

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2021

or

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

For the transition period from to

Commission file number 001-39729



**SOTERA HEALTH COMPANY**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

47-3531161

(I.R.S. Employer Identification No.)

9100 South Hills Blvd, Suite 300

Broadview Heights, Ohio

(Address of principal executive offices)

44147

(Zip Code)

Registrant's telephone number, including area code

(440) 262-1410

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value per share	SHC	The Nasdaq Stock Market LLC

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

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.

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

As of August 5, 2021, there were 282,916,909 shares of the registrant's common stock, \$0.01 par value per share, outstanding.

**SOTERA HEALTH COMPANY**  
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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward looking statements are often characterized by the use of the words such as “believes,” “estimates,” “expects,” “projects,” “may,” “intends,” “plans” or “anticipates,” or by discussions of strategy, plans or intentions. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause our actual results, performance or achievements, or industry results, to differ materially from historical results or any future results, performance or achievements expressed, suggested or implied by such forward-looking statements. Such risks and uncertainties include, but are not limited to:

- any disruption in the availability of, or increases in the price of, ethylene oxide (“EO”), cobalt-60 (“Co-60”) or our other direct materials, services and supplies, including as a result of current geopolitical instability arising from U.S. relations with Russia and related sanctions;
- adverse changes in industry trends;
- adverse changes in environmental, health and safety regulations;
- accidents resulting from the safety risks associated with the use and disposal of potentially hazardous materials such as EO and Co-60;
- accidents resulting from the safety risks associated with the transportation of potentially hazardous materials such as EO and Co-60;
- liability claims relating to health risks associated with the use of EO and Co-60;
- current and future legal proceedings;
- the intensity of competition we face;
- any market changes that impact our long-term supply contracts with variable price clauses;
- allegations of our failure to properly perform our services and any potential product liability claims, recalls, penalties and reputational harm;
- the regulatory requirements to which we are subject, and any failures to receive or maintain, or delays in receiving, required clearance or approvals;
- business continuity hazards and other risks associated with our operations, including our reliance on the use and sale of products and services from a single location;
- the impact of the COVID-19 pandemic;
- our ability to increase capacity at existing facilities and build new facilities in a timely and cost-effective manner;
- our ability to renew the long-term leases for our facilities at the end of their terms;
- the risks of doing business internationally;
- instability in global and regional economic and political conditions;
- our failure to retain key personnel and attract talent;
- the significant regulatory oversight to which our import and export operations are subject, and any failure to comply with applicable regulations;
- any cyber security breaches and data leaks as a result of our dependence on information technology systems;
- the risks of pursuing strategic transactions, including acquisitions, and our ability to find suitable acquisition targets or integrate strategic acquisitions successfully into our business;
- our ability to maintain effective internal controls over financial reporting;
- our reliance on intellectual property to maintain our competitive position and the risk of claims from third parties that we infringe or misappropriate their intellectual property rights;
- the data privacy and security laws and regulations to which we are subject, and any ineffective compliance efforts with such laws and regulations;
- our ability to maintain profitability in the future;
- impairment charges on our goodwill and other intangible assets with indefinite lives;
- unionization efforts and labor regulations in certain countries in which we operate;
- the variety of laws involving the cannabis industry to which we are subject, and any failure to comply with those laws;
- the risk of government or private civil antitrust actions;
- adverse changes to our tax positions in U.S. or non-U.S. jurisdictions, the interpretation and application of recent U.S. tax legislation or other changes in U.S. or non-U.S. taxation of our operations;
- our substantial leverage could adversely affect our ability to raise additional capital, limit our ability to react to changes in the economy or our industry and prevent us from meeting our obligations under our existing and future indebtedness; and
- our ability to generate sufficient cash flows or access sufficient additional capital to meet our debt obligations or to fund our other liquidity needs.

These statements are based on current plans, estimates and projections, and therefore you should not place undue reliance on them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update them publicly in light of new information or future events, except as required by law. The inclusion of this forward-looking information should not be regarded as a representation by us or any other person that the future plans, estimates or expectations contemplated by us will be achieved.

You should carefully consider the above factors, as well as the factors discussed elsewhere in this Quarterly Report on Form 10-Q, including under Part II, Item 1A, “Risk Factors,” as well as Part I, Item 1A, “Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2020 (the “2020 10-K”). If any of these trends, risks or uncertainties actually occurs or continues, our business, financial condition or operating results could be materially adversely affected, the trading prices of our securities could decline and you could lose all or part of your investment. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by this cautionary statement.

Unless expressly indicated or the context requires otherwise, the terms “Sotera Health,” “Company,” “we,” “us,” and “our” in this document refer to Sotera Health Company, a Delaware corporation, and, where appropriate, its subsidiaries on a consolidated basis.

