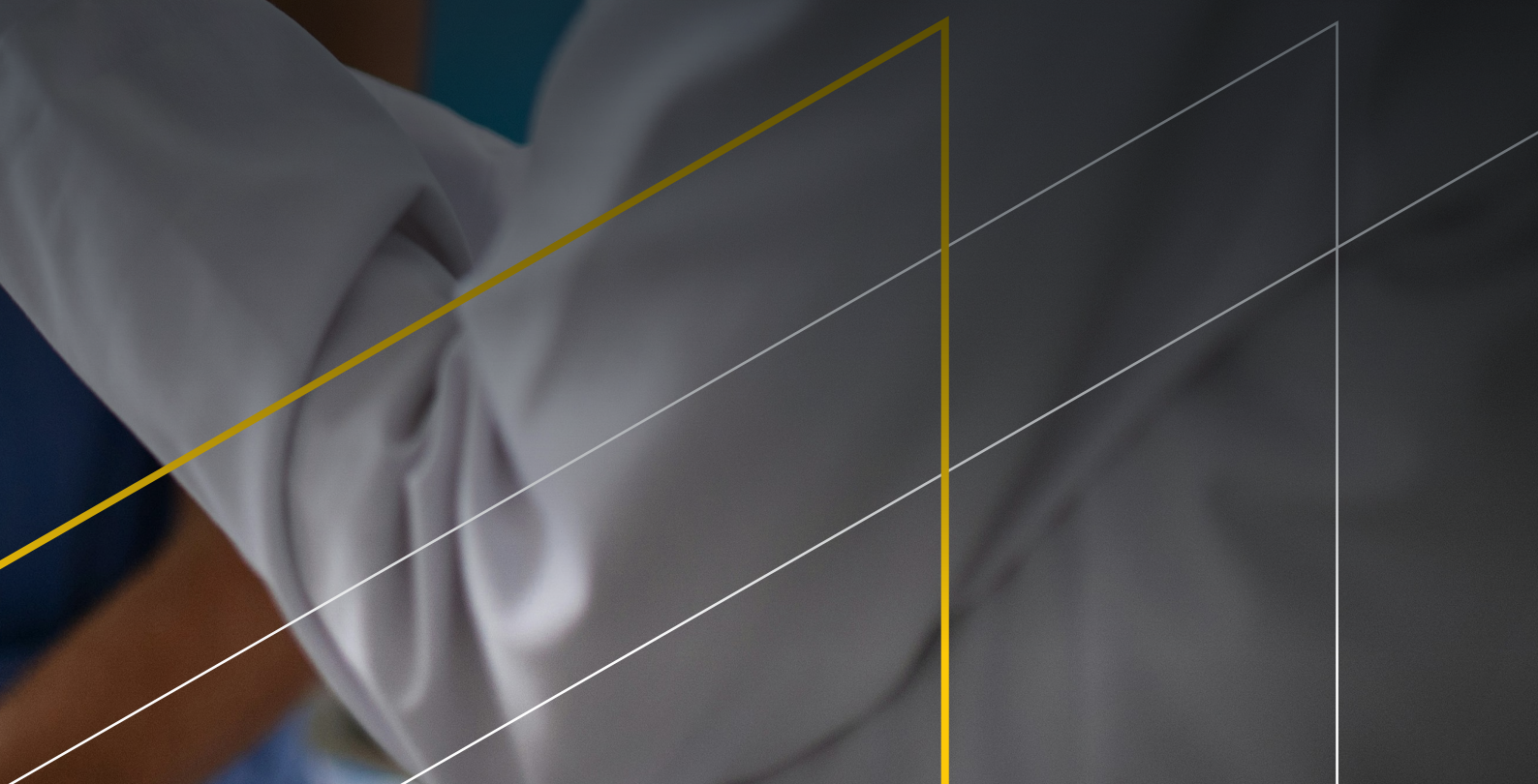


GIB AM Sustainable World

# **No stone unturned** - Compounding cleanliness

By Rohan Raju



# Compounding cleanliness

## Resilient returns within the hygiene theme

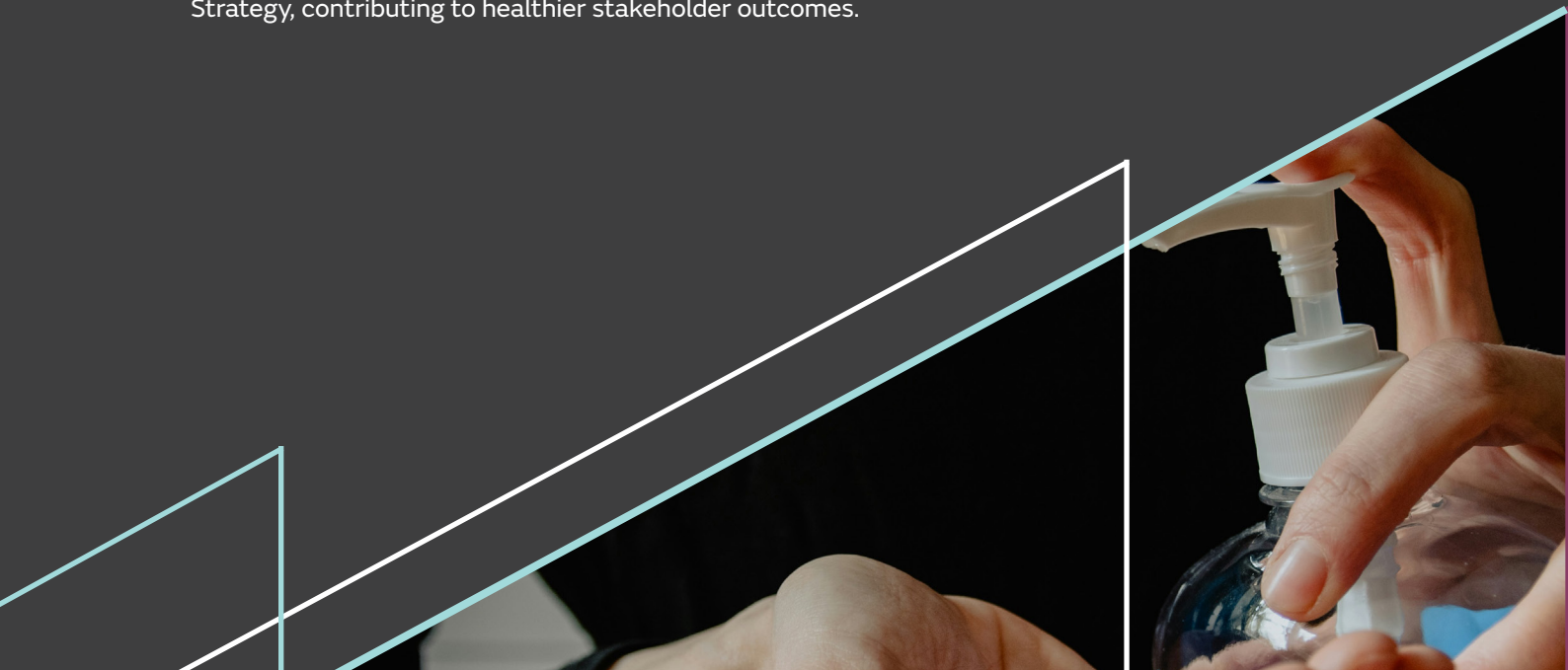
Geophysics is a field that requires a variety of scientific disciplines to unravel the complexities of the Earth's origin. As an undergraduate in this field, you quickly learn the value of multidisciplinary problem-solving. This approach has inspired the 'No Stone Unturned' series, which allows us to showcase the Sustainable World investment philosophy by thoroughly examining each theme to uncover the opportunities at the core of each of them.

