

Steris plc  
Form 10-Q  
November 08, 2016  
Table of Contents

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

FORM 10-Q  
(Mark One)

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

For the quarterly period ended September 30, 2016  
or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-37614

STERIS plc  
(Exact name of registrant as specified in its charter)

United Kingdom  
(State or other jurisdiction of  
incorporation or organization)

98-1203539  
(IRS Employer  
Identification No.)

Chancery House, 190 Waterside Road, Hamilton Industrial Park Leicester  
(Address of principal executive offices)  
44-116-276-8636  
(Registrant's telephone number, including area code)

LE51QZ  
(Zip code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large Accelerated Filer  Accelerated Filer   
Non-Accelerated Filer  Smaller Reporting Company   
(Do not check if a smaller reporting company)

Edgar Filing: Steris plc - Form 10-Q

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

The number of ordinary shares outstanding as of November 2, 2016: 85,199,072

1

---

Table of Contents

STERIS plc and Subsidiaries  
Form 10-Q  
Index

	Page
<u>Part I—Financial Information</u>	
<u>Item 1. Financial Statements</u>	<u>3</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>27</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>42</u>
<u>Item 4. Controls and Procedures</u>	<u>42</u>
<u>Part II—Other Information</u>	
<u>Item 1. Legal Proceedings</u>	<u>43</u>
<u>Item 1A. Risk Factors</u>	<u>43</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>44</u>
<u>Item 6. Exhibits</u>	<u>45</u>
<u>Signature</u>	<u>46</u>

Table of Contents

## PART 1—FINANCIAL INFORMATION

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

## ITEM 1. FINANCIAL STATEMENTS

STERIS PLC AND SUBSIDIARIES  
 CONSOLIDATED BALANCE SHEETS  
 (in thousands)

	September 30, 2016	March 31, 2016
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 254,351	\$248,841
Accounts receivable (net of allowances of \$8,979 and \$11,185, respectively)	441,294	471,523
Inventories, net	209,935	192,792
Prepaid expenses and other current assets	50,616	59,369
Total current assets	956,196	972,525
Property, plant, and equipment, net	1,039,783	1,064,319
Goodwill and intangibles, net	3,181,463	3,279,942
Other assets	33,183	29,630
Total assets	\$ 5,210,625	\$5,346,416
Liabilities and equity		
Current liabilities:		
Accounts payable	\$ 116,350	\$139,572
Accrued income taxes	16,278	13,683
Accrued payroll and other related liabilities	74,024	93,976
Accrued expenses and other	163,694	153,375
Total current liabilities	370,346	400,606
Long-term indebtedness	1,504,192	1,567,796
Deferred income taxes, net	247,713	254,824
Other liabilities	78,811	84,298
Total liabilities	\$ 2,201,062	\$2,307,524
Commitments and contingencies (see note 9)		
Preferred shares, with £0.10 par value; 100 shares authorized; 100 issued and outstanding	15	15
Ordinary shares, with £0.10 par value; £17,006 shares aggregate par amount authorized; 85,380 and 85,920 ordinary shares issued and outstanding, respectively	2,112,834	2,151,719
Retained earnings	979,711	939,459
Accumulated other comprehensive (loss) income	(94,028	) (68,159 )
Total shareholders' equity	2,998,532	3,023,034
Noncontrolling interests	11,031	15,858
Total equity	3,009,563	3,038,892
Total liabilities and equity	\$ 5,210,625	\$5,346,416

See notes to consolidated financial statements.



Table of ContentsSTERIS PLC AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

(Unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2016	2015	2016	2015
Revenues:				
Product	\$292,216	\$274,145	\$563,966	\$506,452
Service	354,199	215,752	720,827	423,347
Total revenues	646,415	489,897	1,284,793	929,799
Cost of revenues:				
Product	155,110	148,088	297,809	277,944
Service	243,397	132,488	499,086	258,444
Total cost of revenues	398,507	280,576	796,895	536,388
Gross profit	247,908	209,321	487,898	393,411
Operating expenses:				
Selling, general, and administrative	163,680	172,459	315,566	299,294
Research and development	14,617	14,255	29,045	28,020
Restructuring expenses	48	(56)	202	(782)
Total operating expenses	178,345	186,658	344,813	326,532
Income from operations	69,563	22,663	143,085	66,879
Non-operating expenses, net:				
Interest expense	10,924	7,485	21,995	13,605
Interest income and miscellaneous expense	(284)	(227)	(778)	(709)
Total non-operating expenses, net	10,640	7,258	21,217	12,896
Income before income tax expense	58,923	15,405	121,868	53,983
Income tax expense	18,721	7,154	32,955	21,421
Net income	40,202	8,251	88,913	32,562
Less: Net income attributable to noncontrolling interests	(214)	(436)	95	(416)
Net income attributable to shareholders	\$40,416	\$8,687	\$88,818	\$32,978
Net income per share				
Basic	\$0.47	\$0.15	\$1.03	\$0.55
Diluted	\$0.47	\$0.14	\$1.03	\$0.55
Cash dividends declared per share outstanding	\$0.28	\$0.25	\$0.53	\$0.48

See notes to consolidated financial statements.

Table of ContentsSTERIS PLC AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(Unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2016	2015	2016	2015
Net income	\$40,202	\$8,251	\$88,913	\$32,562
Less: Net income (loss) attributable to noncontrolling interests	(214 )	(436 )	95	(416 )
Net income attributable to shareholders	40,416	8,687	88,818	32,978
Other comprehensive income (loss)				
Unrealized loss on available for sale securities, (net of taxes of \$80, (\$46), \$114, and (\$263), respectively)	26	(552 )	(94 )	(1,400 )
Amortization of pension and postretirement benefit plans costs, (net of taxes of \$242, \$95, \$482, and \$189, respectively)	(390 )	(227 )	(780 )	(380 )
Pension settlement, (net of taxes of \$0, \$10,563, \$0, and \$10,563, respectively)	—	17,029	—	17,029
Change in cumulative foreign currency translation adjustment	(7,946 )	(21,841)	(24,995 )	(8,043 )
Total other comprehensive (loss) income	(8,310 )	(5,591 )	(25,869 )	7,206
Comprehensive income	\$31,583	\$3,096	\$62,949	\$40,184

See notes to consolidated financial statements.

Table of Contents

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

	Six Months Ended September 30, 2016	2015
Operating activities:		
Net income	\$ 88,913	\$ 32,562
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion, and amortization	103,861	46,098
Deferred income taxes	(4,606 )	(8,903 )
Share-based compensation expense	10,564	7,865
Pension settlement expense	—	26,515
Pension contributions made in settlement	—	(4,687 )
Loss on the disposal of property, plant, equipment, and intangibles, net	281	103
Excess tax benefit from share-based compensation	—	(4,676 )
Loss on sale of businesses, net	13,802	—
Other items	5,696	2,692
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable, net	11,671	31,621
Inventories, net	(21,723 )	(19,986 )
Other current assets	6,216	(675 )
Accounts payable	(16,954 )	(17,325 )
Accruals and other, net	(9,221 )	(11,732 )
Net cash provided by operating activities	188,501	79,472



Edgar Filing: Steris plc - Form 10-Q

Investing activities:				
Purchases of property, plant, equipment, and intangibles, net	(73,866	)	(39,928	)
Proceeds from the sale of property, plant, equipment, and intangibles	4,763		38	
Proceeds from the sale of businesses	131,586		—	
Purchase of investments	(6,356	)	—	
Acquisition of businesses, net of cash acquired	(64,872	)	(220,840	)
Net cash used in investing activities	(8,745	)	(260,730	)
Financing activities:				
Proceeds from issuance of long-term obligations	—		350,000	
Payments on long-term obligations	(10,000	)	—	
Payments under credit facilities, net	(47,646	)	(139,750	)
Deferred financing fees and debt issuance costs	—		(2,426	)
Acquisition related deferred or contingent consideration	(6,000	)	—	
Repurchases of ordinary shares	(59,895	)	(12,974	)
Cash dividends paid to ordinary shareholders	(45,585	)	(28,740	)
Proceeds from issuance of equity to minority shareholders	5,022		—	
Stock option and other equity transactions, net	2,494		8,111	
Excess tax benefit from share-based compensation	—		4,676	
Net cash (used in) provided by financing activities	(161,610	)	178,897	
Effect of exchange rate changes on cash	(12,636	)	(3,141	)

and cash equivalents			
Increase (decrease) in			
cash and cash	5,510	(5,502	)
equivalents			
Cash and cash			
equivalents at	248,841	167,689	
beginning of period			
Cash and cash			
equivalents at end of	\$ 254,351	\$ 162,187	
period			

See notes to consolidated financial statements.

6

---

Table of Contents

STERIS PLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the Three and Six Months Ended September 30, 2016 and 2015

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

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

STERIS plc, a public limited company organized under the laws of England and Wales, was incorporated on October 9, 2014 as a private limited company and was re-registered effective November 2, 2015 as a public limited company under the name STERIS plc. New STERIS Limited was established to effect the combination (“Combination”) of STERIS Corporation, an Ohio corporation (“Old STERIS”), and Synergy Health plc, a public limited company organized under the laws of England and Wales (“Synergy”). The Combination closed on November 2, 2015 and as a result STERIS plc became the ultimate parent company of Old STERIS and Synergy. Synergy has been re-registered under the name Synergy Health Limited. The acquisition of Old STERIS was accounted for in the consolidated financial statements as a merger between entities under common control; accordingly the historical consolidated financial statements of Old STERIS for periods prior to November 2, 2015, are considered to be the historical financial statements of STERIS plc. Due to the timing of the Combination, the results of Synergy are only reflected in the results of operations of the Company from November 2, 2015 forward which affects comparability to the prior period historical operations of the Company throughout this Quarterly Report on Form 10-Q.

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

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

Interim Financial Statements

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

These interim consolidated financial statements should be read together with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended March 31, 2016 dated May 31, 2016. The Consolidated Balance Sheet at March 31, 2016 was derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

Principles of Consolidation

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

Table of Contents

## STERIS PLC AND SUBSIDIARIES

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

For the Three and Six Months Ended September 30, 2016 and 2015

(dollars in thousands)

## Use of Estimates

We make certain estimates and assumptions when preparing financial statements according to U.S. GAAP that affect the reported amounts of assets and liabilities at the financial statement dates and the reported amounts of revenues and expenses during the periods presented. These estimates and assumptions involve judgments with respect to many factors that are difficult to predict and are beyond our control. Actual results could be materially different from these estimates. We revise the estimates and assumptions as new information becomes available. This means that operating results for the three and six month periods ended September 30, 2016 are not necessarily indicative of results that may be expected for future quarters or for the full fiscal year ending March 31, 2017.

## Recently Issued Accounting Standards Impacting the Company

Recently issued accounting standards impacting the Company are presented in the following table:

Standard	Date of Issuance	Description	Date of Adoption	Effect on the financial statements or other significant matters
Standards that have recently been adopted				
ASU 2015-05, "Goodwill and other-Internal-Use Software" (Subtopic 350-40)	April 2015	The standard provides guidance on a customer's accounting for fees paid in cloud computing arrangements. Previously, there was no U.S. GAAP guidance on accounting for such fees from the customer's perspective. Under the standard, customers will apply the same criteria as vendors to determine whether the arrangement contains a software license or is solely a service contract. The determination could impact the classification of advance payments in the statements of financial position and cash flows as well as the classification of the expenses in the results of operations. The standard is effective for annual periods beginning after December 15, 2015 and interim periods within that period. Early adoption is permitted.	First Quarter Fiscal 2017	The adoption of this standard did not have a material impact on our statements of consolidated financial position, results of operations and cash flows.
ASU 2016-09, "Stock Compensation: Improvements to	March 2016	The update simplifies several aspects of the accounting for share-based payment award transactions, including income tax	First Quarter Fiscal	As a result of the adoption of this standard, we recorded \$3.5 million of

Employee  
Share-Based Payment  
Accounting" (Topic  
718)

consequences, the classification of awards 2017  
as either equity or liabilities, and the  
classification on the statement of cash  
flows. The standard is effective for annual  
periods beginning after December 15, 2016  
and interim periods within that period.  
Early adoption is permitted.

excess tax benefits  
associated with share  
based compensation in the  
statement of income for the  
six months ended  
September 30, 2016 and  
have included the  
associated cash flows as  
cash provided by operating  
activities. Prior periods  
have not been restated.

