STERIS plc
Form 10-K
May 30, 2018
United States Securities and Exchange Commission
Washington, D. C. 20549

FORM 10-K
x Annual Report Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934
For the fiscal year ended March 31, 2018
OR
o 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)

England and Wales	98-1203539
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

Rutherford House Stephensons Way Chaddesden, Derby, England	DE21 6LY 44 1332 387100
(Address of principal executive offices)	(Registrant's telephone number (Zip Code) including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

Title of each class	Name of Exchange on Which Registered
Ordinary Shares, 10 pence par value	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: None
Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o
Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x
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 x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 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 x No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o
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 x	Accelerated Filer o
Non-Accelerated Filer o (Do not check if a smaller reporting company)	Smaller Reporting Company o
	Emerging Growth Company o

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

Exchange Act. o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x As of September 30, 2017, the aggregate market value of shares held by non-affiliates of STERIS Corporation (the predecessor issuer pursuant to Rule 12g-3(a) under the Securities Exchange Act of 1934), based upon the closing sale price of its shares on September 29, 2017, was approximately $7,420.7 million.

The number of Ordinary Shares outstanding as of May 25, 2018: 84,618,075

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2018 Annual Meeting – Part III

STERIS PLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share amounts and as noted)

Table of Contents

Table of Contents

PART I

Throughout this Annual Report, STERIS plc and its subsidiaries together are called “STERIS,” “the Company,” “we,” “us,” or “our,” unless otherwise noted. References in this Annual Report to a particular “year,” "fiscal year," or “year-end” mean our fiscal year, which ends on March 31. For example, fiscal year 2018 ended on March 31, 2018.

ITEM 1. BUSINESS

INTRODUCTION

STERIS plc is a leading provider of infection prevention and other procedural products and services. 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. We offer our Customers a unique mix of innovative capital equipment products, such as sterilizers and washers, surgical tables, lights and equipment management systems and connectivity solutions such as operating room integration; consumable products such as detergents and gastrointestinal endoscopy accessories and other products; services, including equipment installation and maintenance, microbial reduction of medical devices, instrument and scope repair solutions, laboratory services and outsourced reprocessing.

STERIS plc (“Parent”) was organized in 2014 under the laws of England and Wales under the name Solar New HoldCo Limited as a private limited company for the purpose of effecting under the laws of England and Wales 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”). Effective November 2, 2015 the Parent was re-registered as a public company under the name of STERIS plc and the Combination closed. As a result of the Combination closing, STERIS plc became the ultimate parent company of Old STERIS and Synergy. Synergy has been re-registered under the name of 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 will affect the comparability to the prior period historical operations of the Company throughout this Annual Report on Form 10-K.

With registered offices located in Derby, England, STERIS plc has approximately 12,000 employees worldwide. Through our field sales and service and a network of dealers and distributors, we serve Customers in more than 100 countries around the world.

We operate and report in four reportable business segments: Healthcare Products, Healthcare Specialty Services, Life Sciences, and Applied Sterilization Technologies. Non-allocated operating costs that support the entire Company and items not indicative of operating trends are excluded from segment operating income. Certain minor organizational changes were made to better align with our Customers, resulting in several smaller operations shifting among the segments. The prior period revenues and operating income measures have been recast for comparability.

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. The pharmaceutical industry has been impacted by increased regulatory scrutiny of cleaning and validation processes, mandating that manufacturers improve their processes. Within healthcare, there is increased concern regarding the level of hospital acquired infections around the world; increased demand for medical procedures, including preventive screenings such as endoscopies and colonoscopies; and a desire by our Customers to operate more efficiently, all of which are driving increased demand for many of our products and services.

INFORMATION RELATED TO BUSINESS SEGMENTS

Our chief operating decision maker is our President and Chief Executive Officer (“CEO”). The CEO is responsible for performance assessment and resource allocation. The CEO regularly receives discrete financial information about each reportable segment and uses this information to assess performance and allocate resources. The accounting policies of the reportable segments are the same as those described in Note 1 to the Consolidated Financial Statements titled, “Nature of Operations and Summary of Significant Accounting Policies,” of this Annual Report. Segment

performance information for fiscal years 2018, 2017, and 2016 is presented in Note 11 to our Consolidated Financial Statements titled, “Business Segment Information” and in Item 7 titled, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” (“MD&A”), of this Annual Report.

Table of Contents

HEALTHCARE PRODUCTS SEGMENT

Description of Business. Our Healthcare Products segment provides a broad portfolio of infection prevention, procedural and GI solutions including; consumable products, equipment maintenance and installation services, and capital equipment to acute care hospitals, ambulatory surgery centers and GI clinics. These solutions aid our Customers in improving the safety, quality, productivity, and utility consumption of their surgical, sterile processing, gastrointestinal, and emergency environments.

Products Offered. Our solutions include cleaning chemistries and sterility assurance products, accessories for GI procedures, washers, sterilizers and other pieces of capital equipment essential to the operations of a sterile processing department ("SPD") and equipment used directly in the operating room, including surgical tables, lights, equipment management services, and connectivity solutions.

Services Offered. Our Healthcare Products segment service associates install, maintain, upgrade, repair, and troubleshoot capital equipment throughout the world.

Customer Concentration. Our Healthcare Products segment sells consumables, services and capital equipment, to Customers in the United Kingdom, United States and many other countries throughout the world. For the year ended March 31, 2018, no Customer represented more than 10% of the Healthcare Product segment's total revenues.

Competition. We compete with a number of large companies that have significant product portfolios and global reach, as well as a number of small companies with very limited product offerings and operations in one or a limited number of countries. On a product basis, competitors include 3M, Belimed, Cantel Medical, Ecolab, Getinge, Hill-Rom, Johnson & Johnson, Skytron, and Stryker.

HEALTHCARE SPECIALTY SERVICES SEGMENT

Description of Business. Our Healthcare Specialty Services segment provides a range of solutions and managed services including; hospital sterilization services and instrument and scope repairs to acute care hospitals and other healthcare settings that aid our Customers in improving the safety, quality and productivity of their operations.

Services Offered. Our Healthcare Specialty Services segment provides comprehensive instrument and endoscope repair and maintenance solutions (on-site or at one of our dedicated facilities), custom process improvement consulting and outsourced sterile processing (on-site at the hospital and in off-site reprocessing centers). Linen Management Services were divested during fiscal 2017.

Customer Concentration. Our Healthcare Specialty Services segment offers an array of services to Customers in the United Kingdom, United States and many other countries throughout the world. For the year ended March 31, 2018, no Customer represented more than 10% of the Healthcare Specialty Services segment's total revenues.

Competition. We compete with a number of large companies that have significant product portfolios and global reach, as well as a number of small companies with very limited service offerings and operations in one or a limited number of countries. On a service line basis, competitors include Owens & Minor, Stryker, Olympus, Pentax, Karl Storz, Mobile, Northfield, BBraun Sterilog Limited, Berendsen plc, CleanLease (Clean Lease Fortex), Rentex Awé and Rentex Floren.

LIFE SCIENCES SEGMENT

Description of Business. Our Life Sciences segment designs, manufactures and sells consumable products, equipment maintenance, specialty services and capital equipment primarily to pharmaceutical manufacturers around the world.

Products Offered. These solutions include formulated cleaning chemistries, barrier products, sterility assurance products, steam and vaporized hydrogen peroxide sterilizers and washer disinfectors.

Services Offered. Our Life Sciences segment service associates install, maintain, upgrade, repair, and troubleshoot equipment throughout the world. We offer various preventive maintenance programs and repair services to support the effective operation of capital equipment over its lifetime.

Customer Concentration. Our Life Sciences segment sells consumables, services and capital equipment, to Customers in the United Kingdom, United States and many other countries throughout the world. For the year ended March 31, 2018, no Customer represented more than 10% of the Life Sciences segment’s total revenues.

Competition. Our Life Sciences segment operates in highly regulated environments where the most intense competition results from technological innovations, product performance, convenience and ease of use, and overall cost-effectiveness. We compete for pharmaceutical Customers with a number of large companies that have significant

product portfolios and global reach, as well as a number of small companies with very limited product offerings and operations in one or a limited number of countries. Competitors include Belimed, Ecolab, Fedegari, Getinge, MECO, Stilmas, and Techniplast.

Table of Contents

APPLIED STERILIZATION TECHNOLOGIES SEGMENT

Description of Business. Our Applied Sterilization Technologies ("AST") segment provides contract sterilization services through a network of over 50 facilities located in 16 countries. As a technology neutral service provider, we offer unbiased technology assessments dependent on the individual requirements of each product. Our Customers are primarily medical device and pharmaceutical manufacturers.

Services Offered. We offer two main modalities for sterilization: irradiation and gas. Within irradiation, we offer Gamma, electron beam and X-ray technologies. Gamma utilizes radioisotope (cobalt-60). Electron beam and X-ray utilize high energy electrons as their radiation source. Our offerings for gas sterilization are ethylene oxide ("EO") and hydrogen peroxide. In addition, we offer an array of laboratory testing services that complements the manufacturing of sterile products. Our locations are in major population centers and core distribution corridors throughout the Americas, Europe and Asia. Our technical services group supports Customers in all phases of product development, materials testing, and process validation.

Customer Concentration. Our Applied Sterilization Technologies segment's services are offered to Customers throughout the world. For the year ended March 31, 2018, no Customer represented more than 10% of the segment's revenues.

Competition. Applied Sterilization Technologies operates in a highly regulated industry and competes with Sterigenics International, Inc., other smaller contract sterilization companies and manufacturers that sterilize products in-house.

INFORMATION WITH RESPECT TO OUR BUSINESS IN GENERAL

Sources and Availability of Raw Materials. We purchase raw materials, sub-assemblies, components, and other supplies needed in our operations from numerous suppliers in the United States and internationally. The principal raw materials and supplies used in our operations include stainless and carbon steel, organic and inorganic chemicals, fuel, and plastic components. These raw materials and supplies are generally available from several suppliers and in sufficient quantities that we do not currently expect any significant sourcing problems in fiscal 2019. We have long-term supply contracts for certain materials for which there are few suppliers, or those that are single-sourced in certain regions of the world, such as EO and cobalt-60, which are necessary to our AST operations.

Intellectual Property. We protect our technology and products by, among other means, obtaining United States and foreign patents. There can be no assurance, however, that any patent will provide adequate protection for the technology, system, product, service, or process it covers. In addition, the process of obtaining and protecting patents can be long and expensive. We also rely upon trade secrets, technical know-how, and continuing technological innovation to develop and maintain our competitive position.

As of March 31, 2018, we held approximately 380 United States patents and approximately 1,400 in other jurisdictions and had approximately 125 United States patent applications and 350 patent applications pending in other jurisdictions. Patents for individual products extend for varying periods according to the date of filing or grant and legal term of patents in various countries where a patent is obtained. The actual protection a patent provides varies from country to country and depends in part upon the type of patent, the scope of its coverage, and the availability of legal remedies in each country.

Our products are sold around the world under various brand names and trademarks. We consider our brand names and trademarks to be valuable in the marketing of our products. As of March 31, 2018, we had a total of approximately 1,990 trademark registrations worldwide.

Research and Development. Research and development is an important factor in our long-term strategy. For the years ended March 31, 2018, 2017, and 2016, research and development expenses were $60.8 million, $59.4 million, and $56.7 million, respectively. We incurred these expenses primarily for the research and development of commercial products.

We are focused on introducing products that increase efficiencies for our Customers. We have new products throughout our business, including hydrogen peroxide sterilizers, washer disinfectors, steam sterilizers, consumables, including sterility assurance products, accessories for use in GI procedures and surgical products including the latest generation of operating room integration products.

Quality Assurance. We manufacture, assemble, and package products in several countries. Each of our production facilities are dedicated to particular processes and products. Our success depends upon Customer confidence in the quality of our production process and the integrity of the data that supports our product safety and effectiveness. We have implemented quality assurance procedures to support the quality and integrity of scientific information and production processes.

Table of Contents

Government Regulation. Our business is subject to various degrees of governmental regulation in the countries in which we operate. In the United States, the United States Food and Drug Administration ("FDA"), the United States Environmental Protection Agency ("EPA"), the United States Nuclear Regulatory Commission ("NRC"), and other governmental authorities regulate the development, manufacture, sale, and distribution of our products and services. Our international operations also are subject to a significant amount of government regulation, including country-specific rules and regulations and U.S. regulations applicable to our international operations. Government regulations include detailed inspection of, and controls over, research and development, clinical investigations, product approvals and manufacturing, marketing and promotion, sampling, distribution, record-keeping, storage, and disposal practices.

Compliance with applicable regulations is a significant expense for us. Past, current or future regulations, their interpretation, or their application could have a material adverse impact on our operations. Also, additional governmental regulation may be passed that could prevent, delay, revoke, or result in the rejection of regulatory clearance of our products. We cannot predict the effect on our operations resulting from current or future governmental regulation or the interpretation or application of these regulations.

If we fail to comply with any applicable regulatory requirements, sanctions could be imposed on us. For more information about the risks we face regarding regulatory requirements, see Part I, Item 1A of this Annual Report titled, "Risk Factors, We are subject to extensive regulatory requirements and must receive and maintain regulatory clearance or approval for many products and operations. Failure to receive or maintain, or delays in receiving, clearance or approvals may hurt our revenues, profitability, financial condition, or value."

In the past, we have received warning letters, paid civil penalties, conducted product recalls and field corrections, and been subject to other regulatory sanctions. We believe that we are currently compliant in all material respects with applicable regulatory requirements. However, there can be no assurance that future or current regulatory, governmental, or private action will not have a material adverse affect on us or on our performance, results, or financial condition.

Environmental Matters. We are subject to various laws and governmental regulations concerning environmental matters and employee safety and health in the United Kingdom, United States and in other countries. We have made, and continue to make, significant investments to comply with these laws and regulations. We cannot predict the future capital expenditures or operating costs required to comply with environmental laws and regulations. We believe that we are currently compliant with applicable environmental, health, and safety requirements in all material respects. However, there can be no assurance that future or current regulatory, governmental, or private action will not have a material adverse affect on our performance, results, or financial condition. Please refer to Note 10 of our consolidated financial statements titled, "Commitments and Contingencies" for further information.

In the future, if a loss contingency related to environmental matters, employee safety, health or conditional asset retirement obligations is significantly greater than the current estimated amount, we would record a liability for the obligation and it may result in a material impact on net income for the annual or interim period during which the liability is recorded. The investigation and remediation of environmental obligations generally occur over an extended period of time, and therefore we do not know if these events would have a material adverse affect on our financial condition, liquidity, or cash flow, nor can there be any assurance that such liabilities would not have a material adverse affect on our performance, results, or financial condition.

Competition. The markets in which we operate are highly competitive and generally highly regulated. Competition is intense in all of our business segments and includes many large and small competitors. Brand, design, quality, safety, ease of use, serviceability, price, product features, warranty, delivery, service, and technical support are important competitive factors to us. We expect to face continued competition in the future as new infection prevention, sterile processing, contamination control, gastrointestinal and surgical support products and services enter the market. We believe many organizations are working with a variety of technologies and sterilizing agents. Also, a number of companies have developed disposable medical instruments and other devices designed to address the risk of contamination.

We believe that our long-term competitive position depends on our success in discovering, developing, and marketing innovative, cost-effective products and services. We devote significant resources to research and development efforts

and we believe STERIS is positioned as a global competitor in the search for technological innovations. In addition to research and development, we invest in quality control, Customer programs, distribution systems, technical services, and other information services.

There can be no assurance that we will develop significant new products or services, or that the new products or services we provide or develop in the future will be more commercially successful than those provided or developed by our competitors. In addition, some of our existing or potential competitors may have greater resources than us. Therefore, a competitor may succeed in developing and commercializing products more rapidly than we do. Competition, as it relates to our business segments and product categories, is discussed in more detail in the section above titled, “Information Related to Business Segments.”

Table of Contents

Employees. As of March 31, 2018, we had approximately 12,000 employees throughout the world. We believe we generally have good relations with our employees.

Methods of Distribution. Sales and service activities are supported by a staff of regionally based clinical specialists, system planners, corporate account managers, and in-house Customer service and field support departments. We also contract with distributors and dealers in select markets.

Customer training is important to our business. We provide a variety of courses at Customer locations, at our training and education centers, and over the internet. Our training programs help Customers understand the science, technology, and operation of our products and services. Many of our operator training programs are approved by professional certifying organizations and offer continuing education credits to eligible course participants.

Seasonality. Our financial results have been, from time to time, subject to seasonal patterns. We cannot assure you that these patterns will continue.

International Operations. We believe we have opportunity to expand internationally, as we currently serve only a portion of the world that could benefit from our products. Through our subsidiaries, we operate in various international locations. United States revenues represented 70% of our fiscal 2018 revenues. Revenues from the United Kingdom and Europe, Middle East and Africa ("EMEA") were 8% and 13%, respectively, of our fiscal 2018 revenues. The remaining 9% was generated in Canada, the Asia Pacific and Latin American regions.

Also see Note 11 to our Consolidated Financial Statements titled, “Business Segment Information,” and Item 7 of Part II, for a geographic presentation of our revenues for the three years ended March 31, 2018, 2017 and 2016.

We conduct manufacturing in the United States, United Kingdom, Canada, Mexico, Brazil, China and various other European countries. Cost of revenues incurred in currencies other than the United States dollar have represented approximately 40% of our total cost of revenues. There are, in varying degrees, a number of inherent risks to our international operations. We describe some of these risks in Part I, Item 1A of this Annual Report titled, "Risk Factors. We conduct manufacturing, sales, and distribution operations on a worldwide basis and are subject to a variety of risk associated with doing business internationally."

Backlog. We define backlog as the amount of unfilled capital equipment purchase orders at a point in time. At March 31, 2018, we had a backlog of $193.9 million. Of this amount, $133.0 million and $60.8 million related to our Healthcare Products and Life Sciences segments, respectively. At March 31, 2017, we had backlog orders of $162.9 million. Of this amount, $109.7 million and $53.2 million related to our Healthcare Products and Life Sciences segments, respectively. A significant portion of the backlog orders at March 31, 2018 is expected to ship in the 2019 fiscal year.

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, and Current Reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after we electronically file such material with, or furnish such material to the Securities and Exchange Commission (“SEC”). You may access these documents, as well as other SEC filings related to the Company, on the Investor Relations page of our website at http://www.steris-ir.com. 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. The content on or accessible through any website referred to in this Annual Report on Form 10-K is not incorporated by reference into this Form 10-K unless expressly noted.

We also make available free of charge on our website our Corporate Governance Guidelines, our Director Code of Ethics, and our Code of Business Conduct, as well as the Charters of the Audit Committee, the Compensation Committee, the Nominating and Governance Committee, and the Compliance Committee of the Company’s Board of Directors.

Table of Contents

Executive Officers of the Registrant. The following table presents certain information regarding our executive officers at March 31, 2018. All executive officers serve at the pleasure of the Board of Directors.

Name	Age	Position
Kathleen L. Bardwell	62	Senior Vice President and Chief Compliance Officer
Karen L. Burton	50	Vice President, Controller and Chief Accounting Officer
Daniel A. Carestio	45	Senior Vice President, Sterilization and Disinfection
Dr. Adrian Coward	48	Senior Vice President, Healthcare Specialty Services
Michiel de Zwaan	46	Vice President and Chief Human Resources Officer
Gulam A. Khan	51	Senior Vice President, Procedural Solutions
Sudhir K. Pahwa	65	Senior Vice President, Infection Prevention Technologies
Walter M Rosebrough, Jr.	64	President and Chief Executive Officer
Renato G. Tamaro	49	Vice President and Corporate Treasurer
Michael J. Tokich	49	Senior Vice President and Chief Financial Officer
J. Adam Zangerle	51	Vice President, General Counsel, and Secretary

The following discussion provides a summary of each executive officer's recent business experience through March 31, 2018:

Kathleen L. Bardwell serves as Senior Vice President and Chief Compliance Officer. She assumed this role in February 2014. From March 2008 to February 2014, she served as Vice President, Chief Compliance Officer. Mrs. Bardwell is a Director of First Financial Bancorp.

Karen L. Burton serves as Vice President, Controller and Chief Accounting Officer. She assumed this role in January 2017. She served as Vice President, Corporate Controller from May 2008 to January 2017.

Daniel A. Carestio serves as Senior Vice President, Sterilization and Disinfection. He assumed this role in February 2018. From August 2015 to February 2018, he served as Senior Vice President, STERIS Applied Sterilization Technologies and Life Sciences. From 2011 to August 2015, he served as Vice President, Sales and Marketing for Isomedix Services and General Manager of Life Sciences.

Dr. Adrian Coward serves as Senior Vice President, Healthcare Specialty Services. He assumed this role in November 2015. From April 2014 to November 2015, he served as Chief Operating Officer of Synergy Health plc. From April 2010 to March 2014, Dr. Coward served as CEO of UK & Ireland of Synergy Health plc.

Michiel de Zwaan serves as Vice President and Chief Human Resources Officer. He assumed this role in September 2017. He served as Senior Vice President and Chief Human Resources Officer at Hill-Rom Inc. from August 2014 through December 2015, and as Vice President of Human Resources, International, at Hill-Rom Europe B.V. from September 2011 through July 2014.

Gulam A. Khan serves as Senior Vice President, Procedural Solutions. He assumed this role in August 2015. He served as Chief Executive Officer of United States Endoscopy Group, Inc. from January 2003, prior to its acquisition by STERIS in August 2012, remaining with STERIS until June 2013. From April 2014 until August 2015, he provided independent consulting services to corporations, including business integration consulting services to STERIS.

Sudhir K. Pahwa serves as Senior Vice President, Infection Prevention Technologies. He assumed this role in February 2014. From December 2008 to February 2014, he served as Vice President and General Manager, Infection Prevention Technologies.

Walter M Rosebrough, Jr. serves as President and Chief Executive Officer. He assumed this role when he joined STERIS in October 2007. Mr. Rosebrough is a Director of Varex Imaging Corporation.

Renato G. Tamaro serves as Vice President and Corporate Treasurer. He assumed this role in August 2017. From March 2006 to July 2017, he served as Assistant Treasurer.

Michael J. Tokich serves as Senior Vice President and Chief Financial Officer. He assumed this role in August 2017. From February 2014 to July 2017, he served as the Senior Vice President, Chief Financial Officer and Treasurer. From March 2008 to February 2014, he served as Senior Vice President and Chief Financial Officer.

J. Adam Zangerle serves as Vice President, General Counsel, and Secretary. He assumed this role in July 2013. From May 2007 to July 2013 he served as Associate General Counsel and Group General Counsel, Healthcare.