While powerful forces like Artificial Intelligence and anti-obesity drugs rightly attract attention for their ability to transform industries, we believe our approach also leads us to more overlooked themes that have potential to drive significant value. Through our focus on themes including Frontier Technology and Medical Efficacy, which we identify as central elements to societal function, we aim to unearth opportunity sets of high-quality companies with underappreciated runways for sustainable growth.

As we kick off the series, our focus turns to the **Safety** theme and **Hygiene** sub-theme. Steris is a provider of sterilisation and infection prevention solutions that are indispensable in modern healthcare.

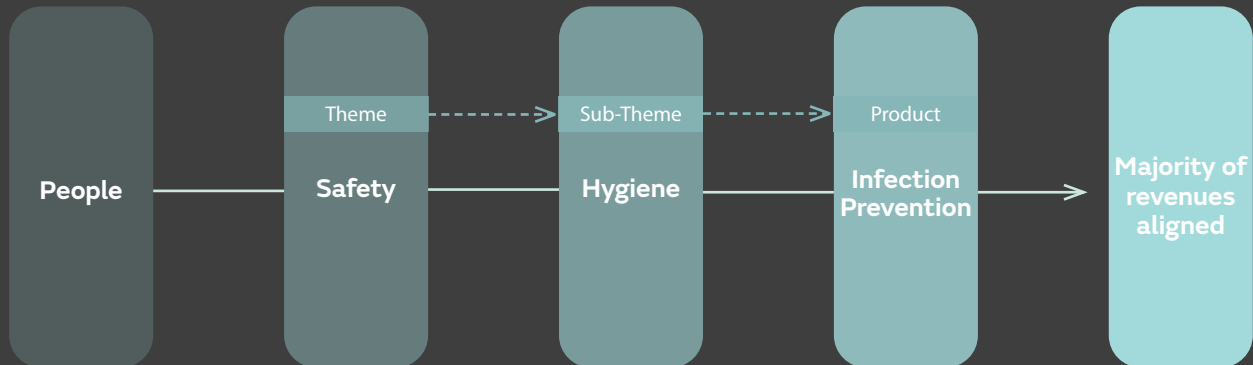
## Executive summary

- ▶ **Hygiene is an unsung hero in sustainability:** Hygiene plays a vital role in global health and the sustainable operation of healthcare systems. During a hospital stay, 7% of patients in high-income countries and 15% in low- and middle-income countries contract healthcare-associated infections (HAIs), with 1 in 10 dying from their infection<sup>1</sup>.
- ▶ **Investing in solutions that impact lives:** Our investment process identifies companies that we believe tackle critical global challenges and are aligned with long-term financial performance. Steris leads the charge in infection prevention, reducing HAIs, driving improved patient outcomes and greater healthcare system efficiency.
- ▶ **Compounding cleanliness:** Steris' essential solutions, resilient operations, and strong management position them for sustained growth. We believe this makes them a compelling holding in the GIB AM Sustainable World Strategy, contributing to healthier stakeholder outcomes.



## Hygiene: the overlooked frontline

Hygiene challenges extend beyond the individual. Hospitals are infection battlegrounds, with costs, financial and human, substantive. Innovation in sterilisation and disinfection is a growing necessity. Our 'People and Planet' framework guides us towards the world's most pressing challenges, revealing overlooked themes where impactful solutions drive long-term value.



## The challenge

HAIs, or healthcare-associated infections, are a significant challenge. 99,000 deaths per year are caused by HAIs, from an estimated 1.7 million infections per year in the US<sup>2</sup>. HAIs are infections that patients contract while receiving treatment for other conditions within healthcare settings.

These infections are distinct from any illness present upon admission and relate only to those directly linked to either procedures or treatments. They range from surgical site infections to bloodstream infections and those associated with ventilators or catheters. HAIs pose a serious threat to patient safety, significantly prolonging hospital stays and increasing healthcare costs.