Table of Contents

## STERIS PLC AND SUBSIDIARIES

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

For the Three and Six Months Ended September 30, 2016 and 2015

(dollars in thousands)

## Standards that have yet to be adopted

ASU 2014-09, "Revenue from Contracts with Customers"	May 2014	The standard will replace existing revenue recognition standards and significantly expand the disclosure requirements for revenue arrangements. It may be adopted either retrospectively or on a modified retrospective basis to new contracts and existing contracts with remaining performance obligations as of the effective date. The standard update is effective for annual periods beginning after December 15, 2017 and interim periods within that period, early adoption is not permitted before the original public entity effective date of December 15, 2016.	N/A	We are currently in the process of evaluating the impact that the standard will have on our consolidated financial position, results of operations and cash flows.
ASU 2016-02, "Leases" (Topic 842)	February 2016	The update will require lessees to record all leases, whether finance or operating, on the balance sheet. An asset will be recorded to represent the right to use the leased asset, and a liability will be recorded to represent the lease obligation. The standard is effective for annual periods beginning after December 15, 2018 and interim periods within that period. Early adoption is permitted.	N/A	We are in the process of evaluating the impact that the standard will have on our statements of consolidated financial position, results of operations and cash flows.
ASU 2016-07, "Investments - Equity Method and Joint Ventures, Simplifying the Transition to the Equity Method of Accounting" (Topic 323)	March 2016	The update replaces the previous requirement to retroactively adopt the equity method. The new standard requires that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The standard is effective for annual periods beginning after December 15, 2016 and interim periods within that period. Early adoption is permitted.	N/A	We do not expect the adoption of this standard to have a material impact on our statements of consolidated financial position, results of operations and cash flows.
ASU 2016-15, "Statement of Cash Flows" (Topic 230)	August 2016	This update provides guidance on the following several specific cash flow issues: Debt prepayment or debt extinguishment costs, Settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of borrowing, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions, and separately identifiable	N/A	We are in the process of evaluating the impact that the standard will have on our statement of cash flows.

cash flows and application of the predominance principle.  
The standard is effective for annual periods beginning after  
December 15, 2017 and interim periods within that period.  
Early adoption is permitted.

A detailed description of our significant and critical accounting policies, estimates, and assumptions is included in our consolidated financial statements included in our Annual Report on Form 10-K for the year ended March 31, 2016 dated May 31, 2016. Our significant and critical accounting policies, estimates, and assumptions have not changed materially from March 31, 2016.



Table of Contents

STERIS PLC AND SUBSIDIARIES

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

For the Three and Six Months Ended September 30, 2016 and 2015

(dollars in thousands)

2. Business Acquisitions and Divestitures

Fiscal 2017 Acquisitions

Compass Medical Inc

On September 16, 2016, we purchased the assets of Compass Medical, Inc., for approximately \$16.0 million. The purchase price was financed with credit facility borrowings. Compass Medical, Inc. specializes in the sale and repair of flexible endoscopes. On an annual basis, Compass Medical, Inc. has generated revenues of approximately \$6.0 million and will be integrated into our Healthcare Specialty Services segment.

Phoenix Surgical Holdings, Ltd. and Endo-Tek LLP

On August 31, 2016, we purchased 100% of the shares of Phoenix Surgical Holdings, Ltd. and the assets of Endo-Tek LLP for approximately \$14.3 million combined. The purchase price was financed with cash on hand. On an annual basis, these operations, which specialize in the repair of endoscopes, generated approximately \$8.0 million in combined revenue and will be integrated into our Healthcare Specialty Services segment.

Medisafe

On July 22, 2016, we purchased 100% of the shares of Medisafe Holdings, Ltd., a U.K. manufacturer of washer/disinfector equipment and related consumables and services for approximately \$34.3 million. The purchase price was financed with cash on hand. On an annual basis, the Medisafe product line has generated approximately \$18.0 million in revenue. The acquisition of Medisafe provides washer manufacturing and research and development capabilities in the U.K. Medisafe's products and services will be integrated into our Healthcare Products segment.

Fiscal 2016 Acquisitions

Synergy Health plc

On November 2, 2015, STERIS acquired all outstanding shares of Synergy in a cash and stock transaction valued at £24.80 (\$38.17) per Synergy share, or a total of approximately \$2.3 billion based on the low trading price of Old STERIS's stock of \$73.02 per share on November 2, 2015. The Combination brought together businesses that generate revenues from over 100 countries, employ approximately 14,000 employees, and are geographically complementary. The Combination is expected to result in cost savings from optimizing global back-office infrastructure, leveraging best-demonstrated practices across plants, in-sourcing consumables, and eliminating redundant public company costs. Total costs of approximately \$63,789 before tax, were incurred during fiscal year 2016 related to the Combination and are reported in selling, general and administrative expense.

The acquisition of Synergy has been accounted for using the acquisition method of accounting which requires, among other things, the assets acquired, liabilities assumed and noncontrolling interests be recognized at their respective fair values as of the acquisition date. Acquisition accounting is dependent upon certain valuations and other studies that are in progress and are not yet to a stage where there is sufficient information for a definitive measurement. The process for estimating the fair values of identifiable intangible assets and certain tangible assets and assumed liabilities requires the use of judgment in determining the appropriate assumptions and estimates.

The purchase price allocation for Synergy is preliminary. We will finalize the fair values of assets acquired, liabilities assumed, and noncontrolling interests in the third quarter of fiscal 2017, and additional purchase price adjustments will be recorded. Fair value estimates are based on a complex series of judgments about future events and uncertainties and rely heavily on estimates and assumptions. The judgments used to determine the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact our results of operations. The finalization of the purchase accounting assessment will result in changes in the valuation of assets acquired and liabilities assumed and may have a material impact on the our results of operations and financial position. Goodwill will be allocated to the Healthcare Products, Healthcare Specialty Services, and Applied

Sterilization Technologies segments. Goodwill is the excess of the consideration transferred over the net assets recognized and represents the expected revenue and cost synergies of the combined company and assembled workforce, which are further described above. Goodwill recognized as a result of the acquisition is not deductible for tax purposes.

Table of Contents

## STERIS PLC AND SUBSIDIARIES

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

For the Three and Six Months Ended September 30, 2016 and 2015

(dollars in thousands)

The Consolidated Financial Statements include the operating results of acquisitions from the acquisition dates. The table below summarizes the preliminary allocation of the purchase price to the net assets acquired based on fair values at the acquisition date.

	Fiscal Year 2017 (1)			Fiscal Year 2016 (1)
	Medisafe	Compass	Phoenix and Endo-Tek	Synergy
Cash	\$3,767	\$—	\$769	\$53,057
Accounts receivable	3,703	262	1,123	107,341
Inventory	2,500	834	950	30,074
Property, plant and equipment	642	283	1,092	534,879
Other assets	—	445	46	19,708
Intangible assets	12,239	5,826	—	806,526
Goodwill	20,706	8,739	12,794	1,411,781
Total Assets	43,557	16,389	16,774	2,963,366
Current liabilities	(5,281 )	(387 )	(1,373 )	(108,192 )
Long-term indebtedness	—	—	—	(321,082 )
Non-current liabilities	(227 )	—	(295 )	(230,544 )
Total Liabilities	(5,508 )	(387 )	(1,668 )	(659,818 )
Net Assets	\$38,049	\$16,002	\$15,106	\$2,303,548

(1) Purchase price allocation are still preliminary as of September 30, 2016, as valuations have not been finalized.

## Divestitures

## Applied Infection Control

We completed the sale of our Applied Infection Control ("AIC") product line to DEB USA, Inc., a wholly-owned subsidiary of S.C Johnson & Son, Inc. Annual revenues for the AIC product line were typically less than \$50 million and were included in the Healthcare Products segment. We recorded proceeds of \$41.8 million and recognized a pre-tax gain on the sale of \$35.0 million during the second quarter of 2017 in Selling, General, and Administrative Expense in the Consolidated Statement of Income.

## UK Linen Management Services

We sold our UK Linen Management Services business to STAR Mayan Limited. Annual revenues for the UK Linen Management Services were approximately \$50 million and were included in the Healthcare Specialty Services segment. We recorded proceeds of \$65.0 million and recognized a pre-tax loss on the sale of \$65.4 million after allocation of a portion of the identified intangibles and goodwill associated with the Combination with Synergy during the second quarter of 2017 in Selling, General, and Administrative Expense in the Consolidated Statement of Income.

## Synergy Health Labs

We sold Synergy Health Laboratory Services to SYNLAB International. Annual revenues for the Synergy Health Labs were approximately \$15 million and were included in the Applied Sterilization Technologies segment. We recorded proceeds of \$24.9 million and recognized a pre-tax gain on the sale of \$16.5 million during the second

quarter of 2017 in Selling, General, and Administrative Expense in the Consolidated Statement of Income.

11

---

Table of Contents

## STERIS PLC AND SUBSIDIARIES

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

For the Three and Six Months Ended September 30, 2016 and 2015

(dollars in thousands)

## 3. Property, Plant and Equipment

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

	September 30, March 31,	
	2016	2016
Land and land improvements (1)	\$ 38,995	\$ 39,051
Buildings and leasehold improvements	445,124	446,277
Machinery and equipment	550,003	580,962
Linens	30,234	42,354
Information systems	132,140	126,180
Radioisotope	441,582	434,152
Construction in progress (1)	100,158	79,291
Total property, plant, and equipment	1,738,236	1,748,267
Less: accumulated depreciation and depletion	(698,453 )	(683,948 )
Property, plant, and equipment, net	\$ 1,039,783	\$ 1,064,319

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

## 4. Inventories, Net

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

	September 30, March 31,	
	2016	2016
Raw materials	\$ 68,476	\$ 62,673
Work in process	23,481	19,614
Finished goods	153,902	146,820
LIFO reserve	(17,299 )	(17,608 )
Reserve for excess and obsolete inventory	(18,625 )	(18,707 )
Inventories, net	\$ 209,935	\$ 192,792

## 5. Debt

Indebtedness was as follows:

	September 30, March 31,	
	2016	2016
Private Placement	\$ 666,000	\$ 666,000
Deferred financing costs	(3,178 )	(3,420 )

Edgar Filing: Steris plc - Form 10-Q

Credit Agreement	841,370	905,216
Total long term debt	\$ 1,504,192	\$ 1,567,796

Additional information regarding our indebtedness is included in the notes to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended March 31, 2016 dated May 31, 2016.

Table of Contents

## STERIS PLC AND SUBSIDIARIES

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

For the Three and Six Months Ended September 30, 2016 and 2015

(dollars in thousands)

## 6. Additional Consolidated Balance Sheet Information

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

	September 30, 2016	March 31, 2016
Accrued payroll and other related liabilities:		
Compensation and related items	\$ 34,801	\$ 30,175
Accrued vacation/paid time off	11,193	14,368
Accrued bonuses	12,892	31,502
Accrued employee commissions	11,826	13,809
Other postretirement benefit obligations-current portion	2,463	2,463
Other employee benefit plans obligations-current portion	849	1,659
Total accrued payroll and other related liabilities	\$ 74,024	\$ 93,976
Accrued expenses and other:		
Deferred revenues	\$ 66,792	\$ 56,238
Self-insured risk reserves-current portion	9,120	8,266
Accrued dealer commissions	14,070	12,717
Accrued warranty	6,466	5,909
Other	67,246	70,245
Total accrued expenses and other	\$ 163,694	\$ 153,375
Other liabilities:		
Self-insured risk reserves-long-term portion	\$ 13,257	\$ 13,257
Other postretirement benefit obligations-long-term portion	15,103	15,932
Defined benefit pension plans obligations-long-term portion	21,927	25,301
Other employee benefit plans obligations-long-term portion	4,063	4,366
Accrued long-term income taxes	3,779	—
Asset retirement obligation-long-term portion	10,033	10,342
Other	10,649	15,100
Total other liabilities	\$ 78,811	\$ 84,298

## 7. Income Tax Expense

The effective income tax rate for continuing operations for the three month period ended September 30, 2016 was 31.8% compared with 46.4% for the same prior year period. The effective income tax rates for the six month periods ended September 30, 2016 and 2015 were 27.0% and 39.7%, respectively. The fiscal 2017 rates were favorably impacted by benefits achieved in conjunction with the Combination with Synergy, the adoption of ASU 2016-09: "Stock Compensation: Improvements to Employee Share-Based Payment Accounting" (Topic 718), and discrete item adjustments related to future tax rate changes in the United Kingdom.

Income tax expense is provided on an interim basis based upon our estimate of the annual effective income tax rate, adjusted each quarter for discrete items. In determining the estimated annual effective income tax rate, we analyze various factors, including projections of our annual earnings and taxing jurisdictions in which the earnings will be

generated, the impact of state and local income taxes, our ability to use tax credits and net operating loss carry forwards, and available tax planning alternatives.

We operate in numerous taxing jurisdictions and are subject to regular examinations by various United States federal, state and local authorities, as well as foreign jurisdictions. We are no longer subject to United States federal examinations for years before fiscal 2013 and, with limited exceptions, we are no longer subject to United States state and local or non-United States income tax examinations by tax authorities for years before fiscal 2012. We remain subject to tax authority audits in various jurisdictions wherever we do business. We do not expect the results of these examinations to have a material adverse affect on our consolidated financial statements.



Table of Contents

## STERIS PLC AND SUBSIDIARIES

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

For the Three and Six Months Ended September 30, 2016 and 2015

(dollars in thousands)

## 8. Benefit Plans

In the United States we sponsor an unfunded postretirement welfare benefits plan for two groups of former employees. Benefits under this plan include retiree life insurance and retiree medical coverage, including prescription drug coverage.

During the second quarter of fiscal 2009, we amended our United States post-retirement welfare benefits plan, reducing the benefits to be provided to retirees under the plan and increasing their share of the costs. The amendments resulted in a decrease of \$46,001 in the accumulated post-retirement benefit obligation. The impact of this change was recognized in our Consolidated Balance Sheets in fiscal 2009 and is being amortized as a component of the annual net periodic benefit cost over a period of approximately thirteen years.