8

Table of Contents

ITEM 1A. RISK FACTORS

This section describes certain risk factors that could affect our business, financial condition and results of operations. You should consider these risk factors when evaluating the forward-looking statements contained in this Annual Report on Form 10-K, because our actual results and financial condition might differ materially from those projected in the forward-looking statements should these risks occur. We face other risks besides those highlighted below. These other risks include additional uncertainties not presently known to us or that we currently believe are immaterial, but may ultimately have a significant impact. Should any of these risks, described below or otherwise, actually occur, our business, financial condition, performance, prospects, value, or results of operations could be negatively affected.

MARKET RISKS

Risk or uncertainty	Discussion
Doing business internationally We conduct manufacturing, sales and distribution operations on a worldwide basis and are subject to a variety of risks associated with doing business internationally. Implementation and achievement of international growth objectives also may be impeded by political, social, and economic uncertainties or unrest in countries in which we conduct operations or market or distribute our products.	We maintain significant international operations, including operations in the U.S., Canada, Mexico, Europe, Asia Pacific and Latin America. As a result, we are subject to a number of risks and complications associated with international manufacturing, sales, services, and other operations. These include: risks associated with currency exchange rate fluctuations; difficulties in enforcing agreements and collecting receivables through some foreign legal systems; enhanced credit risks in certain European countries as well as emerging market regions; Customers with longer payment cycles than Customers in the United States; significant variations in tax rates among the countries in which we do business, and tax withholding obligations in respect of our earnings; tax laws that restrict our ability to use tax credits, offset gains, or repatriate funds; tariffs, exchange controls or other trade restrictions including transfer pricing restrictions when products produced in one country are sold to an affiliated entity in another country; general economic and political conditions in countries where we operate or where end users of our products are situated, including the potential implications of the U.K. “Brexit” or the withdrawal from the EU of other member countries; difficulties associated with managing a large organization spread throughout various countries; difficulties in enforcing intellectual property rights or weaker intellectual property right protections in some countries and difficulties associated with compliance with a variety of laws and regulations governing international trade, including the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act and laws and regulations dealing with trade with persons in sanctioned countries.
Compliance with multiple, and potentially conflicting, international laws and regulations, import and export limitations, anti-corruption laws, and exchange controls may be difficult, burdensome or expensive.	We are subject to compliance with various laws and regulations, including the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act, and similar anti-bribery laws, which generally prohibit companies and their intermediaries from making improper payments to officials for the purpose of obtaining or retaining business. We are also subject to limitations on trade with persons in sanctioned countries. While our employees and agents are required to comply with these laws, we cannot assure you that our internal policies and procedures will always protect us from violations of these laws, despite our commitment to legal compliance and corporate ethics.

9

Table of Contents

Risk or uncertainty	Discussion
Economic conditions and financial market access	
Changes in economic climate may adversely affect us.	Adverse economic cycles or conditions and Customer, regulatory or government response to those cycles or conditions, could affect our results of operations. The onset of these cycles or conditions may not be foreseeable and there can be no assurance when they will begin to improve after they occur. There also can be no assurance as to the strength or length of any recovery from a business downturn or recession. Credit and liquidity problems may make it difficult for some businesses to access credit markets and obtain financing and may cause some businesses to curtail spending to conserve cash in anticipation of persistent business slowdowns and liquidity needs. If our Customers have difficulty financing their purchases due to tight credit markets or related factors or because of other operational or utilization problems they may be experiencing or otherwise decide to curtail their purchases, our business could be adversely affected. Our exposure to bad debt losses could also increase if Customers are unable to pay for products previously ordered and delivered. Many of our Customers are governmental entities or other entities that rely on government healthcare systems or government funding. If government funding for healthcare becomes limited or restricted in countries in which we operate, our Customers may be unable to pay their obligations on a timely basis or to make payment in full and it may become necessary to increase reserves. In addition, there can be no assurance that there will not be an increase in collection difficulties. Prospectively, additional adverse effects resulting from these conditions may include decreased healthcare utilization, further pricing pressure on our products and services, and/or weaker overall demand for our products and services, particularly capital products.
Our acquisition activity and ability to grow organically may be adversely affected if we are unable to continue to access the financial markets.	Our recent acquisitions have been financed largely through cash on hand and borrowings under our bank credit facilities. Future acquisitions or other capital requirements will necessitate additional cash. To the extent our existing sources of cash are insufficient to fund these or other future activities, we may need to raise additional funds through new or expanded borrowing arrangements or equity. There can be no assurance that we will be able to obtain additional funds beyond those available under existing bank credit facilities on terms favorable to us, or at all, or that such facilities can be replaced when they terminate.

Table of Contents

LEGAL, REGULATORY AND TAX RISKS

Risk or uncertainty	Discussion
Healthcare laws and reimbursement Changes in healthcare laws or government and other third-party payor reimbursement levels to healthcare providers, or failure to meet healthcare reimbursement or other requirements, might negatively impact our business.	We sell many of our products and services to hospitals and other healthcare providers and pharmaceutical manufacturers. Many of these Customers are subject to or supported by government programs or receive reimbursement for services from third-party payors, such as government programs, including Medicare and Medicaid, private insurance plans, and managed care programs. Reimbursement systems vary significantly by country. However, government-managed healthcare systems control reimbursement for healthcare services in many countries. Public budgetary constraints may significantly impact the ability of hospitals, pharmaceutical manufacturers, and other Customers supported by such systems to purchase our products. Government or other third-party payors may deny or change coverage, reduce their current levels of reimbursement for healthcare services, or otherwise implement measures to regulate pricing or contain costs. In addition, our costs may increase more rapidly than reimbursement levels or permissible pricing increases or we may not satisfy the standards or requirements for reimbursement. Among other provisions, the U.S. Patient Protection and Affordable Care Act, as amended by the Health Care and Education Affordability Reconciliation Act, imposed an excise tax on medical devices manufactured or offered for sale in the United States. Early in 2018, U.S. Congress enacted legislation that extended the suspension of the excise tax, which suspension had been in place in since the beginning of calendar year 2016, for 2018 and 2019. Should the U.S. Congress take no further action with regard to this tax we will begin to incur excise tax in the fourth quarter of fiscal 2020. We incurred $5.8 million in medical device excise taxes for fiscal 2016. In addition, we have been required to commit significant resources to “Sunshine Act” compliance. Various additional health care reform proposals have emerged at the federal and state level, and we are unable to predict which, if any, of those proposals will be enacted.

Table of Contents

Risk or uncertainty	Discussion
Product related regulations and claims	
We are subject to extensive regulatory requirements and must receive and maintain regulatory clearance or approval for many products and operations. Failure to receive or maintain, or delays in receiving, clearance or approvals may hurt our revenues, profitability, financial condition, or value.	Our operations are subject to extensive regulation in the countries where we do business. In the United States, our products and services are regulated by the FDA and other regulatory authorities. In many foreign countries, sales of our products and services are subject to extensive regulations that may or may not be comparable to those of the FDA. In Europe, our products are regulated primarily by country and community regulations of those countries within the European Economic Area and must conform to the requirements of those authorities. Government regulation applies to nearly all aspects of testing, manufacturing, safety, labeling, storing, recordkeeping, reporting, promoting, distributing, and importing or exporting of medical devices, products, and services. In general, unless an exemption applies, a sterilization, decontamination or medical device or product or service must receive regulatory approval or clearance before it can be marketed or sold. Modifications to existing products or the marketing of new uses for existing products also may require regulatory approvals, approval supplements or clearances. If we are unable to obtain any required approvals, approval supplements or clearances for any modification to a previously cleared or approved device, we may be required to cease manufacturing and sale, or recall or restrict the use of such modified device, pay fines, or take other action until such time as appropriate clearance or approval is obtained. Regulatory agencies may refuse to grant approval or clearance, or review and disagree with our interpretation of approvals or clearances, or with our decision that regulatory approval is not required or has been maintained. Regulatory submissions may require the provision of additional data and may be time consuming and costly, and their outcome is uncertain. Regulatory agencies may also change policies, adopt additional regulations, or revise existing regulations, each of which could prevent or delay approval or clearance of devices, or could impact our ability to market a previously cleared, approved, or unregulated device. Our failure to comply with the regulatory requirements of the FDA or other applicable regulatory requirements in the United States or elsewhere might subject us to administratively or judicially imposed sanctions. These sanctions include, among others, warning letters, fines, civil penalties, criminal penalties, injunctions, debarment, product seizure or detention, product recalls and total or partial suspension of production, sale and/or promotion.
Our products are subject to recalls and restrictions, even after receiving United States or foreign regulatory clearance or approval.	Ongoing medical device reporting regulations require that we report to appropriate governmental authorities in the United States and/or other countries when our products cause or contribute to a death or serious injury or malfunction in a way that would be reasonably likely to contribute to a death or serious injury if the malfunction were to recur. Governmental authorities can require product recalls or impose restrictions for product design, manufacturing, labeling, clearance, or other issues. For the same reasons, we may voluntarily elect to recall or restrict the use of a product. Any recall or restriction could divert managerial and financial resources and might harm our reputation among our Customers and other healthcare professionals who use or recommend our products and services.

Table of Contents

We may be adversely affected by product liability claims or other legal actions or regulatory or compliance matters.	We face an inherent business risk of exposure to product liability claims and other legal and regulatory actions. A significant increase in the number, severity, amount, or scope of these claims and actions may, as described above with respect to recalls and restrictions, result in substantial costs and harm our reputation or otherwise adversely affect product sales and our business. Product liability claims and other legal and regulatory actions may also distract management from other business responsibilities. We are also subject to a variety of other types of claims, proceedings, investigations, and litigation initiated by government agencies or third parties and other potential risks and liabilities. These include compliance matters, product regulation or safety, taxes, employee benefit plans, employment discrimination, health and safety, environmental, antitrust, customs, import/export, government contract compliance, financial controls or reporting, intellectual property, allegations of misrepresentation, false claims or false statements, commercial claims, claims regarding promotion of our products and services, or other similar or different matters. Any such claims, proceedings, investigations or litigation, regardless of the merits, might result in substantial costs, restrictions on product use or sales, or otherwise injure our business. Administratively or judicially imposed or agreed sanctions might include warning letters, fines, civil penalties, criminal penalties, loss of tax benefits, injunctions, product seizure, recalls, suspensions or restrictions, re-labeling, detention, and/or debarment. We also might be required to take actions such as payment of substantial amounts, or revision of financial statements, or to take, or be subject to, the following types of actions with respect to our products, services, or business: redesign, re-label, restrict, or recall products; cease manufacturing and selling products; seizure of product inventory; comply with a court injunction restricting or prohibiting further marketing and sale of products or services; comply with a consent decree, which could result in further regulatory constraints; dedication of significant internal and external resources and costs to respond to and comply with legal and regulatory issues and constraints; respond to claims, litigation, and other proceedings brought by Customers, users, governmental agencies, and others; disruption of product improvements and product launches; discontinuation of certain product lines or services; or other restrictions or limitations on product sales, use or operation, or other activities or business practices. Some product replacements or substitutions may not be possible or may be prohibitively costly or time consuming. The impact of any legal, regulatory, or compliance claims, proceeding, investigation, or litigation, is difficult to predict. We maintain product liability and other insurance with coverages believed to be adequate. However, product liability or other claims may exceed insurance coverage limits, fines, penalties and regulatory sanctions may not be covered by insurance, or insurance may not continue to be available or available on commercially reasonable terms. Additionally, our insurers might deny claim coverage for valid or other reasons or may become insolvent.

Table of Contents

Our business and financial condition could be adversely affected by difficulties in acquiring or maintaining a proprietary intellectual ownership position.	To maintain our competitive position for our products, we need to obtain patent or other proprietary rights for new and improved products and to maintain and enforce our existing patents and other proprietary rights. We typically apply for patents in the United States and in strategic other countries. We may also acquire patents through acquisitions. We may encounter difficulties in obtaining or protecting patents. We rely on a combination of patents, trademarks, trade secrets, know-how, and confidentiality agreements to protect the proprietary aspects of our technology. These measures afford only limited protection, and competitors may gain access to our intellectual property and proprietary information. Litigation may be necessary to enforce or defend our intellectual property rights, to protect our trade secrets, and to determine the validity and scope of our proprietary rights. Litigation may also be brought against us claiming that we have violated the intellectual property rights of others. Litigation may be costly and may divert management's attention from other matters. Additionally, in some foreign countries with weaker intellectual property rights, it may be difficult to maintain and enforce patents and other proprietary rights or defend against claims of infringement.
Tax and trade risks	
Current economic and political conditions make tax rules in any jurisdiction subject to significant change.	The U.S. Tax Cuts and Jobs Act ("TCJA") was signed into law on December 22, 2017. Additional guidance is likely to be issued clarifying the application of this new legislation. We cannot predict the overall impact that the additional guidance may have on our business. It is reasonable to expect that global taxing authorities will be reviewing current legislation for potential modifications in reaction to the implementation of the TCJA. In addition, further changes in the tax laws of other jurisdictions could arise, including as a result of the base erosion and profit shifting (BEPS) project undertaken by the Organization for Economic Cooperation and Development (OECD). The OECD, which represents a coalition of member countries, has issued recommendations that, in some cases, would make substantial changes to numerous long-standing tax positions and principles. These contemplated changes, to the extent adopted by OECD members and/or other countries, could increase tax uncertainty and may adversely impact our provision for income taxes.
Our tax rate is uncertain and may vary from expectations, which could have a material impact on our results of operations and earnings per share.	There can be no assurance that we will be able to maintain any particular worldwide effective corporate tax rate. We cannot give any assurance as to what our effective tax rate will be in the future because of, among other things, uncertainty regarding the tax policies of the jurisdictions in which we and our affiliates operate, including the potential tax implications of the U.K. "Brexit". Our actual effective tax rate may vary from our expectations, and such variance may be material. Additionally, tax laws or their implementation and applicable tax authority practices in any particular jurisdiction could change in the future, possibly on a retroactive basis, and any such change could have a material adverse impact on us and our affiliates.
Changes in tax treaties and trade agreements could negatively impact our costs, results of operations and earnings per share.	Legislative and regulatory action may be taken in the U.S. which, if ultimately adopted, could override or otherwise adversely impact tax treaties upon which we rely or broaden the circumstances under which STERIS would be considered a U.S. resident, each of which could materially and adversely affect our tax obligations. We cannot predict the outcome of any specific legislative or regulatory proposals. However, if proposals were adopted that had the effect of disregarding our incorporation in the U.K. or limiting our ability as a U.K. company to take advantage of tax treaties with the U.S., we could be subject to increased taxation and/or potentially significant expense. Existing free trade laws and regulations, such as the North American Free Trade Agreement, provide certain beneficial duties and tariffs for qualifying imports and exports, subject to compliance with the applicable classification and other requirements. Changes in laws and

regulations or policies governing the terms of foreign trade, and in particular, increased trade restrictions, tariffs or taxes on imports from countries where we manufacture products could have a material adverse impact on our business and financial results.

Table of Contents

Proposed legislation relating to the denial of U.S. federal or state governmental contracts to U.S. companies that redomicile abroad could adversely affect our business.	Various U.S. federal and state legislative proposals that would deny governmental contracts to redomiciled companies may adversely affect us if adopted into law. We are unable to predict the likelihood that any such proposed legislation might become law, the nature of regulations that may be promulgated under any future legislative enactments, or the effect such enactments or increased regulatory scrutiny could have on our business.
The U.S. Internal Revenue Service (the "IRS") may not agree that we are a foreign corporation for U.S. federal tax purposes.	Although we are incorporated under the laws of England and Wales and are a tax resident in the U.K. for U.K. tax purposes, the IRS may assert that we should be treated as a U.S. corporation (and, therefore, a U.S. tax resident) for U.S. federal tax purposes pursuant to Section 7874 of the Internal Revenue Code of 1986, as amended (the "Code" and such Section, "Section 7874"). For U.S. federal tax purposes, a corporation generally is considered to be a tax resident in the jurisdiction of its organization or incorporation. Because we are incorporated under the laws of England and Wales, we would generally be classified as a non-U.S. corporation (and, therefore, a non-U.S. tax resident) under these rules. Section 7874, however, provides an exception to this general rule under which a non-U.S. incorporated entity may, in certain circumstances (including a transaction pursuant to which a U.S. corporation is acquired by a non-U.S. corporation), be treated as a U.S. corporation for U.S. federal tax purposes. If we were to be treated as a U.S. corporation for U.S. federal tax purposes, we could be subject to substantial additional U.S. tax liability. Additionally, if we were treated as a U.S. corporation for U.S. federal tax purposes, non-U.S. holders of STERIS ordinary shares would be subject to U.S. withholding tax on the gross amount of any dividends we paid to such shareholders. For U.K. tax purposes, we are expected, regardless of any application of Section 7874, to be treated as a U.K. tax resident. Consequently, if we are treated as a U.S. corporation for U.S. federal tax purposes under Section 7874, we could be liable for both U.S. and U.K. taxes, which could have a material adverse effect on our financial condition and results of operations.

BUSINESS AND OPERATIONAL RISKS

Risk or uncertainty	Discussion
Competition	
Our businesses are highly competitive, and if we fail to compete successfully, our revenues and results of operations may be hurt.	We operate in a highly competitive global environment. Our businesses compete with other broad-line manufacturers, as well as many smaller businesses specializing in particular products or services, primarily on the basis of brand, design, quality, safety, ease of use, serviceability, price, product features, warranty, delivery, service, and technical support. We face increased competition from new infection prevention, sterile processing, contamination control, surgical support, cleaning consumables, gastrointestinal endoscopy accessories, contract sterilization, and other products and services entering the market. Competitors and potential competitors also are attempting to develop alternate technologies and sterilizing agents, as well as disposable medical instruments and other devices designed to address the risk of contamination.
Consolidations among our healthcare and pharmaceutical Customers may result in a loss of Customers or more significant pricing pressures.	A number of our Customers have consolidated. These consolidations are due in part to healthcare cost reduction measures initiated by competitive pressures as well as legislators, regulators and third-party payors. In an effort to attract Customers, some of our competitors have also reduced production costs and lowered prices. This has resulted in greater pricing pressures on us and in some cases loss of Customers. Additional consolidations could result in a loss of Customers or more significant pricing pressures.

15

Table of Contents

Decreased availability or increased costs of raw materials or energy supplies or other supplies might increase our production costs or limit our production capabilities or curtail our operations.	We purchase raw materials, fabricated and other components, and energy supplies from a variety of suppliers. Key materials include stainless steel, organic and inorganic chemicals, fuel, cobalt-60, EO, and plastic components. The availability and prices of raw materials and energy supplies are subject to volatility and are influenced by worldwide economic conditions, speculative action, world supply and demand balances, inventory levels, availability of substitute materials, currency exchange rates, anticipated or perceived shortages, and other factors. Also, certain of our key materials and components have a limited number of suppliers. Some are single-sourced in certain regions of the world, such as cobalt-60 and EO, which are necessary to our AST operations; the unavailability or short supply of these products might disrupt or cause shutdowns of portions of our AST operations or have other adverse consequences. Shortages in supply, regulatory or security requirements, or increases in the price of raw materials, components and energy supplies may adversely affect us.
Our operations, and those of our suppliers, are subject to a variety of business continuity hazards and risks, any of which could interrupt production or operations or otherwise adversely affect our performance, results, or value.	Business continuity hazards and other risks include: explosions, fires, earthquakes, inclement weather, and other disasters; utility or other mechanical failures; unscheduled downtime; labor difficulties; inability to obtain or maintain any required licenses or permits; disruption of communications; data security, preservation and redundancy disruptions; inability to hire or retain key management or employees; disruption of supply or distribution; and regulation of the safety, security or other aspects of our operations. The occurrence of any of these or other events might disrupt or shut down operations, or otherwise adversely impact the production or profitability of a particular facility, or our operations as a whole. Certain casualties also might cause personal injury and loss of life, or severe damage to or destruction of property and equipment, and for casualties occurring at our facilities, result in liability claims against us. Although we maintain property and casualty insurance and liability and similar insurance of the types and in the amounts that we believe are customary for our industries, our insurance coverages have limits and we are not fully insured against all potential hazards and risks incident to our business.

Table of Contents

We engage in acquisitions and affiliations, divestitures, and other business arrangements. Our growth may be adversely affected if we are unable to successfully identify, price, and integrate strategic business candidates or otherwise optimize our business portfolio.	Our success depends, in part, on strategic acquisitions and joint ventures, which are intended to complement or expand our businesses, divestiture of non-strategic businesses, and other actions intended to optimize our portfolio of businesses. This strategy depends upon our ability to identify, appropriately price, and complete these types of business development transactions or arrangements and to obtain any necessary financing. In the last several fiscal years we have made a number of acquisitions, the most significant of which was the acquisition of Synergy Health plc. We also completed several divestitures of non-strategic businesses or product lines during fiscal 2018 and 2017 including linen management services in the U.K., U.S. and Netherlands, laboratory services in the U.K., a consumables product line in the U.K., and our Applied Infection Control product line. Our success with respect to these recent and future acquisitions will depend on our ability to integrate the businesses acquired, retain key personnel, realize identified cost synergies and otherwise execute our strategies. Our success will also depend on our ability to develop satisfactory working arrangements with our strategic partners in joint ventures or other affiliations, or to divest or realign businesses. Competition for strategic business candidates may result in increases in costs and price for acquisition candidates and market valuation issues may reduce the value available for divestiture of non-strategic businesses. These types of transactions are also subject to a number of other risks and uncertainties, including: delays in realizing or failure to realize anticipated benefits of the transactions; diversion of management's time and attention from other business concerns; difficulties in retaining key employees, Customers, or suppliers of the acquired or divested businesses; difficulties in maintaining uniform standards, controls, procedures and policies, or other integration or divestiture difficulties; adverse effects on existing business relationships with suppliers or Customers; other events contributing to difficulties in generating future cash flows; risks associated with the assumption of contingent or other liabilities of acquisition targets or retention of liabilities for divested businesses and difficulties in obtaining financing.
If our continuing efforts to create a lean business and in-source production to reduce costs are not successful, our profitability may be hurt or our business otherwise might be adversely affected.	We have undertaken various activities to create a lean business, including in-sourcing. We continue to look for opportunities to in-source production that is currently provided by third parties and have made large investments during the past few fiscal years. These activities may not produce the full efficiencies and cost reduction benefits that we expect or efficiencies and benefits might be delayed. Implementation costs also might exceed expectations.
Our business and results of operations may be adversely affected if we are unable to recruit and retain qualified management and other personnel or other compliance matters adversely impact our personnel.	Our continued success depends, in large part, on our ability to hire and retain highly qualified people and if we are unable to do so, our business and operations may be impaired or disrupted. Competition for highly qualified people is intense and there is no assurance that we will be successful in attracting or retaining replacements to fill vacant positions, successors to fill retirements or employees moving to new positions, or other highly qualified personnel. In addition, legal, regulatory or compliance matters create significant distraction or diversion of significant or unanticipated resources or attention that could have a material adverse effect on the responsibilities and retention of qualified employees.

