



Unusual Call Buy in Steris, Relative Strength Leader

Ticker/Price: STE (\$145.25)

Analysis:

Steris (STE) on 3/11 with an unusual large trade in a lightly traded name and becoming the only notable open interest at 500 April \$135 ITM calls were bought \$15.40 to open for \$770,000. STE has been showing up on relative strength scans and had a major weekly flag breakout earlier this year to record highs but the last three weeks has pulled back with the market to its rising 55 week moving average and just above its 38.2% retracement from December 2018 lows at \$142.20. The \$12.4B maker of infection prevention and procedural products in the medical industry trades 23.45X Earnings, 17.6X EBITDA, 4.2X Sales and 56.4X FCF with a 1% dividend yield. STE estimates are looking for 8.5% revenue growth in 2020 with one quarter remaining and 6.2% growth in 2021 with 8% EBITDA growth. STE has balanced segments and a high amount of recurring revenues (75%) while seeing robust FCF growth and strong margins. STE is likely to see a boost from COVID-19 with it having strong exposure to surface disinfectants, barrier product solutions, sterilizers, washers, hydrogen peroxide machines and more. STE did note at the Raymond James conference that a slowdown in surgical procedures which is the largest part of its business, would impact results negatively, though its Applied Sterilization Tech (AST) business is more insulated. Analysts have an average target of \$179 with short interest at 1.8% of the float, rising 53.8% Q/Q. STE is coming off a beat and raise quarter and was added to the S&P 500 in December. STE has not seen any recent analyst coverage. Hedge Fund ownership rose more than 10% in Q4 filings with Select Equity the largest buyer.

Hawk Vision:



Hawk's Perspective: STE is a high quality business and strong fundamentals while some risks to its business, better insulated than most and re-taking its 200 MA would be the first step in putting in a higher bottom.

Confidence Ranking: \$\$