**Part I—FINANCIAL INFORMATION**
**Item 1. Financial Statements**

**Sotera Health Company**  
**Consolidated Balance Sheets**  
*(in thousands)*

	As of	
	June 30, 2021	December 31, 2020
<b>Assets</b>	<i>(Unaudited)</i>	
<b>Current assets:</b>		
Cash and cash equivalents	\$ 156,217	\$ 102,447
Restricted cash short-term	7	7
Accounts receivable, net of allowance for uncollectible accounts of \$730 and \$708, respectively	118,405	91,735
Inventories, net	35,721	34,093
Prepaid expenses and other current assets	67,942	64,964
Income taxes receivable	22,813	21,769
<b>Total current assets</b>	<b>401,105</b>	<b>315,015</b>
Property, plant, and equipment, net	623,513	609,814
Operating lease assets	45,147	45,963
Deferred income taxes	8,194	8,424
Investment in unconsolidated affiliate	9,373	13,457
Other assets	8,834	9,304
Other intangible assets, net	640,787	643,366
Goodwill	1,114,176	1,115,936
<b>Total assets</b>	<b>\$ 2,851,129</b>	<b>\$ 2,761,279</b>
<b>Liabilities and equity</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 63,147	\$ 52,400
Accrued liabilities	57,165	60,518
Deferred revenue	5,539	6,056
Current portion of finance lease obligations	1,103	1,173
Current portion of operating lease obligations	10,106	9,383
Current portion of asset retirement obligations	660	620
Income taxes payable	11,072	10,448
<b>Total current liabilities</b>	<b>148,792</b>	<b>140,598</b>
Long-term debt	1,838,133	1,824,789
Finance lease obligations, less current portion	33,446	34,939
Operating lease obligations, less current portion	37,354	38,941
Noncurrent asset retirement obligations	46,408	45,013
Deferred lease income	21,550	21,255
Post-retirement obligations	45,638	48,223
Mandatorily redeemable noncontrolling interest	—	13,625
Noncurrent liabilities	18,905	17,506
Deferred income taxes	137,632	121,816
<b>Total liabilities</b>	<b>2,327,858</b>	<b>2,306,705</b>
See Commitments and contingencies note		
<b>Equity:</b>		
Common stock, with \$0.01 par value, 1,200,000 shares authorized; 286,037 shares issued at June 30, 2021 and 285,990 at December 31, 2020	2,860	2,860
Preferred stock, with \$0.01 par value, 120,000 authorized; no shares issued at June 30, 2021 and December 31, 2020, respectively	—	—
Treasury stock, at cost (3,120 and 2,742 shares at June 30, 2021 and December 31, 2020, respectively)	(34,000)	(34,000)
Additional paid-in capital	1,167,566	1,166,412
Retained deficit	(535,687)	(589,128)
Accumulated other comprehensive loss	(77,468)	(93,842)
<b>Total equity attributable to Sotera Health Company</b>	<b>523,271</b>	<b>452,302</b>
Noncontrolling interests	—	2,272
<b>Total equity</b>	<b>523,271</b>	<b>454,574</b>
<b>Total liabilities and equity</b>	<b>\$ 2,851,129</b>	<b>\$ 2,761,279</b>

See notes to consolidated financial statements.

**Sotera Health Company**  
**Consolidated Statements of Operations and Comprehensive Income (Loss)**  
*(in thousands, except per share amounts)*  
*(Unaudited)*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
<b>Revenues:</b>				
Service	\$ 208,710	\$ 174,444	\$ 397,408	\$ 341,849
Product	43,207	38,641	66,657	59,436
<b>Total net revenues</b>	<b>251,917</b>	<b>213,085</b>	<b>464,065</b>	<b>401,285</b>
<b>Cost of revenues:</b>				
Service	91,391	80,620	176,427	163,689
Product	16,765	13,498	28,505	22,112
<b>Total cost of revenues</b>	<b>108,156</b>	<b>94,118</b>	<b>204,932</b>	<b>185,801</b>
<b>Gross profit</b>	<b>143,761</b>	<b>118,967</b>	<b>259,133</b>	<b>215,484</b>
<b>Operating expenses:</b>				
Selling, general and administrative expenses	49,828	42,684	102,293	79,737
Amortization of intangible assets	15,661	14,541	32,204	29,140
<b>Total operating expenses</b>	<b>65,489</b>	<b>57,225</b>	<b>134,497</b>	<b>108,877</b>
<b>Operating income</b>	<b>78,272</b>	<b>61,742</b>	<b>124,636</b>	<b>106,607</b>
Interest expense, net	19,163	55,250	40,445	111,812
Loss on extinguishment of debt	—	—	14,312	—
Foreign exchange loss (gain)	76	(172)	654	(799)
Other income, net	(2,764)	(4,358)	(6,654)	(1,208)
<b>Income (loss) before income taxes</b>	<b>61,797</b>	<b>11,022</b>	<b>75,879</b>	<b>(3,198)</b>
Provision (benefit) for income taxes	19,182	3,770	22,199	(8,464)
<b>Net income</b>	<b>42,615</b>	<b>7,252</b>	<b>53,680</b>	<b>5,266</b>
<b>Less: Net income attributable to noncontrolling interests</b>	<b>16</b>	<b>235</b>	<b>239</b>	<b>213</b>
<b>Net income attributable to Sotera Health Company</b>	<b>42,599</b>	<b>7,017</b>	<b>53,441</b>	<b>5,053</b>
<b>Other comprehensive (loss) income net of tax:</b>				
Pension and post-retirement benefits (net of taxes of \$(142), \$(326), \$(226), and \$418, respectively)	(421)	(967)	(670)	1,240
Interest rate swaps (net of taxes of \$0, \$520, \$0 and \$(724), respectively)	—	1,465	—	(2,014)
Foreign currency translation	20,425	24,440	17,339	(48,527)
<b>Comprehensive income (loss)</b>	<b>62,619</b>	<b>32,190</b>	<b>70,349</b>	<b>(44,035)</b>
Less: comprehensive income attributable to noncontrolling interests	326	234	534	212
<b>Comprehensive income (loss) attributable to Sotera Health Company</b>	<b>\$ 62,293</b>	<b>\$ 31,956</b>	<b>\$ 69,815</b>	<b>\$ (44,247)</b>
<b>Earnings per share:</b>				
Basic	\$ 0.15	\$ 0.03	\$ 0.19	\$ 0.02
Diluted	0.15	0.03	0.19	0.02
<b>Weighted average number of shares outstanding:</b>				
Basic	279,078	232,400	278,953	232,400
Diluted	279,214	232,400	279,078	232,400

See notes to consolidated financial statements.