Table of Contents

We could experience a failure of a key information technology system, process or site or a breach of information security, including a cybersecurity breach or failure of one or more key information technology systems, networks, processes, associated sites or service providers.	We rely extensively on information technology (IT) systems to conduct business. In addition, we rely on networks and services, including internet sites, data hosting and processing facilities and tools and other hardware, software and technical applications and platforms, some of which are managed, hosted, provided and/or used by third-parties or their vendors, to assist in conducting our business. Numerous and evolving cybersecurity threats pose potential risks to the security of our IT systems, networks and services, as well as the confidentiality, availability and integrity of our data. While we have made investments seeking to address these threats, including monitoring of networks and systems, hiring of experts, employee training and security policies for employees and third-party providers, the techniques used in these attacks change frequently and may be difficult to detect for periods of time and we may face difficulties in anticipating and implementing adequate preventative measures. If our IT systems are damaged or cease to function properly, the networks or service providers we rely upon fail to function properly, or we or one of our third-party providers suffer a loss or disclosure of our business or stakeholder information due to any number of causes ranging from catastrophic events or power outages to improper data handling or security breaches and our business continuity plans do not effectively address these failures on a timely basis, we may be exposed to reputational, competitive and business harm as well as litigation and regulatory action. Enforcement of the General Data Protection Regulation ("GDPR") is effective as of May 2018. The GDPR is focused on the protection of personal data not merely the privacy of personal data. The GDPR creates a range of new compliance obligations and will significantly increase financial penalties for noncompliance (including possible fines of up to 4% of global annual turnover for the preceding financial year or €20 million (whichever is higher) for the most serious infringements).

ITEM 1B.UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The following table sets forth the principal plants and other materially important properties of the Company and its subsidiaries as of March 31, 2018. The Company believes that its facilities are adequate for operations and are maintained in good condition. The Company is confident that, if needed, it will be able to acquire additional facilities at commercially reasonable rates.

In the table below, "Contract Sterilization" refers to locations of the Applied Sterilization Technologies segment. "Manufacturing," "Warehousing," "Operations," or "Sales Offices" refer to locations serving one or more of the Healthcare Products, Healthcare Specialty Services and Life Sciences segments.

United Kingdom (U.K.), United States (U.S.) Locations (including Puerto Rico) and International Locations (INTL)

Location	U.K/U.S./INTL*	Use	Owned/Leased
Montgomery, AL	U.S.	Manufacturing	Owned
Ontario, CA	U.S.	Contract Sterilization	Owned
San Diego, CA	U.S.	Contract Sterilization	Owned
Temecula, CA	U.S.	Contract Sterilization	Owned
Libertyville, IL (2 locations)	U.S.	Contract Sterilization	Owned
Northborough, MA	U.S.	Contract Sterilization	Owned
Brooklyn Park, MN	U.S.	Contract Sterilization	Owned
St. Louis, MO (4 locations)	U.S.	Manufacturing	Owned
South Plainfield, NJ	U.S.	Contract Sterilization	Owned
Whippany, NJ	U.S.	Contract Sterilization	Owned
Chester, NY (2 locations)	U.S.	Contract Sterilization	Owned

18

Table of Contents

United Kingdom (U.K.), United States (U.S.) Locations (including Puerto Rico) and International Locations (INTL)

Location	U.K/U.S./INTL*	Use	Owned/Leased
Groveport, OH	U.S.	Contract Sterilization	Owned
Mentor, OH (14 locations)	U.S.	Operations	Owned
	U.S.	Sales Offices	Owned
	U.S.	Manufacturing/Warehousing	Owned
	U.S.	Manufacturing/Operations	Owned
Philadelphia, PA	U.S.	Manufacturing/Warehousing	Owned
Spartanburg, SC	U.S.	Contract Sterilization	Owned
El Paso, TX (2 locations)	U.S.	Contract Sterilization	Owned
Grand Prairie, TX	U.S.	Contract Sterilization	Owned
Sandy, UT	U.S.	Contract Sterilization	Owned
Minneapolis, MN (2 locations)	U.S.	Contract Sterilization	Owned
Birmingham, AL (5 locations)	U.S.	Manufacturing/Warehousing	Owned
Vega Alta, PR	U.S.	Contract Sterilization	Owned
Sturbridge, MA	U.S.	Operations	Owned
Feasterville, PA	U.S.	Warehousing	Owned
Berkshire, England	U.K.	Contract Sterilization	Owned
Derby, England	U.K.	Operations	Owned
Lancashire, England	U.K.	Operations	Owned
Lancing, England	U.K.	Manufacturing/Operations	Owned
Swindon, England (2 locations)	U.K.	Contract Sterilization	Owned
Yorkshire, England (2 locations)	U.K.	Contract Sterilization	Owned
Northamptonshire, England	U.K.	Contract Sterilization	Owned
Mogi das Cruzes, Brazil	INTL	Manufacturing/Sales Office	Owned
Quebec City, Canada	INTL	Manufacturing	Owned
Whitby, Canada	INTL	Contract Sterilization	Owned
Suzhou, China	INTL	Contract Sterilization	Owned
Alajuela, Costa Rica (2 locations)	INTL	Contract Sterilization	Owned
Velka Bites, Czech Republic	INTL	Contract Sterilization	Owned
Tuusula, Finland	INTL	Manufacturing/Sales Office	Owned
Bordeaux, France	INTL	Manufacturing/Sales Office	Owned
Tullamore, Ireland	INTL	Contract Sterilization	Owned
Westport, Ireland	INTL	Contract Sterilization	Owned
Calcinate, Italy	INTL	Contract Sterilization	Owned
Bastia di Rovolon, Italy	INTL	Contract Sterilization	Owned
Spresiano, Italy	INTL	Contract Sterilization	Owned
Rawang, Malaysia	INTL	Contract Sterilization	Owned
Etten-Leur, Netherlands	INTL	Contract Sterilization	Owned
Venlo, Netherlands	INTL	Contract Sterilization	Owned
Michalovce, Slovakia	INTL	Contract Sterilization	Owned
Pribenik, Slovakia	INTL	Contract Sterilization	Owned
Johannesburg, South Africa	INTL	Contract Sterilization	Owned
Daniken, Switzerland	INTL	Contract Sterilization	Owned
Chonburi, Thailand	INTL	Contract Sterilization	Owned

Table of Contents

United Kingdom (U.K.), United States (U.S.) Locations (including Puerto Rico) and International Locations (INTL)

Location	U.K/U.S./INTL*	Use	Owned/Leased
Radeberg, Germany	INTL	Contract Sterilization	Owned
Komenda, Slovenia	INTL	Contract Sterilization	Owned
Bitterfeld-Wolfen, Germany	INTL	Contract Sterilization	Owned
Ede, Netherlands	INTL	Contract Sterilization	Owned
St. Louis, MO	U.S.	Warehousing/Operations	Leased
Reno, NV (2 locations)	U.S.	Warehousing	Leased
Cleveland, Ohio	U.S.	Operations	Leased
Stow, OH	U.S.	Sales Office/Operations	Leased
Hillsborough, NJ	U.S.	Sales Office/Operations	Leased
Keller, TX (2 locations)	U.S.	Sales Office/Operations	Leased
Tustin, CA	U.S.	Sales Office/Operations	Leased
Melville, NY	U.S.	Sales Office/Operations	Leased
Santa Clara, CA	U.S.	Sales Office	Leased
Chesterfield, MO	U.S.	Sales Office/Operations	Leased
Cooper City, FL	U.S.	Operations	Leased
Rockville, MD	U.S.	Operations	Leased
Springdale, OH	U.S.	Operations/Warehousing	Leased
Franklin Park, IL	U.S.	Manufacturing/ Operations	Leased
Bensenville, IL	U.S.	Operations/Warehousing	Leased
Montgomery, AL	U.S.	Operations/Warehousing	Leased
Ooltewah, TN	U.S.	Operations/Warehousing	Leased
Bethlehem, PA	U.S.	Sales Office/Operations	Leased
Westborough, MA	U.S.	Sales Office/Operations	Leased
Belair, MD	U.S.	Sales Office/Operations	Leased
Point Richmond, CA	U.S.	Manufacturing/ Operations /Sales Offices/ Warehousing	Leased
San Diego, CA	U.S.	Contract Sterilization	Leased
Denver, CO	U.S.	Contract Sterilization	Leased
Lima, OH	U.S.	Contract Sterilization	Leased
Saxonburg, PA	U.S.	Contract Sterilization	Leased
Petaluma, CA	U.S.	Contract Sterilization	Leased
Tampa, FL	U.S.	Operations	Leased
Temple Terrace, FL	U.S.	Operations	Leased
Hamilton, OH	U.S.	Operations/Warehouse	Leased
Henrico, VA	U.S.	Operations	Leased
Rochester, NY	U.S.	Operations	Leased
Birmingham, AL	U.S.	Warehouse	Leased
Long Island City, NY	U.S.	Operations	Leased
Chusclan, France	INTL	Contract Sterilization	Leased
Calcinate, Italy	INTL	Contract Sterilization	Leased
Jalan Persiaran, Malaysia	INTL	Sales Office/Operations	Leased
Riyadh, Saudi Arabia	INTL	Operations	Leased
Toronto, Canada	INTL	Operations	Leased

Table of Contents

United Kingdom (U.K.), United States (U.S.) Locations (including Puerto Rico) and International Locations (INTL)

Location	U.K/U.S./INTL*	Use	Owned/Leased
Malle, Belgium	INTL	Sales Office/ Operations/ Warehousing	Leased
Antwerpen, Belgium	INTL	Sales Office/Operations	Leased
Sao Paulo, Brazil	INTL	Sales Office	Leased
Mississauga, Canada	INTL	Sales Office/Warehousing	Leased
Beijing, China	INTL	Sales Office	Leased
Nanjing, China	INTL	Operations	Leased
Shanghai, China	INTL	Sales Office/ Manufacturing	Leased
Suzhou, China	INTL	Operations	Leased
Wuhan, China	INTL	Operations	Leased
La Chapelle St. Mesmin, France	INTL	Sales Office	Leased
Marseille, France	INTL	Contract Sterilization	Leased
Paris, France	INTL	Sales Office	Leased
Toussieu, France	INTL	Warehousing	Leased
Allershausen, Germany	INTL	Contract Sterilization	Leased
Cologne, Germany	INTL	Sales Office	Leased
Gokul Nagar, India	INTL	Sales Office	Leased
Poggio Rusco, Italy	INTL	Contract Sterilization	Leased
Segrate, Italy	INTL	Sales Office	Leased
Seriate, Italy	INTL	Contract Sterilization/Operations	Leased
Trescore Balneario, Italy	INTL	Operations	Leased
Tokyo, Japan	INTL	Sales Office	Leased
Kuala Ketil, Malaysia	INTL	Contract Sterilization	Leased
Kulim, Malaysia	INTL	Contract Sterilization	Leased
MINT Bangi, Malaysia	INTL	Contract Sterilization	Leased
Petaling Jaya, Malaysia	INTL	Sales Office	Leased
Guadalupe, Mexico	INTL	Manufacturing	Leased
Utrecht, Netherlands	INTL	Operations	Leased
Moscow, Russia	INTL	Sales Office	Leased
Singapore (2 locations)	INTL	Sales Office/Warehousing	Leased
Madrid, Spain	INTL	Sales Office	Leased
New Cross, England	U.K	Operations	Leased
Basingstoke, England	U.K.	Sales Office	Leased
Derby, England	U.K.	Operations	Leased
Hoddesdon, England	U.K.	Operations	Leased
Chorley, England	U.K.	Operations	Leased
Leicester, England (2 locations)	U.K.	Warehousing/Operations	Leased
Lincoln, England	U.K.	Operations	Leased
Grimsby England	U.K.	Operations	Leased
Knowsley, England	U.K.	Operations	Leased
Oxfordshire, England	U.K.	Contract Sterilization	Leased
Sheffield, England	U.K.	Operations	Leased
Strathclyde, Scotland	U.K.	Operations	Leased

Swindon, England	U.K.	Operations	Leased

21

Table of Contents

United Kingdom (U.K.), United States (U.S.) Locations (including Puerto Rico) and International Locations (INTL)

Location	U.K/U.S./INTL*	Use	Owned/Leased
Wythenshawe, England (2 locations)	U.K.	Operations	Leased
Bishop Stortford, Hertfordshire, England	U.K.	Manufacturing/Warehousing/Operations	Leased
Pitsford, England	U.K.	Operations	Leased
Homeston, England	U.K.	Operations	Leased
Guildford, England	U.K.	Operations	Leased
Horrow, England	U.K.	Operations	Leased
Salisbury, England	U.K.	Operations	Leased

* International includes all countries other than the U.K. and U.S.

ITEM 3. LEGAL PROCEEDINGS

Information regarding our legal proceedings is included in Item 7 of Part II, Management's Discussion and Analysis ("MD&A"), and Note 10 of our consolidated financial statements titled, "Commitments and Contingencies," and incorporated herein by reference thereto.

ITEM 4. MINE SAFETY DISCLOSURES

None.

Table of Contents

PART II

ITEM 5. MARKET FOR REGISTRANT'S ORDINARY EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information. Our ordinary shares are traded on the New York Stock Exchange under the symbol "STE." The following table presents, for the quarters ending on the dates indicated, the high and low sales prices for our shares.

Quarters Ended	March 31	December 31	September 30	June 30
Fiscal 2018				
High	$ 96.43	$ 93.39	$ 88.43	$ 83.54
Low	82.88	86.02	80.74	69.11
Fiscal 2017				
High	$ 72.35	$ 73.06	$ 74.63	$ 74.10
Low	65.27	63.80	67.25	63.26

Holders. As of March 31, 2018, there were approximately 82 holders of record of our ordinary shares. However, we believe that we have a significantly larger number of beneficial holders of our shares.

Dividend Policy. The Company's Board of Directors decides the timing and amount of any dividends we may pay. During fiscal 2018, we paid cash dividends totaling $1.21 per outstanding share in respect for all shares outstanding for the entire fiscal year ($0.28 per outstanding share to shareholders of record on June 7, 2017, and $0.31 per outstanding share to shareholders of record on the following dates: August 29, 2017, November 22, 2017 and February 28, 2018). During fiscal 2017, we paid cash dividends totaling $1.09 per outstanding share ($0.25 per outstanding share to shareholders of record on June 8, 2016, and $0.28 per outstanding share to shareholders of record on the following dates: August 30, 2016, November 23, 2016 and February 28, 2017).

Recent Sales of Unregistered Securities. On November 2, 2015, we issued 100,000 preferred shares, par value of £0.10 each, for an aggregate consideration of £10,000, or approximately $15,000, to one of our service providers in satisfaction of debt owed to such service provider. This issuance of preferred shares was made pursuant to the exemption from registration provided for in Section 4(a)(2) of the Securities Act of 1933 by virtue of it being a private placement. Please refer to Note 12 of our Consolidated Financial Statements for more information regarding our preferred stock.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers. On August 9, 2016, the Company announced that its Board of Directors had authorized the purchase of up to $300 million (net of taxes, fees and commissions) 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. We purchased 664,963 of our ordinary shares during fiscal 2018 for the aggregate amount of $59,234 which included $294 of taxes and commissions. As of March 31, 2018, $151.1 million remains available for repurchase of ordinary shares under this authorization.

The following table presents information with respect to purchases STERIS made of its ordinary shares during the fourth quarter of the 2018 fiscal year:

	(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 (dollars in thousands)
January 1-31	84,000	$ 90.53	84,000	$ 164,225
February 1-28	70,116	88.78	70,116	158,000
March 1-31	74,300	93.39	74,300	151,061
Total	228,416 [1]	$ 90.92 [1]	228,416 [1]	$ 151,061

[1] Does not include 11 shares purchased during the quarter at an average price of $90.78 per share by the STERIS Corporation 401(k) Plan on behalf of certain executive officers of the Company who may be deemed to be affiliated purchasers.

23

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

	Years Ended March 31,				
(in thousands, except per share data)	2018 [1]	2017 [1]	2016 [1]	2015[1]	2014[1]
Statements of Income Data:					
Revenues	$2,619,996	$2,612,756	$2,238,764	$1,850,263	$1,622,252
Gross profit	1,094,223	1,025,632	895,481	774,301	649,622
Restructuring expenses	103	215	(820)	(391)	13,204
Income from continuing operations	403,454	227,595	212,927	227,211	206,807
Income taxes	63,360	74,015	60,299	73,756	58,934
Net income attributable to shareholders	290,915	109,965	110,763	135,064	129,442
Basic income per ordinary share:					
Net income	$3.42	$1.29	$1.57	$2.27	$2.20
Shares used in computing net income per ordinary share – basic	85,028	85,473	70,698	59,413	58,966
Diluted income per ordinary share:					
Net income	$3.39	$1.28	$1.56	$2.25	$2.17
Shares used in computing net income per ordinary share – diluted	85,713	86,094	71,184	60,045	59,745
Dividends per ordinary share	$1.21	$1.09	$0.98	$0.90	$0.82
Balance Sheets Data:					
Working capital	$591,195	$636,219	$571,919	$437,101	$420,239
Total assets	5,200,334	4,924,555	5,346,416	2,097,291	1,887,162
Long-term indebtedness	1,316,001	1,478,361	1,567,796	621,075	493,480
Total liabilities	1,983,034	2,114,422	2,307,524	1,023,645	845,916
Total shareholders' equity	$3,205,960	$2,798,602	$3,023,034	$1,071,632	$1,038,705

[1] See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

.

Table of Contents

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

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

- what factors affect our business;
- what our earnings and costs were;
- why those earnings and costs were different from the year before;
- 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, repurchase ordinary shares, pay cash dividends and fund future working capital needs.

The MD&A also analyzes and explains the annual changes in the specific line items in the Consolidated Statements of Income. As you read the MD&A, it may be helpful to refer to information in Item 1, "Business," Item 6, "Selected Financial Data," and our consolidated financial statements, which present the results of our operations for fiscal 2018, 2017 and 2016, as well as Part I, Item 1A, "Risk Factors" and Note 10 of our consolidated financial statements titled, "Commitments and Contingencies" for a discussion of some of the matters that can adversely affect our business and results of operations. This information, discussion, and disclosure 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; 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.
- 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 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."

Table of Contents

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:

- 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. Linen management services were divested in fiscal 2017.
- Capital Equipment Revenues – We define capital equipment 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, barrier product solutions and surgical instruments.
- Recurring Revenues – We define recurring revenues as revenues generated from sales of consumable products and service revenues.

GENERAL OVERVIEW AND EXECUTIVE SUMMARY

STERIS plc is a leading provider of infection prevention and other procedural products and services. 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. We offer our Customers a unique mix of innovative consumable products, such as detergents, gastrointestinal ("GI") 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, laboratory testing services, on-site and off-site reprocessing, and capital equipment products, such as sterilizers and surgical tables, and connectivity solutions such as operating room (“OR”) integration.

STERIS plc (“Parent”) was organized in 2014 under the laws of England and Wales under the name Solar New HoldCo Limited as a private limited company for the purpose of effecting under the laws of England and Wales 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”). Effective November 2, 2015, the Parent was re-registered as a public company under the name of STERIS plc and the Combination closed. As a result of the Combination closing, STERIS plc became the ultimate parent company of Old STERIS and Synergy. Synergy has been re-registered under the name of 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 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 for the fiscal 2016 periods to more recent fiscal periods of the Company throughout this Annual Report on From 10-K.

We operate and report in four reportable business segments: Healthcare Products, Healthcare Specialty Services, Life Sciences, and Applied Sterilization Technologies. We describe our business segments in Note 11 to our consolidated financial statements, titled "Business Segment Information."

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. The pharmaceutical industry has been impacted by increased regulatory scrutiny of cleaning and validation processes, mandating that manufacturers improve their processes. Within healthcare, there is increased concern regarding the level of hospital acquired infections around the world; increased

Table of Contents

demand for medical procedures, including preventive screenings such as endoscopies and colonoscopies; and a desire by our Customers to operate more efficiently, all which are driving increased demand for many of our products and services.

We completed several acquisitions and asset purchases in fiscal 2018 and 2017 that expanded our product and service offerings to our Customers.

During fiscal 2018, we divested our Synergy Health Healthcare Consumable Solutions ("HCS") business with annual revenues of approximately $40 million. During fiscal 2017, we divested our Applied Infection Control ("AIC") product line (annual revenues of approximately $50 million) and four businesses acquired in the Combination with Synergy consisting of: the UK Linen Management Services business (annual revenues of approximately $50 million), U.S. Linen Management Services business (annual revenues of approximately $50 million), Synergy Health Netherlands Linen Management Services (annual revenues of approximately $75 million) and Synergy Health Laboratory Services (annual revenues of approximately $15 million).

We continue to invest in manufacturing in-sourcing projects and lean process improvements for the purpose of improving quality, cost and delivery of our products to our Customers.

U.S. Tax Reform. On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “TCJA”). The TCJA makes broad and complex changes to the U.S. tax code that will affect the Company’s fiscal year ending March 31, 2018, including, but not limited to, (1) requiring a one-time transition tax on certain unrepatriated earnings of non-U.S. subsidiaries which is payable over eight years, (2) bonus depreciation that will allow for full expensing of qualified property and (3) reduction of the U.S. federal corporate tax rate. The TCJA reduces the federal corporate income tax rate to 21.0 percent beginning January 1, 2018. Section 15 of the Internal Revenue Code stipulates that our fiscal year ending March 31, 2018, will have a U.S. blended corporate income tax rate of approximately 31.5 percent, which is based on the applicable tax rates before and after the TCJA and the number of days in the fiscal year.

The TCJA also establishes new tax laws that may affect the Company’s fiscal year 2019 and forward, including, but not limited to, (1) reduction of the U.S. federal corporate income tax rate as noted above; (2) elimination of the corporate alternative minimum tax ("AMT"); (3) the creation of the base erosion anti-abuse tax ("BEAT"), a new minimum tax; (4) a general elimination of U.S. federal income taxes on dividends from non-U.S. subsidiaries; (5) a new provision designed to tax global intangible low-taxed income ("GILTI"), which allows for the possibility of using foreign tax credits ("FTCs") and a deduction of up to 50 percent to offset the income tax liability (subject to some limitations); (6) a new limitation on deductible interest expense; (7) the repeal of the domestic production activity deduction; (8) limitations on the deductibility of certain executive compensation; (9) limitations on the use of FTCs to reduce the U.S. income tax liability; and (10) limitations on net operating losses ("NOLs") generated after December 31, 2017, to 80.0 percent of taxable income.

