

SHC Earnings Call Transcript

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Quarter: 3

Operator: Good morning, and welcome to the Sotera Health Third Quarter 2025 Conference Call. [Operator Instructions] Please note this event is being recorded. I would now like to turn the conference over to Vice President of Investor Relations, Jason Peterson. Jason, please go ahead.

Jason Peterson: Good morning, and thank you. Welcome to Sotera Health's Third Quarter 2025 Earnings Call. You can find today's press release and the company's supplemental slides on the Investors section of our website at [soterahealth.com](https://www.soterahealth.com). This webcast is being recorded, and a replay will be available in the Investors section of the Sotera Health website. On the call with me today are Chairman and Chief Executive Officer, Michael Petras, and Chief Financial Officer, Jon Lyons. During the call, some of our comments may be considered forward-looking statements. The matters addressed in these statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected or implied. Please refer to Sotera Health's SEC filings and the forward-looking statement slide at the beginning of the presentation for a description of these risks and uncertainties. The company assumes no obligation to update any such forward-looking statements. Please note that during the discussion today, the company will present both GAAP and non-GAAP financial measures, including adjusted EBITDA, adjusted EBITDA margin, tax rate applicable to net income, adjusted net income, adjusted EPS, net debt and net leverage ratio in addition to constant currency comparisons. A reconciliation of GAAP to non-GAAP measures for all relevant periods may be found in the schedules attached to the company's press release in the supplemental slides to this presentation. The operator will be assisting with the Q&A; portion of the call today. Please limit yourself to 1 question and 1 follow-up so that we can give everyone an opportunity to ask questions. If you have any questions after the call, please feel free to reach out to me in the Investor Relations team. I will now call -- turn the call over to Sotera Health Chairman and CEO, Michael Petras.

Michael Petras: Good morning, and thank you for joining us today. I'm pleased to report another excellent quarter for Sotera Health marked by strong top line growth, double-digit adjusted EBITDA growth, margin expansion of approximately 150 basis points and a \$0.09 adjusted EPS increase compared to the third quarter of 2024. Total company revenues increased 9.1% for the quarter while adjusted EBITDA increased 12.2%. Sterigenics delivered another strong quarter, achieving 9.8% top line growth compared to the third quarter of 2024 driven by consistent performance across our core medical device customers. Nordion delivered revenue growth of 22.4%, which was primarily driven by the timing of the reactor harvest schedules versus the third quarter of 2024. Revenue was ahead of our expectations as certain customer deliveries originally scheduled for the fourth quarter were fulfilled in the third quarter. While Nelson Labs delivered third quarter revenue that was modestly below our expectations, our growth in core lab testing and operational improvements drove segment income growth and margin expansion. This marks the fifth consecutive quarter of year-over-year margin expansion in Nelson Labs, highlighting our focus on execution. In addition to our strong performance during the quarter, we strengthened our balance sheet through paying down \$75 million of debt and lowered our interest expense by approximately \$13 million annually. Jon will elaborate more on this shortly. Given our strong year-to-date results and visibility in the remainder of the year, we are reaffirming our 2025 revenue outlook and are raising our adjusted EBITDA outlook. Each quarter, I have emphasized Sotera Health's vital role in global health care. I'm pleased to share that Nordion

recently secured a 25-year renewal of its Class 1B operating license, the longest Class 1b license ever granted by the Canadian Nuclear Safety Commission. This milestone reflects our deep trusted partnership with the CNSC in their confidence in Nordion's safety culture and operational excellence. With this renewed license, Nordion will continue to secure the global supply of Cobalt-60 supporting critical sterilization processes including those performed by Sterigenics and enabling life-saving radiotherapeutic treatments for brain tumors and early-stage breast cancer. This achievement reinforces our mission of Safeguarding Global Health by ensuring a reliable supply of critical Cobalt-60 for our customers, the health care system and patients for decades to come. Now I'll turn it over to Jon who will walk us through the financials.