**Sotera Health Company**  
**Consolidated Statements of Cash Flows**  
*(in thousands)*  
*(Unaudited)*

	Six Months Ended June 30,	
	2021	2020
<b>Operating activities:</b>		
Net income	\$ 53,680	\$ 5,266
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	31,062	31,433
Amortization of intangible assets	44,060	39,624
Loss on extinguishment of debt	14,312	—
Deferred income taxes	3,504	(8,237)
Share-based compensation expense	6,942	3,118
Accretion of asset retirement obligations	1,153	974
Unrealized foreign exchange losses / (gains)	1,097	(4,864)
Unrealized (gain) / loss on embedded derivative instruments	(1,614)	2,043
Amortization of debt issuance costs	3,245	5,830
Other	(4,241)	(3,704)
Changes in operating assets and liabilities:		
Accounts receivable	(25,754)	(4,809)
Inventories	(770)	5,359
Other current assets	983	(957)
Accounts payable	15,080	(8,951)
Accrued liabilities	(4,375)	(7,246)
Income taxes payable / receivable	(3,998)	(3,943)
Other liabilities	(95)	164
Other long-term assets	(15)	1,587
Net cash provided by operating activities	<u>134,256</u>	<u>52,687</u>
<b>Investing activities:</b>		
Purchases of property, plant and equipment	(44,789)	(23,438)
Purchase of mandatorily redeemable noncontrolling interest in Nelson Laboratories Fairfield, Inc.	(12,425)	—
Purchase of BioScience Laboratories, LLC, net of cash acquired	(13,760)	—
Net cash used in investing activities	<u>(70,974)</u>	<u>(23,438)</u>
<b>Financing activities:</b>		
Proceeds from revolving credit facility	—	50,000
Purchase of noncontrolling interests in China subsidiaries	(7,720)	—
Payments of debt issuance costs	(3,661)	(142)
Payments on long-term borrowings	—	(55,725)
Other	(709)	(651)
Net cash used in financing activities	<u>(12,090)</u>	<u>(6,518)</u>
Effect of exchange rate changes on cash and cash equivalents	2,578	601
Net increase in cash and cash equivalents, including restricted cash	53,770	23,332
Cash and cash equivalents, including restricted cash, at beginning of period	102,454	63,025
Cash and cash equivalents, including restricted cash, at end of period	<u>\$ 156,224</u>	<u>\$ 86,357</u>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the period for interest	\$ 36,615	\$ 112,725
Cash paid during the period for income taxes, net of tax refunds received	22,785	3,332
Equipment purchases included in accounts payable	9,670	7,141

See notes to consolidated financial statements.

**Sotera Health Company**  
**Consolidated Statements of Equity**  
*(in thousands)*  
*(Unaudited)*

**Three Months Ended June 30, 2021**

	Common Stock		Treasury Stock	Additional Paid-In Capital	Retained Earnings / (Accumulated Deficit)	Accumulated Other Comprehensive (Loss) Income	Noncontrolling Interests	Total Equity
	Shares	Amount						
<b>Balance at March 31, 2021</b>	<b>282,900</b>	<b>\$ 2,860</b>	<b>\$ (34,000)</b>	<b>\$ 1,169,852</b>	<b>\$ (578,286)</b>	<b>\$ (97,162)</b>	<b>\$ 2,480</b>	<b>\$ 465,744</b>
Acquisition of noncontrolling interests	—	—	—	(5,772)	—	—	(2,806)	(8,578)
Issuance of shares	47	—	—	1,080	—	—	—	1,080
Share-based compensation plans	(30)	—	—	2,406	—	—	—	2,406
Comprehensive income (loss):								
Pension and post-retirement plan adjustments, net of tax	—	—	—	—	—	(421)	—	(421)
Foreign currency translation	—	—	—	—	—	20,115	310	20,425
Net income	—	—	—	—	42,599	—	16	42,615
<b>Balance at June 30, 2021</b>	<b>282,917</b>	<b>\$ 2,860</b>	<b>\$ (34,000)</b>	<b>\$ 1,167,566</b>	<b>\$ (535,687)</b>	<b>\$ (77,468)</b>	<b>\$ —</b>	<b>\$ 523,271</b>

**Six Months Ended June 30, 2021**

	Common Stock		Treasury Stock	Additional Paid-In Capital	Retained Earnings / (Accumulated Deficit)	Accumulated Other Comprehensive (Loss) Income	Noncontrolling Interests	Total Equity
	Shares	Amount						
<b>Balance at December 31, 2020</b>	<b>283,248</b>	<b>\$ 2,860</b>	<b>\$ (34,000)</b>	<b>\$ 1,166,412</b>	<b>\$ (589,128)</b>	<b>\$ (93,842)</b>	<b>\$ 2,272</b>	<b>\$ 454,574</b>
Acquisition of noncontrolling interests	—	—	—	(5,772)	—	—	(2,806)	(8,578)
Issuance of shares	47	—	—	1,080	—	—	—	1,080
Share-based compensation plans	(378)	—	—	5,846	—	—	—	5,846
Comprehensive income (loss):								
Pension and post-retirement plan adjustments, net of tax	—	—	—	—	—	(670)	—	(670)
Foreign currency translation	—	—	—	—	—	17,044	295	17,339
Net income	—	—	—	—	53,441	—	239	53,680
<b>Balance at June 30, 2021</b>	<b>282,917</b>	<b>\$ 2,860</b>	<b>\$ (34,000)</b>	<b>\$ 1,167,566</b>	<b>\$ (535,687)</b>	<b>\$ (77,468)</b>	<b>\$ —</b>	<b>\$ 523,271</b>

See notes to consolidated financial statements.



**Sotera Health Company**  
**Consolidated Statements of Equity (Deficit) (continued)**  
*(in thousands)*  
*(Unaudited)*

**Three Months Ended June 30, 2020**

	Common Stock		Additional Paid-In Capital	Retained Earnings / (Accumulated Deficit)	Accumulated Other Comprehensive (Loss) Income	Noncontrolling Interests	Total Equity (Deficit)
	Shares	Amount					
<b>Balance at March 31, 2020</b>	232,400	\$ 2,324	\$ 1,725	\$ (552,475)	\$ (168,626)	\$ 1,420	\$ (715,632)
Share-based compensation plans	—	—	1,393	—	—	—	1,393
Comprehensive income (loss):							
Pension and post-retirement plan adjustments, net of tax	—	—	—	—	(967)	—	(967)
Foreign currency translation	—	—	—	—	24,440	—	24,440
Interest rate swaps	—	—	—	—	1,465	—	1,465
Net income	—	—	—	7,017	—	234	7,251
<b>Balance at June 30, 2020</b>	232,400	\$ 2,324	\$ 3,118	\$ (545,458)	\$ (143,688)	\$ 1,654	\$ (682,050)

**Six Months Ended June 30, 2020**

	Common Stock		Additional Paid-In Capital	Retained Earnings / (Accumulated Deficit)	Accumulated Other Comprehensive (Loss) Income	Noncontrolling Interests	Total Equity (Deficit)
	Shares	Amount					
<b>Balance at December 31, 2019</b>	232,400	\$ 2,324	\$ —	\$ (550,511)	\$ (94,387)	\$ 1,442	\$ (641,132)
Share-based compensation plans	—	—	3,118	—	—	—	3,118
Comprehensive income (loss):							
Pension and post-retirement plan adjustments, net of tax	—	—	—	—	1,240	—	1,240
Foreign currency translation	—	—	—	—	(48,527)	—	(48,527)
Interest rate swaps	—	—	—	—	(2,014)	—	(2,014)
Net income	—	—	—	5,053	—	212	5,265
<b>Balance at June 30, 2020</b>	232,400	\$ 2,324	\$ 3,118	\$ (545,458)	\$ (143,688)	\$ 1,654	\$ (682,050)

See notes to consolidated financial statements.