Highlights. Revenues increased $7.2 million, or 0.3%, to $2,620.0 million for the year ended March 31, 2018, as compared to $2,612.8 million for the year ended March 31, 2017. The increase reflects organic revenue growth within all business segments, the favorable impact of our recent acquisitions and the positive impact of fluctuations in currencies, which more than offset the impact of our recent divestitures.

Fiscal 2018 operating income increased 77.3% to $403.5 million over the fiscal 2017 operating income of $227.6 million. The increase is attributable to gross profit improvements, recent acquisitions, and lower acquisition and integration related expenses. Fiscal 2017 was also negatively impacted by losses from the divestiture of certain non-core operations and a goodwill impairment loss.

Net cash flows from operations were $457.6 million and free cash flow was $294.3 million in fiscal 2018 compared to net cash flows from operations of $424.1 million and free cash flow of $256.0 million in fiscal 2017 (see subsection of MD&A titled, "Non-GAAP Financial Measures" for additional information and related reconciliation of non-GAAP financial measures to the most comparable GAAP measures). Cash flow from operations and free cash flow increased primarily due to higher earnings and lower requirements to fund operating assets and liabilities.

Our debt-to-total capital ratio was 29.1% at March 31, 2018. During the year, we increased our quarterly dividend for the twelfth consecutive year to $0.31 per share per quarter.

Outlook. Fluctuations in currency rates can impact revenues and costs outside of the United States, creating variability in our results for fiscal 2019 and beyond.

In fiscal 2019 and beyond, we expect to continue to manage our costs, grow our business with internal product and service development, invest in greater capacity, and augment these value creating methods with acquisitions of additional products and services.

Table of Contents

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, and intangibles, which are also presented within investing activities in the Consolidated Statements of Cash Flows. We use this as a measure to gauge our ability to fund future debt principal repayments and growth outside of core operations, repurchase shares, and pay cash dividends. The following table summarizes the calculation of our free cash flow for the years ended March 31, 2018, 2017 and 2016:

	Years Ended March 31,		
(dollars in thousands)	2018	2017	2016
Net cash flows provided by operating activities	$457,632	$424,086	$254,675
Purchases of property, plant, equipment and intangibles, net	(165,457)	(172,901)	(126,407)
Proceeds from the sale of property, plant, equipment and intangibles	2,094	4,846	844
Free cash flow	$294,269	$256,031	$129,112

RESULTS OF OPERATIONS

In the following subsections, we discuss our earnings and the factors affecting them. We begin with a general overview of our operating results and then separately discuss earnings for our operating segments.

Table of Contents

FISCAL 2018 AS COMPARED TO FISCAL 2017

Revenues. The following table compares our revenues, in total and by type and geography, for the year ended March 31, 2018 to the year ended March 31, 2017:

	Years Ended March 31,			Percent
(dollars in thousands)	2018	2017	Change	Change
Total revenues	$2,619,996	$2,612,756	$7,240	0.3 %
Revenues by type:				
Service revenues	1,399,363	1,414,437	(15,074)	(1.1)%
Consumable revenues	581,563	558,834	22,729	4.1 %
Capital equipment revenues	639,070	639,485	(415)	(0.1)%
Revenues by geography:				
United Kingdom revenues	207,514	229,603	(22,089)	(9.6)%
United States revenues	1,836,414	1,803,457	32,957	1.8 %
Other foreign revenues	576,068	579,696	(3,628)	(0.6)%

Revenues increased $7.2 million, or 0.3%, to $2,620.0 million for the year ended March 31, 2018, as compared to $2,612.8 million for the year ended March 31, 2017. This increase is primarily attributable to organic growth within all business segments, favorable pricing, the benefit of acquisitions and the positive impact of fluctuations in currencies. These increases were largely offset by the impact of our recent divestitures.

Service revenues for fiscal 2018 decreased $15.1 million, or 1.1%, over fiscal 2017, as the impact of recent divestitures more than offset increases in other service offerings. Consumable revenues increased $22.7 million, or 4.1%, during fiscal 2018 over fiscal 2017, reflecting growth within the Healthcare Products and Life Sciences business segments, which more than offset the impact of the divestitures of the AIC product line and HCS business within the Healthcare Products segment. Capital equipment revenues decreased by $0.4 million, or 0.1%, during fiscal 2018 as compared to fiscal 2017, reflecting a decline in revenues from the Healthcare Products segment, which was offset by growth in revenues from the Life Sciences segment.

United Kingdom revenues for fiscal 2018 were $207.5 million, a decrease of $22.1 million, or 9.6%, over fiscal 2017 revenues of $229.6 million, reflecting a 11.1% decline in service revenues, primarily resulting from our fiscal 2017 divestitures of our laboratory and linen management services.

United States revenues for fiscal 2018 were $1,836.4 million, an increase of $33.0 million, or 1.8%, over fiscal 2017 revenues of $1,803.5 million. Strength in Life Sciences capital equipment and service offerings within the Healthcare Products, Life Sciences and Applied Sterilization Technologies segments more than offset the negative impact of the decline in capital equipment revenues from the Healthcare Products segment and the recent divestitures.

Revenues from other foreign locations for fiscal 2018 were $576.1 million, a decrease of 0.6% over the fiscal 2017 revenues of $579.7 million, primarily due to the fiscal 2017 divestiture of the Netherlands Linen Management Services, which more than offset growth in Canada and in the Asia Pacific and Latin America regions.

Table of Contents

Gross Profit. The following table compares our gross profit for the year ended March 31, 2018 to the year ended March 31, 2017:

(dollars in thousands)	Years Ended March 31, 2018	2017	Change	Percent Change
Gross profit:				
Product	$574,456	$574,299	$157	NM
Service	519,767	451,333	68,434	15.2 %
Total gross profit	$1,094,223	$1,025,632	$68,591	6.7 %
Gross profit percentage:				
Product	47.1 %	47.9 %		
Service	37.1 %	31.9 %		
Total gross profit percentage	41.8 %	39.3 %		

Our gross profit 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. Our gross profit increased $68.6 million and gross profit percentage increased 250 basis points to 41.8% for fiscal 2018 as compared to 39.3% for fiscal 2017. The increase in our gross profit percentage was due to the favorable impact of the divestiture of lower margin operations (190 basis points), favorable mix (60 basis points), and favorable pricing (30 basis points) which were partially offset by the negative impact of currencies (30 basis points).

Operating Expenses. The following table compares our operating expenses for the year ended March 31, 2018 to the year ended March 31, 2017:

(dollars in thousands)	Years Ended March 31, 2018	2017	Change	Percent Change
Operating expenses:				
Selling, general, and administrative	$629,884	$680,069	$(50,185)	(7.4)%
Goodwill impairment loss	—	58,356	(58,356)	NM
Research and development	60,782	59,397	1,385	2.3 %
Restructuring expenses	103	215	(112)	NM
Total operating expenses	$690,769	$798,037	$(107,268)	(13.4)%

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, gains or losses from divestitures, and other general and administrative expenses. SG&A decreased 7.4% in fiscal 2018 over fiscal 2017. The decline was primarily attributable to a lower net loss on divestitures and lower acquisition and integration costs incurred in fiscal 2018 as compared to fiscal 2017.

Goodwill impairment loss. Goodwill impairment loss of $58.4 million was recorded during fiscal 2017 as a result of our annual goodwill impairment review in the third quarter relative to the Synergy Health Netherlands linen management reporting unit.

Research and Development. Research and development expenses increased $1.4 million during fiscal 2018, as compared to fiscal 2017. 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 2018, 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 expense (income), net consists of interest expense on debt, offset by interest earned on cash, cash equivalents, short-term investment balances, and other miscellaneous expense. The following table

30

Table of Contents

compares our non-operating expense (income), net for the year ended March 31, 2018 to the year ended March 31, 2017:

(dollars in thousands)	Years Ended March 31, 2018	2017	Change
Non-operating expenses, net:			
Interest expense	$50,629	$44,520	$6,109
Interest income and miscellaneous expense	(2,157)	(1,571)	(586)
Non-operating expenses, net	$48,472	$42,949	$5,523

Interest expense increased $6.1 million during fiscal 2018 as compared to 2017. This increase was primarily due to an increase in the proportion of higher-cost, fixed rate debt following the issuance and sale of senior notes in a private placement to certain investors on February 27, 2017. Interest income and miscellaneous expense is immaterial. Additional information regarding our outstanding debt is included in Note 6 to our consolidated financial statements titled, “Debt,” and in the subsection of this MD&A titled, “Liquidity and Capital Resources.”

Income Tax Expense. The following table compares our income tax expense and effective income tax rates for the years ended March 31, 2018 and March 31, 2017:

(dollars in thousands)	Years Ended March 31, 2018	2017	Change	Percent Change
Income tax expense	$63,360	$74,015	$(10,655)	(14.4)%
Effective income tax rate	17.8 %	40.1 %		

The effective income tax rate for fiscal 2018 was 17.8% as compared to 40.1% for fiscal 2017. The fiscal 2018 effective tax rate decreased when compared to fiscal 2017 primarily due to the TCJA impact and non-recurring nondeductible costs related to divestitures. Additional information regarding our income tax expense is included in Note 8 to our consolidated financial statements titled, “Income Taxes.”

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “TCJA”). The SEC staff issued Staff Accounting Bulletin No.118 (“SAB 118”), which provides guidance on accounting for the tax effects of the TCJA. SAB 118, provides a measurement period that should not extend beyond one year from the TCJA enactment date for companies to complete the accounting under Accounting Standards Codification (“ASC”) Topic 740, Income Taxes. Our accounting for the various elements of the TCJA is incomplete. However, in accordance with SAB 118 guidance, we were able to make what we believe to be reasonable estimates of certain effects and therefore recorded a provisional net tax benefit of approximately $18.9 million related to the reduction of the U.S. federal corporate income tax rate and the deemed repatriation transition tax. While we were able to make what we believe to be reasonable estimates of the tax rate reduction and transition tax effects, both items may be affected by other analyses related to the TCJA as well as actual activities to occur in the remainder of the Company’s measurement period. We are continuing to gather information and will reflect final effects within the measurement period permitted by SAB 118.

Business Segment Results of Operations. We operate and report in four reportable business segments: Healthcare Products, Healthcare Specialty Services, Life Sciences, and Applied Sterilization Technologies. Non-allocated operating costs that support the entire Company and items not indicative of operating trends are excluded from segment operating income.

Our Healthcare Products segment offers infection prevention and procedural solutions for healthcare providers worldwide, including consumable products, equipment maintenance and installation services, and capital equipment.

Our Healthcare Specialty Services segment provides a range of specialty services for healthcare providers including hospital sterilization services and instrument and scope repairs. Linen Management Services were divested in fiscal 2017.

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

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

Certain minor organizational changes were made to better align with our Customers, resulting in several smaller operations shifting among the segments. The prior period revenues and operating income measures have been recast for comparability.

Table of Contents

The accounting policies for reportable segments are the same as those for the consolidated Company. Management will evaluate performance and allocate 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 certain non-allocated 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 related costs, amortization of acquired intangibles, 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 adjusting for 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 more information regarding our segments please refer to Note 11 to our consolidated financial statements titled "Business Segment Information," and Item 1, "Business," provide detailed information regarding each business segment.

The following table compares business segment and Corporate and other revenues and operating income for the year ended March 31, 2018 to the year ended March 31, 2017:

	Years ended March 31,			Percent
(dollars in thousands)	2018	2017	Change	Change
Revenues:				
Healthcare Products	$1,276,054	$1,266,517	$9,537	0.8 %
Healthcare Specialty Services	469,065	539,536	(70,471)	(13.1)%
Life Sciences	361,590	328,866	32,724	10.0 %
Applied Sterilization Technologies	513,287	477,837	35,450	7.4 %
Total revenues	$2,619,996	$2,612,756	$7,240	0.3 %
Operating income (loss):				
Healthcare Products	221,795	227,707	(5,912)	(2.6)%
Healthcare Specialty Services	28,910	10,573	18,337	173.4 %
Life Sciences	106,737	97,180	9,557	9.8 %
Applied Sterilization Technologies	173,375	158,379	14,996	9.5 %
Corporate	(17,439)	(17,307)	(132)	NM
Total operating income before adjustments	$513,378	$476,532	$36,846	7.7 %
Less: Adjustments				
Goodwill impairment loss [1]	—	58,356		
Amortization of inventory and property "step up" to fair value [2]	1,599	4,743		
Amortization and impairment of purchased intangible assets [2]	67,793	66,398		
Acquisition related transaction and integration charges [3]	16,211	30,082		
Loss (gain) on fair value adjustment of acquisition related contingent consideration	(593)	2,569		
Net loss on divestiture of businesses [2]	14,547	86,574		
Impact of the U.S. Tax Cuts and Jobs Act [4]	10,264	—		
Restructuring charges	103	215		
Total operating income	$403,454	$227,595		

[1] For more information regarding our goodwill impairment loss see Note 3 to our consolidated financial statements titled, "Goodwill and Intangible Assets".

[2] For more information regarding our recent acquisitions and divestitures see Note 2 to our consolidated financial statements titled, "Business Acquisitions and Divestitures".

[3] Acquisition and integration related charges include transaction costs and integration expenses associated with acquisitions.

(4) Represents a one-time special employee bonus paid to most U.S. employees and associated professional fees.

Healthcare Products revenues increased 0.8% in the fiscal 2018 year, as compared to fiscal 2017, reflecting growth in consumable and service revenues of 2.2% and 7.2%, respectively, which were partially offset by a 4.0% decline in capital equipment revenues. The increase was attributable to organic growth, acquisitions and the positive impact of fluctuations in currencies, and was partially offset by divestitures. At March 31, 2018, the Healthcare Products segment's backlog amounted to $133.0 million, increasing $23.3 million, or 21.3%, compared to the backlog of $109.7 million at March 31, 2017.

Table of Contents

Healthcare Specialty Services revenues decreased 13.1% in the fiscal 2018 year, as compared to fiscal 2017. The negative impact of the divestitures was partially offset by organic growth and the positive impact of fluctuations in currencies.

Life Sciences revenues increased 10.0% in the fiscal 2018 year, as compared to fiscal 2017, reflecting growth of 19.6%, 5.2% and 8.6% in capital equipment, consumable and service revenues, respectively. The increase was primarily attributable to organic growth and the positive impact of fluctuations in currencies. Life Sciences backlog at March 31, 2018 amounted to $60.8 million, increasing $7.7 million compared to the backlog of $53.2 million at March 31, 2017.

Applied Sterilization Technologies revenues increased 7.4% in the fiscal year 2018, as compared to fiscal 2017. Revenues in fiscal 2018 were favorably impacted by increased volume from our core medical device Customers and the positive impact of fluctuations in currencies, which was partially offset by the impact of the divestitures.

The Healthcare Products segment’s operating income decreased $5.9 million to $221.8 million in fiscal year 2018, as compared to $227.7 million in fiscal year 2017. The segment's operating margin was 17.4% for fiscal year 2018 compared to 18.0% for fiscal year 2017. The decrease in operating income in fiscal 2018 was primarily due to increased spending on research and development, negative fluctuations in currencies, and higher allocated corporate costs, which more than offset organic growth.

The Healthcare Specialty Services segment’s operating income increased $18.3 million to $28.9 million for fiscal year 2018 as compared to $10.6 million in fiscal year 2017. The segment’s operating margin was 6.2% for fiscal year 2018 compared to 2.0% for fiscal year 2017. The increase in operating income in fiscal 2018 was primarily due to the divestiture of the low margin Linen Management Services operations and growth in retained businesses.

The Life Sciences business segment’s operating income increased $9.6 million to $106.7 million for fiscal year 2018 as compared to $97.2 million in fiscal year 2017. The segment’s operating margin was 29.5% for fiscal year 2018 compared to 29.6% for fiscal year 2017. The increase in operating income in fiscal 2018 was primarily attributable to higher volume which was partially offset by unfavorable product mix.

The Applied Sterilization Technologies segment’s operating income increased $15.0 million to $173.4 million for fiscal year 2018 as compared to $158.4 million for fiscal year 2017. The Applied Sterilization Technologies segment's operating margin was 33.8% for fiscal year 2018 compared to 33.1% for fiscal year 2017. The segment’s operating income increase in fiscal 2018 over fiscal 2017 was primarily due to increased volume from the segment’s core medical device Customers.

FISCAL 2017 AS COMPARED TO FISCAL 2016

Revenues. The following table compares our revenues, in total and by type and geography, for the year ended March 31, 2017 to the year ended March 31, 2016:

	Years Ended March 31,			Percent
(dollars in thousands)	2017	2016	Change	Change
Total revenues	$2,612,756	$2,238,764	$373,992	16.7 %
Revenues by type:				
Service revenues	1,414,437	1,109,779	304,658	27.5 %
Consumable revenues	558,834	516,044	42,790	8.3 %
Capital equipment revenues	639,485	612,941	26,544	4.3 %
Revenues by geography:				
United Kingdom revenues	229,603	144,577	85,026	58.8 %
United States revenues	1,803,457	1,662,050	141,407	8.5 %
Other foreign revenues	579,696	432,137	147,559	34.1 %

Revenues increased $374.0 million, or 16.7%, to $2,612.8 million for the year ended March 31, 2017, as compared to $2,238.8 million for the year ended March 31, 2016. This increase is primarily attributable to the Combination, along with organic growth within all reportable business segments, partially offset by divestitures and the negative impact of

foreign currency.

Table of Contents

Service revenues for fiscal 2017 increased $304.7 million, or 27.5%, over fiscal 2016 driven by the Combination and organic growth in all reportable business segments. Consumable revenues increased $42.8 million, or 8.3%, during fiscal 2017 from fiscal 2016. The increase was due, in part, to recent acquisitions, but also strong organic growth in both the Healthcare Products and Life Sciences business segments, partially offset by the sale of the Applied Infection Control (AIC) product line. Capital equipment revenues increased by $26.5 million, or 4.3%, during fiscal 2017 as compared to fiscal 2016. This increase was driven primarily by growth within the Healthcare Products business segment.

United Kingdom revenues for fiscal 2017 were $229.6 million, an increase of $85.0 million, or 58.8%, over fiscal 2016 revenues of $144.6 million. This increase reflects growth in capital equipment, consumable and service revenues of 9.6%, 71.2% and 62.8%, respectively. The increases are attributable to acquisitions, including the Combination with Synergy, partially offset by divestitures and the negative impact of foreign currency.

United States revenues for fiscal 2017 were $1,803.5 million, an increase of $141.4 million, or 8.5%, over fiscal 2016 revenues of $1,662.1 million. This increase reflects growth in capital equipment, consumable and service revenues of 7.2%, 3.5%, and 11.5%, respectively. The increases are attributable to acquisitions, including the Combination, as well as organic growth, partially offset by divestitures.

Revenues from other foreign locations for fiscal 2017 were $579.7 million, an increase of 34.1% over the fiscal 2016 revenues of $432.1 million. This increase reflects revenue growth in Canada, the EMEA region outside of the United Kingdom, as well as in the Asia Pacific and Latin American regions. Service revenues attributable to the Combination were the most significant driver of the growth in these regions.

Gross Profit. The following table compares our gross profit for the year ended March 31, 2017 to the year ended March 31, 2016:

(dollars in thousands)	Years Ended March 31, 2017	2016	Change	Percent Change
Gross profit:				
Product	$574,299	$511,617	$62,682	12.3 %
Service	451,333	383,864	67,469	17.6 %
Total gross profit	$1,025,632	$895,481	$130,151	14.5 %
Gross profit percentage:				
Product	47.9 %	45.3 %		
Service	31.9 %	34.6 %		
Total gross profit percentage	39.3 %	40.0 %		

Our gross profit 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. Our gross profit increased $130.2 million and gross profit percentage decreased 70 basis points to 39.3% for fiscal 2017 as compared to 40.0% for fiscal 2016. The decrease in our gross profit percentage was primarily due to the addition of Synergy's hospital sterilization services and linen management business (240 basis points), partially offset by the favorable impact of the divestiture of lower margin operations (110 basis points) and foreign currency (50 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.

Operating Expenses. The following table compares our operating expenses for the year ended March 31, 2017 to the year ended March 31, 2016:

(dollars in thousands)	Years Ended March 31, 2017	2016	Change	Percent Change
Operating expenses:				
Selling, general, and administrative	$680,069	$626,710	$53,359	8.5 %
Goodwill impairment loss	58,356	—	58,356	NM
Research and development	59,397	56,664	2,733	4.8 %

Restructuring expenses	215	(820)	1,035	NM
Total operating expenses	$798,037	$682,554	$115,483	16.9 %

NM - Not meaningful

Table of Contents

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, gains or losses from divestitures, and other general and administrative expenses. SG&A increased 8.5% in fiscal 2017 over fiscal 2016. Contributing to this increase was the loss on the sale of businesses of $86.6 million and the acceleration of amortization associated with the Synergy Health trade name, partially offset by lower acquisition related expenses.

Goodwill impairment loss. Goodwill impairment loss of $58.4 million was recorded during fiscal 2017 as a result of our annual goodwill impairment review in the third quarter relative to the Synergy Health Netherlands linen management reporting unit.

Research and Development. Research and development expenses increased $2.7 million during fiscal 2017, as compared to fiscal 2016. Contributing to these increases was the additional spending in connection with the development of Healthcare Products 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 expense (income), net consists of interest expense on debt, offset by interest earned on cash, cash equivalents, short-term investment balances, and other miscellaneous expense. The following table compares our non-operating expense (income), net for the year ended March 31, 2017 to the year ended March 31, 2016:

	Years Ended March 31,		
(dollars in thousands)	2017	2016	Change
Non-operating expenses, net:			
Interest expense	$44,520	$42,708	$1,812
Interest income and miscellaneous expense	(1,571)	(1,665)	94
Non-operating expenses, net	$42,949	$41,043	$1,906

Interest expense during fiscal 2017 increased as compared to 2016 primarily due to higher debt levels resulting from additional borrowings to fund acquisitions, including the Combination and the operations of acquired companies. This increase was partially offset by one-time payments made in the third quarter of fiscal 2016 associated with paying off Synergy's debt. Additionally, the weighted average interest rate was higher as of March 31, 2017 compared to March 31, 2016. Interest income and miscellaneous expense is immaterial.

Additional information regarding our outstanding debt is included in Note 6 to our consolidated financial statements titled, "Debt," and in the subsection of MD&A titled, "Liquidity and Capital Resources."