In July 2014, the Board of Directors of American Sterilizer Company (“AMSCO”) approved the termination of the American Sterilizer Company Retirement Income Plan (“Plan”) effective October 1, 2014. The Pension Benefit Guaranty Corporation (“PBGC”) did not object to this termination and AMSCO received a favorable determination from the IRS regarding the termination. On August 19, 2015, an annuity contract was purchased from Massachusetts Mutual Life Insurance Company to provide Plan benefits. Plan assets were converted to cash to fund the purchase.

The purchase price of the annuity contract was \$51,805. An additional employer contribution of \$4,641 was made to the Plan to fund the annuity purchase obligation on August 26, 2015. As a result the purchase of the annuity, we recognized a pension settlement of \$26,470 in fiscal 2016. In addition, plan benefits and benefit administration became the responsibility of the annuity provider. Additional information regarding this defined benefit pension plan and other postretirement benefits plan is included in our consolidated financial statements included in our Annual Report on Form 10-K for the year ended March 31, 2016, dated May 31, 2016.

In the United Kingdom, we sponsor a defined benefit arrangement administered by a single group of trustees. The arrangement is comprised of three merged schemes. The trustees hold the pension assets to meet long-term pension liabilities for past and present employees. The level of retirement benefit is principally based on the terms of the scheme and the final pensionable salary prior to leaving active service, and is linked to changes in inflation up to retirement.

In previous years, Synergy sponsored a funded defined benefit arrangement in the Netherlands. This was a separate fund holding the pension scheme assets to meet long term pension liabilities for past and present employees. Accrual of benefits ceased under the scheme effective January 1, 2013.

The Synergy Radeberg and Synergy Allershausen Schemes are German defined benefit funded pension schemes which are closed to new entrants.

The Synergy Daniken Scheme is a Swiss defined benefit funded pension scheme.

Components of the net periodic benefit cost for our defined benefit pension plans and other postretirement medical benefits plan were as follows:

	AMSCO Plan	Other Defined Benefit Pension Plan	Other Postretirement Benefits Plan		
	2015	2016	2015	2016	2015
Three Months Ended September 30,	2015	2016	2015	2016	2015
Service cost	\$ \$11	\$ 472	\$ —	\$ —	\$ —
Interest cost	—224	189	—	139	148

Edgar Filing: Steris plc - Form 10-Q

Expected return on plan assets	—(403 )	—	—	—	—
Amortization of loss	—241	—	—	184	207
Settlement	—26,470	—	—	—	—
Amortization of prior service cost	—	—	—	(816 )	(815 )
Net periodic benefit cost	\$26,543	\$ 661	\$	—(493 )	—(460 )

Table of Contents

## STERIS PLC AND SUBSIDIARIES

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

For the Three and Six Months Ended September 30, 2016 and 2015

(dollars in thousands)

	AMSCO Plan	Other Defined Benefit Pension Plan	2015	2016	Other Postretirement Benefits Plan	2015	2016	2015
Six Months Ended September 30,	2015	2016	2015	2016	2015	2016	2015	2016
Service cost	\$27	\$944	\$—	\$—	\$—	\$—	\$—	\$—
Interest cost	—560	378	—	277	296	—	—	—
Expected return on plan assets	—(1,008)	—	—	—	—	—	—	—
Amortization of loss	—602	—	—	369	414	—	—	—
Settlement	—26,470	—	—	—	—	—	—	—
Amortization of prior service cost	—	—	—	(1,631)	(1,631)	—	—	—
Net periodic benefit cost	\$26,651	\$1,322	\$—	—	—	—	—	—

We contribute amounts to the defined benefit pension plans at least sufficient to meet the minimum requirements as stated in applicable employee benefit laws and local tax laws. We record liabilities for the difference between the fair value of the plan assets and the benefit obligation (the projected benefit obligation for pension plan and the accumulated postretirement benefit obligation for other postretirement benefits plan) on our accompanying Consolidated Balance Sheets.

Finally, the Dutch linen business acquired in the Synergy combination participates in a multi-employer industry-wide defined benefit scheme. Participation in this pension plan is mandatory. The pension scheme is an average pay scheme with a conditional fee (indexation). Indexation of assets and liabilities granted under the pension scheme takes place only if and insofar as the resources of the fund allow for it and this decision is taken by the pension fund. The pension entitlements under the pension plan are fully reinsured. It is not possible to identify the share of the underlying assets, liabilities, and overall surplus/deficit of the scheme attributable to the business, because the scheme is industry-wide. Under the guidance provided in ASC 715, "Compensation-Retirement Benefits", the scheme is treated as a defined contribution scheme within our financial statements. The total cost charged to the income statement in respect to this scheme was \$1,322 for the six months ended September 30, 2016.

## 9. Commitments and Contingencies

We are, and will likely continue to be, involved in a number of legal proceedings, government investigations, and claims, which we believe generally arise in the course of our business, given our size, history, complexity, and the nature of our business, products, Customers, regulatory environment, and industries in which we participate. These legal proceedings, investigations and claims generally involve a variety of legal theories and allegations, including, without limitation, personal injury (e.g., slip and falls, burns, vehicle accidents), product liability or regulation (e.g., based on product operation or claimed malfunction, failure to warn, failure to meet specification, or failure to comply with regulatory requirements), product exposure (e.g., claimed exposure to chemicals, asbestos, contaminants, radiation), property damage (e.g., claimed damage due to leaking equipment, fire, vehicles, chemicals), commercial claims (e.g., breach of contract, economic loss, warranty, misrepresentation), financial (e.g., taxes, reporting), employment (e.g., wrongful termination, discrimination, benefits matters), and other claims for damage and relief.

We believe we have adequately reserved for our current litigation and claims that are probable and estimable, and further believe that the ultimate outcome of these pending lawsuits and claims will not have a material adverse effect on our consolidated financial position or results of operations taken as a whole. Due to their inherent uncertainty, however, there can be no assurance of the ultimate outcome or effect of current or future litigation, investigations, claims or other proceedings (including without limitation the matters discussed below). For certain types of claims, we presently maintain insurance coverage for personal injury and property damage and other liability coverages in amounts and with deductibles that we believe are prudent, but there can be no assurance that these coverages will be applicable or adequate to cover adverse outcomes of claims or legal proceedings against us.

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

Table of Contents

STERIS PLC AND SUBSIDIARIES

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

For the Three and Six Months Ended September 30, 2016 and 2015

(dollars in thousands)

On December 19, 2014, a purported shareholder of Old STERIS filed a Verified Stockholder Derivative Complaint in the Court of Common Pleas, Cuyahoga County, Ohio (the "Court"), against the members of Old STERIS's board of directors and certain officers of Old STERIS, challenging the excise tax make-whole payments approved by Old STERIS's board in connection with the Combination. Old STERIS was named as a nominal defendant in the action. The case is captioned St. Lucie County Fire District Firefighters' Pension Trust Fund v. Rosebrough, Jr., et al., Case No. CV 14 837749 (the "Action"). On September 28, 2015, the defendants reached an agreement in principle with plaintiff, regarding a settlement of the Action, and that agreement is reflected in a memorandum of understanding. In connection with the contemplated settlement, Old STERIS agreed to make certain additional disclosures related to the make-whole payments, which disclosures were reported on Old STERIS's Form 8-K dated September 28, 2015, and also agreed not to grant any new stock compensation subject to

Section 4985 of the Internal Revenue Code to any of the individual defendants in the Action until six months following the closing date of the Combination. The parties have subsequently entered into and executed a stipulation of settlement, on a combined class and derivative basis, including agreement on a maximum fee/expense award to plaintiff's counsel. The stipulation of settlement, which is subject to customary conditions including approval of the Court following notice and hearing, has been filed with the Court along with a request for preliminary approval and the setting of a hearing date. A hearing on this matter has been scheduled by the Court for November 10, 2016. There can be no assurance that the Court will approve the proposed settlement and the settlement agreement may be terminated if Court approval is not obtained.

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

For additional information regarding these matters, see the following portions of our Annual Report on Form 10-K for the year ended March 31, 2016 dated May 31, 2016: "Business - Information with respect to our Business in General - Government Regulation", and the "Risk Factor" titled "We may be adversely affected by product liability claims or other legal actions or regulatory or compliance matters."

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

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

Additional information regarding our contingencies is included in Item 2 titled, "Management's Discussion and Analysis of Financial Conditions and Results of Operations under "Contingencies".

Table of Contents

STERIS PLC AND SUBSIDIARIES

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

For the Three and Six Months Ended September 30, 2016 and 2015

(dollars in thousands)

10. Business Segment Information

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

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

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

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

The accounting policies for reportable segments are the same as those for the consolidated Company. Management evaluates performance and allocates resources based on a segment operating income measure. Operating income (loss) for each segment is calculated as the segment's gross profit less direct expenses and indirect cost allocations, which result in the full allocation of all distribution and research and development expenses, and the partial allocation of corporate costs. These allocations are based upon variables such as segment headcount and revenues. In addition, the Healthcare Products segment is responsible for the management of all but two manufacturing facilities and uses standard cost to sell products to the other segments. Corporate and other includes the gross profit and direct expenses of the Defense and Industrial business unit, as well as certain unallocated corporate costs related to being a publicly traded company and legacy pension and post-retirement benefits. Segment operating income excludes certain adjustments which include acquisition and integration related costs, amortization of acquired intangibles, gains or losses on divestiture of businesses, restructuring costs and other charges that management believes may or may not recur with similar materiality or impact on operating income in future periods. Management believes that by excluding these items they gain better insight and greater transparency of the operating performance of the segments, thus aiding them in more meaningful financial trend analysis and operational decision making

For the three and six month periods ended September 30, 2016, revenues from a single Customer did not represent ten percent or more of any reportable segment's revenues. Additional information regarding our segments is included in our consolidated financial statements included in its Annual Report on Form 10-K for the year ended March 31, 2016, dated May 31, 2016.

Table of Contents

## STERIS PLC AND SUBSIDIARIES

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

For the Three and Six Months Ended September 30, 2016 and 2015

(dollars in thousands)

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2016	2015	2016	2015
Revenues:				
Healthcare Products	\$304,797	\$291,724	\$586,095	\$552,809
Healthcare Specialty Services	142,775	70,565	300,663	138,807
Life Sciences	81,485	71,040	162,674	127,812
Applied Sterilization Technologies	115,601	55,839	232,174	109,528
Corporate and other	1,757	729	3,187	843
Total revenues	\$646,415	\$489,897	\$1,284,793	\$929,799
Segment operating income:				
Healthcare Products	\$50,098	\$40,414	\$84,737	\$69,764
Healthcare Specialty Services	2,175	5,092	5,493	8,992
Life Sciences	22,772	20,883	47,234	34,333
Applied Sterilization Technologies	40,761	17,493	80,364	34,036
Corporate and other	(4,741 )	(4,034 )	(5,237 )	(5,932 )
Total segment operating income	\$111,065	\$79,848	\$212,591	\$141,193
Less: Adjustments				
Restructuring charges (1)	\$48	\$(15 )	\$202	\$(464 )
Amortization of acquired intangible assets (2)	17,779	6,682	37,308	12,703
Acquisition and integration related charges (3)	6,638	23,982	11,873	35,528
Loss on fair value adjustment of acquisition related contingent consideration	1,850	—	1,850	—
Net loss on divestiture of businesses (2)	13,802	—	13,802	—
Amortization of inventory and property "step up" to fair value (2)	1,385	21	4,471	32
Settlement of pension obligation (4)	—	26,515	—	26,515
Total operating income	\$69,563	\$22,663	\$143,085	\$66,879

(1) For more information related to restructuring, see our Annual Report on Form 10-K for the year ended March 31, 2016, dated May 31, 2016.

(2) For more information regarding our recent acquisitions and divestitures see Note 2 titled, "Business Acquisitions and Divestitures", as well as our Annual Report on Form 10-K for the year ended March 31, 2016, dated May 31, 2016.

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

(4) For more information regarding the settlement of our pension obligation see Note 8 titled "Benefit Plans", as well as our Annual Report on Form 10-K for the year ended March 31, 2016, dated May 31, 2016.

## 11. Shares and Preferred Shares

## Common and Ordinary

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



Table of Contents

## STERIS PLC AND SUBSIDIARIES

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

For the Three and Six Months Ended September 30, 2016 and 2015

(dollars in thousands)

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

	Three Months Ended September 30, 2016		Six Months Ended September 30, 2015	
Denominator (shares in thousands):				
Weighted average shares outstanding—basic	85,851	59,897	85,944	59,832
Dilutive effect of share equivalents	482	473	482	496
Weighted average shares outstanding and share equivalents—diluted	86,333	60,370	86,426	60,328

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

	Three Months Ended September 30, 2016		Six Months Ended September 30, 2015	
(shares in thousands)				
Number of share options	627	419	496	235

## Preferred Shares

Pursuant to an engagement letter dated October 23, 2015, we issued 100,000 preferred shares, par value of £0.10 (\$0.15) each, for an aggregate consideration of approximately \$15, in satisfaction of debt owed to a service provider. The holders of the preferred shares are entitled to a fixed cumulative preferential annual dividend of 5 percent on the amount paid periodically on the preferred shares respectively held by them. On a return of capital of the Company whether on liquidation or otherwise, the holders of the preferred shares shall be entitled to receive out of the assets of the Company available for distribution to its shareholders the sum of £0.10 (\$0.15) per preferred share plus any accrued but unpaid dividend, but will not be entitled to any further participation in the assets of the Company. The holders of the preferred shares will have no right to attend, speak or vote, whether in person or by proxy, at any general meeting of the Company or any meeting of a class of members of the Company in respect of the preferred shares and will not be entitled to receive any notice of meetings.