Sotera Health Company  
Notes to Consolidated Financial Statements

## 1. Basis of Presentation

*Principles of Consolidation* – Sotera Health Company (also referred to herein as the “Company,” “we,” “our,” “us” or “its”), is a leading global provider of mission-critical end-to-end sterilization solutions, lab testing and advisory services for the healthcare industry with operations primarily in the Americas, Europe and Asia.

We operate and report in three segments, Sterigenics, Nordion and Nelson Labs. We describe our reportable segments in Note 18, “Segment Information”. All significant intercompany balances and transactions have been eliminated in consolidation.

Noncontrolling interests represent the noncontrolling stockholders’ proportionate share of the total equity in the Company’s consolidated subsidiaries. We consolidate the results of operations of these subsidiaries with our results of operations. In the second quarter of 2021, we purchased the outstanding noncontrolling interests of 15% and 33% of our two China subsidiaries. Refer to Note 4, “Acquisitions” for additional details. We reflect the noncontrolling interests in our two China subsidiaries for all periods presented prior to this purchase transaction on our Consolidated Statements of Operations and Comprehensive Income (Loss) as “Net income attributable to noncontrolling interests.”

On March 11, 2021, we purchased the 15% noncontrolling interest that remained from the August 2018 acquisition of Nelson Laboratories Fairfield, Inc. (“Nelson Labs Fairfield”). As the purchase of this noncontrolling interest was mandatorily redeemable, no earnings were allocated to this noncontrolling interest. See Note 4, “Acquisitions” for additional details.

In July 2020, we acquired a 60% equity ownership interest in a joint venture to construct an E-beam facility in Alberta, Canada in connection with our acquisition of Iotron Industries Canada, Inc. (“Iotron”). Refer to Note 4, “Acquisitions” for additional information. We have determined this to be an investment in a variable interest entity (“VIE”). The investment is not consolidated as the Company has concluded that we are not the primary beneficiary of the VIE. The Company accounts for the joint venture using the equity method. The investment is reflected within “Investment in unconsolidated affiliates” on the Consolidated Balance Sheets.

*Use of Estimates* – In preparing our consolidated financial statements in conformity with U.S. Generally Accepted Accounting Principles (“GAAP”), we make estimates and assumptions that affect the amounts reported and the accompanying notes. We regularly evaluate the estimates and assumptions used and revise them as new information becomes available. Actual results may vary from those estimates.

*Interim Financial Statements* – The accompanying consolidated financial statements include the assets, liabilities, operating results, and cash flows of the Company and its wholly owned subsidiaries. These financial statements are prepared in accordance with U.S. GAAP for interim financial information and the instructions to the Quarterly Report on Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. These unaudited interim financial statements should be read in conjunction with the Company’s annual consolidated financial statements and accompanying notes on Form 10-K for the year ended December 31, 2020.

## 2. Recent Accounting Standards

### *ASUs Issued But Not Yet Adopted*

Under the Jumpstart Our Business Startups Act of 2012, emerging growth companies can delay adopting new or revised accounting standards until such time as those standards apply to private companies. As an emerging growth company, we have elected to take advantage of the extended transition period for complying with new or revised accounting standards until those standards would otherwise apply to private companies or at which time we conclude it is appropriate to avail ourselves of early adoption provisions of applicable standards. As a result, our results of operations and financial statements may not be comparable to the results of operations and financial statements of other companies who have adopted the new or revised accounting standards.

Sotera Health Company  
Notes to Consolidated Financial Statements

In June 2016, the Financial Accounting Standards Board (“FASB”) issued *Accounting Standards Update (“ASU”) 2016-13, Financial Instruments – Credit Losses* (“ASU 2016-13”): *Measurement of Credit Losses on Financial Instruments*, and subsequently issued additional guidance that modified ASU 2016-13. The standard requires an entity to change its accounting approach in determining impairment of certain financial instruments, including trade receivables, from an “incurred loss” to a “current expected credit loss” model. We intend to adopt the standard as of January 1, 2022. We are currently assessing the effect that ASU 2016-13 will have on our financial position, results of operations, and disclosures.

In June 2019, the FASB issued *ASU 2019-12 - Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. The standard simplifies the accounting for income taxes and makes a number of changes meant to add or clarify guidance on accounting for income taxes. This update is effective for annual financial statement periods beginning after December 15, 2021 and interim periods within fiscal years beginning after December 15, 2022, with early adoption permitted in any interim period for which financial statements have not yet been filed. We are currently assessing the effect that ASU 2019-12 will have on our financial position, results of operations, and disclosures.

### 3. Revenue Recognition

The following table shows disaggregated net revenues from contracts with external customers by timing of revenue and by segment for the three and six months ended June 30, 2021 and 2020:

(thousands of U.S. dollars)

	Three Months Ended June 30, 2021			
	Sterigenics	Nordion	Nelson Labs	Consolidated
<b>Point in time</b>	\$ 145,182	\$ 47,753	\$ —	\$ 192,935
<b>Over time</b>	—	1,372	57,610	58,982
<b>Total</b>	<b>\$ 145,182</b>	<b>\$ 49,125</b>	<b>\$ 57,610</b>	<b>\$ 251,917</b>

(thousands of U.S. dollars)

	Three Months Ended June 30, 2020			
	Sterigenics	Nordion	Nelson Labs	Consolidated
<b>Point in time</b>	\$ 120,372	\$ 42,141	\$ —	\$ 162,513
<b>Over time</b>	—	—	50,572	50,572
<b>Total</b>	<b>\$ 120,372</b>	<b>\$ 42,141</b>	<b>\$ 50,572</b>	<b>\$ 213,085</b>