Jonathan Lyons: Thank you, Michael. I'll start with a review of our consolidated third quarter 2025 results, followed by a breakdown of performance across each business segment. On a consolidated basis, third quarter revenues increased 9.1% to \$311 million or 8% on a constant currency basis as compared to the third quarter of 2024. Adjusted EBITDA increased by 12.2% to \$164 million or 11.2% on a constant currency basis versus the third quarter of 2024. Adjusted EBITDA margins reached 52.7%, an increase of 147 basis points over the prior year, driven by improved margins in both Sterigenics and Nelson Labs. Interest expense for the third quarter was \$39 million, an improvement of approximately \$2.4 million versus the same period last year. Net income for Q3 2025 was \$48 million or \$0.17 per diluted share compared to net income of \$17 million or \$0.06 per diluted share in Q3 2024. Adjusted EPS was \$0.26, an increase of \$0.09 from the third quarter of 2024. Nearly \$0.04 of this benefit came from adjusted EBITDA growth, less than \$0.01 came from lower interest expense while the remainder relates to a reduced tax rate. Now let's take a closer look at our segment performances. Sterigenics continued its strong performance in the third quarter, delivering 9.8% revenue growth to \$193 million or 8.4% on a constant currency basis compared to Q3 2024. The revenue growth was driven by favorable volume mix of approximately 4.6%, increased pricing of 3.8% and a 140 basis point benefit from foreign currency exchange. Segment income increased 11.6% to \$107 million or 10.2% on a constant currency basis, with margins improving 90 basis points year-over-year to 55.6% driven by strong top line growth, partially offset by inflation. Nordion's third quarter revenue increased 22.4% to \$63 million or 23.6% on a constant currency basis compared to Q3 of 2024. Nordion's revenue increase was driven by a volume and mix benefit of 18.9% and favorable pricing of 4.7% partially offset by an unfavorable impact of 120 basis points from changes to foreign currency exchange rates. Nordion segment income increased 19.9% to approximately \$38 million or 21.2% on a constant currency basis versus Q3 of 2024. Segment income growth was driven by increased volume and mix as well as customer pricing. Segment income margin was 60.6%, reflecting a decrease of approximately 130 basis points, driven by product mix. On a year-to-date basis, Nordion segment income margins have increased more than 70 basis points. Nelson Labs reported third quarter 2025 revenue of \$56 million, a 5% decline compared to the same period last year. Favorable contributions from pricing of 2.7%, foreign exchange of 1.4% and core lab testing growth were offset by the decline in Expert Advisory Services. Nelson Labs' third quarter 2025 segment income rose 1.9% to \$19 million or flat on a constant currency basis, with margins expanding 229 basis points year-over-year to 34.1%. Segment income and margin improvement were driven by volume and mix improvements, lab optimization and favorable pricing. Let's now turn to our balance sheet, cash generation and capital deployment activities. Year-to-date, we have generated \$184 million in positive operating cash flow, while capital expenditures totaled \$87 million. The company continues to be in a very strong liquidity position. As of the end of the third quarter, we had over \$890 million of available liquidity, which included almost \$300 million in unrestricted cash and nearly \$600 million of available capacity on a revolving line of credit. We continue making progress toward our long-term net leverage target range of 2 to 3x. Our net leverage ratio improved to 3.3x at quarter end, down from 3.7x at the end of 2024 and down from 4.2x as of Q3 2023. As Michael mentioned, we took strategic actions this quarter to strengthen our balance sheet and lower interest expense. First, continued adjusted EBITDA growth and cash generation helped us achieve contractual net leverage target, triggering a 25 basis point reduction in our term loan interest rate. Then in September, we repriced the term loan for an additional 50 basis point reduction and repaid \$75 million of the facility. These steps are expected to generate approximately \$13 million in annual interest savings. Now I'd like to turn to our 2025 full year outlook.