Income Tax Expense. The following table compares our income tax expense and effective income tax rates for the years ended March 31, 2017 and March 31, 2016:

	Years Ended March 31,		Change	Percent Change
(dollars in thousands)	2017	2016		
Income tax expense	$74,015	$60,299	$13,716	22.7%
Effective income tax rate	40.1 %	35.1 %		

The effective income tax rate for fiscal 2017 was 40.1% as compared to 35.1% for fiscal 2016. The fiscal 2017 effective tax rate increased when compared to fiscal 2016 primarily due to nondeductible costs related to divestitures offset by a decrease in nondeductible or capitalized acquisition costs. Additional information regarding our income tax expense is included in Note 8 to our consolidated financial statements titled, "Income Taxes."

Business Segment Results of Operations. We operate and report in four reportable business segments: Healthcare Products, Healthcare Specialty Services, Life Sciences, and Applied Sterilization Technologies. Non-allocated

operating costs that support the entire Company and items not indicative of operating trends are excluded from segment operating income.

Our Healthcare Products segment offers infection prevention and procedural solutions for healthcare providers worldwide, including consumable products, equipment maintenance and installation services, and capital equipment. Our Healthcare Specialty Services segment provides a range of specialty services for healthcare providers including hospital sterilization services and instrument and scope repairs. Linen Management Services were divested in fiscal 2017.

Table of Contents

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

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

Certain minor organizational changes were made during fiscal 2018 to better align with our Customers, resulting in several smaller operations shifting among the segments. The prior period revenues and operating income measures have been recast for comparability.

The accounting policies for reportable segments are the same as those for the consolidated Company. Management will evaluate performance and allocate 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 non-allocated 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 related costs, amortization of acquired intangibles, 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 adjusting for 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 more information regarding our segments please refer to Note 11 to our consolidated financial statements titled "Business Segment Information," and Item 1, "Business," provide detailed information regarding each business segment.

The following table compares business segment and Corporate and other revenues and operating income for the year ended March 31, 2017 to the year ended March 31, 2016:

	Years ended March 31,			Percent
(dollars in thousands)	2017	2016	Change	Change
Revenues:				
Healthcare Products	$1,266,517	$1,204,774	$61,743	5.1 %
Healthcare Specialty Services	539,536	420,220	119,316	28.4 %
Life Sciences	328,866	297,733	31,133	10.5 %
Applied Sterilization Technologies	477,837	316,037	161,800	51.2 %
Total revenues	$2,612,756	$2,238,764	$373,992	16.7 %
Operating income (loss):				
Healthcare Products	227,707	181,265	46,442	25.6 %
Healthcare Specialty Services	10,573	24,299	(13,726)	(56.5)%
Life Sciences	97,180	84,564	12,616	14.9 %
Applied Sterilization Technologies	158,379	99,854	58,525	58.6 %
Corporate	(17,307)	(11,320)	(5,987)	NM
Total operating income before adjustments	$476,532	$378,662	$97,870	25.8 %
Less: Adjustments				
Goodwill impairment loss [1]	58,356	—		
Amortization of inventory and property "step up" to fair value [2]	4,743	9,907		
Amortization and impairment of purchased intangible assets [2]	66,398	47,704		
Acquisition related transaction and integration charges [3]	30,082	82,891		
Loss (gain) on fair value adjustment of acquisition related contingent consideration	2,569	(736)		
Net loss on divestiture of businesses [2]	86,574	—		
Settlement of pension obligation [4]	—	26,470		

Restructuring charges	215	(501)
Total operating income	$227,595	$212,927

[1)] For more information regarding our goodwill impairment loss see Note 3 to our consolidated financial statements titled, "Goodwill and Intangible Assets".

Table of Contents

(2) For more information regarding our recent acquisitions and divestitures see Note 2 to our consolidated financial statements titled, "Business Acquisitions and Divestitures".
(3) Acquisition and integration related charges include transaction costs and integration expenses associated with acquisitions.
(4) See Note 9 to our consolidated financial statements, titled, "Benefit Plans" for more information related to the settlement of the pension obligation.

Healthcare Products revenues increased 5.1% in the fiscal 2017 year as compared to fiscal 2016. This increase reflects growth in capital equipment, consumable and service revenues of 5.4%, 5.8% and 3.7%, respectively. The increases were primarily attributable to acquisitions and organic growth, partially offset by divestitures and the negative impact of foreign currency. At March 31, 2017, the Healthcare Products segment’s backlog amounted to $109.7 million, decreasing $9.7 million, or 8.1%, compared to the backlog of $119.4 million at March 31, 2016.

Healthcare Specialty Services revenues increased 28.4% in the fiscal 2017 year as compared to fiscal 2016. The increases are primarily due to the Combination, but also reflect organic growth in instrument repair services and the outsourcing of central sterile services. These increases were partially offset by divestitures and the negative impact of foreign currency.

Life Sciences revenues increased 10.5% in the fiscal 2017 year, as compared to fiscal 2016. The growth reflects increases of 18.3% and 12.8% in the consumable and service revenues, respectively. These increases are primarily attributable to our recent acquisitions, organic growth and new service offerings. Capital equipment revenues declined 2.9%. Life Sciences backlog at March 31, 2017 amounted to $53.2 million, increasing $7.9 million compared to the backlog of $45.3 million at March 31, 2016.

Applied Sterilization Technologies revenues increased 51.2% in the fiscal year 2017, as compared to fiscal 2016. Revenues in fiscal 2017 were favorably impacted by the Combination and increased volume from our core medical device Customers.

The Healthcare Products segment’s operating income increased $46.4 million to $227.7 million in fiscal year 2017, as compared to $181.3 million in fiscal year 2016. The segment's operating margin was 18.0% for fiscal year 2017 compared to 15.0% for fiscal year 2016. The increase in fiscal year 2017 is primarily due to higher volumes, the positive impact of operational efficiencies, the suspension of the medical device excise tax, and favorable foreign currency rate movements.

The Healthcare Specialty Services segment’s operating income decreased $13.7 million to $10.6 million for fiscal year 2017 as compared to $24.3 million in fiscal year 2016. The segment’s operating margin was 2.0% for fiscal year 2017 compared to 5.8% for fiscal year 2016. The decrease in fiscal 2017 was primarily the result of the addition of Synergy's hospital sterilization services and linen management services.

The Life Sciences business segment’s operating income increased $12.6 million to $97.2 million for fiscal year 2017 as compared to $84.6 million in fiscal year 2016. The segment’s operating margin was 29.6% for fiscal year 2017 compared to 28.4% for fiscal year 2016. The increase in operating margin in fiscal 2017 was primarily attributable to higher volume, partially offset by unfavorable product mix.

The Applied Sterilization Technologies segment’s operating income increased $58.5 million to $158.4 million for fiscal year 2017 as compared to $99.9 million for fiscal year 2016. The Applied Sterilization Technologies segment's operating margin was 33.1% for fiscal year 2017 compared to 31.6% for fiscal year 2016. The segment’s operating margin increase in fiscal 2017 was the result of the Combination, increased demand from core medical device Customers and operational efficiencies, including cost synergies.

LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes significant components of our cash flows for the years ended March 31, 2018, 2017 and 2016:

	Years Ended March 31,		
(dollars in thousands)	2018	2017	2016
Net cash provided by operating activities	$457,632	$424,086	$254,675
Net cash used in investing activities	(203,829)	(104,255)	(729,584)

Net cash (used in) provided by financing activities	(356,184	)	(267,099	)	560,289	
Debt-to-total capital ratio	29.1	%	34.6	%	34.2	%
Free cash flow	$294,269		$256,031		$129,112	

Net Cash Provided By Operating Activities – The net cash provided by our operating activities was $457.6 million for the year ended March 31, 2018 compared to $424.1 million for the year ended March 31, 2017 and $254.7 million for the year

Table of Contents

ended March 31, 2016. The following discussion summarizes the significant changes in our operating cash flows for the years ended March 31, 2018, 2017 and 2016:

- Net cash provided by operating activities increased 7.9% in fiscal 2018 compared to fiscal 2017. The improvement is primarily due to higher earnings and lower requirements to fund operating assets and liabilities.
- Net cash provided by operating activities increased 66.5% in fiscal 2017 compared to fiscal 2016. The improvement was primarily due to higher cash earnings and lower acquisition and integration expenses.

Net Cash Used In Investing Activities – The net cash used in our investing activities was $203.8 million for the year ended March 31, 2018, compared to $104.3 million for the year ended March 31, 2017 and $729.6 million for the year ended March 31, 2016. The following discussion summarizes the significant changes in our investing cash flows for the years ended March 31, 2018, 2017 and 2016:

- Purchases of property, plant, equipment, and intangibles, net – Capital expenditures totaled $165.5 million during fiscal 2018, $172.9 million during fiscal 2017 and $126.4 million during fiscal 2016. The increase in capital expenditures in fiscal 2017 over fiscal 2016 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 fiscal 2018 and 2017, we received $8.9 million and $135.7 million, respectively, for the proceeds from the sale of certain non-core businesses. For more information, refer to our Note 2 to our consolidated financial statements, titled "Business Acquisitions and Divestitures".
- Investments in business, net of cash acquired – During fiscal 2018, 2017 and 2016, we used $46.3 million, $65.6 million and $604.0 million, respectively, for acquisitions. For more information on these acquisitions refer to Note 2 to our consolidated financial statements titled, "Business Acquisitions and Divestitures".
- Purchases of investments – During fiscal 2017, we invested an additional $6.4 million 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.
- Other – In connection with the Netherlands Linen Management Services divestiture, we entered into a loan agreement to provide financing to the buyer for a period of 15 years. During fiscal 2018, we provided $3.1 million under this agreement. For more information on these acquisitions refer to Note 2 to our consolidated financial statements titled, "Business Acquisitions and Divestitures".

Net Cash (Used In) Provided By Financing Activities – Net cash used in financing activities was $356.2 million for the year ended March 31, 2018, compared to net cash used by financing activities of $267.1 million, and net cash provided by financing activities of $560.3 million for the years ended March 31, 2017 and March 31, 2016, respectively. The following discussion summarizes the significant changes in our financing cash flows for the years ended March 31, 2018, 2017 and 2016:

- Proceeds from the issuance of long-term obligations – On February 27, 2017, we issued and sold to various institutional investors fixed-rate Series A Senior Notes, in the aggregate principal amount of $95.0 million, €99.0 million, and £75.0 million or a total of approximately $293.7 million. On May 15, 2015, we issued the aggregate principal amount of $350.0 million of senior notes in a private placement, which were long term obligations. We provide additional information about our debt structure in Note 6 to our consolidated financial statements titled, “Debt,” and in this section of the MD&A titled, “Liquidity and Capital Resources” in the subsection titled, “Sources of Credit.”
- Payments on long-term obligations - During fiscal 2018 and fiscal 2017, we repaid $222.5 million and $172.5 million on our bank term loan. During fiscal 2016, we repaid $24.0 million of senior notes and $68.6 million of our term loan.
- Proceeds under credit facilities, net – At the end of fiscal 2018, $331.2 million of debt was outstanding under our bank credit facility, compared to $521.6 million and $905.2 million of debt outstanding under this facility at the end of fiscal 2017 and 2016, respectively. We provide additional information about our bank credit facility including the fiscal 2018 refinancing in Note 6 to our consolidated financial statements titled, “Debt”.
- Repurchases of shares – During fiscal 2018, we purchased 656,663 of our ordinary shares in the aggregate amount of $58.5 million, which included $0.3 million of taxes and commissions. We also obtained 127,903 of our ordinary shares in connection with our stock-based compensation award programs in the amount $7.0 million during fiscal

2018. During fiscal 2017, we purchased 1,286,183 of our ordinary shares in the aggregate amount of $90.5 million, which included $0.5 million of taxes and commissions. We also obtained 168,906 of our ordinary shares in connection with our stock-based compensation award programs in the amount $7.0 million. During fiscal 2016, we obtained 267,696 shares in connection with our stock-based compensation award programs in the amount of $14.4 million. We provide additional information about our share repurchases in Note 13 to our consolidated financial statements titled, “Repurchases of Ordinary Shares.”

Table of Contents

- Deferred financing fees and debt issuance costs - We paid $2.0 million, $1.1 million and $5.2 million in fiscal 2018, 2017 and 2016, respectively, for financing fees and debt issuance costs related to our Credit Agreement, Private Placement debt, and former Bridge Credit Agreement. For more information on our debt refer to Note 6 to our consolidated financial statements titled, "Debt".
- Cash dividends paid to ordinary shareholders – During fiscal 2018, we paid cash dividends totaling $102.9 million or $1.21 per outstanding share. During fiscal 2017, we paid cash dividends totaling $93.2 million or $1.09 per outstanding share. During fiscal 2016, we paid cash dividends totaling $65.2 million, or $0.98 per outstanding share.
- Stock option and other equity transactions, net – We generally receive cash for issuing shares upon the exercise of options under our employee stock option program. During fiscal 2018, fiscal 2017 and fiscal 2016, we received cash proceeds totaling $11.1 million, $5.0 million, and $11.2 million, respectively, under these programs. During fiscal 2018 we also paid dividends in the amount of $1.4 million to minority interest shareholders.
- Excess tax benefit from share-based compensation – For the year ended March 31, 2016 our income taxes were reduced by $6.3 million as a result of deductions allowed for stock options exercised and restricted share vestings.

Cash Flow Measures. Free cash flow was $294.3 million in fiscal 2018 compared to $256.0 million in fiscal 2017. The increase in cash flow from operations and free cash flow was primarily due to higher earnings and lower requirements to fund operating assets and liabilities.

Our debt-to-total capital ratio was 29.1% at March 31, 2018 and 34.6% at March 31, 2017.

Cash Requirements. We intend to use our existing cash and cash equivalent balances and cash generated from operations to fund capital expenditures and meet 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 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.

Sources of Credit. Our sources of credit as of March 31, 2018 are summarized in the following table:

(dollars in thousands)	Maximum Amounts Available	Reductions in Available Credit Facility for Other Financial Instruments	March 31, 2018 Amounts Outstanding	March 31, 2018 Amounts Available
Sources of Credit				
Private placement	$988,190	$ —	$ 988,190	$ —
Credit Agreement [1]	1,000,000	13,406	331,206	655,388
Total Sources of Credit	$1,988,190	$ 13,406	$ 1,319,396	$ 655,388

[1] At March 31, 2018, there was $13.4 million of letters of credit outstanding under the Credit Agreement.

Our sources of funding from credit as of March 31, 2018 are summarized below:

- On March 23, 2018, we entered into a Credit Agreement (the "Credit Agreement") with various financial institutions as lenders, and JPMorgan Chase Bank, N.A., as Administrative Agent. The Credit Agreement replaced a bank credit facility dated March 31, 2015. The Credit Agreement provides up to $1.0 billion of credit, in the form of a revolver facility, which may be utilized for revolving credit borrowings, swing line borrowings and letters of credit, with sublimits for swing line borrowings and letters of credit. The revolver facility may be increased in specified circumstances by up to $500.0 million. The Credit Agreement will mature on March 23, 2023, and all unpaid borrowings, together with accrued and unpaid interest thereon, are repayable on that date. The Credit Agreement contains leverage and interest coverage covenants. Borrowings may be taken in U.S. dollars, euros, and pounds sterling and certain other specified currencies and bear interest at our option based upon either the Base Rate or the Eurocurrency Rate, plus the Applicable Margin in effect from time to time under the Credit Agreement. The Applicable Margin is determined based on the ratio of Consolidated Total Debt to Consolidated EBITDA (as such terms are defined in the Credit Agreement). Interest on Base Rate Advances is payable quarterly in arrears and

interest on Eurocurrency Rate Advances is payable at the end of the relevant interest period therefor, but in no event less frequently than every three months. Borrowings at closing were used to repay outstanding balances of debt outstanding under the former bank credit facility dated March 31, 2015 that was scheduled to mature on March 31, 2020 and for other general corporate purposes.

Table of Contents

Our outstanding Senior Notes at March 31, 2018 were as follows:

(dollars in thousands)	Applicable Note Purchase Agreement	Maturity Date	U.S. Dollar Value at March 31, 2018
$85,000 Senior notes at 6.33%	2008 Private Placement	August 2018	$85,000
$35,000 Senior notes at 6.43%	2008 Private Placement	August 2020	35,000
$91,000 Senior notes at 3.20%	2012 Private Placement	December 2022	91,000
$80,000 Senior notes at 3.35%	2012 Private Placement	December 2024	80,000
$25,000 Senior notes at 3.55%	2012 Private Placement	December 2027	25,000
$125,000 Senior notes at 3.45%	2015 Private Placement	May 2025	125,000
$125,000 Senior notes at 3.55%	2015 Private Placement	May 2027	125,000
$100,000 Senior notes at 3.70%	2015 Private Placement	May 2030	100,000
$50,000 Senior notes at 3.93%	2017 Private Placement	February 2027	50,000
€60,000 Senior notes at 1.86%	2017 Private Placement	February 2027	73,912
$45,000 Senior notes at 4.03%	2017 Private Placement	February 2029	45,000
€20,000 Senior notes at 2.04%	2017 Private Placement	February 2029	24,637
£45,000 Senior notes at 3.04%	2017 Private Placement	February 2029	63,141
€19,000 Senior notes at 2.30%	2017 Private Placement	February 2032	23,406
£30,000 Senior notes at 3.17%	2017 Private Placement	February 2032	42,094
Total Senior Notes			$988,190

- On February 27, 2017, we issued and sold an aggregate principal amount of $95.0 million, €99.0 million, and £75.0 million, of senior notes in a private placement to certain institutional investors in an offering that was exempt from the registration requirements of the Securities Act of 1933. These notes have maturities of between 10 and 15 years from the issue date. The agreement governing these notes contains leverage and interest coverage covenants.
- On May 15, 2015, Old STERIS issued and sold $350.0 million of senior notes, in a private placement to certain institutional investors in an offering that was exempt from the registration requirements of the Securities Act of 1933. These notes have maturities of 10 to 15 years from the issue date. The agreement governing these notes contains leverage and interest coverage covenants.
- The agreements governing certain senior notes issued and sold in February 2013, December 2012, and August 2008, were amended and restated in their entirety on March 31, 2015. All of these notes were issued and sold in private placements to certain institutional investors in offerings that were exempt from the registration requirements of the Securities Act of 1933. The amended and restated agreements, which have been consolidated into a single agreement for the 2013 and 2012 notes, and a separate single agreement for the 2008 notes, contain leverage and interest coverage covenants.

As of March 31, 2018 a total of $331.2 million was outstanding under the Credit Agreement, based on currency exchange rates as of March 31, 2018. At March 31, 2018, we had $655.4 million of unused funding available under the Credit Agreement. The Credit Agreement includes a sub-limit that reduces the maximum amount available to us by letters of credit outstanding. At March 31, 2018, there was $13.4 million in letters of credit outstanding under the Credit Agreement.

At March 31, 2018, we were in compliance with all financial covenants associated with our indebtedness. We provide additional information regarding our debt structure and payment obligations in the section of the MD&A titled, “Liquidity and Capital Resources” in the subsection titled, “Contractual and Commercial Commitments” and in Note 6 to our consolidated financial statements titled, “Debt.”

CAPITAL EXPENDITURES

Our capital expenditure program is a component of our long-term strategy. This program includes, among other things, investments in new and existing facilities, business expansion projects, radioisotope (cobalt-60), and information technology enhancements and research and development advances. During fiscal 2018, our capital

expenditures amounted to $165.5 million. We use cash provided by operating activities and our cash and cash equivalent balances to fund capital expenditures. We expect fiscal 2019 capital expenditures to increase to approximately $190.0 million, reflecting continued facility expansions, integration of IT systems, new product development and general maintenance for existing facilities.

Table of Contents

CONTRACTUAL AND COMMERCIAL COMMITMENTS

At March 31, 2018, we had commitments under non-cancelable operating leases totaling $109.2 million.

Our contractual obligations and commercial commitments as of March 31, 2018 are presented in the following tables. Commercial commitments include standby letters of credit, letters of credit required as security under our self-insured risk retention policies, and other potential cash outflows resulting from events that require us to fulfill commitments.

	Payments due by March 31,					
(dollars in thousands)	2019	2020	2021	2022	2023 and thereafter	Total
Contractual Obligations:						
Debt	$85,000	$—	$35,000	$—	$1,199,396	$1,319,396
Operating leases	24,116	19,933	14,666	11,051	39,464	109,230
Purchase obligations	29,276	29,617	30,785	27,430	11,363	128,471
Benefit payments under defined benefit plans	3,899	3,903	4,143	4,608	32,719	49,272
Trust assets available for benefit payments under defined benefit plans	(3,785)	(3,795)	(4,042)	(4,514)	(32,234)	(48,370)
Benefit payments under other post-retirement benefits plans	1,907	1,694	1,548	1,436	6,034	12,619
Total Contractual Obligations	$140,413	$51,352	$82,100	$40,011	$1,256,742	$1,570,618

The table above includes only the principal amounts of our contractual obligations. We provide information about the interest component of our long-term debt in the subsection of MD&A titled, “Liquidity and Capital Resources,” and in Note 6 to our consolidated financial statements titled, “Debt.”

Purchase obligations shown in the table above relate to minimum purchase commitments with suppliers for materials purchases and long term construction contracts.

The table above excludes contributions we make to our defined contribution plans. Our future contributions to the defined contribution plans depend on uncertain factors, such as the amount and timing of employee contributions and discretionary employer contributions. We provide additional information about our defined benefit pension plans, defined contribution plan, and other post-retirement benefits plan in Note 9 to our consolidated financial statements titled, “Benefit Plans."

	Amount of Commitment Expiring March 31,					
(dollars in thousands)	2019	2020	2021	2022	2023 and thereafter	Totals
Commercial Commitments:						
Performance and surety bonds	$ 53,219	$ 449	$ 4,086	$ 62	$ 1,482	$59,298
Letters of credit as security for self-insured risk retention policies	7,694	—	—	—	—	7,694
Total Commercial Commitments	$ 60,913	$ 449	$ 4,086	$ 62	$ 1,482	$66,992

CRITICAL ACCOUNTING POLICIES, ESTIMATES, AND ASSUMPTIONS

The following subsections describe our most critical accounting policies, estimates, and assumptions. Our accounting policies are more fully described in Note 1 to our consolidated financial statements titled, “Nature of Operations and Summary of Significant Accounting Policies.”

Estimates and Assumptions. Our discussion and analysis of financial condition and results of operations is based on our consolidated financial statements that were prepared in accordance with United States generally accepted accounting principles. We make certain estimates and assumptions that we believe to be reasonable when preparing these financial statements. These estimates and assumptions involve judgments with respect to numerous factors that are difficult to predict and are beyond management’s control. As a result, actual amounts could be materially different from these estimates. We periodically review these critical accounting policies, estimates, assumptions, and the related disclosures with the Audit Committee of the Company’s Board of Directors.