(thousands of U.S. dollars)

	Six Months Ended June 30, 2021			
	Sterigenics	Nordion	Nelson Labs	Consolidated
<b>Point in time</b>	\$ 276,333	\$ 73,671	\$ —	\$ 350,004
<b>Over time</b>	—	1,372	112,689	114,061
<b>Total</b>	<b>\$ 276,333</b>	<b>\$ 75,043</b>	<b>\$ 112,689</b>	<b>\$ 464,065</b>

(thousands of U.S. dollars)

	Six Months Ended June 30, 2020			
	Sterigenics	Nordion	Nelson Labs	Consolidated
<b>Point in time</b>	\$ 237,652	\$ 65,766	\$ —	\$ 303,418
<b>Over time</b>	—	—	97,867	97,867
<b>Total</b>	<b>\$ 237,652</b>	<b>\$ 65,766</b>	<b>\$ 97,867</b>	<b>\$ 401,285</b>

#### Contract Balances

As of June 30, 2021, and December 31, 2020, contract assets included in “Prepaid expenses and other current assets” on the Consolidated Balance Sheets totaled approximately \$14.0 million and \$12.7 million, respectively, resulting from revenue recognized over time in excess of the amount billed to the customer.

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When we receive consideration from a customer prior to transferring goods or services under the terms of a sales contract, we record deferred revenue, which represents a contract liability. Deferred revenue totaled \$5.5 million and \$6.1 million at June 30, 2021 and December 31, 2020, respectively. We recognize deferred revenue after all revenue recognition criteria are met.

#### 4. Acquisitions

##### *Acquisition of Noncontrolling Interests in China Subsidiaries*

On May 18, 2021, the Company acquired the remaining 15% and 33% noncontrolling interests associated with our two subsidiaries located in China. As a result, both entities are now 100% owned by the Company. The purchase price of the remaining equity interests was approximately \$8.6 million, net of the cancellation of an \$0.8 million demand note. The Company paid 90% of the cash consideration on the acquisition date with the remaining 10% to be settled post-closing pursuant to the terms of the equity transfer agreements. As a result of the transactions, we continue to consolidate both of these subsidiaries, however, as of May 18, 2021, we no longer record noncontrolling interests in the consolidated financial statements as these subsidiaries are fully owned by the Company. The purchases were accounted for as equity transactions. As a result of these transactions, noncontrolling interests were reduced by \$2.8 million reflecting the carrying value of the interest with \$5.8 million of the difference charged to additional paid-in capital as of June 30, 2021.

##### *Acquisition of BioScience Laboratories, LLC*

On March 8, 2021, we acquired BioScience Laboratories, LLC (“BioScience”) for approximately \$13.8 million, net of \$0.2 million of cash acquired plus the contemporaneous repayment of BioScience's outstanding debt of \$1.9 million. BioScience is a provider of outsourced topical antimicrobial product testing in the pharmaceutical, medical device, and consumer products industries with one location in Bozeman, Montana.

The purchase price of BioScience was allocated to the underlying assets acquired and liabilities assumed based upon management's estimated fair values at the date of acquisition. Changes to the allocation of the purchase price may occur as these measurements are completed. Approximately \$8.4 million of goodwill was recorded related to the BioScience acquisition, representing the excess of the purchase price over preliminary estimated fair values of all the assets acquired and liabilities assumed. The Company funded this acquisition using available cash. The acquisition price and the results of operations for this acquired entity are not material in relation to the Company's consolidated financial statements.

##### *Acquisition of Mandatorily Redeemable Noncontrolling Interest - Nelson Labs Fairfield*

On March 11, 2021, we completed the acquisition of the remaining 15% ownership of Nelson Labs Fairfield for \$12.4 million, resulting in a gain of \$1.2 million included in “Other expense (income), net” in the Consolidated Statements of Operations and Comprehensive Income (Loss) relative to the \$13.6 million previously accrued. Pursuant to the terms of the August 2018 acquisition, we initially acquired 85% of the equity interests of Nelson Labs Fairfield in August 2018 and were obligated to acquire the remaining 15% noncontrolling interest within three years from the date of the acquisition.

##### *Acquisition of Iotron Industries Canada, Inc.*

On July 31, 2020, we acquired Iotron for approximately \$105.2 million. Iotron was an independent contact sterilizer with two North American locations in Vancouver, Canada, and Columbia City, Indiana. Each location uses proprietary high energy electron beam technology to process products for orthopedic, medical device, plastics, and agricultural businesses. The acquisition was financed by the issuance of \$100.0 million of First Lien Notes due 2026. Refer to Note 9, “Long-Term Debt” for additional details.

As part of this acquisition, we also acquired Iotron's 60% equity ownership interest in a joint venture to construct an E-beam facility in Alberta, Canada. The joint venture is accounted for using the equity method.

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The estimated fair value of the underlying acquired assets and assumed liabilities of the Iotron acquisition and the measurement period adjustments recognized during the six months ended June 30, 2021, were as follows:

(thousands of U.S. dollars)

Allocation of purchase price to the fair value of net assets acquired (net of cash acquired):	Amount recognized as of December 31, 2020	Measurement Period Adjustments	Amount recognized as of June 30, 2021
Goodwill	\$ 69,046	\$ (17,142)	\$ 51,904
Intangibles	16,427	26,273	42,700
Property, plant, and equipment	13,812	4,346	18,158
Working capital, net	1,115	2	1,117
Investment in unconsolidated affiliate	12,881	(4,181)	8,700
Assumed long-term liabilities	(2,248)	—	(2,248)
Other assets/liabilities, net	(5,846)	(9,298)	(15,144)
<b>Total purchase price</b>	<b>\$ 105,187</b>	<b>\$ —</b>	<b>\$ 105,187</b>

Approximately \$51.9 million of goodwill was recorded related to the Iotron acquisition, representing the excess of the purchase price over the estimated fair values of all the assets acquired and liabilities assumed. The fair value allocated to goodwill and tangible and intangible assets are deductible for tax purposes. The qualitative elements of goodwill primarily represent the expanded future growth opportunities for the combined company and the addition of Iotron's highly skilled workforce. The Company recorded \$39.1 million and \$3.6 million for intangible assets as part of the acquisition related to customer relationships and employee non-compete agreements, respectively. The estimated useful lives of the identifiable finite-lived intangible assets range from 5 to 15 years.