We are maintaining our full year constant currency revenue growth outlook range of 4.5% to 6% and anticipate revenue growth will land near the midpoint of this range. With continued benefits from volume growth and operational improvements, we are raising our constant currency adjusted EBITDA growth outlook to 6.75% to 7.75%, up from the prior range of 6% to 7.5%. Foreign currency is expected to contribute approximately 25 basis points to revenue and adjusted EBITDA growth versus the prior outlook of no impact. Total company price for 2025 is still expected to be near the midpoint of our long-term stated range of 3% to 4%. For Sterigenics, we continue to expect 2025 constant currency revenue growth of mid- to high single digits. For Nordion, we've raised our full year 2025 constant currency revenue growth outlook and now expect mid- to high single-digit growth. Additionally, I'm pleased to report that for 2025, there is no longer any revenue risk associated with Cobalt-60. For Nelson Labs, we now expect full year 2025 constant currency revenues to decline mid-single digits as the impact from Expert Advisory Services more than offset the continued growth in core lab testing and improved pricing. We expect segment income margin to finish in the low to mid-30s percent range for the full year. Turning to other guidance items. Driven by our balance sheet initiatives discussed earlier, we are improving our interest expense range to \$154 million to \$158 million from our previous outlook of \$155 million to \$165 million. Our effective tax rate on our adjusted net income is expected to be in the range of 29% to 31%, improving from the prior range of 31.5% to 33.5%. The lower tax rate on adjusted net income reflects the adoption of recent accounting guidance related to the U.S. tax law changes enacted in July. We now expect adjusted EPS to be in the range of \$0.81 to \$0.86, an increase in the previous range of \$0.75 to \$0.82. The \$0.05 improvement from the midpoint of the prior EPS range reflects \$0.02 driven by incremental EBITDA generation and reduced interest expense, with the balance driven by the favorable tax rate change. We expect the fully diluted share count to remain in the range of 286 million to 287 million shares. We now expect capital expenditures to be in the range of \$125 million to \$135 million, below our prior outlook of \$170 million to \$180 million, driven by project timing and incremental cost savings. While spending cadence has shifted, our expectation for cumulative capital expenditures from 2025 through 2027 remains unchanged. And we are on track to achieve our \$500 million to \$600 million cumulative free cash flow commitment provided at our 2024 Investor Day. We continue to expect year-end 2025 net leverage ratio to improve compared to 2024. Finally, as usual, our outlook does not assume any M&A activity. I'll now turn the call back over to Michael.

Michael Petras: Thank you, Jon. We're very pleased with the quarter's performance. I would now like to give an update regarding the ethylene oxide, EO, personal injury claims in Cobb County, Georgia. Although this is a lengthy and detailed update, the key point is while the case is pending in Cobb County still have ways to go, we believe the recent Phase I and Phase II rulings align with our long-standing position that when science is considered fully, fairly and properly, the evidence refutes the plaintiffs' claims in these matters. As a reminder, the Cobb County Court ordered phase proceedings in 8 bellwether cases selected by the plaintiffs Council. Phase 1 was devoted to general causation. The court required the plaintiffs to prove that EO emissions from our Atlanta facility are capable of causing the diseases alleged by the plaintiffs. In November 2024, the court excluded 2 of the plaintiff's 3 general causation experts, but allowed the third expert under a "new standard" created by the court for these cases that did not require the plaintiffs to establish the exposure levels at which EO becomes harmful to humans. Both sides appealed. On Friday, October 31, the Georgia Court of Appeals rejected the trial court's "new standard" and vacated the trial court's Phase 1 orders. Consistent with our position, the Court of Appeals directed the trial court to apply the correct standard that requires causation experts to reliably identify the levels at which exposure to EO becomes harmful. The Court of Appeals also instructed the trial court to consider whether plaintiffs can prove general causation using epidemiologic evidence and background risk of the diseases at issue, which all occur in the general population without exposure to emissions. While the Phase I appeals were pending, 3 of the bellwether cases proceeded to Phase II, which was devoted to specific causation. Plaintiffs were required to present admissible expert testimony that the plans were exposed to doses of EO from the Atlanta facility that caused their diseases. On October 17, the trial court excluded all 3 of the plaintiffs causation experts and dismissed all 3 cases for failure to present reliable and admissible evidence of a specific causation. The court also dismissed the plaintiff claims for nuisance, noting that the plaintiffs

had not presented any evidence that the Atlanta facility had violated EPA, Georgia EPD or Cobb County requirements. Although the Phase II orders apply only the 3 bellwether cases, we believe the substantive grounds for rulings apply with equal force to the remaining personal injury claims. This will be decided in due course by the Cobb County court and if necessary, the Georgia appellate courts. We will continue to put the science front and center as we defend Sterigenics safe and essential operations. This statement, the trial court Phase I and Phase II orders and a decision of the Georgia Court of Appeals are all available on our website. At this point, operator, I'd like to open it up for questions and answers.