Table of Contents

Revenue Recognition. We recognize revenue for products when ownership passes to the Customer, which is based on contract or shipping terms and for services when the service is provided to the Customer. Our Customers include end users as well as dealers and distributors who market and sell our products. Our revenue is not contingent upon resale by the dealer or distributor. We have no further obligations related to bringing about resale, and our standard return and restocking fee policies are applied.

We also have individual Customer contracts that offer extended payment terms and/or discounted pricing. Dealers and distributors may be offered sales incentives in the form of rebates. We reduce revenue for discounts and estimated returns, rebates, and other similar allowances in the same period the related revenues are recorded. Returns, rebates, and similar allowances are estimated based on historical experience and trend analysis.

In transactions that contain multiple elements, such as when products, maintenance services, and other services are combined, we recognize revenue as each product is delivered or service is provided to the Customer. We allocate the total arrangement consideration to each element based on its relative fair value, based on the price for the product or service when it is sold separately.

We offer preventive maintenance agreements to our Customers with contract terms that range from one to five years, which require us to maintain and repair our products during this time. Amounts received under these Customer contracts are initially recorded as deferred service revenues and then recognized as service revenues ratably over the contract term.

We classify shipping and handling amounts billed to Customers in sales transactions as revenues.

Allowance for Doubtful Accounts Receivable. We maintain an allowance for uncollectible accounts receivable for estimated losses in the collection of amounts owed by Customers. We estimate the allowance based on analyzing a number of factors, including amounts written off historically, Customer payment practices, and general economic conditions. We also analyze significant Customer accounts on a regular basis and record a specific allowance when we become aware of a specific Customer's inability to pay. As a result, the related accounts receivable are reduced to an amount that we reasonably believe is collectible. These analyses require a considerable amount of judgment. If the financial condition of our Customers worsens, or economic conditions change, we may be required to make changes to our allowance for doubtful accounts receivable.

Allowance for Sales Returns. We maintain an allowance for sales returns based upon known returns and estimated returns for both capital equipment and consumables. We estimate returns of capital equipment and consumables based upon historical experience.

Inventories and Reserves. Inventories are stated at the lower of their cost or market value. We determine cost based upon a combination of the last-in, first-out ("LIFO") and first-in, first-out ("FIFO") cost methods. We determine the LIFO inventory value at the end of the year based on inventory levels and costs at that time. For inventories valued using the LIFO method, we believe that the use of the LIFO method results in a matching of current costs and revenues. Inventories valued using the LIFO method represented approximately 26.0% and 29.0% of total inventories at March 31, 2018 and 2017, respectively. Inventory costs include material, labor, and overhead. If we had used only the FIFO method of inventory costing, inventories would have been $17.3 million and $16.7 million higher than those reported at March 31, 2018 and 2017, respectively.

We review inventory on an ongoing basis, considering factors such as deterioration and obsolescence. We record an allowance for estimated losses when the facts and circumstances indicate that particular inventories will not be usable. If future market conditions vary from those projected, and our estimates prove to be inaccurate, we may be required to write-down inventory values and record an adjustment to cost of revenues.

Asset Impairment Losses. Property, plant, equipment, and identifiable intangible assets are reviewed for impairment when events and circumstances indicate that the carrying value of such assets may not be recoverable. Impaired assets are recorded at the lower of carrying value or estimated fair value. We conduct this review on an ongoing basis and, if impairment exists, we record the loss in the Consolidated Statements of Income during that period.

When we evaluate assets for impairment, we make certain judgments and estimates, including interpreting current economic indicators and market valuations, evaluating our strategic plans with regards to operations, historical and anticipated performance of operations, and other factors. If we incorrectly anticipate these factors, or unexpected events occur, our operating results could be materially affected.

Asset Retirement Obligations. We incur retirement obligations for certain assets. We record an initial liability for the asset retirement obligations (ARO) at fair value. Accounting for the ARO at inception and in subsequent periods includes the determination of the present value of a liability and offsetting asset, the subsequent accretion of that liability and depletion of the asset, and a periodic review of the ARO liability estimates and discount rates used in the analysis. We provide additional information about our asset retirement obligations in Note 5 to our consolidated financial statements titled, “Property, Plant and Equipment.”

Table of Contents

Restructuring. We record specific accruals in connection with plans for restructuring elements of our business. These accruals include estimates principally related to employee separation costs, the closure and/or consolidation of facilities, and contractual obligations. Actual amounts could differ from the original estimates. We review our restructuring-related accruals on a quarterly basis and changes to plans are appropriately recognized in the Consolidated Statements of Income in the period the change is identified.

Purchase Accounting and Goodwill. Assets and liabilities of the business acquired are accounted for at their estimated fair values as of the acquisition date. Any excess of the cost of the acquisition over the fair value of the net tangible and intangible assets acquired is recorded as goodwill. We supplement management expertise with valuation specialists in performing appraisals to assist us in determining the fair values of assets acquired and liabilities assumed. These valuations require us to make estimates and assumptions, especially with respect to intangible assets. We generally amortize our intangible assets over their useful lives with the exception of indefinite lived intangible assets. We do not amortize goodwill, but we evaluate it annually for impairment. Therefore, the allocation of the purchase price to intangible assets and goodwill has a significant impact on future operating results.

We evaluate the recoverability of recorded goodwill amounts annually, or when evidence of potential impairment exists. We may consider qualitative indicators of the fair value of a reporting unit when it is unlikely that a reporting unit has impaired goodwill. We may also utilize a discounted cash flow analysis that requires certain assumptions and estimates be made regarding market conditions and our future profitability. In those circumstances, we test goodwill for impairment by reviewing the book value compared to the fair value at the reporting unit level. We calculate the fair value of our reporting units based on the present value of estimated future cash flows. Considerable management judgment is necessary to evaluate the impact of operating and macroeconomic changes and to estimate future cash flows to measure fair value. Assumptions used in our impairment evaluations, such as forecasted growth rates and cost of capital, are consistent with internal projections and operating plans. We believe such assumptions and estimates are also comparable to those that would be used by other marketplace participants.

As a result of our annual impairment review for goodwill and other indefinite lived intangible assets for fiscal year 2018, no indicators of impairment were identified. As a result of our annual goodwill impairment review for fiscal year 2017, we concluded that the carrying value of one of our reporting units exceeded its fair value. Prior to its divestiture in fiscal 2017, the Synergy Health Netherlands linen management unit was reported within our Healthcare Specialty Services segment. Financial forecasts prepared for the annual assessment reflected pricing pressures, volume declines driven by overcapacity in the market, and a decline in the overall market size. These factors resulted in further degradation of the already low operating margin and cash flows of this unit. We incurred a goodwill impairment charge of $58.4 million as a result, which is recorded within Goodwill impairment loss in the Consolidated Statements of Income. The fair market value of the reporting unit was determined under an income approach using discounted cash flows and estimated fair market values. Fair value calculated using a discounted cash flow analysis is classified within level 3 of the fair value hierarchy and requires several assumptions including risk adjusted discount rates and financial forecasts.

We evaluate indefinite lived intangible assets annually, or when evidence of potential impairment exists. We evaluate several qualitative indicators and assumptions, and trends that influence the valuation of the assets to determine if any evidence of potential impairment exists. During the third quarter of fiscal 2017, we adopted a new branding strategy change as part of the integration of certain Synergy Health operations into the Healthcare Specialty Services Segment. Under this new branding strategy, hospital sterilization services and instrument repair services will utilize the STERIS Instrument Management Services brand name. The Synergy Health trade name was phased out during the fourth quarter of fiscal 2017. As a result, we shortened the estimated useful life of the Synergy Health trade name and accelerated the corresponding amortization expense over the remainder of fiscal 2017, which totaled $14.4 million and was recorded within the Selling, general and administrative expense line on the Consolidated Statements of Income.

Income Taxes. Our provision for income taxes is based on our current period income, changes in deferred income tax assets and liabilities, income tax rates, changes in uncertain tax benefits, and tax planning opportunities available to us in the various jurisdictions in which we operate. Tax laws are complex and subject to different interpretations by the taxpayer and the respective governmental taxing authorities. We use significant judgment in determining our annual effective income tax rate and evaluating our tax positions. We prepare and file tax returns based on our interpretation

of tax laws and regulations, and we record estimates based on these judgments and interpretations. We cannot be sure that the tax authorities will agree with all of the tax positions taken by us. The actual income tax liability for each jurisdiction in any year can, in some instances, ultimately determined be several years after the tax return is filed and the financial statements are published.

Table of Contents

We evaluate our tax positions using the recognition threshold and measurement attribute in accordance with current accounting guidance. We determine whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, we presume that the position will be examined by the appropriate taxing authority and that the taxing authority will have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. The appropriate unit of account for determining what constitutes an individual tax position, and whether the more-likely-than-not recognition threshold is met for a tax position, is a matter of judgment based on the individual facts and circumstances of that position evaluated in light of all available evidence. We review and adjust our tax estimates periodically because of ongoing examinations by and settlements with the various taxing authorities, as well as changes in tax laws, regulations and precedent.

We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities. We regularly review our deferred tax assets for recoverability and establish a valuation allowance based on historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences, and the implementation of tax planning strategies. If we are unable to generate sufficient future taxable income in certain tax jurisdictions, or if there is a material change in the effective income tax rates or time period within which the underlying temporary differences become taxable or deductible, we could be required to increase our valuation allowance, which would increase our effective income tax rate and could result in an adverse impact on our consolidated financial position, results of operations, or cash flows.

We believe that adequate accruals have been made for income taxes. Differences between the estimated and actual amounts determined upon ultimate resolution, individually or in the aggregate, are not expected to have a material adverse effect on our consolidated financial position, but could possibly be material to our consolidated results of operations or cash flow for any one period.

Additional information regarding income taxes is included in Note 8 to our consolidated financial statements titled, “Income Taxes.”

Self-Insurance Liabilities. We record a liability for self-insured risks that we retain for general and product liabilities, workers’ compensation, and automobile liabilities based on actuarial calculations. We use our historical loss experience and actuarial methods to calculate the estimated liability. This liability includes estimated amounts for both losses and incurred but not reported claims. We review the assumptions used to calculate the estimated liability at least annually to evaluate the adequacy of the amount recorded. We maintain insurance policies to cover losses greater than our estimated liability, which are subject to the terms and conditions of those policies. The obligation covered by insurance contracts will remain on the balance sheet as we remain liable to the extent insurance carriers do not meet their obligation. Estimated amounts receivable under the contracts are included in the "Prepaid expenses and other current assets" line, and the "Other assets" line of our consolidated balance sheets. Our accrual for self-insured risk retention as of March 31, 2018 and 2017 was $20.9 million and $22.7 million, respectively.

We are also self-insured for employee medical claims. We estimate a liability for incurred but not reported claims based upon recent claims experience. Our self-insured liabilities contain uncertainties because management must make assumptions and apply judgments to estimate the ultimate cost to settle reported claims and claims incurred but not reported as of the balance sheet date. If actual results are not consistent with these assumptions and judgments, we could be exposed to additional costs in subsequent periods.

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

Table of Contents

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 10 of our consolidated financial statements titled, "Commitments and Contingencies" for additional information.

We are subject to taxation from 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 of the United States routinely conducts audits of our federal income tax returns.

Additional information regarding our commitments and contingencies is included in Note 10 to our consolidated financial statements titled, “Commitments and Contingencies.”

Benefit Plans. We provide defined benefit pension plans for certain employees and retirees. In addition, we sponsor an unfunded post-retirement benefits plan for two groups of United States retirees. Benefits under this plan include retiree life insurance and retiree medical insurance, including prescription drug coverage.

Employee pension and post-retirement benefits plans are a cost of conducting business and represent obligations that will be settled in the future and therefore, require us to use estimates and make certain assumptions to calculate the expense and liabilities related to the plans. Changes to these estimates and assumptions can result in different expense and liability amounts. Future actual experience may be significantly different from our current expectations. We believe that the most critical assumptions used to determine net periodic benefit costs and projected benefit obligations are the expected long-term rate of return on plan assets and the discount rate. A summary of significant assumptions used to determine the March 31, 2018 projected benefit obligations and the fiscal 2018 net periodic benefit costs is as follows:

	Synergy Health plc	Isotron BV	Synergy Health Daniken AG	Synergy Health Radeberg	Synergy Health Allershausen	Harwell Dosimeters Ltd	U.S. Post-Retirement Benefits Plan
Funding Status	Funded	Funded	Funded	Unfunded	Unfunded	Funded	Unfunded
Assumptions used to determine March 31, 2018							
Benefit obligations:							
Discount rate	2.50 %	1.60 %	0.95 %	1.60 %	1.60 %	2.55 %	3.50 %
Assumptions used to determine fiscal 2018							
Net periodic benefit costs:							
Discount rate	2.60 %	1.60 %	0.65 %	1.50 %	1.50 %	2.55 %	3.50 %
Expected return on plan assets	4.97 %	1.60 %	1.40 %	n/a	n/a	n/a	n/a

NA – Not applicable.

We develop our expected long-term rate of return on plan assets assumptions by evaluating input from third-party professional advisors, taking into consideration the asset allocation of the portfolios, and the long-term asset class return expectations. Generally, net periodic benefit costs increase as the expected long-term rate of return on plan assets assumption decreases. Holding all other assumptions constant, lowering the expected long-term rate of return on plan assets assumption for our funded defined benefit pension plans by 50 basis points would have increased the fiscal 2018 benefit costs by $0.01 million.

We develop our discount rate assumptions by evaluating input from third-party professional advisers, taking into consideration the current yield on country specific investment grade long-term bonds which provide for similar cash flow streams as our projected benefit obligations. Generally, the projected benefit obligations and the net periodic benefit costs both increase as the discount rate assumption decreases. Holding all other assumptions constant, lowering the discount rate assumption for our defined benefit pension plans and for the other post-retirement benefits plan by 50 basis points would have decreased the fiscal 2018 net periodic benefit costs by less than $0.1 million and would have increased the projected benefit obligations by approximately $11.3 million at March 31, 2018.

45

Table of Contents

We have made assumptions regarding healthcare costs in computing our other post-retirement benefit obligation. The assumed rates of increase generally decline ratably over a five year-period from the assumed current year healthcare cost trend rate of 7.0% to the assumed long-term healthcare cost trend rate. A 100 basis point change in the assumed healthcare cost trend rate (including medical, prescription drug, and long-term rates) would have had the following effect at March 31, 2018:

(dollars in thousands)	100 Basis Point Increase	100 Basis Point Decrease
Effect on total service and interest cost components	$1	$ (1)
Effect on postretirement benefit obligation	21	(20)

We recognize an asset for the overfunded status or a liability for the underfunded status of defined benefit pension and post-retirement benefit plans in our balance sheets. This amount is measured as the difference between the fair value of plan assets and the benefit obligation (the projected benefit obligation for pension plans and the accumulated post-retirement benefit obligation for other post-retirement benefit plans). Changes in the funded status of the plans are recorded in other comprehensive income in the year they occur. We measure plan assets and obligations as of the balance sheet date. Note 9 to our consolidated financial statements titled, “Benefit Plans,” contains additional information about our pension and other post-retirement welfare benefits plans.

Share-Based Compensation. We measure the estimated fair value for share-based compensation awards, including grants of employee stock options at the grant date and recognize the related compensation expense over the period in which the share-based compensation vests. We selected the Black-Scholes-Merton option pricing model as the most appropriate method for determining the estimated fair value of our share-based stock option compensation awards. This model involves assumptions that are judgmental and affect share-based compensation expense.

Share-based compensation expense was $22.2 million in fiscal 2018, $18.8 million in fiscal 2017 and $16.1 million in fiscal 2016. Note 14 to our consolidated financial statements titled, “Share-Based Compensation,” contains additional information about our share-based compensation plans.

RECENTLY ISSUED ACCOUNTING STANDARDS IMPACTING THE COMPANY

Recently issued accounting standards that are relevant to us are presented in Note 1 to our consolidated financial statements titled, “Nature of Operations and Summary of Significant Accounting Policies.”

INFLATION

Our business has not been significantly impacted by the overall effects of inflation. We monitor the prices we charge for our products and services on an ongoing basis and plan to adjust those prices to take into account future changes in the rate of inflation. However, we may not be able to completely offset the impact of inflation.

Table of Contents

FORWARD-LOOKING STATEMENTS

This Form 10-K 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 Annual 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," "confidence," "improve," "optimistic," "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 this Annual Report on Form 10-K. 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 Annual 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 Combination, (e) the retention of certain key employees of Synergy being difficult, (f) STERIS's ability to meet expectations regarding the accounting and tax treatment of the Tax Cuts and Jobs Act ("TCJA") or the possibility that anticipated benefits resulting from the TCJA will be less than estimated, (g) 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, (h) the potential for increased pressure on pricing or costs that leads to erosion of profit margins, (i) 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, (j) 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, (k) 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, (l) the possibility of reduced demand, or reductions in the rate of growth in demand, for STERIS's products and services, (m) the possibility of delays in receipt of orders, order cancellations, or delays in the manufacture or shipment of ordered products or in the provisions of services, (n) 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 this Annual Report on Form 10-K and other securities filings, may adversely impact STERIS's performance, results, prospects or value, (o) the impact on STERIS

and its operations of the "Brexit" or the exit of other member countries from the EU, (p) the impact on STERIS and its operations of any new legislation, regulations or orders, including, but not limited to any new trade or tax legislations, regulations or orders, that may be implemented by the new U.S. Administration or Congress, or of any responses thereto, (q) 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 (r) 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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the ordinary course of business, we are exposed to various risks, including, but not limited to, interest rate, foreign currency, and commodity risks. These risks are described in the sections that follow.

INTEREST RATE RISK

As of March 31, 2018, we had $988.2 million in fixed rate senior notes outstanding. As of March 31, 2018, we had $331.2 million in outstanding borrowings under our Credit Agreement which are exposed to changes in interest rates. We monitor our interest rate risk, but do not engage in any hedging activities using derivative financial instruments. For additional information regarding our debt structure, refer to Note 6 to our Consolidated Financial Statements titled, “Debt.”

FOREIGN CURRENCY RISK

We are exposed to the impact of foreign currency exchange fluctuations. This foreign currency exchange risk arises when we conduct business in a currency other than the U.S. dollar. For most operations, local currencies have been determined to be the functional currencies. The financial statements of subsidiaries are translated to their U.S. dollar equivalents at end-of-period exchange rates for assets and liabilities and at average currency exchange rates for revenues and expenses. Translation adjustments for subsidiaries whose local currency is their functional currency are recorded as a component of accumulated other comprehensive income (loss) within equity. Note 18 to our consolidated financial statements titled, “Accumulated Other Comprehensive Income (Loss),” contains additional information about the impact of translation on accumulated other comprehensive income (loss) and equity.

Transaction gains and losses arising from fluctuations in currency exchange rates on transactions denominated in currencies other than the functional currency are recognized in the Consolidated Statements of Income. Since we operate internationally and approximately 30% of our revenues and 40% of our cost of revenues are generated outside the United States, foreign currency exchange rate fluctuations can significantly impact our financial position, results of operations, and competitive position.

We enter into foreign currency forward contracts to hedge monetary assets and liabilities denominated in foreign currencies, including inter-company transactions. We do not use derivative financial instruments for speculative purposes. At March 31, 2018, we held foreign currency forward contracts to buy 13.0 million Canadian dollars.

COMMODITY RISK

We are dependent on basic raw materials, sub-assemblies, components, and other supplies used in our operations. Our financial results could be affected by the availability and changes in prices of these materials. Some of these materials are sourced from a limited number of suppliers or only a single supplier. These materials are also key source materials for our competitors. Therefore, if demand for these materials rises, we may experience increased costs and/or limited or unavailable supplies. As a result, we may not be able to acquire key production materials on a timely basis, which could impact our ability to produce products and satisfy incoming sales orders on a timely basis. In addition, the costs of these materials can rise suddenly and result in significantly higher costs of production. We believe that we have adequate sources of supply for many of our key materials and energy sources. Where appropriate, we enter into long-term supply contracts as a basis to guarantee a reliable supply. We may also enter into commodity swap contracts to hedge price changes in a certain commodity that impacts raw materials included in our cost of revenues. At March 31, 2018, we held commodity swap contracts to buy 592,460 pounds of nickel.

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of
STERIS plc

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of STERIS plc and subsidiaries (the Company) as of March 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2018, and the related notes and the financial statement schedule listed in the Index at Item 15(a) (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at March 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of March 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated May 30, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company’s auditor since 1989.

Cleveland, Ohio

May 30, 2018

Table of Contents

STERIS PLC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands)

March 31,	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	$201,534	$282,918
Accounts receivable (net of allowances of $12,472 and $10,357, respectively)	528,066	483,451
Inventories, net	205,731	197,837
Prepaid expenses and other current assets	54,326	53,596
Total current assets	989,657	1,017,802
Property, plant, and equipment, net	1,010,524	915,908
Goodwill and intangibles, net	3,160,764	2,956,190
Other assets	39,389	34,555
Total assets	$5,200,334	$4,924,455
Liabilities and equity		
Current liabilities:		
Accounts payable	$135,866	$133,479
Accrued income taxes	379	14,640
Accrued payroll and other related liabilities	94,000	78,575
Accrued expenses and other	168,217	154,889
Total current liabilities	398,462	381,583
Long-term indebtedness	1,316,001	1,478,361
Deferred income taxes, net	159,971	171,805
Other liabilities	108,600	82,673
Total liabilities	$1,983,034	$2,114,422
Commitments and contingencies (see Note 11)		
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 aggregate par amount authorized; 84,747 and 84,948 ordinary shares issued and outstanding, respectively	2,048,037	2,085,134
Retained earnings	1,146,223	954,155
Accumulated other comprehensive income (loss)	11,685	(240,702)
Total shareholders' equity	3,205,960	2,798,602
Noncontrolling interests	11,340	11,431
Total equity	3,217,300	2,810,033
Total liabilities and equity	$5,200,334	$4,924,455

See notes to consolidated financial statements.