Iotron's results of operations are included in our consolidated financial statements from the date of the transaction within the Sterigenics segment. The unaudited pro forma consolidated results for the three and six months ended June 30, 2020, are reflected in the pro forma table below had the transaction occurred on January 1, 2020. The following unaudited supplemental pro forma financial information is based on our historical consolidated financial statements and Iotron's historical consolidated financial statements, as adjusted for amortization of acquired intangible assets, an increase in interest expense resulting from interest on the First Lien Notes to finance the acquisition, and to reflect the change in the estimated income tax rate for federal and state purposes.

(thousands of U.S. dollars)

<b>Three Months Ended June 30,</b>	2020
Net revenues	\$ 219,576
Net income	8,452

(thousands of U.S. dollars)

<b>Six Months Ended June 30,</b>	2020
Net revenues	\$ 413,978
Net income	7,162

In connection with the Iotron acquisition, we incurred approximately \$1.4 million and \$2.4 million in transaction costs for the three and six months ended June 30, 2020, respectively, which were included in "Selling, general and administrative expenses" in the Consolidated Statements of Operations and Comprehensive Income (Loss).

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## 5. Inventories

Inventories consisted primarily of the following:

*(thousands of U.S. dollars)*

	June 30, 2021	December 31, 2020
Raw materials and supplies	\$ 28,465	\$ 29,114
Work-in-process	1,219	846
Finished goods	6,163	4,256
	<u>35,847</u>	<u>34,216</u>
Reserve for excess and obsolete inventory	(126)	(123)
Inventories, net	<u>\$ 35,721</u>	<u>\$ 34,093</u>

## 6. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted primarily of the following:

*(thousands of U.S. dollars)*

	June 30, 2021	December 31, 2020
Prepaid taxes	\$ 26,528	\$ 22,883
Prepaid business insurance	4,763	10,403
Prepaid rent	1,238	1,170
Customer contract assets	14,002	12,670
Insurance and indemnification receivables	3,838	2,751
Current deposits	834	673
Prepaid maintenance contracts	371	404
Value added tax receivable	1,898	2,094
Prepaid software licensing	1,702	1,181
Stock supplies	3,167	2,715
Embedded derivatives	1,318	—
Other	8,283	8,020
Prepaid expenses and other current assets	<u>\$ 67,942</u>	<u>\$ 64,964</u>

## 7. Goodwill and Other Intangible Assets

Changes to goodwill during the six months ended June 30, 2021 were as follows:

*(thousands of U.S. dollars)*

	Sterigenics	Nordion	Nelson Labs	Total
Goodwill at December 31, 2020	\$ 683,481	\$ 287,932	\$ 144,523	\$ 1,115,936
BioScience acquisition	—	—	8,435	8,435
Iotron acquisition measurement period adjustments	(17,142)	—	—	(17,142)
Changes due to foreign currency exchange rates	154	7,984	(1,191)	6,947
<b>Goodwill at June 30, 2021</b>	<u>\$ 666,493</u>	<u>\$ 295,916</u>	<u>\$ 151,767</u>	<u>\$ 1,114,176</u>

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Other intangible assets consisted of the following:

(thousands of U.S. dollars)

**As of June 30, 2021**

	Gross Carrying Amount	Accumulated Amortization
<b>Finite-lived intangible assets</b>		
Customer relationships	\$ 665,130	\$ 338,633
Proprietary technology	90,342	41,779
Trade names	163	120
Land-use rights	9,599	1,444
Sealed source and supply agreements	247,513	104,034
Other	5,716	1,803
<b>Total finite-lived intangible assets</b>	<b>1,018,463</b>	<b>487,813</b>
<b>Indefinite-lived intangible assets</b>		
Regulatory licenses and other <sup>(a)</sup>	84,116	—
Trade names / trademarks	26,021	—
<b>Total indefinite-lived intangible assets</b>	<b>110,137</b>	<b>—</b>
<b>Total</b>	<b>\$ 1,128,600</b>	<b>\$ 487,813</b>

**As of December 31, 2020**

	Gross Carrying Amount	Accumulated Amortization
<b>Finite-lived intangible assets</b>		
Customer relationships	\$ 634,454	\$ 309,428
Proprietary technology	90,964	38,075
Trade names	156	105
Land-use rights	9,489	1,311
Sealed source and supply agreements	240,791	92,953
Other	1,937	519
<b>Total finite-lived intangible assets</b>	<b>977,791</b>	<b>442,391</b>
<b>Indefinite-lived intangible assets</b>		
Regulatory licenses and other <sup>(a)</sup>	81,832	—
Trade names / trademarks	26,134	—
<b>Total indefinite-lived intangible assets</b>	<b>107,966</b>	<b>—</b>
<b>Total</b>	<b>\$ 1,085,757</b>	<b>\$ 442,391</b>

<sup>(a)</sup> Includes certain transportation certifications, a class 1B nuclear license and other intangibles related to obtaining such licensure. These assets are considered indefinite-lived as the decision for renewal by the Canadian Nuclear Safety Commission is highly based on a licensee's previous assessments, reported incidents, and annual compliance and inspection results. New applications for license can take a significant amount of time and cost; whereas an existing licensee with a historical record of compliance and current operating conditions more than likely ensures renewal for another 10 years license period as Nordion has demonstrated over its 75 years of history.

Amounts include the impact of foreign currency translation. Fully amortized amounts are written off.

Amortization expense for other intangible assets was \$21.8 million (\$6.1 million is included in "Cost of revenues" and \$15.7 million in "Selling, general and administrative expenses") and \$44.1 million (\$11.9 million is included in "Cost of revenues" and \$32.2 million in "Selling, general and administrative expenses") in the Consolidated Statements of Operations and Comprehensive Income (Loss) for the three and six months ended June 30, 2021, respectively.