Operator: [Operator Instructions] And your first question today will come from Patrick Donnelly with Citi. Patrick Donnelly: Maybe just one on the volume recovery, nice to see that continue. Are there certain areas you guys are seeing kind of outsized recovery? I think last quarter, you talked a little bit about MedTech and bioproduction. Maybe what you're seeing there and what the expectations on the volume trajectory are from here?

Michael Petras: Patrick, this is Michael. We're seeing pretty consistent performance across Sterigenics and across multiple -- almost all categories, bioprocessing, MedTech broadly. Overall, we're seeing good recovery in volumes, and we expect that to continue going forward.

Patrick Donnelly: Okay. Great. And then just a quick one, hopeful on the litigation update there. I guess maybe a quick one, just in terms of where some of the other cases are. And again, if that sounds like we can continue to see some of these updates, but we'd love to just hear the latest on the broad litigation side and how you're feeling on that front?

Michael Petras: Yes. Patrick, Illinois is wrapping up. We've got April 2025 settlement that we did that's been completed and closed out. The July 25th one is progressing well. That will leave us with only 1 remaining case in Illinois. In Georgia, I just gave you a lengthy update there. On New Mexico, right now, there's no personal injury claims currently, and there's only the 1 suit brought by the AG for public nuisance that's set for trial in July 2026. And then in California, we've recently been informed that the first trials are expected in January and April of 2027.

Operator: Your next question today will come from Casey Woodring with JPMorgan.

Unknown Analyst: This is [Jaden] on for Casey. Just first on Sterigenics, just wondering, are you factoring any expectation of budget flush in 4Q and given you've reaffirmed your revenue outlook for the year after your 3Q, can you touch on how conservative your guidance sits for '25 and the puts and takes behind that?

Michael Petras: I'm sorry, can you repeat the question on Sterigenics. I wasn't sure I understood that first question.

Unknown Analyst: I was just wondering if you're factoring in any expectation of a budget flush in for 4Q?

Michael Petras: A budget flush, are you talking about the government shutdown? Is that what you're referencing when you say budget flush?

Unknown Analyst: I'm talking from the MedTech customers -- from MedTech or bioprocessing?

Michael Petras: We're not expecting a budget flush from -- no. And when I look forward, we feel confident of our guidance and outlook that we're giving here for the rest of the year. I wouldn't say it's aggressive, I wouldn't say it's conservative. We just feel confident where it is with 1 quarter ago.

Unknown Analyst: Okay. Got it. And then just a follow-up. Just on that government shutdown since you mentioned it. Are you seeing any impact from that in your RCA business or anywhere across your portfolio?

Michael Petras: When we look at it -- remember, we have no direct government sales in the business. There's some indirect impact, but it's pretty minimal. It's not a material impact. We do feel a little bit of it in Expert Advisory Services with some of the delays going on and activity there. But overall, we don't see a material impact to the company, and we do not have direct sales to the government.

Operator: Your next question today will come from Luke Sergott with Barclays.

Luke Sergott: Just two for me is about the -- one on the Expert Advisory business. It seems to have gotten worse here. Is that just related to the lack of FDA funding, lack of inspections and kind of the government shutdown. And then the second one, is on the implied 4Q EBITDA margin step down? I just want to know what's going on there. I assume it's probably just not the Nordion volumes, but just

wanted to see if anything else going on.

Michael Petras: Yes, I would say Expert Advisory Services in that RCA business is feeling some of the impact from the FDA lack of activity. So that's clearly impacting it. It was worse than we expected. But overall, it's had a material impact on the top line for the company. It's about 10 points of impact. Jon, is it roughly about 10-point?

Jonathan Lyons: Yes.

Michael Petras: 10-point of impact on the top line. But overall, the core lab testing is improving, which is what we had hoped for and we'll continue to see. Jon, do you want to address the margin question Luke had as well?