## 12. Repurchases of Shares

On August 9, 2016, the Company announced that its Board of Directors had authorized the purchase of up to \$300 million of our ordinary shares. We may enter into share repurchase contracts until August 2, 2021 to effect these purchases. Shares may be repurchased from time to time through open market transactions, including 10b5-1 plans.

The repurchase program may be suspended or discontinued at any time. During the first half of fiscal 2017, we repurchased 819,105 of our ordinary shares pursuant to this authorization, all of which were repurchased in the second quarter. During the first half of fiscal 2017, we obtained 127,520 of our ordinary shares in connection with share based compensation award programs.

### 13. Share-Based Compensation

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

Stock options provide the right to purchase our shares at the market price on the date of grant, subject to the terms of the option plans and agreements. Generally, one-fourth of the stock options granted become exercisable for each full year of employment following the grant date. Stock options granted generally expire 10 years after the grant date, or in some cases

Table of Contents

## STERIS PLC AND SUBSIDIARIES

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

For the Three and Six Months Ended September 30, 2016 and 2015

(dollars in thousands)

earlier if the option holder is no longer employed by us. Restricted shares and restricted share units generally may cliff vest after a four year period or vest in tranches of one-fourth of the number granted for each full year of employment after the grant date. As of September 30, 2016, 5,588,018 shares remained available for grant under the long-term incentive plan. On November 8, 2016, we filed a Form S-8 to register an additional 4,031,196 shares to be made available for equity awards under the long-term incentive plan.

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

The following weighted-average assumptions were used for options granted during the first half of fiscal 2017 and 2016:

	Fiscal 2017		Fiscal 2016	
Risk-free interest rate	1.29	%	1.51	%
Expected life of options	5.66 years		5.69 years	
Expected dividend yield of stock	1.54	%	1.40	%
Expected volatility of stock	22.92	%	25.06	%

The risk-free interest rate is based upon the U.S. Treasury yield curve. The expected life of options is reflective of historical experience, vesting schedules and contractual terms. The expected dividend yield of stock represents our best estimate of the expected future dividend yield. The expected volatility of stock is derived by referring to our historical stock prices over a time frame similar to that of the expected life of the grant. An estimated forfeiture rate of 1.85% and 1.55% was applied in fiscal 2017 and 2016, respectively. This rate is calculated based upon historical activity and represents an estimate of the granted options not expected to vest. If actual forfeitures differ from this calculated rate, we may be required to make additional adjustments to compensation expense in future periods. The assumptions used above are reviewed at the time of each significant option grant, or at least annually.

A summary of share option activity is as follows:

	Number of Options	Weighted Average Exercise Price	Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at March 31, 2016	1,729,517	\$ 44.01		
Granted	402,141	69.85		
Exercised	(81,539)	29.44		
Forfeited	(9,226)	64.43		

Edgar Filing: Steris plc - Form 10-Q

Canceled	(470	)	25.98		
Outstanding at September 30, 2016	2,040,423	\$ 49.59	6.7 years	\$ 47,968	
Exercisable at September 30, 2016	1,206,956	\$ 39.70	5.2 years	\$ 40,310	

We estimate that 815,069 of the non-vested stock options outstanding at September 30, 2016 will ultimately vest.

The aggregate intrinsic value in the table above represents the total pre-tax difference between the \$73.10 closing price of our ordinary shares on September 30, 2016 over the exercise prices of the stock options, multiplied by the number of options outstanding or outstanding and exercisable, as applicable. The aggregate intrinsic value is not recorded for financial accounting purposes and the value changes daily based on the daily changes in the fair market value of ordinary shares.

Table of Contents

## STERIS PLC AND SUBSIDIARIES

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

For the Three and Six Months Ended September 30, 2016 and 2015

(dollars in thousands)

The total intrinsic value of stock options exercised during the first half of fiscal 2017 and fiscal 2016 was \$3,386 and \$8,295, respectively. Net cash proceeds from the exercise of stock options were \$2,494 and \$8,111 for the first half of fiscal 2017 and fiscal 2016, respectively.

The weighted average grant date fair value of stock option grants was \$13.42 and \$14.66 for the first half of fiscal 2017 and fiscal 2016, respectively.

Stock appreciation rights (“SARS”) carry generally the same terms and vesting requirements as stock options except that they are settled in cash upon exercise and therefore, are classified as liabilities. The fair value of the outstanding SARS as of September 30, 2016 and 2015 was \$2,001 and \$1,954, respectively.

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

	Number of Restricted Shares	Number of Restricted Share Units	Weighted-Average Grant Date Fair Value
Non-vested at March 31, 2016	872,972	41,641	\$ 51.98
Granted	226,027	19,634	69.86
Vested	(207,629 )	(20,424 )	40.49
Canceled	(26,603 )	(2,275 )	61.71
Non-vested at September 30, 2016	864,767	38,576	\$ 59.43

Restricted shares granted are valued based on the closing stock price at the grant date. The value of restricted shares that vested during the first half of fiscal 2017 was \$7,971.

Restricted share units carry generally the same terms and vesting requirements as restricted stock except that they may be settled in stock or cash upon vesting. Those that are settled in cash are classified as liabilities. All outstanding cash-settled restricted share units vested during fiscal year 2016. The fair value of cash-settled restricted share units are revalued at each reporting date and the related liability and expense are adjusted accordingly.

The tax benefit from share-based compensation was \$3,454 and \$4,676 for the first half of fiscal 2017 and fiscal 2016, respectively.

As of September 30, 2016, there was a total of \$42,715 in unrecognized compensation cost related to non-vested share-based compensation granted under our share-based compensation plans. We expect to recognize the cost over a weighted average period of 2.30 years.

#### 14. Financial and Other Guarantees

We generally offer a limited parts and labor warranty on capital equipment. The specific terms and conditions of those warranties vary depending on the product sold and the countries where we conduct business. We record a liability for the estimated cost of product warranties at the time product revenues are recognized. The amounts we expect to incur

on behalf of our Customers for the future estimated cost of these warranties are recorded as a current liability on the accompanying Consolidated Balance Sheets. Factors that affect the amount of our warranty liability include the number and type of installed units, historical and anticipated rates of product failures, and material and service costs per claim. We periodically assess the adequacy of our recorded warranty liabilities and adjust the amounts as necessary.

Table of Contents

## STERIS PLC AND SUBSIDIARIES

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

For the Three and Six Months Ended September 30, 2016 and 2015

(dollars in thousands)

Changes in our warranty liability during the first half of fiscal 2017 were as follows:

Balance, March 31, 2016	\$5,909
Warranties issued during the period	5,897
Settlements made during the period	(5,340 )
Balance, September 30, 2016	\$6,466

We also sell product maintenance contracts to our Customers. These contracts range in terms from one to five years and require us to maintain and repair the product over the maintenance contract term. We initially record amounts due from Customers under these contracts as a liability for deferred service contract revenue on the accompanying Consolidated Balance Sheets within “Accrued expenses and other.” The liability recorded for such deferred service revenue was \$37,213 and \$33,416 as of September 30, 2016 and March 31, 2016, respectively. Such deferred revenue is then amortized on a straight-line basis over the contract term and recognized as service revenue on our accompanying Consolidated Statements of Income. The activity related to the liability for deferred service contract revenue is excluded from the table presented above.

## 15. Derivatives and Hedging

From time to time, we enter into forward contracts to hedge potential foreign currency gains and losses that arise from transactions denominated in foreign currencies, including inter-company transactions. We may also enter into commodity swap contracts to hedge price changes in nickel that impact raw materials included in our cost of revenues. We do not use derivative financial instruments for speculative purposes. These contracts are not designated as hedging instruments and do not receive hedge accounting treatment; therefore, changes in their fair value are not deferred but are recognized immediately in the Consolidated Statements of Income. At September 30, 2016, we held foreign currency forward contracts to buy 65.0 million Mexican pesos, 7.0 million British pounds sterling, 3.0 million euros, and 10.0 million Canadian dollars. At September 30, 2016 we held commodity swap contracts to buy 349.3 thousand pounds of nickel.

Balance Sheet Location	Asset Derivatives		Liability Derivatives	
	Fair Value at September 30, 2016	Fair Value at March 31, 2016	Fair Value at September 30, 2016	Fair Value at March 31, 2016
Prepaid & Other	\$ 405	\$ 145	\$ —	\$ —
Accrued expenses and other	\$ —	\$ —	\$ 24	\$ 122

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

Location of gain (loss) recognized in income	Amount of gain (loss) recognized in income			
	Three Months Ended September 30, 2016		Six Months Ended September 30, 2015	
	2016	2015	2016	2015

Foreign currency forward contracts	Selling, general and administrative	\$ (531 )	\$ (693 )	\$ (1,550 )	\$ (261 )
Commodity swap contracts	Cost of revenues	\$ 205	\$ (288 )	\$ 416	\$ (333 )

Additionally, we hold our debt in multiple currencies to fund our operations and investments in certain subsidiaries. We designate portions of foreign currency denominated intercompany loans as hedges of portions of net investments in foreign operations. Net debt designated as non-derivative net investment hedging instruments totaled \$122,200 at September 30, 2016. These hedges are designed to be fully effective and any associated gain or loss is recognized in Accumulated Other Comprehensive Income and will be reclassified to income in the same period when a gain or loss related to the net investment in the foreign operation is included in income.



Table of Contents

## STERIS PLC AND SUBSIDIARIES

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

For the Three and Six Months Ended September 30, 2016 and 2015

(dollars in thousands)

## 16. Fair Value Measurements

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

The following table shows the fair value of our financial assets and liabilities at September 30, 2016 and March 31, 2016:

	Carrying Value		Fair Value Measurements at September 30, 2016 and March 31, 2016 Using					
			Quoted Prices in Active Markets for Identical Assets		Significant Other Observable Inputs		Significant Unobservable Inputs	
			Level 1		Level 2		Level 3	
	September 30	March 31	September 30	March 31	September 30	March 31	September 30	March 31
Assets:								
Cash and cash equivalents (1)	\$254,351	\$248,841	\$254,351	\$225,090	\$ —	\$ 23,751	\$ —	\$ —
Forward and swap contracts (2)	405	145	—	—	405	145	—	—
Investments (3)	11,768	6,192	11,768	6,192	—	—	—	—
Liabilities:								
Forward and swap contracts (2)	\$24	\$122	\$—	\$—	\$ 24	\$ 122	\$ —	\$ —
Deferred compensation plans (3)	1,735	1,765	1,735	1,765	—	—	—	—
Long term debt (4)	1,504,192	1,567,796	—	—	1,548,650	1,592,184	—	—
Contingent consideration obligations (5)	7,420	5,886	—	—	—	—	7,420	5,886

(1) Money market fund holdings are classified as level two as active market quoted prices are not available.

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

(3) We maintain a frozen domestic non-qualified deferred compensation plan covering certain employees, which allows for the deferral of payment of previously earned compensation for an employee-specified term or until retirement or termination. Amounts deferred can be allocated to various hypothetical investment options (compensation deferrals have been frozen under the plan). We hold investments to satisfy the future obligations of the plan. Changes in the value of the investment accounts are recognized each period based on the fair value of the underlying investments. Employees who made deferrals are entitled to receive distributions of their hypothetical account balances (amounts deferred, together with earnings (losses)). We also hold an investment in the common stock of Servizi Italia, S.p.A, a leading provider of integrated linen washing and outsourced sterile processing services

to hospital Customers including an incremental investment of \$4,564 made in April 2016.

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

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

Table of Contents

## STERIS PLC AND SUBSIDIARIES

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

For the Three and Six Months Ended September 30, 2016 and 2015

(dollars in thousands)

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis at September 30, 2016 are summarized as follows:

	Contingent Consideration	
Balance at March 31, 2016	\$	5,886
Additions		2,348
Payments	(182)	)
Foreign currency translation adjustments (1)	(632)	)
Balance at September 30, 2016	\$	7,420

(1) Reported in other comprehensive income (loss).

Information regarding our investments is as follows:

	Investments at September 30, 2016 and March 31, 2016							
	Cost		Unrealized Gains		Unrealized Losses (2)		Fair Value	
	September 30	March 31	September 30	March 31	September 30	March 31	September 30	March 31
Available-for-sale securities:								
Marketable equity securities (1)	\$11,037	\$4,681	\$—	\$—	\$(918)	\$(185)	\$10,119	\$4,496
Mutual funds	1,187	1,289	462	407	—	—	1,649	1,696
Total available-for-sale securities	\$12,224	\$5,970	\$462	\$407	\$(918)	\$(185)	\$11,768	\$6,192

(1) Our marketable equity securities have been in a unrealized loss position for less than 12 months.