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Amortization expense for other intangible assets was \$19.7 million (\$5.2 million is included in “Cost of revenues” and \$14.5 million in “Selling, general and administrative expenses”) and \$39.6 million (\$10.5 million is included in “Cost of revenues” and \$29.1 million in “Selling, general and administrative expenses”) in the Consolidated Statements of Operations and Comprehensive Income (Loss) for the three and six months ended June 30, 2020, respectively.

The estimated aggregate amortization expense for finite-lived intangible assets for each of the next five years and thereafter is as follows:

*(thousands of U.S. dollars)*

For the remainder of 2021	\$	44,505
2022		81,140
2023		81,133
2024		80,354
2025		42,304
Thereafter		201,214
<b>Total</b>	<b>\$</b>	<b>530,650</b>

The weighted-average remaining useful life of the finite-lived intangible assets was approximately 10 years as of June 30, 2021.

## 8. Accrued Liabilities

Accrued liabilities consisted of the following:

*(thousands of U.S. dollars)*

	June 30, 2021	December 31, 2020
Accrued employee compensation	\$ 26,362	\$ 34,760
Legal reserves	2,751	2,751
Accrued interest expense	711	186
Embedded derivatives	391	670
Professional fees	11,928	12,686
Accrued utilities	2,240	1,864
Insurance accrual	1,908	1,255
Accrued taxes	3,354	2,599
Other	7,520	3,747
<b>Accrued liabilities</b>	<b>\$ 57,165</b>	<b>\$ 60,518</b>

## 9. Long-Term Debt

Long-term debt consisted of the following:

*(thousands of U.S. dollars)*

	June 30, 2021	December 31, 2020
Term loan, due 2026	\$ 1,763,100	\$ 1,763,100
Senior notes, due 2026	100,000	100,000
Other long-term debt	450	450
<b>Total long-term debt</b>	<b>1,863,550</b>	<b>1,863,550</b>
Less unamortized debt issuance costs and debt discounts	(25,417)	(38,761)
<b>Total long-term debt, less debt issuance costs and debt discounts</b>	<b>\$ 1,838,133</b>	<b>\$ 1,824,789</b>



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## Debt Facilities

### *Senior Secured Credit Facilities*

On December 13, 2019, Sotera Health Holdings, LLC (“SHH”), our wholly owned subsidiary, entered into senior secured first lien credit facilities (the “Senior Secured Credit Facilities”), consisting of both a prepayable senior secured first lien term loan (the “Term Loan”) and a senior secured first lien revolving credit facility (the “Revolving Credit Facility”) pursuant to a first lien credit agreement (the “Credit Agreement”). The Term Loan matures on December 13, 2026, and the Revolving Credit Facility’s original maturity date was December 13, 2024. On December 17, 2020, we increased the capacity of our Revolving Credit Facility from \$190.0 million to \$347.5 million. The Senior Secured Credit Facilities also provide SHH the right at any time and under certain conditions to request incremental term loans or incremental revolving credit commitments based on a formula defined in the Senior Secured Credit Facilities. As of June 30, 2021 and December 31, 2020, total borrowings under the Term Loan were \$1,763.1 million and \$1,763.1 million, respectively, and there were no borrowings outstanding on the Revolving Credit Facility. The weighted average interest rate on borrowings under the Term Loan for the three months ended June 30, 2021 and June 30, 2020 was 3.25% and 5.50%, respectively, and 3.64% and 5.84% for the six months ended June 30, 2021 and June 30, 2020, respectively.

On January 20, 2021, we closed on an amendment repricing our Term Loan. The interest rate spread over the London Interbank Offered Rate (“LIBOR”) on the facility was reduced from 450 basis points to 275 basis points, and the facility’s LIBOR floor was reduced from 100 basis points to 50 basis points. The changes result in an effective reduction in current interest rates of 2.25%. In connection with this amendment, we wrote off \$11.3 million of unamortized debt issuance and discount costs and incurred an additional \$2.9 million of expense related to debt issuance costs attributable to the refinancing. These costs were recorded to “Loss on extinguishment of debt” in our Consolidated Statements of Operations and Comprehensive Income (Loss).

As of June 30, 2021 and December 31, 2020, capitalized debt issuance costs totaled \$2.9 million and \$3.4 million, respectively, and debt discounts totaled \$19.1 million and \$31.6 million, respectively, related to the Senior Secured Credit Facilities. Such costs are recorded as a reduction of debt on our Consolidated Balance Sheets and amortized as a component of interest expense over the term of the debt agreement.

On March 26, 2021, we amended the Revolving Credit Facility, to (i) decrease the Applicable Rate (as defined in the Credit Agreement) related to any Revolving Loans (as defined in the Credit Agreement) from a rate per annum that ranged from an alternative base rate (“ABR”) plus 2.50% to ABR plus 3.00% depending on SHH’s Senior Secured First Lien Net Leverage Ratio to ABR plus 1.75%; and in the case of Eurodollar Loans (as defined in the Credit Agreement) from a rate per annum which ranged from the Adjusted LIBOR plus 3.50% to the Adjusted LIBOR plus 4.00% depending on SHH’s Senior Secured First Lien Net Leverage Ratio (as defined in the Credit Agreement), to the Adjusted LIBOR (as defined in the Credit Agreement) plus 2.75%, and (ii) extend the maturity date of the Revolving Facility from December 13, 2024 to June 13, 2026. The other material terms of the Credit Agreement are unchanged and the amendment does not change the capacity of our Revolving Credit Facility, which is \$347.5 million. No unamortized debt issuance costs associated with the Revolving Credit Facility were written off and direct fees and costs incurred in connection with the amendment were immaterial.

As of June 30, 2021 and December 31, 2020, there were no borrowings on the Revolving Credit Facility. SHH borrowed \$50.0 million on the Revolving Credit Facility during the first quarter of 2020 which was repaid in the second quarter of 2020. The interest rate on the borrowings under the Revolving Credit Facility during 2020 averaged approximately 5.0%.

All of SHH’s obligations under the Senior Secured Credit Facilities are unconditionally guaranteed by the Company and each existing and subsequently acquired or organized direct or indirect wholly-owned domestic restricted subsidiary of the Company, with customary exceptions including, among other things, where providing such guarantees is not permitted by law, regulation or contract or would result in material adverse tax consequences. All obligations under the Senior Secured Credit Facilities, and the guarantees of such obligations, are secured by substantially all assets of the borrower and guarantors, subject to permitted liens and other exceptions and exclusions, as outlined in the Senior Secured Credit Facilities.