## Steris: a solution for a sustainable healthcare future

Steris tackles the vital challenge of infection prevention with a comprehensive suite of products – from advanced sterilisers and surgical cleaners to solutions ensuring safe, reusable medical equipment. Their deep expertise positions them as a leader in outsourced sterilisation and medical device testing services, with revenues 30% larger than their next closest competitor<sup>3</sup>.

Our investment philosophy centres on identifying companies solving the world's most critical challenges. Our thematic approach guides us towards areas of structural growth. We combine this top-down view with detailed, bottom-up analysis to uncover high-quality companies that derive most of their revenues from one or more of those themes. This approach ensures we invest in businesses positioned to deliver strong returns while making a meaningful, positive impact through sustainable, long-term solutions.

<sup>1</sup><https://www.who.int/news/item/06-05-2022-who-launches-first-ever-global-report-on-infection-prevention-and-control>

<sup>2</sup><https://www.patientcarelink.org/improving-patient-care/healthcare-acquired-infections-hais/#:~:text=In%20American%20hospitals%20alone%2C%20the,99%2C000%20associated%20deaths%20each%20year>

<sup>3</sup> [https://login.matrix.ms.com/public/login-email/webapp/entry?uri=/eqr/article/webapp/services/published/rendition/pdf/STERIS\\_20230530\\_0901.pdf](https://login.matrix.ms.com/public/login-email/webapp/entry?uri=/eqr/article/webapp/services/published/rendition/pdf/STERIS_20230530_0901.pdf)



## Opportunity: resilient and profitable growth

The strength of the Steris investment opportunity rests on three key elements.

### 1. Thematic-driven growth

Their focus on solving the HAI challenge is timely, as ageing populations and more complex procedures drive demand for advanced sterilisation solutions. We forecast high single-digit revenue growth over the next ten years. This, along with Steris' continued operational gains, we believe, should drive double-digit earnings growth.

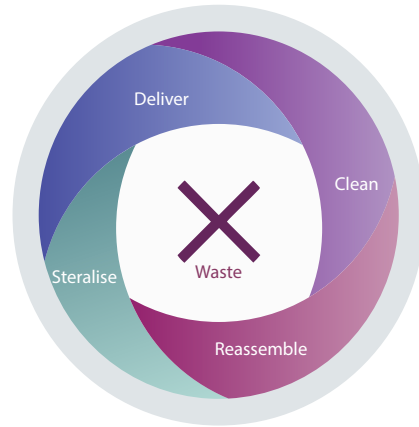


### 2. Execution

Steris' management team has a proven track record of driving value and has delivered 19% compounded total returns over the past decade<sup>5</sup>, compared to the broad-market index of 10%. While Steris' historical share price performance is impressive, we are even more excited about its future growth trajectory. Steris' incremental margins and disciplined allocation suggest a sustainable model for shareholder value creation.

The implementation of its 'lean' approach has streamlined operations, driving efficiency gains, while incentive structures focused on operating profit and free cash flow align management closely with long-term returns.

Lean principles minimise waste:



### 3. Resilience

Steris benefits from a 'sticky' business model deeply embedded within healthcare systems' workflows. Its mission-critical products and services foster long-term contracts, and approximately 80% of their revenue is recurring<sup>5</sup>.

This resilience is further bolstered by high regulatory barriers to entry and the significant capital investment required for services like outsourced sterilisation. In our view, Steris possesses strong defences against competitive threats, securing its position as a long-term player in the growing hygiene theme.

## Conclusion

Our thematic approach uncovers additional overlooked sources of value, highlighting companies like Steris that address critical global challenges. Fuelled by ageing populations and evolving medical needs, Steris' excellent management, resilient operations, and runway for sustained growth make it a strong holding in our GIB AM Sustainable World Strategy, offering both financial returns and positive societal impact.

<sup>4</sup> GIB AM Analysis & Bloomberg, 2024

<sup>5</sup> <https://sterisplc.gcs-web.com/static-files/85eca44d-78c1-40f2-8313-5428b625ae0f>



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