(2) Amounts reported include the impact of foreign currency movements relative to the U.S. dollar.

Table of Contents

## STERIS PLC AND SUBSIDIARIES

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

For the Three and Six Months Ended September 30, 2016 and 2015

(dollars in thousands)

## 17. Reclassifications Out of Accumulated Other Comprehensive Income (Loss)

Amounts in Accumulated Other Comprehensive Income (Loss) are presented net of the related tax. Foreign Currency Translation is not adjusted for income taxes. Changes in our Accumulated Other Comprehensive Income (Loss) balances, net of tax, for the three and six months ended September 30, 2016 were as follows:

	Gain (Loss) on						Total Accumulated	
	Available for		Defined Benefit		Foreign Currency		Other	
	Sale Securities		Plans (2)		Translation (3)		Comprehensive	
	(1)						Income	
	Three	Six	Three	Six	Three	Six	Three	Six
	Months	Months	Months	Months	Months	Months	Months	Months
Beginning Balance	\$ (793)	\$ (673 )	\$ 4,718	\$ 5,108	\$ (89,643)	\$ (72,594)	\$ (85,718)	\$ (68,159)
Other Comprehensive Income (Loss) before reclassifications	17	(131 )	103	206	(7,946 )	(24,995 )	(7,826 )	(24,920 )
Amounts reclassified from Accumulated Other Comprehensive Income (Loss)	9	37	(493 )	(986 )	—	—	(484 )	(949 )
Net current-period Other Comprehensive Income (Loss)	26	(94 )	(390 )	(780 )	(7,946 )	(24,995 )	(8,310 )	(25,869 )
Balance at September 30, 2016	\$ (767)	\$ (767 )	\$ 4,328	\$ 4,328	\$ (97,589)	\$ (97,589)	\$ (94,028)	\$ (94,028)

Details of amounts reclassified from Accumulated Other Comprehensive Income (Loss) are as follows:

- (1) Realized gain (loss) on available for sale securities is reported in the interest income and miscellaneous expense line of the Consolidated Statements of Income.
- (2) Amortization (gain) of defined benefit pension items is reported in the selling, general and administrative expense line of the Consolidated Statements of Income.
- (3) The effective portion of gain or loss on net debt designated as non-derivative net investment hedging instruments is recognized in Accumulated Other Comprehensive Income and is reclassified to income in the same period when a gain or loss related to the net investment in the foreign operation is included in income.

Table of Contents

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders of STERIS plc

We have reviewed the consolidated balance sheet of STERIS plc and subsidiaries (“the Company”) as of September 30, 2016, and the related consolidated statements of income and comprehensive income for the three- and six-month periods ended September 30, 2016 and 2015, and the consolidated statements of cash flows for the six-month periods ended September 30, 2016 and 2015. These financial statements are the responsibility of the Company’s management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of STERIS plc and subsidiaries as of March 31, 2016, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the year then ended (not presented herein) and we expressed an unqualified audit opinion on those consolidated financial statements in our report dated May 31, 2016. In our opinion, the accompanying consolidated balance sheet of STERIS plc and subsidiaries as of March 31, 2016, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

Cleveland, Ohio  
November 8, 2016

Table of Contents

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

Introduction

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

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

As you read the MD&A, it may be helpful to refer to information in our consolidated financial statements, which present the results of our operations for the second quarter and first half of fiscal 2017 and fiscal 2016. It may also be helpful to read the MD&A in our Annual Report on Form 10-K for the year ended March 31, 2016, dated May 31, 2016. In the MD&A, we analyze and explain the period-over-period changes in the specific line items in the Consolidated Statements of Income. Our analysis may be important to you in making decisions about your investments in STERIS.

Financial Measures

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

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

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

• **Net debt-to-total capital** – We define net debt-to-total capital as total debt less cash ("net debt") divided by the sum of net debt and shareholders' equity. We also use this figure as a financial liquidity measure to gauge our ability to borrow and fund growth.

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

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

other companies. Additional information regarding these financial measures, including reconciliations of each non-GAAP financial measure, is available in the subsection of MD&A titled, "Non-GAAP Financial Measures."

#### Revenues – Defined

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

## Table of Contents

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

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

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

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

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

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

## General Company Overview and Executive Summary

STERIS plc, a public limited company organized under the laws of England and Wales, was incorporated on October 9, 2014 as a private limited company and was re-registered effective November 2, 2015 as a public limited company under the name STERIS plc. New STERIS Limited was established to effect the combination (“Combination”) of STERIS Corporation, an Ohio corporation (“Old STERIS”), and Synergy Health plc, a public limited company organized under the laws of the England and Wales (“Synergy”). This Combination closed on November 2, 2015 and as a result STERIS plc became the ultimate parent company of Old STERIS and Synergy. Synergy has been re-registered under the name Synergy Health Limited. The Combination was accounted for in the consolidated financial statements as a merger between entities under common control; accordingly the historical consolidated financial statements of Old STERIS for periods prior to November 2, 2015 are considered to be the historical financial statements of STERIS plc.

Due to the timing of the closing of the Combination, the results of Synergy are only reflected in the results of operations of the Company from November 2, 2015 forward, which will affect comparability to the prior period historical operations of the Company throughout this quarterly report on Form 10-Q.

As a result of the Combination, we have reorganized our operations into four reportable business segments: Healthcare Products, Healthcare Specialty Services, Life Sciences, and Applied Sterilization Technologies. We describe our business segments in note 10 to our consolidated financial statements titled, “Business Segment Information.”

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

The bulk of our revenues are derived from the healthcare and pharmaceutical industries. Much of the growth in these industries is driven by the aging of the population throughout the world, as an increasing number of individuals are entering their prime healthcare consumption years, and is dependent upon advancement in healthcare delivery, acceptance of new technologies, government policies, and general economic conditions. In addition, each of our core industries is experiencing specific trends that could increase demand. Within healthcare, there is increased concern regarding the level of hospital-acquired infections around the world. The pharmaceutical industry has been impacted by increased FDA scrutiny of cleaning and validation processes, mandating that manufacturers improve their processes. The aging population increases the demand for medical procedures, which increases the consumption of single use medical devices and surgical kits processed by our Applied Sterilization Technologies segment.



We are actively pursuing new opportunities to adapt our proven technologies to meet the changing needs of the global marketplace. We are also executing on our strategic initiatives by expanding into adjacent markets with acquisitions, divesting non-core assets and integrating Synergy. During the quarter, we divested our Applied Infection Control ("AIC") product line (annual revenues of approximately \$50 million) and two businesses acquired in the Combination with Synergy: UK Linen Management Services business (annual revenues of approximately \$50 million) and Synergy Health Laboratory Services (annual revenues of approximately \$15 million). Subsequent to the end of the fiscal 2017 second quarter, we also sold the assets associated with linen management services in the United States (annual revenues of approximately \$50 million) that was also acquired in the Combination with Synergy.

## Table of Contents

Fiscal 2017 second quarter revenues were \$646.4 million, representing an increase of 31.9% over the fiscal 2016 second quarter revenues of \$489.9 million, reflecting growth within all reportable business segments including growth resulting from the Combination. Fiscal 2017 first half revenues were \$1,284.8 million representing an increase of 38.2% over the first half of fiscal 2016 revenues of \$929.8 million, also reflecting growth within all four business segments including growth resulting from the Combination.

Fiscal 2017 second quarter gross margin percentage was 38.4% compared with 42.7% for the fiscal 2016 second quarter. As anticipated, the addition of Synergy's hospital sterilization services and linen management businesses is a key factor in the declines in gross margin percentages. During the first half of fiscal 2017, gross margin percentage was 38.0% compared with 42.3% for the first half of fiscal 2016 primarily due to the Combination. We have applied our "four walls" approach to the operation of Synergy, which reports all direct and indirect costs related to the delivery of services as costs of goods sold. This approach caused additional costs to be included in costs of goods sold rather than in selling, general and administrative costs as Synergy would have previously reported.

Fiscal 2017 second quarter operating income was \$69.6 million, compared to fiscal 2016 second quarter operating income of \$22.7 million. During the first half of fiscal 2017, operating income was \$143.1 million, compared to \$66.9 million for the first half of fiscal 2016. The year over year increase is attributable to recent acquisitions, including the Combination and lower acquisition related expenses, partially offset by the net loss recognized on the divestiture of certain non-core assets.

Cash flows from operations were \$188.5 million and free cash flow was \$119.4 million in the first six months of fiscal 2017 compared to cash flows from operations of \$79.5 million and free cash flow \$39.6 million in the first six months of fiscal 2016, respectively (see the subsection below titled "Non-GAAP Financial Measures" for additional information and related reconciliation of cash flows from operations to free cash flow). The higher cash flow from operations and free cash flow as compared to the prior year period are primarily due to a reduction in acquisition related expenses and higher net income. Our debt-to-total capital ratio was 33.4% at September 30, 2016 and 34.2% at March 31, 2016. During the first six months of fiscal 2017, we declared and paid quarterly cash dividends of \$0.53 per ordinary share.

Additional information regarding our financial performance during the fiscal second quarter and first six months of 2017 is included in the subsection below titled "Results of Operations."

## Matters Affecting Comparability

**International Operations.** Since we conduct operations outside of the United States using various foreign currencies, our operating results are impacted by foreign currency movements relative to the U.S. dollar. During the second quarter of fiscal 2017, our revenues were unfavorably impacted by \$3.2 million, or 0.6%, and income before taxes was favorably impacted by \$1.6 million, or 1.7%, as a result of foreign currency movements relative to the U.S. dollar. During the first half of fiscal 2017, our revenues were unfavorably impacted by \$4.9 million, or 0.5%, and income before taxes was favorably impacted by \$4.4 million, or 3.0%, as a result of foreign currency movements relative to the U.S. dollar.

## NON-GAAP FINANCIAL MEASURES

We, at times, refer to financial measures which are considered to be "non-GAAP financial measures" under SEC rules. We, at times, also refer to our results of operations excluding certain transactions or amounts that are non-recurring or are not indicative of future results, in order to provide meaningful comparisons between the periods presented. These non-GAAP financial measures are not intended to be, and should not be, considered separately from or as an alternative to the most directly comparable GAAP financial measures.

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

and analyzing the underlying performance of our operations for the periods presented.

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

We define free cash flow as net cash provided by operating activities as presented in the Consolidated Statements of Cash Flows less purchases of property, plant, equipment, and intangibles plus proceeds from the sale of property, plant, equipment,

Table of Contents

and intangibles, which are also presented in the Consolidated Statements of Cash Flows. We use this as a measure to gauge our ability to fund future debt principal repayments, growth outside of core operations, repurchase shares, and pay cash dividends.

The following table summarizes the calculation of our free cash flow for the six month periods ended September 30, 2016 and 2015:

(dollars in thousands)	Six Months Ended September 30,	
	2016	2015
Net cash provided by operating activities	\$188,501	\$79,472
Purchases of property, plant, equipment and intangibles, net	(73,866 )	(39,928 )
Proceeds from the sale of property, plant, equipment and intangibles	4,763	38
Free cash flow	\$119,398	\$39,582

## Results of Operations

In the following subsections, we discuss our earnings and the factors affecting them for the second quarter and first half of fiscal 2017 compared with the same fiscal 2016 period. We begin with a general overview of our operating results and then separately discuss earnings for our operating segments.

Revenues. The following tables compare our revenues for the three and six months ended September 30, 2016 to the revenues for the three and six months ended September 30, 2015:

(dollars in thousands)	Three Months Ended September 30,			Percent Change
	2016	2015	Change	
Total revenues	\$646,415	\$489,897	\$156,518	31.9 %
Revenues by type:				
Capital equipment revenues	152,640	152,038	602	0.4 %
Consumable revenues	139,576	122,107	17,469	14.3 %
Service revenues	354,199	215,752	138,447	64.2 %
Revenues by geography:				
United Kingdom revenues	53,369	11,746	41,623	354.4 %
United States revenues	450,513	395,220	55,293	14.0 %
Other foreign revenues	142,533	82,931	59,602	71.9 %

Table of Contents

(dollars in thousands)	Six Months Ended September 30,		Change	Percent Change
	2016	2015		
Total revenues	\$1,284,793	\$929,799	\$354,994	38.2 %
Revenues by type:				
Capital equipment revenues	278,725	270,258	8,467	3.1 %
Consumable revenues	285,241	236,194	49,047	20.8 %
Service revenues	720,827	423,347	297,480	70.3 %
Revenues by geography:				
United Kingdom revenues	123,808	21,915	101,893	464.9 %
United States revenues	878,618	755,689	122,929	16.3 %
Other foreign revenues	282,367	152,196	130,171	85.5 %

## Quarter over Quarter Comparison

Revenues increased \$156.5 million, or 31.9%, to \$646.4 million for the quarter ended September 30, 2016, as compared to \$489.9 million for the same quarter in the prior year. This increase is attributable to recent acquisitions including the Combination with Synergy along with organic growth in all reportable business segments.

