profit	151.9	47.3 %	137.1	45.4 %	14.8	10.8 %
SG&A	384.3	119.6 %	280.5	92.9 %	103.8	37.0 %
Loss from operations	(232.4)	(72.4 %)	(143.4)	(47.5 %)	(89.0)	62.1 %

Our All Other segment includes Domestic Communication and Related Services operations which consists of services including inbound/outbound communication, automated patient reminders, online scheduling, notifications, product retrievals, product returns, and quality audits, as well as expenses related to Corporate support, shared services functions,