Jonathan Lyons: Yes. Luke, as we look at the margins in Q4, we anticipate that Nelson will step back a bit from where they are at this peak in Q3. Q3 has the benefit of some pretty low expenses inside of that. And then we've been running really well in Steri. We could see a little bit of step back in that, but nothing alarming there, still stable margins for the year, maybe even slight growth for the year for Sterigenics.

Operator: Your next question today will come from Dave Windley with Jefferies.

David Windley: Maybe follow up on Nelson and ask the -- is the other side of the coin, Michael, the core lab testing and the pickup there. So just kind of thinking about the balance, if Expert Advisory is feeling this headwind and that's kind of prisoner to what the government does on funding an FDA. What does the rest of the business look like? And what's the demand quotient there?

Michael Petras: Yes. Thanks, David. I'd say overall core lab testing is doing pretty well. We'd like to continue to see more growth. The routine volumes or some of the flow volumes are picking up like we see in the sterilization volumes. Validation has been a little bit choppy. But we've got some pockets, particularly with some of the new regulations, some of the requirements of extractable leachable testing and bioprocessing components and things of that nature are all doing well. So overall, we're seeing some nice growth in the lab testing core. We'd like to see it better. But overall, it's going the right direction. And fundamentally, we're seeing the Embedded Labs growth continue. The linkage with the Sterigenics piece and the volumes there are clearly having an impact in a positive way.

David Windley: Got it. And then maybe zooming out a little bit and just thinking more broadly to the question on kind of the fourth quarter sequential progression. I think as Luke highlighted, there's a little bit of margin pullback Jon, you addressed that. The revenue growth indicated by your guidance also steps back a little bit. And so I wondered if you could just comment on cadence, timing, things that for the year were reflected in 3Q that you maybe thought we're going to land in 4Q, that kind of thing relative to kind of -- what's the smooth trajectory that fits through what is a higher 3Q and a lower 4Q?

Michael Petras: Yes. Thanks, David. I would just say, we talked about the Nelson comments and things that we're seeing on Expert Advisory Services. So the other big factor that we talked about last quarter, we're reentering today is the Nordion, the Nordion lumpiness, we said it was going to be down significantly versus last year, fourth quarter, and that's what you're referencing. That's the piece. We -- so we had a portion of it, as we referenced in our comments here, that pulled into the third quarter from customers' requests, but overall, we still expect it to be down significantly from last year, all due to timing. But overall, when you look at the total year for Nordion, it will be actually above our expectations as we also commented on here today. So I think that's the other piece.

Operator: The next question will come from Brett Fishbin with KeyBanc.

Brett Fishbin: Just had a quick one on Nordion. I noticed the very strong revenue growth in the quarter in excess of 22%. But I think you noted that there was some margin pressure from the mix -- and was just curious kind of like what type of mix shift with Nordion was causing some margin compression. And does that persist moving forward?

Michael Petras: Brett, it's Michael here. So when you look at the business, it's tough to talk about margin pressure in the Nordion business when you see the margins that we put up in that business. What we're referencing there is product sales, and particularly production of radiators equipment sales. That's a lower margin, and we saw some growth in that in the quarter. We'll see that sporadically here and there, but we don't see that as a material impact long term. The margin rates continue to be very strong in that business, as you know.

Brett Fishbin: That is a fair point. And then just on Sterigenics, it was really great to see a second

quarter of really improved trends for the segment. I was just curious how you think about overall sustainability of, call it, mid- to high single-digit or high single-digit type of growth as we look ahead into 2026. And maybe sort of giving guidance, if there's any key moving pieces that you would call out for next year other than potentially more challenging comparisons.

Michael Petras: Yes. Great. Listen, we're proud of what Sterigenics team is they're executing very well. We've said our long-range guide there would be mid-single digits to high single digits. We're reiterating that. And I would just say, overall, we'll give guidance when we give guidance at the beginning of next year. But overall, when we look at our long-range commitments we made in the Investor Day last November, we still feel pretty confident around that. So we're well situated. We'll talk about '26 when we get there.

Operator: And the next question will come from Jason Bednar with Piper Sandler.