Capital equipment revenues increased 0.4% in the second quarter of fiscal 2017, as compared to the second quarter of fiscal 2016 with strength in the Life Science segment partially offset by softness in the Healthcare Products segment. Consumable revenues increased 14.3% for the quarter ended September 30, 2016, as compared to the prior year quarter, primarily due to recent acquisitions, along with organic growth in both the Healthcare Products and Life Sciences segments. Service revenues increased 64.2% in the second quarter of fiscal 2017 driven by the Combination with Synergy and organic growth in all reportable business segments.

United Kingdom revenues increased \$41.6 million, or 354.4%, to \$53.4 million for the quarter ended September 30, 2016, as compared to \$11.7 million for the same prior year quarter. This increase reflects growth in capital, consumable and service revenues and is primarily attributable to the Combination with Synergy.

United States revenues increased \$55.3 million, or 14.0%, to \$450.5 million for the quarter ended September 30, 2016, as compared to \$395.2 million for the same prior year quarter. This increase reflects year over year growth of 6.1%, 5.5% and 22.5% in capital equipment, consumable, and service revenues, respectively. The increases are attributable to acquisitions, including the Combination with Synergy, as well as organic growth.

Revenue from other foreign locations increased \$59.6 million, or 71.9%, to \$142.5 million for the quarter ended September 30, 2016, as compared to \$82.9 million for the same prior year quarter. This increase reflects growth in the EMEA outside of the United Kingdom, as well as in the Asia Pacific and Latin American regions. The Combination with Synergy was a significant driver of the growth in the EMEA outside of the United Kingdom.

## First Half over First Half Comparison

Revenues increased \$355.0 million, or 38.2%, to \$1,284.8 million for the six months ended September 30, 2016, as compared to \$929.8 million for the same period in the prior year. This increase is primarily attributable to recent acquisitions including the Combination with Synergy but also reflects organic growth in all reportable business segments.

Capital equipment revenues increased 3.1% in the first six months of fiscal 2017, as compared to the same period in fiscal 2016. Most of the capital equipment revenues increase was in the United States although revenues also increased in the EMEA. Consumable revenues increased 20.8% for the six months ended September 30, 2016, as compared to the same period in the prior year, due, in part, to recent acquisitions, but also strong growth in both the Healthcare Products and Life Sciences segments. Service revenues increased 70.3% in the first half of fiscal 2017 driven by the Combination with Synergy and organic growth in all reportable business segments.

Table of Contents

United Kingdom revenues increased \$101.9 million, or 464.9%, to \$123.8 million for the six months ended September 30, 2016, as compared to \$21.9 million for the same period in the prior year. This increase reflects growth in capital, consumable and service revenues and is primarily attributable to the Combination with Synergy.

United States revenues increased \$122.9 million, or 16.3%, to \$878.6 million for the six months ended September 30, 2016, as compared to \$755.7 million for the same period in the prior year. This increase reflects year over year growth of 6.2%, 12.1% and 23.3% in capital equipment, consumable and service revenues, respectively. The increases are attributable to acquisitions, including the Combination with Synergy, as well as organic growth.

Revenue from other foreign locations increased \$130.2 million, or 85.5%, to \$282.4 million for the six months ended September 30, 2016, as compared to \$152.2 million for the same period in the prior year. This increase reflects growth in the EMEA outside of the United Kingdom, as well as in the Asia Pacific and Latin American regions. The Combination with Synergy was a significant driver of the growth in the EMEA outside of the United Kingdom.

Gross Profit. The following table compares our gross profit for the three months and six months ended September 30, 2016 to the three months and six months ended September 30, 2015:

(dollars in thousands)	Three Months Ended		Change	Percent Change
	September 30, 2016	September 30, 2015		
Gross profit:				
Product	\$ 137,106	\$ 126,057	\$ 11,049	8.8 %
Service	110,802	83,264	27,538	33.1 %
Total gross profit	\$ 247,908	\$ 209,321	\$ 38,587	18.4 %
Gross profit percentage:				
Product	46.9	% 46.0	%	
Service	31.3	% 38.6	%	
Total gross profit percentage	38.4	% 42.7	%	
(dollars in thousands)	Six Months Ended		Change	Percent Change
	September 30, 2016	September 30, 2015		
Gross profit:				
Product	\$ 266,157	\$ 228,508	\$ 37,649	16.5 %
Service	221,741	164,903	56,838	34.5 %
Total gross profit	\$ 487,898	\$ 393,411	\$ 94,487	24.0 %
Gross profit percentage:				
Product	47.2	% 45.1	%	
Service	30.8	% 39.0	%	
Total gross profit percentage	38.0	% 42.3	%	

Our gross profit percentage is affected by the volume, pricing, and mix of sales of our products and services, as well as the costs associated with the products and services that are sold. Gross profit increased \$38.6 million and declined 430 basis points as a percentage of revenues in the fiscal 2017 second quarter as compared to the fiscal 2016 second quarter. Our gross profit percentage was negatively impacted by the addition of Synergy's hospital sterilization services and linen management business (440 basis points), partially offset by the favorable impacts of the suspension of the Medical Device Excise Tax (40 basis points), foreign currency rate movements (30 basis points), and pricing and divestitures (20 basis points). We have applied our "four walls" approach to the operation of Synergy, which reports all direct and indirect costs related to the delivery of services as costs of goods sold. This approach caused additional costs to be included in costs of goods sold rather than in selling, general and administrative costs as Synergy would have previously reported.

Gross profit percentage for the first half of fiscal 2017 was 38.0% compared to the gross profit percentage in the first half of fiscal 2016 of 42.3%. The gross profit percentage decreased 430 basis points in the first half of fiscal 2017 over fiscal 2016. Our gross profit percentage was negatively impacted by the addition of Synergy's hospital sterilization services and linen management business (500 basis points), partially offset by the positive impact of foreign currency (40 basis points) and the suspension of the Medical Device Excise Tax (40 basis points).



Table of Contents

Operating Expenses. The following table compares our operating expenses for the three months and six months ended September 30, 2016 to the three months and six months ended September 30, 2015:

(dollars in thousands)	Three Months Ended		Change	Percent Change
	September 30, 2016	September 30, 2015		
Operating expenses:				
Selling, general, and administrative	\$ 163,680	\$ 172,459	\$(8,779)	(5.1)%
Research and development	14,617	14,255	362	2.5%
Restructuring expenses	48	(56)	104	NM
Total operating expenses	\$ 178,345	\$ 186,658	\$(8,313)	(4.5)%
(dollars in thousands)	Six Months Ended		Change	Percent Change
	September 30, 2016	September 30, 2015		
Operating expenses:				
Selling, general, and administrative	\$ 315,566	\$ 299,294	\$ 16,272	5.4%
Research and development	29,045	28,020	1,025	3.7%
Restructuring expenses	202	(782)	984	NM
Total operating expenses	\$ 344,813	\$ 326,532	\$ 18,281	5.6%

NM - Not meaningful.

**Selling, General, and Administrative Expenses.** Significant components of total selling, general, and administrative expenses ("SG&A") are compensation and benefit costs, fees for professional services, travel and entertainment, facilities costs, and other general and administrative expenses. SG&A decreased 5.1% in the second quarter of fiscal 2017 over the second quarter of fiscal 2016. The decrease is primarily attributable to the \$26.5 million expense associated with the settlement of a pension obligation and higher acquisition costs in fiscal 2016 due to the Combination with Synergy. SG&A increased 5.4% in the first half of fiscal 2017 over the first half of fiscal 2016, primarily due to a net loss of \$13.8 million on divestitures in fiscal 2017 and higher amortization of acquired intangible assets.

**Research and Development.** For the three month period ended September 30, 2016, research and development expenses increased 2.5% over the same prior year period. For the first half of fiscal 2017, research and development expenses were \$29.0 million, representing an increase of 3.7% over the first half of fiscal 2016. Contributing to these increases was the additional spending in connection with the development of Healthcare and Life Sciences products and accessories. Research and development expenses are influenced by the number and timing of in-process projects and labor hours and other costs associated with these projects. Our research and development initiatives continue to emphasize new product development, product improvements, and the development of new technological platform innovations. During fiscal 2017, our investments in research and development continued to be focused on, but were not limited to, enhancing capabilities of sterile processing combination technologies, procedural products and accessories, and devices and support accessories used in gastrointestinal endoscopy procedures.

**Non-Operating Expenses, Net.** Non-operating expenses, net consists of interest expense on debt, offset by interest earned on cash, cash equivalents, short-term investment balances, and other miscellaneous income. The following table compares our net non-operating expenses for the three months and six month periods ended September 30, 2016 and 2015:

Edgar Filing: Steris plc - Form 10-Q

(dollars in thousands)	Three Months		
	Ended September		
	30,		
	2016	2015	Change
Non-operating expenses, net:			
Interest expense	\$10,924	\$7,485	\$3,439
Interest income and miscellaneous expense	(284 )	(227 )	(57 )
Non-operating expenses, net	\$10,640	\$7,258	\$3,382

33

---

Table of Contents

(dollars in thousands)	Six Months Ended		
	September 30,		Change
	2016	2015	
Non-operating expenses, net:			
Interest expense	\$21,995	\$13,605	\$8,390
Interest income and miscellaneous expense	(778 )	(709 )	(69 )
Non-operating expenses, net	\$21,217	\$12,896	\$8,321

Interest expense during fiscal 2017 increased due to higher interest costs resulting from additional borrowings under our credit facilities to fund acquisitions, including the Combination and the operations of acquired companies, and payments associated with paying off Synergy's debt. Year over year our weighted average cost of borrowing has decreased due to an increase in the proportion of lower-cost, variable-rate bank debt. Interest income and miscellaneous expense is immaterial.

Income Tax Expense. The following table compares our income tax expense and effective income tax rates for the three months ended September 30, 2016 to the three months ended September 30, 2015:

(dollars in thousands)	Three Months Ended			
	September 30,		Change	Percent Change
	2016	2015		
Income tax expense	\$18,721	\$7,154	\$11,567	161.7%
Effective income tax rate	31.8 %	46.4 %		
(dollars in thousands)	Six Months Ended			
	September 30,		Change	Percent Change
	2016	2015		
Income tax expense	\$32,955	\$21,421	\$11,534	53.8%
Effective income tax rate	27.0 %	39.7 %		

The effective income tax rate for continuing operations for the three month period ended September 30, 2016 was 31.8% compared with 46.4% for the same prior year period. The effective income tax rates for the six month periods ended September 30, 2016 and 2015 were 27.0% and 39.7%, respectively. The fiscal 2017 rates were favorably impacted by benefits achieved in conjunction with the Combination with Synergy, the adoption of ASU 2016-09: "Stock Compensation: Improvements to Employee Share-Based Payment Accounting" (Topic 718), and discrete item adjustments related to future tax rate changes in the United Kingdom.

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

Business Segment Results of Operations. As a result of the Combination with Synergy, we have reassessed the organization of our business. We have concluded that we operate and should report in four reportable business segments: Healthcare Products, Healthcare Specialty Services, Life Sciences, and Applied Sterilization Technologies. Corporate and other, which is presented separately, contains the Defense and Industrial business unit plus costs that are associated with being a publicly traded company and certain other corporate costs.

Our Healthcare Products segment offers infection prevention and procedural solutions for healthcare providers worldwide, including capital equipment and related maintenance and installation services, as well as consumables.

Our Healthcare Specialty Services segment provides a range of specialty services for healthcare providers including hospital sterilization services, instrument and scope repairs, and linen management.

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

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

Table of Contents

The accounting policies for reportable segments are the same as those for the consolidated Company. Management evaluates performance and allocates resources based on a segment operating income measure. Operating income (loss) for each segment is calculated as the segment's gross profit less direct expenses and indirect cost allocations, which result in the full allocation of all distribution and research and development expenses, and the partial allocation of corporate costs. These allocations are based upon variables such as segment headcount and revenues. In addition, the Healthcare Products segment is responsible for the management of all but two manufacturing facilities and uses standard cost to sell products to the other segments. Corporate and other includes the gross profit and direct expenses of the Defense and Industrial business unit, as well as certain unallocated corporate costs related to being a publicly traded company and legacy pension and post-retirement benefits. Segment operating income excludes certain adjustments which include acquisition and integration related costs, amortization of acquired intangibles, gains or losses on divestiture of businesses, restructuring costs and other charges that management believes may or may not recur with similar materiality or impact on operating income in future periods. Management believes that by excluding these items they gain better insight and greater transparency of the operating performance of the segments, thus aiding them in more meaningful financial trend analysis and operational decision making.

For the three and six month period ended September 30, 2016, revenues from a single Customer did not represent ten percent or more of any reportable segment's revenues. Additional information regarding our segments is included in our consolidated financial statements included in its Annual Report on Form 10-K for the year ended March 31, 2016, dated May 31, 2016.