Table of Contents

STERIS PLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share amounts)

Years Ended March 31,	2018	2017	2016
Revenues:			
Product	$1,220,633	$1,198,319	$1,128,985
Service	1,399,363	1,414,437	1,109,779
Total revenues	2,619,996	2,612,756	2,238,764
Cost of revenues:			
Product	646,177	624,020	617,368
Service	879,596	963,104	725,915
Total cost of revenues	1,525,773	1,587,124	1,343,283
Gross profit	1,094,223	1,025,632	895,481
Operating expenses:			
Selling, general, and administrative	629,884	680,069	626,710
Goodwill impairment loss	—	58,356	—
Research and development	60,782	59,397	56,664
Restructuring expenses	103	215	(820)
Total operating expenses	690,769	798,037	682,554
Income from operations	403,454	227,595	212,927
Non-operating expenses, net:			
Interest expense	50,629	44,520	42,708
Interest income and miscellaneous expense	(2,157)	(1,571)	(1,665)
Total non-operating expenses, net	48,472	42,949	41,043
Income before income tax expense	354,982	184,646	171,884
Income tax expense	63,360	74,015	60,299
Net income	291,622	110,631	111,585
Less: Net income attributable to noncontrolling interests	707	666	822
Net income attributable to shareholders	$290,915	$109,965	$110,763
Net income per share attributable to shareholders:			
Basic	$3.42	$1.29	$1.57
Diluted	$3.39	$1.28	$1.56
Cash dividends declared per ordinary share outstanding	$1.21	$1.09	$0.98

See notes to consolidated financial statements.

Table of Contents

STERIS PLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

Years Ended March 31,	2018	2017	2016
Net income	$291,622	$110,631	$111,585
Less: Net income attributable to noncontrolling interests	707	666	822
Net income attributable to shareholders	$290,915	$109,965	$110,763
Other comprehensive (loss) income			
Unrealized gain (loss) on available for sale securities, (net of taxes of $516, $402 and $(266), respectively)	1,792	851	(1,741)
Amortization of pension and postretirement benefit plans costs, (net of taxes of $1,860, $963, and ($700), respectively)	(4,387)	(7,463)	(3,032)
Pension settlement (net of taxes of $0, $0 and $10,563, respectively)	—	—	17,029
Change in cumulative foreign currency translation adjustment	254,982	(165,931)	(13,746)
Total other comprehensive income (loss) attributable to shareholders	252,387	(172,543)	(1,490)
Comprehensive (loss) income attributable to shareholders	$543,302	$(62,578)	$109,273

See notes to consolidated financial statements.

Table of Contents

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

Years Ended March 31,	2018	2017	2016
Operating activities:			
Net income	$291,622	$110,631	$111,585
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion, and amortization	178,332	188,142	143,740
Deferred income taxes	(24,722)	31,274	704
Share-based compensation expense	22,187	18,794	16,147
Pension settlement expense	—	—	26,470
Pension contributions made in settlement	—	—	(4,641)
Loss on the disposal of property, plant, equipment, and intangibles, net	2,582	760	1,813
Loss on sale of businesses	14,547	86,574	—
Excess tax benefit from share-based compensation	—	—	(6,281)
Goodwill impairment loss	—	58,356	—
Other items	32,229	(13,242)	(14,328)
Changes in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable, net	(37,731)	(48,140)	(31,560)
Inventories, net	(5,178)	(12,829)	1,810
Other current assets	(1,244)	2,324	(9,599)
Accounts payable	563	6,884	5,249
Accruals and other, net	(15,555)	(5,442)	13,566
Net cash provided by operating activities	457,632	424,086	254,675
Investing activities:			
Purchases of property, plant, equipment, and intangibles, net	(165,457)	(172,901)	(126,407)
Proceeds from the sale of property, plant, equipment, and intangibles	2,094	4,846	844
Proceeds from the sale of businesses	8,888	135,713	—
Purchases of investments	—	(6,356)	—
Acquisition of business, net of cash acquired	(46,271)	(65,557)	(604,021)
Other	(3,083)	—	—
Net cash used in investing activities	(203,829)	(104,255)	(729,584)
Financing activities:			
Proceeds from the issuance of long-term obligations	—	293,730	350,000
Payments on long-term obligations	(222,500)	(172,500)	(92,567)
Proceeds under credit facilities, net	29,065	(196,613)	369,451
Deferred financing fees and debt issuance costs	(2,029)	(1,073)	(5,169)
Acquisition related deferred or contingent consideration	(2,064)	(9,918)	—
Repurchases of common shares	(65,485)	(97,509)	(14,369)
Cash dividends paid to common shareholders	(102,929)	(93,193)	(65,203)
Proceeds from issuance of equity to minority shareholders	—	5,022	625
Stock option and other equity transactions, net	9,758	4,955	11,240
Excess tax benefit from share-based compensation	—	—	6,281
Net cash (used in) provided by financing activities	(356,184)	(267,099)	560,289
Effect of exchange rate changes on cash and cash equivalents	20,997	(18,655)	(4,228)
Increase (decrease) in cash and cash equivalents	(81,384)	34,077	81,152
Cash and cash equivalents at beginning of period	282,918	248,841	167,689

Cash and cash equivalents at end of period	$201,534	$282,918	$248,841

See notes to consolidated financial statements.

Table of Contents

STERIS PLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands)

	Ordinary Shares		Preferred Shares		Treasury Shares		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest	Total Equity
	Number	Amount	Number	Amount	Number	Amount				
Balance at March 31, 2015	59,675	$264,853	—	$ —	10,364	$(320,343)	$1,193,791	$(66,669)	$ 2,014	$1,073,646
Comprehensive income:										
Net income	—	—	—	—	—	—	110,763	—	822	111,585
Other comprehensive loss	—	—	—	—	—	—	—	(1,490)	—	(1,490)
Repurchases of ordinary shares	(267)	(1,020)	—	—	248	(12,974)	(375)	—	—	(14,369)
Equity compensation programs	664	13,624	—	—	(538)	13,667	—	—	—	27,291
Retirement of treasury shares	—	(20,133)	—	—	(10,074)	319,650	(299,517)	—	—	—
Issuance of shares for Synergy Combination	25,839	1,887,479	100	15	—	—	—	—	13,574	1,901,068
Purchase of subsidiary shares from noncontrolling interest	9	635	—	—	—	—	—	—	(1,453)	(818)
Issuance of subsidiary shares to noncontrolling interest	—	—	—	—	—	—	—	—	1,443	1,443
Tax benefit of stock options exercised	—	6,281	—	—	—	—	—	—	—	6,281
Cash dividends – $0.98 per ordinary share	—	—	—	—	—	—	(65,203)	—	—	(65,203)
Change in noncontrolling interest	—	—	—	—	—	—	—	—	(542)	(542)
Balance at March 31, 2016	85,920	$2,151,719	100	$ 15	—	$—	$939,459	$(68,159)	$ 15,858	$3,038,892

Comprehensive income:									
Net income	—	—	—	—	—	109,965	—	666	110,631
Other comprehensive loss	—	—	—	—	—	—	(172,543)	—	(172,543)
Repurchases of ordinary shares	(1,455)	(95,433)	—	—	—	(2,076)	—	—	(97,509)
Equity compensation programs and other	416	23,826	—	—	—	—	—	—	23,826
Purchase of subsidiary shares from noncontrolling interest	67	5,022	—	—	—	—	—	(5,374)	(352)
Issuance of subsidiary shares to noncontrolling interest	—	—	—	—	—	—	—	530	530
Cash dividends – $1.09 per ordinary share	—	—	—	—	—	(93,193)	—	—	(93,193)
Other changes in noncontrolling interest	—	—	—	—	—	—	—	(249)	(249)
Balance at March 31, 2017	84,948	$2,085,134	100	$ 15	—	$—	$954,155	$(240,702)	$ 11,431	$2,810,033
Comprehensive income:									
Net income	—	—	—	—	—	290,915	—	707	291,622
Other comprehensive income	—	—	—	—	—	—	252,387	—	252,387
Repurchases of ordinary shares	(793)	(69,567)	—	—	—	4,082	—	—	(65,485)
Equity compensation programs and other	592	32,470	—	—	—	—	—	—	32,470
Cash dividends – $1.21 per ordinary share	—	—	—	—	—	(102,929)	—	—	(102,929)
Other changes in noncontrolling interest	—	—	—	—	—	—		(798)	(798)
Balance at March 31, 2018	84,747	$2,048,037	100	$ 15	—	$—	$1,146,223	$ 11,685	$ 11,340	$3,217,300

See notes to consolidated financial statements.

55

STERIS PLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share amounts and as noted)

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations. STERIS plc (“Parent”) was organized in 2014 under the laws of England and Wales under the name Solar New HoldCo Limited as a private limited company for the purpose of effecting 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”). Effective November 2, 2015, the Parent was re-registered as a public company under the name of STERIS plc and the Combination closed. As a result of the Combination closing, STERIS plc became the ultimate parent company of Old STERIS and Synergy. Synergy has been re-registered under the name of 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.

STERIS plc is a leading provider of infection prevention and other procedural products and services. We offer our Customers a unique mix of innovative consumable products, such as detergents, gastrointestinal ("GI") 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, laboratory testing services, on-site and off-site reprocessing, and capital equipment products, such as sterilizers and surgical tables, and connectivity solutions such as operating room (“OR”) integration.

We operate and report in four reportable business segments: Healthcare Products, Healthcare Specialty Services, Life Sciences, and Applied Sterilization Technologies. We describe our business segments in Note 11 to our consolidated financial statements titled, "Business Segment Information."

Our fiscal year ends on March 31. References in this Annual Report to a particular "year," "fiscal 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.

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 polices, are accounted for primarily using the equity method. These investments are immaterial to the Company's Consolidated Financial Statements. In prior periods, we presented income attributable to noncontrolling interests in the "Interest income and miscellaneous expense" line of our Consolidated Statements of Income and the amounts were not material.

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.

Cash Equivalents and Supplemental Cash Flow Information. Cash equivalents are all highly liquid investments with a maturity of three months or less when purchased. We invest our excess cash in short-term instruments including money market funds and time deposits with major banks and financial institutions. We select investments in accordance with the criteria established in our investment policy. Our investment policy specifies, among other things, maturity, credit quality and concentration restrictions with the objective of preserving capital and maintaining adequate liquidity.

56

STERIS PLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share amounts and as noted)

Information supplementing our Consolidated Statements of Cash Flows is as follows:

Years Ended March 31,	2018	2017	2016
Cash paid during the year for:			
Interest	$48,663	$42,797	$37,165
Income taxes	85,629	78,009	60,885
Cash received during the year for income tax refunds	7,747	2,002	1,697

Revenue Recognition. We recognize revenue for products when ownership passes to the Customer, which is based on contract or shipping terms and for services when the service is provided to the Customer. Our Customers include end users as well as dealers and distributors who market and sell our products. Our revenue is not contingent upon resale by the dealer or distributor. We have no further obligations related to bringing about resale and our standard return and restocking fee policies are applied. Revenues are reported net of sales and value-added taxes collected from Customers.

We also have individual Customer contracts that offer discounted pricing. Dealers and distributors may be offered sales incentives in the form of rebates. We reduce revenue for discounts and estimated returns, rebates, and other similar allowances in the same period the related revenues are recorded. Returns, rebates, and similar allowances are estimated based on historical experience and trend analysis.

In transactions that contain multiple elements, such as when products, maintenance services, and other services are combined, we recognize revenue as each product is delivered or service is provided to the Customer. We allocate the total arrangement consideration to each element based on its relative selling price, based on the price for the product or service when it is sold separately.

We offer preventive maintenance agreements to our Customers with contract terms of one to five years which require us to maintain and repair our products during this time. Amounts received under these Customer contracts are initially recorded as deferred service revenues and then recognized as service revenues ratably over the contract term.

Accounts Receivable. Accounts receivable are presented at their face amount, less allowances for sales returns and uncollectible accounts. Accounts receivable consist of amounts billed and currently due from Customers and amounts earned but unbilled. We generally obtain and perfect security interest in products sold in the United States when we have a concern with the Customer's risk profile.

We maintain an allowance for uncollectible accounts receivable for estimated losses in the collection of amounts owed by Customers. We estimate the allowance based on analyzing a number of factors, including amounts written off historically, Customer payment practices, and general economic conditions. We also analyze significant Customer accounts on a regular basis and record a specific allowance when we become aware of a specific Customer’s inability to pay. As a result, the related accounts receivable are reduced to an amount that we reasonably believe is collectible.

We maintain an allowance for sales returns based upon known returns and estimated returns for both capital equipment and consumables. We estimate returns of capital equipment and consumables based upon recent historical experience.

Inventories, net. Inventories are stated at the lower of their cost or market value. We determine cost based upon a combination of the last-in, first-out (“LIFO”) and first-in, first-out (“FIFO”) cost methods. For inventories valued using the LIFO method, we believe that the use of the LIFO method results in a matching of current costs and revenues. Inventories valued using the LIFO method represented approximately 26.0% and 29.0% of total inventories at March 31, 2018 and 2017, respectively. Inventory costs include material, labor, and overhead. If we had used only the FIFO method of inventory costing, inventories would have been $17,280 and $16,706 higher than those reported at March 31, 2018 and 2017, respectively.

We review inventory on an ongoing basis, considering factors such as deterioration, obsolescence, and other items. We record an allowance for estimated losses when the facts and circumstances indicate that particular inventories will not be usable. If future market conditions vary from those projected, and our estimates prove to be inaccurate, we may be required to write-down inventory values and record an adjustment to cost of revenues.

Property, Plant, and Equipment. Our property, plant, and equipment consists of land and land improvements, buildings and leasehold improvements, machinery and equipment, information systems, radioisotope (cobalt-60), and construction in progress. Property, plant, and equipment are presented at cost less accumulated depreciation and depletion. We capitalize additions and improvements. Repairs and maintenance are charged to expense as they are incurred.

STERIS PLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share amounts and as noted)

Land is not depreciated and construction in progress is not depreciated until placed in service. Depreciation of most assets is computed on the cost less the estimated salvage value by using the straight-line method over the estimated remaining useful lives. Depletion of radioisotope is computed using the annual decay factor of the material, which is similar to the sum-of-the-years-digits method.

We generally depreciate or deplete property, plant, and equipment over the useful lives presented in the following table:

Asset Type	Useful Life (years)
Land improvements	3-40
Buildings and leasehold improvements	2-50
Machinery and equipment	2-20
Information Systems	2-20
Radioisotope (cobalt-60)	20

When we sell, retire, or dispose of property, plant, and equipment, we remove the asset’s cost and accumulated depreciation from our Consolidated Balance Sheet. We recognize the net gain or loss on the sale or disposition in the Consolidated Statements of Income in the period when the transaction occurs.

Interest. We capitalize interest costs incurred during the construction of long-lived assets. We capitalized interest costs of $528 and $1,141 for the years ended March 31, 2018 and 2017, respectively. Total interest expense for the years ended March 31, 2018, 2017, and 2016 was $50,629, $44,520, and $42,708, respectively.

Identifiable Intangible Assets. Our identifiable intangible assets include product technology rights, trademarks, licenses, and Customer and vendor relationships. We record these assets at cost, or when acquired as part of a business acquisition, at estimated fair value. We generally amortize identifiable intangible assets over periods ranging from 5 to 20 years using the straight-line method. Our intangible assets also include indefinite lived assets including certain trademarks and tradenames that were acquired in connection with business combinations. These assets are tested at least annually for impairment.

Investments. Investments in marketable securities are stated at fair value and are included in "Other assets" on the Consolidated Balance Sheets. Unrealized gains and losses on marketable securities classified as available-for-sale are recorded in Accumulated Other Comprehensive Income (Loss).

Asset Impairment Losses. Property, plant, equipment, and identifiable intangible assets are reviewed for impairment when indicators of impairment exist and circumstances indicate that the carrying value of such assets may not be recoverable. Impaired assets are recorded at the lower of carrying value or estimated fair value. We monitor for such indicators on an ongoing basis and if an impairment exists, we record the loss in the Consolidated Statements of Income during that period.

Asset Retirement Obligations. We incur retirement obligations for certain assets. We record initial liabilities for the asset retirement obligations ("ARO") at fair value. Recognition of ARO includes: estimating the present value of a liability and offsetting asset, the subsequent accretion of that liability and depletion of the asset, and a periodic review of the ARO liability estimates and discount rates used in the analysis. We provide additional information about our asset retirement obligations in Note 5 to our consolidated financial statements titled, “Property, Plant and Equipment.”

Acquisitions of Business. Assets acquired and liabilities assumed in a business combination are accounted for at fair value on the date of acquisition. Costs related to the acquisition are expensed as incurred.

Goodwill. We perform our annual impairment test for goodwill in the third quarter of each year. We may consider qualitative indicators of the fair value of a reporting unit when it is unlikely that a reporting unit has impaired goodwill. We may also utilize a discounted cash flow analysis that requires certain assumptions and estimates be made regarding market conditions and our future profitability. We review the book value compared to the fair value at the reporting unit level. We calculate the fair value of our reporting units based on the present value of estimated future cash flows. Considerable management judgment is necessary to evaluate the impact of operating and

macroeconomic changes and to estimate future cash flows to measure fair value. Assumptions used in our impairment evaluations, such as forecasted growth rates and cost of capital, are consistent with internal projections, strategic plans, and operating plans. We believe such assumptions and estimates are also comparable to those that would be used by other market place participants.

STERIS PLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share amounts and as noted)

Self-Insurance Liabilities. We record a liability for self-insured risks that we retain for general and product liabilities, workers' compensation, and automobile liabilities based on actuarial calculations. We use our historical loss experience and actuarial methods to calculate the liability. This liability includes estimates for both losses and incurred but not reported claims. We review the assumptions used to calculate the estimated liability at least annually to evaluate the adequacy of the amount recorded. We maintain insurance policies to cover losses greater than our estimated liability, which are subject to the terms and conditions of those policies. We are also self-insured for certain employee medical claims. We estimate a liability for incurred but not reported claims based upon recent claims experience.

Benefit Plans. We sponsor defined benefit pension plans. We also sponsor a post-retirement benefits plan for certain former employees. We determine our costs and obligations related to these plans by evaluating input from third-party professional advisers. These costs and obligations are affected by assumptions including the discount rate, expected long-term rate of return on plan assets, the annual rate of change in compensation for eligible employees, estimated changes in costs of healthcare benefits, and other factors. We review the assumptions used on an annual basis.

We recognize an asset for the overfunded status or a liability for the underfunded status of defined benefit pension and post-retirement benefits plans in our consolidated balance sheets. This amount is measured as the difference between the fair value of plan assets and the benefit obligation (the projected benefit obligation for pension plans and the accumulated post-retirement benefit obligation for other post-retirement benefit plans). Changes in the funded status of the plans are recorded in other comprehensive income in the year they occur. We measure plan assets and obligations as of the balance sheet date. We provide additional information about our pension and other post-retirement benefits plans in Note 9 to our consolidated financial statements titled, "Benefit Plans."

Fair Value of Financial Instruments. Except for long-term debt, our financial instruments are highly liquid or have short-term maturities. We provide additional information about the fair value of our financial instruments in Note 17 titled, "Fair Value Measurements."

Foreign Currency Translation. Most of our operations use their local currency as their functional currency. Financial statements of subsidiaries are translated into U.S. dollars using the exchange rate at each balance sheet date for assets and liabilities and a weighted average exchange rate for each period for revenues, expenses, gains and losses. Translation adjustments for subsidiaries whose local currency is their functional currency are recorded as a component of accumulated other comprehensive income (loss) within equity. Transaction gains and losses resulting from fluctuations in currency exchange rates on transactions denominated in currencies other than the functional currency are recognized as incurred in the accompanying Consolidated Statement of Income, except for certain inter-company balances designated as long-term in nature.

Forward and Swap Contracts. We enter into foreign currency forward contracts to hedge assets and liabilities 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 marked to market, with gains and losses recognized within "Selling, general, and administrative expenses" or "Cost of revenues" in the accompanying Consolidated Statements of Income.

Warranty. Warranties are provided on the sale of certain of our products and services and an accrual for estimated future claims is recorded at the time revenue is recognized. We estimate warranty expense based primarily on historical warranty claim experience.

Shipping and Handling. We record shipping and handling costs in costs of revenues. Shipping and handling costs charged to Customers are recorded as revenues in the period the product revenues are recognized.

Advertising Expenses. Costs incurred for communicating, advertising and promoting our products are generally expensed when incurred as a component of Selling, General and Administrative Expense. We incurred $10,886, $12,622, and $10,785 of advertising costs during the years ended March 31, 2018, 2017, and 2016, respectively.

Research and Development. We incur research and development costs associated with commercial products and expense these costs as incurred. If a Customer reimburses us for research and development costs, the costs are charged to the related contracts as costs of revenues.

STERIS PLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share amounts and as noted)

Income Taxes. We defer income taxes for all temporary differences between pre-tax financial and taxable income and between the book and tax basis of assets and liabilities. We record valuation allowances to reduce net deferred tax assets to an amount that we expect will more-likely-than-not be realized. In making such a determination, we consider all available information, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies, and if applicable, any carryback claims that can be filed. In the event we were to determine that we would be able to realize our deferred income tax assets in the future in excess of their net recorded amount, we would make an adjustment to the valuation allowance which would reduce the provision for income taxes and the effective tax rate.

We evaluate uncertain tax positions in accordance with a two-step process. The first step is recognition: The determination of whether or not it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, we presume that the position will be examined by the appropriate tax authority and that the tax authority will have full knowledge of all relevant information. The second step is measurement: A tax position that meets the more-likely-than-not threshold is measured to determine the amount of benefit to recognize in the financial statements. The measurement process requires the determination of the range of possible settlement amounts and the probability of achieving each of the possible settlements. The tax position is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. No tax benefits are recognized for positions that do not meet the more-likely-than-not threshold. Tax positions that previously failed to meet the more-likely-than-not threshold are recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold are derecognized in the first subsequent financial reporting period in which the threshold is no longer met. We describe income taxes further in Note 8 to our consolidated financial statements titled, “Income Taxes.”

Medical Device Excise Tax. The Medical Device Excise Tax became effective January 1, 2013. The excise tax was mandated by the 2010 health care reform legislation and assesses a 2.3% tax on the sale or use of certain medical devices that are sold or manufactured in the United States. Many of our products are subject to the excise tax. Late in 2015, Congress enacted legislation that suspended the excise tax for 2016 and 2017. Early in 2018, U.S. Congress enacted legislation that extended the suspension of the excise tax for 2018 and 2019. Therefore, we did not incur Medical Device Excise taxes during fiscal 2018 or 2017. Should the U.S. Congress take no further action with regard to this tax we will begin to incur excise tax in the fourth quarter of fiscal 2020. We incurred Medical Device Excise taxes of $5,802 during fiscal year 2016, which was included in cost of revenues in the period of sale.

Share-Based Compensation. We describe share-based compensation in Note 14 to our consolidated financial statements titled, “Share-Based Compensation.” We measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. We record liability awards at fair value each reporting period and the change in fair value is reflected as share-based compensation expense in our Consolidated Statements of Income. The expense is classified as cost of goods sold, selling, general and administrative expenses or research and development expenses in a manner consistent with the employee’s compensation and benefits. These costs are recognized in the Consolidated Statement of Income over the period during which an employee is required to provide service in exchange for the award.