Jason Bednar: Congrats on the quarter here. I wanted to first start on Sterigenics pricing. It decelerated ever so slightly. I know we're talking tens of basis points on a sequential basis. But I think you've been trending down 50 to 60 basis points year-on-year in the last few quarters. I think this is also the smallest pricing tailwind we've seen in at least a few years. And look, it's still good, it's better than a lot of other health care verticals. But where do you think this pricing contribution stabilize? Is this a level do we need to drift lower and then maybe the follow-up there would be, I think you've talked in the past about stronger opportunities in pricing in Sterigenics in light of the investments you've been making in your facilities, is that potentially a reversal of sorts as we think about pricing going forward for Sterigenics.

Michael Petras: Yes. Thanks, Jason. We said last year in November, we talked about price across the company in 3% to 4%. We said Sterigenics would be the high end of that range, and that's basically where they're coming in at. We see that continuing. We don't see any concern around that. It's 3.8%, 3.94%. It's right in that neighborhood. We see that. We can't call it that closely. But we also look at some of the NESHAP opportunities, and those are things that we would say that could come on top of that over time as we roll out that program and the regulations get set in the marketplace. So that would be above that run rate.

Jason Bednar: Okay. And then maybe just on the -- to follow up on that last point, Michael, is that you referenced that opportunity over time. Is that more of a like post '26 -- not asking for '26 guidance, but is that a post '26 comment knowing that your compliance with NESHAP is still in -- still a few quarters out. And then separately, I appreciate everything that you gave us on the litigation update side, especially on all the detail around Georgia. I -- we'll get the details when the Q is filed, but can you update us on a number of cases in California. I don't think we heard that other than just the start of the -- some of those case dates?

Michael Petras: Yes. I'm sorry, I was getting distracted by your second part. What was the first part of the question, Jason, again?

Jonathan Lyons: Post '26.

Michael Petras: Oh, post '26 on the NESHAP, I'm sorry, I think I had a little hesitation there. I would just say we're working with our customers on the appropriate way to price in capital improvements we put in our facilities, that will build out over time. Yes, NESHAP timeline has been pushed out a little bit. So we'll work with our customers to do that. But you'll see gradual improvement for that incremental price over time. Again, to your point, we don't want to get into 2026, but we'll give you some proper guidance on that for '26 and '27 and '28 as we look at that pricing and NESHAP. As far as California, there's 83 personal injury claims.

Operator: Your next question today will come from Michael Polark with Wolfe Research.

Michael Polark: Nelson, if I'm doing the math for 4Q, maybe in constant currency terms, flattish year-on-year. Obviously, the comp gets easier as we lap in this advisory services headwind. My question is for '26, and I'm not asking for formal guidance, but with this big advisory headwind now in, is it reasonable to expect, given what you're seeing on routine testing to expect Nelson to return to growth in '26?

Michael Petras: Yes. Yes. That's a logical conclusion, Mike. We're not getting into '26 guidance, but you're thinking about it the right way.

Michael Polark: My follow-up on Sterigenics, last quarter after your clear acceleration and a good number from your competitor, the discussion was around order patterns ahead of tariffs. And so I'm

curious, 3 to 6 months later, do you have any better feel for whether in the second or third quarters, there was maybe a little bit of extra pull forward of ordering for MedTech customers as they maneuver supply chains ahead of Trump tariffs.

Michael Petras: Yes. We -- as I mentioned in the past, we have a pretty rigorous process in doing commercial reviews and buying reviews with the team. And we're seeing very minimal impact from that. I mean there's -- the only reason I even tell you any is because we have a couple of facilities. If we look back on it, there were some stat fees that came in with some last-minute requirements from customers, but nothing material. When you look at the overall scale the business to an approximately \$300 million of revenue per quarter across the company in total or \$190-some million in Sterigenics, there's nothing material that we're able to see.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Michael Petras for closing remarks.

Michael Petras: Great. Thank you. We achieved excellent results again this quarter with solid revenue growth, margin expansion and improved financial strength, right? We're built for resilience and sustainable growth. Our stable, recurring revenue base in expertise enables us to support our customers in highly regulated markets and deliver consistent results through varying economic cycles. We want to thank you, to our customers and investors for your continued trust and partnership. We appreciate your support, and we look forward to speaking with you again next quarter and have a great day. Thank you.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.