The following tables compares business segment revenues, segment operating income and total operating income for the three and six months ended September 30, 2016 and 2015:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2016	2015	2016	2015
Revenues:				
Healthcare Products	\$304,797	\$291,724	\$586,095	\$552,809
Healthcare Specialty Services	142,775	70,565	300,663	138,807
Life Sciences	81,485	71,040	162,674	127,812
Applied Sterilization Technologies	115,601	55,839	232,174	109,528
Corporate and other	1,757	729	3,187	843
Total revenues	\$646,415	\$489,897	\$1,284,793	\$929,799
Segment operating income:				
Healthcare Products	\$50,098	\$40,414	\$84,737	\$69,764
Healthcare Specialty Services	2,175	5,092	5,493	8,992
Life Sciences	22,772	20,883	47,234	34,333
Applied Sterilization Technologies	40,761	17,493	80,364	34,036
Corporate and other	(4,741 )	(4,034 )	(5,237 )	(5,932 )
Total segment operating income	\$111,065	\$79,848	\$212,591	\$141,193
Less: Adjustments				
Restructuring charges (1)	\$48	\$(15 )	\$202	\$(464 )
Amortization of acquired intangible assets (2)	17,779	6,682	37,308	12,703
Acquisition and integration related charges (3)	6,638	23,982	11,873	35,528
Loss on fair value adjustment of acquisition related contingent consideration	1,850	—	1,850	—
Net loss on divestiture of businesses (2)	13,802	—	13,802	—
Amortization of inventory and property "step up" to fair value (2)	1,385	21	4,471	32
Settlement of pension obligation (4)	—	26,515	—	26,515
Total operating income	\$69,563	\$22,663	\$143,085	\$66,879

- (1) For more information related to restructuring, see our Annual Report on Form 10-K for the year ended March 31, 2016, dated May 31, 2016.
- (2) For more information regarding our recent acquisitions and divestitures see Note 2 titled, "Business Acquisitions and Divestitures", as well as our Annual Report on Form 10-K for the year ended March 31, 2016, dated May 31, 2016.
- (3) Acquisition and integration related charges include transaction costs and integration expenses associated with acquisitions.

Table of Contents

(4) For more information regarding the settlement of our pension obligation see Note 8 titled "Benefit Plans", as well as our Annual Report on Form 10-K for the year ended March 31, 2016, dated May 31, 2016.

Healthcare Product revenues increased 4.5% to \$304.8 million for the quarter ended September 30, 2016, as compared to \$291.7 million in the same prior year quarter. Fiscal 2017 second quarter revenues reflect an increase in consumable and service revenues of 14.6% and 2.5%, respectively. The increase in consumable revenues is attributable to acquisitions and organic growth. Capital equipment revenues were down 1.3% reflecting growth in the United States more than offset by softness in Canada, EMEA and the Latin American region. During the first half of fiscal 2017, Healthcare Product revenues increased 6.0% to \$586.1 million for the six months ended September 30, 2016, as compared to \$552.8 million in the same prior year period. The first six months of 2017 revenues reflect an increase in consumable and service revenues of 17.5% and 3.0%, respectively. The increase in consumable revenue is attributable to acquisitions and organic growth. Capital equipment revenues were down 0.7% as growth in the United States was offset by declines in all international geographic regions. At September 30, 2016, the Healthcare Products segment's backlog amounted to \$152.1 million, increasing \$16.1 million, or 11.8%, compared to the backlog of \$136.0 million at September 30, 2015.

Healthcare Specialty Services revenues increased 102.3% to \$142.8 million for the quarter ended September 30, 2016, as compared to \$70.6 million for the same prior year quarter. During the first half of 2017, Healthcare Specialty Services revenues increased 116.6% to \$300.7 million for the six months ended September 30, 2016, as compared to \$138.8 million for the same prior year period. The increases are primarily attributable to our Combination with Synergy but also reflect organic revenue growth.

Life Sciences revenues increased 14.7% to \$81.5 million for the quarter ended September 30, 2016, as compared to \$71.0 million for the same prior year quarter. This growth reflects increases of 5.7%, 16.2% and 21.4% in capital equipment, consumable and service revenues, respectively. These increases in consumable and service revenues are attributable to our recent acquisitions, organic growth and new service offerings. During the first half of fiscal 2017, Life Sciences revenues increased 27.3% to \$162.7 million for the six months ended September 30, 2016, as compared to \$127.8 million for the same prior year period. This growth reflects increases of 21.1%, 36.3% and 20.7% in capital equipment, consumable and service revenues, respectively. These increases in consumable and service revenues are primarily attributable to our recent acquisitions, organic growth and new service offerings. At September 30, 2016, the Life Sciences segment's backlog amounted to \$41.0 million, decreasing 13.4% or \$6.3 million, compared to the backlog of \$47.3 million at September 30, 2015.

Applied Sterilization Technologies segment revenues increased 107.0% to \$115.6 million for the quarter ended September 30, 2016, as compared to \$55.8 million for the same prior year quarter. During the first half of fiscal 2017, Applied Sterilization Technologies segment revenues increased 112.0% to \$232.2 million for the six months ended September 30, 2016, as compared to \$109.5 million for the same prior year period. Revenues in both periods were favorably impacted by our Combination with Synergy and increased volume from our core medical device Customers.

The Healthcare Products segment's operating income increased \$9.7 million to \$50.1 million for the second quarter of fiscal 2017 as compared to \$40.4 million in the same prior year period. The segment's operating margin was 16.4% for the first quarter of fiscal 2017 compared to 13.9% for the second quarter of fiscal 2016. During the first half of fiscal 2017, Healthcare Products segment's operating income increased \$15.0 million to \$84.7 million as compared to \$69.8 million in the same prior year period. The segment's operating margin was 14.5% for the first half of fiscal 2017 compared to 12.6% for the first half of fiscal 2016. The increases in the fiscal 2017 periods reflect the positive impact of operational efficiencies, favorable foreign currency rate movements, and the suspension of the medical device excise tax.

The Healthcare Specialty Services segment's operating income decreased by \$2.9 million to \$2.2 million for the second quarter of fiscal 2017 primarily due to lower than anticipated revenue and continued investments in Instrument

Management Services (IMS). The segment's operating margins were 1.5% and 7.2% for the second quarter of fiscal 2017 and fiscal 2016, respectively. During the first half of fiscal 2017, Healthcare Specialty Services segment's operating income decreased by \$3.5 million to 5.5 million. The segment's operating margins were 1.8% and 6.5% for the first half of fiscal 2017 and fiscal 2016, respectively. Lower than anticipated performance in IMS and the addition of Synergy's hospital sterilization services and linen management services are key factors in the operating margin decline.

The Life Sciences segment's operating income increased to \$22.8 million for the second quarter of fiscal 2017, as compared to \$20.9 million in the same prior year period. The segment's operating margins were 27.9% and 29.4% for the second quarter of fiscal 2017 and fiscal 2016, respectively. The increase in operating income was attributable to higher volume associated with both our recent business acquisitions and organic growth. The decrease in operating margin was attributable to unfavorable product mix within capital equipment and lower service parts volume. During the first half of fiscal 2017, Life Sciences segment's operating income increased to \$47.2 million for the first six months of fiscal 2017, as compared to \$34.3 million in



Table of Contents

the same prior year period. The segment's operating margins were 29.0% and 26.9% for the first half of fiscal 2017 and fiscal 2016, respectively. The increase in operating margin was attributable to higher volume, partially offset by lower product mix.

The Applied Sterilization Technologies segment's operating income increased to \$40.8 million for the second quarter of fiscal 2017, as compared to \$17.5 million the same prior year period. The segment's operating margins were 35.3% and 31.3% for the second quarter of fiscal 2017 and fiscal 2016, respectively. During the first half of fiscal year 2017, Applied Sterilization Technologies segment's operating income increased to \$80.4 million for the first six months of fiscal 2017, as compared to \$34.0 million the same prior year period. The segment's operating margins were 34.6% and 31.1% for the first half of fiscal 2017 and fiscal 2016, respectively. The increases were primarily the result of our Combination with Synergy and increased demand from our core medical device Customers.

Table of Contents

## Liquidity and Capital Resources

The following table summarizes significant components of our cash flows for the six months ended September 30, 2016 and 2015:

(dollars in thousands)	Six Months Ended	
	September 30,	
	2016	2015
Net cash provided by operating activities	\$188,501	\$79,472
Net cash used in investing activities	\$(8,745 )	\$(260,730)
Net cash (used) provided by financing activities	\$(161,610)	\$178,897
Debt-to-total capital ratio	33.4	% 43.2
Free cash flow	\$119,398	\$39,582

**Net Cash Provided by Operating Activities** – The net cash provided by our operating activities was \$188.5 million for the first six months of fiscal 2017 as compared with \$79.5 million for the first six months of fiscal 2016. The increase in cash flow from operations is primarily due to a reduction in acquisition and integration related expenses and higher net income.

**Net Cash Used In Investing Activities** – The net cash used in investing activities totaled \$8.7 million for the first six months of fiscal 2017 compared with \$260.7 million for the first six months of fiscal 2016. The following discussion summarizes the significant changes in our investing cash flows for the first six months of fiscal 2017 and fiscal 2016:

**Purchases of property, plant, equipment, and intangibles, net** – Capital expenditures were \$73.9 million for the first six months of fiscal 2017 as compared to \$39.9 million during the same prior year period. The increase in capital expenditure in the fiscal 2017 period over the fiscal 2016 period is the result of the inclusion of capital expenditures related to the operations of Synergy and investments to expand capacity in certain of our Applied Sterilization Technologies facilities.

**Proceeds from the sale of business** – During the first six months of fiscal 2017, we received \$131.6 million for the proceeds from the sale of certain non-core businesses. For more information, refer to our note 2 to our consolidated financial statements, "Business Acquisitions and Divestitures".

**Investments in businesses, net of cash acquired** – During the first six months of fiscal 2017, we used \$64.9 million for acquisitions as compared to \$220.8 million for the same prior year period. For more information on our acquisitions, refer to our note 2 to our consolidated financial statements, "Business Acquisitions and Divestitures".

**Purchase of investments** – During the first six months of fiscal 2017, we invested an additional \$6.4 million primarily in the common stock of Servizi Italia, S.p.A., a leading provider of integrated linen washing and outsourced sterile processing services to hospital Customers.

**Net Cash (Used In) Provided By Financing Activities** – The net cash used by financing activities amounted to \$161.6 million for the first six months of fiscal 2017 compared with net cash provided by financing activities of \$178.9 million for the first six months of fiscal 2016. The following discussion summarizes the significant changes in our financing cash flows for the first six months of fiscal 2017 and fiscal 2016:

**Proceeds from issuance of long-term obligations** – On May 15, 2015, we issued \$350.0 million aggregate principal amount of senior notes in a private placement, which are long-term obligations. Additional information regarding this indebtedness is included in the notes to our Annual Report on Form 10-K for the year ended March 31, 2016, dated May 31, 2016.

- Deferred financing fees and debt issuance costs – During the first six months of fiscal 2017, no deferred financing fees or debt issuance costs were incurred. During the first six months of fiscal 2016, we paid \$2.4 million in financing fees and debt issuance costs related to our Credit Agreement and private placement debt. Additional information regarding our indebtedness is included in the notes to our Annual Report on Form 10-K for the year ended March 31, 2016, dated May 31, 2016.

Payments on long-term obligations and credit facility, net – At September 30, 2016, we had \$841.4 million of debt outstanding under our bank credit facilities, reflecting net payments of \$57.6 million. At September 30, 2015, we had \$143.5 million of debt outstanding under our revolving credit facility, reflecting net payments of \$139.8 million.

Table of Contents

Repurchases of shares – During the first half of fiscal 2017, we paid for 763,171 of our ordinary shares in the aggregate amount of \$54.3 million. During the first half of fiscal 2017, we obtained 127,520 of our ordinary shares in connection with share based compensation award programs in the aggregate amount of \$5.6 million. During the same period in fiscal 2016, we obtained 191,959 of our shares in connection with stock-based compensation award programs in the aggregate amount of \$13.0 million.

Cash dividends paid to shareholders – During the first six months of fiscal 2017, we paid total cash dividends of \$45.6 million, or \$0.00 per outstanding share. During the first six months of fiscal 2016, we paid total cash dividends of \$28.7 million, or \$0.48 per outstanding share.

Stock option and other equity transactions, net – We generally receive cash for issuing shares under our stock option programs. During the first six months of fiscal 2017 and fiscal 2016, we received cash proceeds totaling \$2.5 million and \$8.1 million, respectively, under these programs.

Cash Flow Measures. Free cash flow was \$119.4 million in the first three months of fiscal 2017 compared to \$39.6 million in the prior year first three months (see the subsection above titled "Non-GAAP Financial Measures" for additional information and related reconciliation of cash flows from operations to free cash flow). The increase in free cash flow is primarily due to a reduction in acquisition and integration related expenses and higher net income. Our debt-to-total capital ratio was 33.4% at September 30, 2016 and 43.2% at September 30, 2015.

Sources of Credit and Contractual and Commercial Commitments. Information related to our sources of credit and contractual and commercial commitments is included in our Annual Report on Form 10-K for the year ended March 31, 2016, dated May 31, 2016. Our commercial commitments were approximately \$54.8 million at September 30, 2016 reflecting a net decrease of \$1.8 million in surety bonds and other commercial commitments from March 31, 2016. We had \$841.4 million of outstanding borrowings under the Credit Agreement as of September 30, 2016. There were no letters of credit outstanding under the Credit Agreement at September 30, 2016, but there were letters of credit outstanding under other arrangements at September 30, 2016.