Restructuring. We recognize restructuring expenses as incurred. Asset impairment and accelerated depreciation expenses primarily relate to inventory write-downs for rationalized products and adjustments in the carrying value of the related facilities and machinery and equipment to their estimated fair value. In addition, the remaining useful lives of other property, plant, and equipment associated with the related operations are reevaluated based on the respective restructuring plan, which may result in the acceleration of depreciation and amortization of certain assets.

STERIS PLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share amounts and as noted)

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 2016-07, "Investments - Equity Method and Joint Ventures, Simplifying the Transition to the Equity Method of Accounting" (Topic 323)	March 2016	The standard 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.	First Quarter Fiscal 2018	The prospective adoption of this standard did not have a material impact on our consolidated financial statements.
ASU 2015-11, "Inventory - Simplifying the Measurement of Inventory" (Topic 330)	July 2015	The standard requires an entity to measure inventory within the scope of this update at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method. The standard is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years and should be applied prospectively. Early adoption is permitted.	First Quarter Fiscal 2018	The prospective adoption of this standard did not have a material impact on our consolidated financial statements.
ASU 2017-04, "Intangibles - Goodwill and Other, Simplifying the Test for Goodwill Impairment" (Topic 350)	January 2017	This standard eliminates Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedures that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under the amendments of this standard, an entity would perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. The loss should not exceed the total amount of goodwill allocated to that reporting unit.	Third Quarter Fiscal 2018	The prospective adoption of this standard did not have a material impact on our consolidated financial statements.

Tax effects should be considered. The standard is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted.

STERIS PLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share amounts and as noted)

ASU 2016-09, "Stock Compensation: Improvements to Employee Share-Based Payment Accounting" (Topic 718)	March 2016	The standard simplifies several aspects of the accounting for share-based payment award transactions, including income tax consequences, the classification of awards 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.	First Quarter Fiscal 2017	As a result of the adoption of this standard, we recorded $6.6 million and $5.1 million of excess tax benefits associated with share based compensation in the Consolidated Statements of Income for the years ended March 31, 2018 and 2017, respectively, and have included the associated cash flows as cash provided by operating activities. Prior periods have not been restated.
Standards that have not yet been adopted				
ASU 2014-09, "Revenue from Contracts with Customers" and subsequently issued amendments	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 have completed our evaluation of our revenue streams and contracts and have adopted this standard on April 1, 2018 using the modified retrospective method. We have identified certain historical revenue transactions for which the timing of recognition would have been different under this standard. The amount of the cumulative adjustment required to defer revenue based on these transactions at the end of fiscal 2018 represents less than 0.5% of fiscal 2018 revenues, which will reduce retained earnings as of April 1, 2018. We are in the process of finalizing our revenue accounting policy and implementing changes to our business processes, disclosures and controls. Additionally, we expect to provide the required additional disclosures in periods subsequent to the adoption.

STERIS PLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share amounts and as noted)

ASU 2016-01, "Financial Instruments - Overall - Recognition and Measurement of Financial Assets and Liabilities" (Subtopic 825-10)	January 2016	The standard changes how equity investments are measured and presents changes in the fair value of financial liabilities measured under the fair value option. Presentation and disclosure requirements for financial instruments are also affected. Entities will be required to measure equity investments that do not result in consolidation and are not recorded under the equity method at fair value with changes in fair value recognized in net income. The standard clarifies guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale securities. The accounting for other financial instruments, such as loans, investments in debt securities, and financial liabilities is largely unchanged. The standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years.	N/A	The impact that the standard will have on our consolidated financial statements will depend on the future variability in the fair values of our equity investments. However, based on current investment holdings, the impact is not expected to be material.
ASU 2016-02, "Leases" (Topic 842)	February 2016	The standard 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 currently evaluating the impact that the standard will have on our consolidated financial statements. We are also evaluating our lease portfolio, software packages, process and policy change requirements. We anticipate that most of our operating leases will result in the recognition of additional assets and corresponding liabilities in our Consolidated Balance Sheet, however we do not expect the standard to have a material impact on our financial position. The actual impact will depend on our lease portfolio at the time of adoption. More information regarding our total operating lease commitments at March 31, 2018, is disclosed in Note 5, "Property, Plant and Equipment".
ASU 2016-13, "Measurement of Credit Losses on	June 2016	The standard requires a financial asset (or group of financial assets) measured at amortized cost to be presented at the net	N/A	We are in the process of evaluating the impact that the standard will have on our consolidated financial

Financial Instruments"	amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. Credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses. The standard is effective for annual periods beginning after December 15, 2019. Early adoption is permitted.	statements.

STERIS PLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share amounts and as noted)

ASU 2016-15, "Statement of Cash Flows" (Topic 230)	August 2016	This standard provides guidance on the following 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, distributions received from equity method investees, beneficial interests in securitization transactions, and separately identifiable 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.	N/A	The impact that the standard will have will depend on the future occurrence of the relevant transactions or conditions addressed by the standard.
ASU 2016-16, "Income Taxes, Intra-Entity Transfers of Assets Other Than Inventory" (Topic 740)	October 2016	The standard improves the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. The new standard requires the recognition of income tax consequences resulting from an intra-entity transfer of an asset other than inventory when the transfer occurs. The standard is effective for annual periods beginning after December 15, 2017. Early adoption is permitted.	N/A	We are in the process of evaluating the impact that the standard will have on our consolidated financial statements. The impact will depend on the value of future intra-entity transfers.
ASU 2017-07 "Compensation - Retirement Benefits - Improving the Presentation of Net Periodic Pension and Net Periodic Postretirement Benefit Cost" (Topic 715)	March 2017	This standard requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside the subtotal of income from operations, if one is presented. The standard is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted.	N/A	The adoption of this standard is not expected to have a material impact on our consolidated financial statements as it principally relates to classification of costs within our Consolidated Statements of Income. The components of our net periodic benefit costs are disclosed in Note 9, "Benefit Plans".
ASU 2017-09 "Compensation - Stock Compensation" (Topic 718)	May 2017	The standard provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. This standard is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted.	N/A	The impact will depend on the future occurrence of the relevant terms or conditions addressed by the standard.

64

STERIS PLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share amounts and as noted)

ASU 2017-12 "Targeted Improvements to Accounting for Hedging Activities" (Topic 815)	August 2017	The standard provides targeted improvements to accounting for hedging activities by expanding an entity's ability to hedge non-financial and financial risk components and reduce complexity in fair value hedges of interest rate risk. The guidance eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. The guidance also eases certain documentation and assessment requirements and modifies the accounting for components excluded from the assessment of hedge effectiveness. The standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. Early adoption is permitted in any interim period after issuance of the standard. The standard should be applied using a modified retrospective approach for cash flow and net investment hedge relationships that exist on the date of adoption, and prospectively for presentation and disclosure requirements.	N/A	We do not expect this standard to have a material impact on our consolidated financial statements.
ASU 2018-02 "Income Statement - Reporting Comprehensive Income" (Topic 220)	February 2018	The standard allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act and requires certain disclosures about stranded tax effects. The underlying guidance requiring that the effect of a change in tax laws or rates be in included in income form continuing operations is not affected. This standard is effective for fiscal years beginning after December 15, 2018 and interim periods within those years. Early adoption is permitted.	N/A	We are in the process of evaluating the impact that the standard will have on our consolidated financial statements.

2. BUSINESS ACQUISITIONS AND DIVESTITURES

Fiscal 2018 Acquisitions

We completed six minor purchases that continued to expand our product and service offerings in the Healthcare Products, Healthcare Specialty Services and Applied Sterilization Technologies segments. The aggregate purchase price associated with these transactions was approximately $52.9 million, net of cash acquired and including potential contingent consideration of $5.4 million. The purchase price for the acquisitions was financed with both cash on hand and with credit facility borrowings. Purchase price allocations will be finalized within a measurement period not to exceed one year from the applicable closing.

Fiscal 2017 Acquisitions

Compass Medical, Inc.

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

Phoenix Surgical Holdings, Ltd. and Endo-Tek LLP

STERIS PLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share amounts and as noted)

On August 31, 2016, we purchased 100% of the shares of Phoenix Surgical Holdings, Ltd. and the assets of Endo-Tek LLP ("Phoenix Surgical and Endo-Tek") for approximately $14.3 million combined, net of cash acquired. 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 are being integrated into our Healthcare Specialty Services segment.

Medisafe

On July 22, 2016, we purchased 100% of the shares of Medisafe Holdings, Ltd. ("Medisafe"), a U.K. manufacturer of washer/disinfector equipment and related consumables and services for approximately $34.5 million, net of cash acquired. The purchase price was financed with cash on hand. On an annual basis, the Medisafe product line has generated $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 are being 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 lowest 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 and that are geographically complementary. Total costs of approximately $63.8 million before tax were incurred during fiscal year 2016 related to the Combination and are reported in Selling, general and administrative expense.

During the fiscal 2017 third quarter, adjustments were made to finalize the opening balance sheet fair value estimates. Adjustments related primarily to property, plant and equipment, intangible assets and goodwill. The cumulative impact of the final purchase price allocation resulted in a cumulative decrease in depreciation, amortization and depletion expense of approximately $20.0 million, of which approximately $17.0 million was recorded within Selling, general and administrative expense and approximately $3.0 million was recorded within Cost of revenues in the Consolidated Statements of Income. The cumulative foreign currency translation adjustment recorded as a result of the finalization of purchase accounting was approximately $170.0 million.

Actual and Pro Forma Impact

Our fiscal 2016 consolidated financial statements include Synergy's results of operations from the date of acquisition on November 2, 2015 through March 31, 2016. Net sales and operating income attributable to Synergy during this period and included in our consolidated financial statements for the fiscal year ended March 31, 2016 total $254.9 million and $3.7 million, respectively.

The following unaudited pro forma information gives effect to our acquisition of Synergy as if the acquisition had occurred at the beginning of fiscal 2016 and Synergy had been included in our consolidated results of operations for fiscal year ended March 31, 2016.

Amounts are unaudited	Fiscal Year Ending March 31, 2016
Net revenues	$2,619,056
Net income from continuing operations	188,269

The historical consolidated financial information of STERIS and Synergy has been adjusted in the pro forma information to give effect to pro forma events that are (1) directly attributable to the transaction, (2) factually supportable and (3) expected to have a continuing impact on the combined results. The unaudited pro forma results include adjustments to reflect the amortization of the inventory step-up, the incremental depreciation from the fair value adjustments to property, plant and equipment, and the incremental intangible asset amortization to be incurred

based on the valuations of the assets acquired. Adjustments to financing costs and income tax expense also were made to reflect the capital structure and anticipated effective tax rate of the combined entity. These pro forma amounts are not necessarily indicative of the results that would have been obtained if the acquisition had occurred prior to the beginning of the period presented or that may occur in the future, and does not reflect future synergies, integration costs, or other such costs or savings.

STERIS PLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share amounts and as noted)

Gepco

On July 31, 2015, we acquired all of the outstanding shares of General Econopak, Inc. (“Gepco”), since renamed STERIS Barrier Products Solutions, Inc., for a purchase price of $176.5 million in cash, including a customary working capital adjustment. Gepco is a Pennsylvania-based manufacturer of product solutions in the areas of sterility maintenance, barrier protection, and sterile cleanroom products for pharmaceutical, biotechnology and veterinary Customers. Gepco has been integrated into our Life Sciences business segment. The purchase price was financed through a combination of credit facility borrowings and cash on hand. The purchase price has been allocated to the net assets acquired based on fair values at the acquisition date. The acquisition qualified for joint election tax benefit under Section 338 (h)(10) of the Internal Revenue Code, which allows goodwill and intangibles to be fully deductible for tax purposes.

Black Diamond

On June 12, 2015, we acquired the capital stock of Black Diamond Video, Inc. ("Black Diamond"), a California-based developer and provider of operating room integration systems. The purchase price was approximately $46.2 million, which included a working capital adjustment, deferred consideration of $5.9 million and contingent consideration of $0.8 million. The transaction consideration paid at closing was funded with cash on hand. Black Diamond has been integrated into our Healthcare Products business segment. The purchase price has been allocated to the net assets acquired based on fair values at the acquisition date.

Other 2016 Acquisitions

We also completed several other minor purchases that continued to expand our service offerings in the Healthcare Products, Healthcare Specialty Services and Life Sciences segments. The aggregate purchase price associated with these transactions was approximately $41.1 million, including potential contingent consideration of $1.8 million.

Fair Value of Assets Acquired and Liabilities Assumed

The table below summarizes the allocation of the purchase price to the net assets acquired based on fair values at the acquisition dates for our fiscal 2018, 2017 and 2016 acquisitions.

	Fiscal Year 2018	Fiscal Year 2017			Fiscal Year 2016			
(dollars in thousands)	All Acquisitions [1]	Medisafe	Compass	Phoenix Surgical and Endo-Tek	Synergy Health plc	Gepco	Black Diamond	Other Acquisitions
Cash	$ 235	$3,751	$—	$ 769	$53,057	$1,108	$—	$ —
Accounts receivable	1,464	3,634	629	1,123	103,093	4,161	2,966	3,859
Inventory	2,289	2,454	659	950	30,074	1,926	3,309	1,108
Property, plant and equipment	3,420	639	13	1,092	496,555	3,421	607	1,979
Other assets	126	—	31	46	19,175	946	54	—
Intangible assets	15,318	17,151	5,992	7,824	504,196	61,900	13,500	14,829
Goodwill	35,766	19,599	8,987	5,938	1,685,524	104,485	31,792	20,630
Total Assets	58,618	47,228	16,311	17,742	2,891,674	177,947	52,228	42,405
Current liabilities	(2,833)	(5,562)	(309)	(1,373)	(107,932)	(1,473)	(4,525)	(1,277)
Long-term indebtedness	—	—	—	—	(321,082)	—	—	—
Non-current liabilities	(2,622)	(3,398)	—	(1,263)	(159,112)	—	(1,548)	(49)
Total Liabilities	(5,455)	(8,960)	(309)	(2,636)	(588,126)	(1,473)	(6,073)	(1,326)
Net Assets	$ 53,163	$38,268	$16,002	$ 15,106	$2,303,548	$176,474	$46,155	$ 41,079

[1] Purchase price allocation is still preliminary as of March 31, 2018, as valuations have not been finalized.

Acquisition related transaction and integration costs totaled $16.2 million, $30.1 million, and $82.9 million for the fiscal years ended March 31, 2018, 2017, and 2016, respectively. These costs are included in Selling, general, and administrative expenses in the Consolidated Statements of Income.

STERIS PLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share amounts and as noted)

Divestitures

Synergy Health Healthcare Consumable Solutions

On November 20, 2017, we sold our Synergy Health Healthcare Consumable Solutions ("HCS") business to Vernacare. Annual revenues for the HCS business were approximately $40.0 million and were included in the Healthcare Products segment. We recorded proceeds of $8.2 million, net of cash divested, and subject to a working capital adjustment. We also recognized a pre-tax loss on the sale, subject to final working capital adjustments, of $13.5 million in Selling, general, and administrative expense in the Consolidated Statement of Income.

Netherlands Linen Management Services

On February 9, 2017, we sold our Synergy Health Netherlands Linen Management Services business to EMEA B.V. Annual revenues for Synergy Health Netherlands Linen Management Services were approximately $75 million and were included in the Healthcare Specialty Services segment. We recorded a $43.0 million pre-tax loss on the sale in Selling, general, and administrative expense in the Consolidated Statements of Income as a result of the divestiture. In connection with the divestiture, we entered into a loan agreement to provide financing of up to €15 million for a term of up to 15 years. The loan carries an interest rate of 4 percent for the first four years and 12 percent thereafter. Outstanding borrowings under the agreement totaled $3.1 million at March 31, 2018.

U.S. Linen Management Services

On November 3, 2016, we sold our Synergy Health U.S. Linen Management Services business to SRI Healthcare LLC. Annual revenues for U.S. Linen Management Services were approximately $50 million and were included in the Healthcare Specialty Services segment. We recorded proceeds of $4.5 million and recognized a pre-tax loss on the sale, subject to final adjustments, of $31.2 million in Selling, general, and administrative expense in the Consolidated Statements of Income.

Synergy Health Labs

On September 2, 2016, we sold Synergy Health Laboratory Services to SYNLAB International. Annual revenues for the Synergy Health Labs were approximately $15.0 million and were included in the Applied Sterilization Technologies segment. We recorded proceeds of $26.3 million, net of cash divested, and recognized a pre-tax gain on the sale of $18.7 million in Selling, general, and administrative expense in the Consolidated Statements of Income.

Applied Infection Control

On August 31, 2016, 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 $50.0 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 $36.2 million in Selling, general, and administrative expense in the Consolidated Statements of Income.

UK Linen Management Services

On July 1, 2016, we sold our Synergy Health UK Linen Management Services business to STAR Mayan Limited. Annual revenues for UK Linen Management Services were approximately $50.0 million and were included in the Healthcare Specialty Services segment. We recorded proceeds of $65.4 million, net of cash divested, and recognized a pre-tax loss on the sale of $66.4 million in Selling, general, and administrative expense in the Consolidated Statements of Income.

STERIS PLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share amounts and as noted)

3. GOODWILL AND INTANGIBLE ASSETS

Changes to the carrying amount of goodwill for the years ended March 31, 2018, 2017 and 2016 were as follows:

	Healthcare Products Segment	Healthcare Specialty Services Segment	Life Sciences Segment	Applied Sterilization Technologies Segment	Synergy Combination	Total
Balance at March 31, 2016	363,770	154,272	147,334	83,035	1,408,192	2,156,603
Goodwill acquired or allocated	19,618	21,781	—	—	—	41,399
Synergy allocation	—	376,807	—	1,308,717	(1,411,781)	273,743
Divestitures	—	(85,806)	—	—	—	(85,806)
Impairment	—	(58,356)	—	—	—	(58,356)
Foreign currency translation adjustments	(5,623)	(32,819)	(820)	(60,607)	3,589	(96,280)
Balance at March 31, 2017	$377,765	$375,879	$ 146,514	$ 1,331,145	$ —	$2,231,303
Goodwill acquired or allocated	16,418	3,501	—	15,847	—	35,766
Reassignment	—	(1,855)	—	1,855	—	—
Foreign currency translation adjustments	10,491	10,500	2,302	143,422	—	166,715
Balance at March 31, 2018	$404,674	$388,025	$ 148,816	$ 1,492,269	$ —	$2,433,784

The fiscal 2018 goodwill increase was due to our recent business acquisitions, which are discussed in Note 2, titled "Business Acquisitions" and the impact of foreign currency. The fiscal 2018 reassignment between the Healthcare Specialty Services and the Applied Sterilization Technologies segments resulted from certain minor organizational changes that were made to better align with our Customers.

The fiscal 2017 goodwill increase within the Healthcare Products segment primarily relates to the acquisition of Medisafe. The fiscal 2017 goodwill increase within the Healthcare Specialty Services and Applied Sterilization Technologies segments was primarily the result of the finalization of purchase accounting related to the Synergy acquisition. The Healthcare Specialty Services segment was also impacted by the fiscal 2017 acquisitions of Compass Medical, Inc., Phoenix Surgical Holdings, Ltd., and Endo-Tek LLP, the Synergy Health UK Linen Management Services divestiture and the Synergy Health Netherlands goodwill impairment discussed below.

We evaluate the recoverability of recorded goodwill amounts annually during the third fiscal quarter, or when evidence of potential impairment exists. As a result of our annual goodwill impairment review for fiscal year 2017, we concluded that the carrying value of one of our reporting units exceeded its fair value. The Synergy Health Netherlands linen management unit was reported within our Healthcare Specialty Services segment. Financial forecasts prepared for the annual assessment reflected pricing pressures, volume declines driven by overcapacity in the market, and a decline in the overall market size. These factors resulted in further degradation of the already low operating margin and cash flows of this unit. We incurred a goodwill impairment charge of $58,356 as a result, which is recorded within Goodwill impairment loss in the Consolidated Statements of Income. The fair market value of the reporting unit was determined under an income approach using discounted cash flows and estimated fair market values. Fair value calculated using a discounted cash flow analysis is classified within level 3 of the fair value hierarchy and requires several assumptions including risk adjusted discount rates and financial forecasts.

As a result of our annual impairment review for goodwill for fiscal year 2018 and fiscal year 2016, no indicators of impairment were identified.

Our fiscal 2018, 2017, and 2016 acquisitions are described in Note 2 to our consolidated financial statements titled, "Business Acquisitions and Divestitures".

STERIS PLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share amounts and as noted)

Information regarding our intangible assets is as follows:

March 31,	2018 Gross Carrying Amount	Accumulated Amortization	2017 Gross Carrying Amount	Accumulated Amortization
Customer relationships	$663,532	$ 150,358	$597,386	$ 96,648
Non-compete agreements	4,738	3,790	4,722	3,629
Patents and technology	226,318	107,598	211,812	86,665
Trademarks and tradenames	83,509	36,864	80,223	32,547
Supplier relationships	54,800	7,307	54,800	4,567
Other	10	10	10	10
Total	$1,032,907	$ 305,927	$948,953	$ 224,066

Certain trademarks and tradenames obtained as a result of business combinations are indefinite-lived assets. We evaluate our indefinite-lived intangible assets annually during the third quarter, or when evidence of potential impairment exists. No impairment was taken for the fiscal years 2018, 2017 or 2016. The approximate carrying value of these assets at March 31, 2018 and March 31, 2017 was $35,266 and $34,970, respectively. Total amortization expense for finite-lived intangible assets was $70,195, $68,607, and $49,782 for the years ended March 31, 2018, 2017, and 2016, respectively. Based upon the current amount of intangible assets subject to amortization, the amortization expense for each of the five succeeding fiscal years is estimated to be as follows:

	2019	2020	2021	2022	2022
Estimated amortization expense	$68,447	$67,390	$66,742	$63,832	$59,061

The estimated annual amortization expense presented in the preceding table has been calculated based upon March 31, 2018 currency exchange rates.

During the third quarter of fiscal 2017, we adopted a new branding strategy change as part of the integration of certain Synergy Health operations into the Healthcare Specialty Services Segment. Under this new branding strategy, hospital sterilization services and instrument repair services will utilize the STERIS Instrument Management Services brand name. The Synergy Health trade name was phased out during the fourth quarter of fiscal 2017. As a result, we shortened the estimated useful life of the Synergy Health trade name and accelerated the corresponding amortization expense over the remainder of fiscal 2017, resulting in an additional expense of $14,444 within the Selling, general and administrative expense line on the Consolidated Statements of Income.

4. INVENTORIES, NET

Inventories, net consisted of the following:

March 31,