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

## Table of Contents

### Critical Accounting Policies, Estimates, and Assumptions

Information related to our critical accounting policies, estimates, and assumptions is included in our Annual Report on Form 10-K for the year ended March 31, 2016, dated May 31, 2016. Our critical accounting policies, estimates, and assumptions have not changed materially from March 31, 2016.

### Contingencies

We are, and will likely continue to be, involved in a number of legal proceedings, government investigations, and claims, which we believe generally arise in the course of our business, given our size, history, complexity, and the nature of our business, products, Customers, regulatory environment, and industries in which we participate. These legal proceedings, investigations and claims generally involve a variety of legal theories and allegations, including, without limitation, personal injury (e.g., slip and falls, burns, vehicle accidents), product liability or regulation (e.g., based on product operation or claimed malfunction, failure to warn, failure to meet specification, or failure to comply with regulatory requirements), product exposure (e.g., claimed exposure to chemicals, asbestos, contaminants, radiation), property damage (e.g., claimed damage due to leaking equipment, fire, vehicles, chemicals), commercial claims (e.g., breach of contract, economic loss, warranty, misrepresentation), financial (e.g., taxes, reporting), employment (e.g., wrongful termination, discrimination, benefits matters), and other claims for damage and relief. We record a liability for such contingencies to the extent we conclude that their occurrence is both probable and estimable. We consider many factors in making these assessments, including the professional judgment of experienced members of management and our legal counsel. We have made estimates as to the likelihood of unfavorable outcomes and the amounts of such potential losses. In our opinion, the ultimate outcome of these proceedings and claims is not anticipated to have a material adverse affect on our consolidated financial position, results of operations, or cash flows. However, the ultimate outcome of proceedings, government investigations, and claims is unpredictable and actual results could be materially different from our estimates. We record expected recoveries under applicable insurance contracts when we are assured of recovery. Refer to note 9 of our consolidated financial statements titled, "Commitments and Contingencies" for additional information.

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

### International Operations

Since we conduct operations outside of the United States using various foreign currencies, our operating results are impacted by foreign currency movements relative to the U.S. dollar. During the second quarter of fiscal 2017, our revenues were unfavorably impacted by \$3.2 million, or 0.6%, and income before taxes was favorably impacted by \$1.6 million, or 1.7%, as a result of foreign currency movements relative to the U.S. dollar. During the first half of fiscal 2017, our revenues were unfavorably impacted by \$4.9 million, or 0.5%, and income before taxes was favorably impacted by \$4.4 million, or 3.0%, as a result of foreign currency movements relative to the U.S. dollar.

### Off-Balance Sheet Arrangements

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

Table of Contents

## Forward-Looking Statements

This Quarterly Report on Form 10-Q may contain statements concerning certain trends, expectations, forecasts, estimates, or other forward-looking information affecting or relating to STERIS or its industry, products or activities that are intended to qualify for the protections afforded “forward-looking statements” under the Private Securities Litigation Reform Act of 1995 and other laws and regulations. Forward-looking statements speak only as to the date specified in this Quarterly Report and may be identified by the use of forward-looking terms such as “may,” “will,” “expects,” “believes,” “anticipates,” “plans,” “estimates,” “projects,” “targets,” “forecasts,” “outlook,” “impact,” “potential,” “improve,” “optimistic,” “deliver,” “comfortable,” “trend”, and “seeks,” or the negative of such terms or other variations on such terms or comparable terminology. Many important factors could cause actual results to differ materially from those in the forward-looking statements including, without limitation, disruption of production or supplies, changes in market conditions, political events, pending or future claims or litigation, competitive factors, technology advances, actions of regulatory agencies, and changes in laws, government regulations, labeling or product approvals or the application or interpretation thereof. Other risk factors are described herein and in STERIS’s other securities filings, including Item 1A of STERIS’s Annual Report on Form 10-K for the year ended March 31, 2016. Many of these important factors are outside of STERIS’s control. No assurances can be provided as to any result or the timing of any outcome regarding matters described in this Quarterly Report or otherwise with respect to any regulatory action, administrative proceedings, government investigations, litigation, warning letters, cost reductions, business strategies, earnings or revenue trends or future financial results. References to products are summaries only and should not be considered the specific terms of the product clearance or literature. Unless legally required, STERIS does not undertake to update or revise any forward-looking statements even if events make clear that any projected results, express or implied, will not be realized. Other potential risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements include, without limitation, (a) STERIS’s ability to meet expectations regarding the accounting and tax treatments of the Combination (the “Combination”) with STERIS Corporation and Synergy Health plc (“Synergy”), (b) the possibility that the parties may be unable to achieve expected synergies and operating efficiencies in connection with the Combination within the expected time-frames or at all and to successfully integrate the operations of the companies, (c) the integration of the operations of the companies being more difficult, time-consuming or costly than expected, (d) operating costs, customer loss and business disruption (including, without limitation, difficulties in maintaining relationships with employees, customers, clients or suppliers) being greater than expected following the transaction, (e) the retention of certain key employees of Synergy being difficult, (f) changes in tax laws or interpretations that could increase our consolidated tax liabilities, including, changes in tax laws that would result in STERIS being treated as a domestic corporation for United States federal tax purposes, (g) the potential for increased pressure on pricing or costs that leads to erosion of profit margins, (h) the possibility that market demand will not develop for new technologies, products or applications or services, or business initiatives will take longer, cost more or produce lower benefits than anticipated, (i) the possibility that application of or compliance with laws, court rulings, certifications, regulations, regulatory actions, including without limitation those relating to FDA, warning notices or letters, government investigations, the outcome of any pending FDA requests, inspections or submissions, or other requirements or standards may delay, limit or prevent new product introductions, affect the production and marketing of existing products or services or otherwise affect STERIS’s performance, results, prospects or value, (j) the potential of international unrest, economic downturn or effects of currencies, tax assessments, adjustments or anticipated rates, raw material costs or availability, benefit or retirement plan costs, or other regulatory compliance costs, (k) the possibility of reduced demand, or reductions in the rate of growth in demand, for STERIS’s products and services, (l) the possibility that anticipated growth, cost savings, new product acceptance, performance or approvals, or other results may not be achieved, or that transition, labor, competition, timing, execution, regulatory, governmental, or other issues or risks associated with STERIS’s businesses, industry or initiatives including, without limitation, those matters described in STERIS’s 10-K for the year ended March 31, 2016 and other securities filings, may adversely impact STERIS’s performance, results, prospects or value, (m) the impact on STERIS and its operations of the “Brexit,” (n) the possibility that anticipated financial results or benefits of recent acquisitions, including the

Combination, or of STERIS's restructuring efforts, or of recent divestitures, will not be realized or will be other than anticipated, and (o) the effects of contractions in credit availability, as well as the ability of STERIS's Customers and suppliers to adequately access the credit markets when needed.

Table of Contents

Availability of Securities and Exchange Commission Filings

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the ordinary course of business, we are subject to interest rate, foreign currency, and commodity risks. Information related to these risks and our management of these exposures is included in Part II, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk," in our Annual Report on Form 10-K for the year ended March 31, 2016, dated May 31, 2016. Our exposures to market risks have not changed materially since March 31, 2016.

ITEM 4. CONTROLS AND PROCEDURES

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

In connection with the Combination with Synergy, we began implementing standards and procedures at Synergy, including upgrading and establishing controls over accounting systems and adding consultants who are trained and experienced in the preparation of financial statements in accordance with U.S. GAAP to ensure that we have in place appropriate internal controls over financial reporting at Synergy. These changes to the Company's internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Securities Exchange Act of 1934, that occurred during the quarter ended September 30, 2016 may materially affect, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



Table of Contents

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Information regarding our legal proceedings is included in this Form 10-Q in note 9 to our consolidated financial statements titled, "Commitments and Contingencies" and in Item 7 of Part II, titled "Management's Discussion and Analysis of Financial Conditions and Results of Operations," of our Annual Report on Form 10-K for the year ended March 31, 2016, dated May 31, 2016.

ITEM 1A. RISK FACTORS

For a complete discussion of the Company's risk factors, you should carefully review the risk factors included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2016 as well as the additional risk factors included in Item 1A. of Part II of our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2016.

Table of Contents

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

On August 9, 2016, the Company announced that its Board of Directors had authorized the purchase of up to \$300 million of our ordinary shares. We may enter into share repurchase contracts until August 2, 2021 to effect these purchases. Shares may be repurchased from time to time. The repurchase program may be suspended or discontinued at any time. During the first half of fiscal 2017, we repurchased 819,105 of its ordinary shares pursuant to this authorization at an average price of \$71.09. All of these shares were repurchased in the second quarter. As of September 30, 2016, \$241.8 million in common shares remain authorized for repurchase under this authorization.

During the first half of fiscal 2017, we obtained 127,520 of our ordinary shares in connection with share based compensation award programs. The following table summarizes the ordinary shares repurchase activity during the second quarter of fiscal 2017 under our common share repurchase program:

	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans	(d) Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans at Period End
July 1-31	—	\$ —	—	\$ —
August 1-31	375,000	70.58	375,000	273,533
September 1-30	444,105	71.35	44,105	241,772
Total	819,105	(1)\$ 71.09	(1)419,105	\$ 241,772

Does not include 30 shares purchased during the quarter at an average price of \$70.54 per share by the STERIS (1)Corporation 401(k) Plan on behalf of certain executive officers of the Company who may be deemed to be affiliated purchasers.

Table of Contents

ITEM 6. EXHIBITS

Exhibits required by Item 601 of Regulation S-K

Exhibit  
Number Exhibit Description

- 3.1 Certificate of Incorporation of STERIS plc (filed as Exhibit 3.1 to STERIS plc Form 8-K filed November 6, 2015 (Commission File No. 1-37614) and incorporated herein by reference).
- 3.2 Amended Articles of Association of STERIS plc (Amended by Special Resolution passed on 2 August 2016).
- 4.1 Specimen Form Stock Certificate (filed as Exhibit 4.1 to STERIS plc Form 10-K for the fiscal year ended March 31, 2016 (Commission File No. 1-37614) and incorporated herein by reference).
- 10.1 STERIS plc 2006 Long-Term Equity Incentive Plan (as Amended and Restated Effective August 2, 2016) (filed as Appendix C to STERIS plc's definitive proxy statement on Schedule 14A filed June 13, 2016 (Commission File No. 001-37614) and incorporated herein by reference).
- 10.2 STERIS plc Senior Executive Management Incentive Compensation Plan, Effective April 1, 2016 (filed as Appendix B to STERIS plc's definitive proxy statement on Schedule 14A filed June 13, 2016 (Commission File No. 001-37614) and incorporated herein by reference).
- 15.1 Letter Re: Unaudited Interim Financial Information.
- 31.1 Certification of the Principal Executive Officer Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a).
- 31.2 Certification of the Principal Financial Officer Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a).
- 32.1 Certification of the Principal Executive Officer and Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

EX-101 Instance Document.

EX-101 Schema Document.

EX-101 Calculation Linkbase Document.

EX-101 Definition Linkbase Document.

EX-101 Labels Linkbase Document.

EX-101 Presentation Linkbase Document.

Table of Contents

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

STERIS plc

/s/ MICHAEL J. TOKICH

Michael J. Tokich

Senior Vice President, Chief Financial Officer and Treasurer

November 8, 2016

46

---

Table of Contents

EXHIBIT INDEX

Exhibit  
Number Exhibit Description

- 3.1 Certificate of Incorporation of STERIS plc (filed as Exhibit 3.1 to STERIS plc Form 8-K filed November 6, 2015 (Commission File No. 1-37614) and incorporated herein by reference).
- 3.2 Amended Articles of Association of STERIS plc (Amended by Special Resolution passed on 2 August 2016).
- 4.1 Specimen Form Stock Certificate (filed as Exhibit 4.1 to STERIS plc Form 10-K for the fiscal year ended March 31, 2016 (Commission File No. 1-37614) and incorporated herein by reference).
- 10.1 STERIS plc 2006 Long-Term Equity Incentive Plan (as Amended and Restated Effective August 2, 2016) (filed as Appendix C to STERIS plc's definitive proxy statement on Schedule 14A filed June 13, 2016 (Commission File No. 001-37614) and incorporated herein by reference).
- 10.2 STERIS plc Senior Executive Management Incentive Compensation Plan, Effective April 1, 2016 (filed as Appendix B to STERIS plc's definitive proxy statement on Schedule 14A filed June 13, 2016 (Commission File No. 001-37614) and incorporated herein by reference).
- 15.1 Letter Re: Unaudited Interim Financial Information.
- 31.1 Certification of the Principal Executive Officer Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a).
- 31.2 Certification of the Principal Financial Officer Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a).
- 32.1 Certification of the Principal Executive Officer and Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

EX-101 Instance Document.

EX-101 Schema Document.

EX-101 Calculation Linkbase Document.

EX-101 Definition Linkbase Document.

EX-101 Labels Linkbase Document.

EX-101 Presentation Linkbase Document.