Outstanding letters of credit are collateralized by encumbrances against the Revolving Credit Facility and the collateral pledged thereunder, or by cash placed on deposit with the issuing bank. As of June 30, 2021, the Company had \$69.0 million of letters of credit issued against the Revolving Credit Facility, resulting in total availability under the Revolving Credit Facility of \$278.5 million.

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### First Lien Notes

On July 31, 2020, SHH issued \$100.0 million aggregate principal amount of senior secured first lien notes due 2026 (the “First Lien Notes”), which mature on December 13, 2026. The First Lien Notes bear interest at a rate equal to LIBOR subject to a 1.00% floor plus 6.00% per annum. Interest is payable on a quarterly basis with no principal due until maturity. The weighted average interest rate on the First Lien Notes for the three and six months ended June 30, 2021 was 7.00%.

SHH is entitled to redeem all or a portion of the First Lien Notes, at any time and from time to time, subject to certain premiums depending on the date of redemption; any time on or prior to July 31, 2021, a customary make-whole premium applies and, thereafter, specified premiums that decline to zero apply (in each case as described in the indenture governing the First Lien Notes).

All of SHH’s obligations under the First Lien Notes are unconditionally guaranteed by the Company and each existing and subsequently acquired or organized direct or indirect wholly-owned domestic restricted subsidiary of SHH, with customary exceptions including, among other things, where providing such guarantees is not permitted by law, regulation or contract or would result in material adverse tax consequences. All obligations under the First Lien Notes, and the guarantees of such obligations, are secured by substantially all of the assets of the borrower and guarantors, subject to permitted liens and other exceptions and exclusions, as outlined in the First Lien Notes. Such collateral is substantially the same collateral that secures the Senior Secured Credit Facilities. Such collateral securing the First Lien Notes ranks pari passu with that of the Senior Secured Credit Facilities.

At June 30, 2021 and December 31, 2020, capitalized debt issuance costs were \$0.8 million and \$0.9 million, respectively, and debt discounts were \$2.6 million and \$2.8 million, respectively, related to the First Lien Notes, which are recorded as a reduction of debt on our Consolidated Balance Sheets and amortized into interest expense over the term of the debt agreement.

### 2020 Debt Repayments

On November 24, 2020, we closed our initial public offering (the “IPO”), in which we sold 53,590,000 shares of our common stock at a price of \$23.00 per share, which included the full exercise by the underwriters of their option to purchase up to an additional 6,990,000 shares of common stock. We raised approximately \$1.2 billion in net proceeds after deducting underwriters’ discounts and commissions. We used the net proceeds received by us from the IPO to (i) redeem \$770.0 million in aggregate principal amount of the Second Lien Senior Secured Notes with an original maturity date of December 13, 2027 (the “Second Lien Notes”), plus accrued and unpaid interest thereon and \$15.4 million of redemption premium, (ii) repurchase 1,568,445 shares of our common stock from certain of our executive officers at a purchase price per share equal to the IPO price per share of our common stock less an amount equal to the underwriting discounts and commissions payable thereon and (iii) repay \$341.0 million of the outstanding indebtedness under the Term Loan, plus accrued and unpaid interest thereon. In connection with the debt repayments, we wrote off \$28.9 million of debt issuance and discount costs and recognized \$15.4 million in premiums paid for the early extinguishment of the Second Lien Notes. We recognized these costs within “Loss on extinguishment of debt” in our Consolidated Statements of Operations and Comprehensive Income (Loss) in the fourth quarter of 2020.

### Aggregate Maturities

Aggregate maturities of the Company’s long-term debt, excluding debt discounts, as of June 30, 2021, are as follows:

*(thousands of U.S. dollars)*

2021	\$	—
2022		—
2023		450
2024		—
2025		—
Thereafter		1,863,100
<b>Total</b>	<b>\$</b>	<b>1,863,550</b>

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As referenced above, the Company utilized its IPO proceeds toward prepaying the Second Lien Notes in full as well as prepaying a portion of the Term Loan. The Term Loan prepayment amount eliminated all subsequent scheduled and outstanding repayments of the term borrowings resulting in no remaining short-term commitments.

*Notice of Redemption of First Lien Notes*

On August 12, 2021 the Company issued a full redemption notice to the holders of the First Lien Notes. Full redemption is scheduled for the third quarter of 2021 at a redemption price equal to 103.0% of the principal amount of the First Lien Notes, plus accrued and unpaid interest. In connection with the redemption, we estimate that we will write off approximately \$3.3 million of previously capitalized unamortized debt issuance and discount costs.

## 10. Income Taxes

Income tax expense is provided on an interim basis based upon our estimate of the annual effective income tax rate. In determining the estimated annual effective income tax rate, we analyze various factors, including projections of our annual earnings and the taxing jurisdictions where the earnings will occur, the impact of state and local taxes, our ability to utilize tax credits and net operating loss carryforwards and available tax planning alternatives.

Our effective tax rates were 31.0 % and 29.3% for the three and six months ended June 30, 2021, respectively, compared to 34.2% and (264.7)% for the three and six months ended June 30, 2020, respectively.

Income tax expense for the three months ended June 30, 2021 differed from the statutory rate primarily due to the impact of the foreign rate differential, global intangible low-tax income (“GILTI”), a net increase in the interest expense valuation allowance, and a discrete item pertaining to an income tax rate change in the United Kingdom.

Income tax expense for the six months ended June 30, 2021 differed from the statutory rate primarily due to the impact of the foreign rate differential, GILTI, a net increase in the interest expense valuation allowance, and a discrete item pertaining to an income tax rate change in the United Kingdom. This was offset by an additional discrete item in the first quarter of 2021, which reversed the valuation allowance on deferred tax assets related to certain asset retirement obligations.

Our effective tax rates for the three and six months ended June 30, 2020 differed from the statutory rate due to the impact of GILTI, the foreign rate differential, non-deductible expenses as well as the impact of the 2020 Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”). The CARES Act increased the limitation on the deductibility of interest expense from 30% to 50% for tax years beginning in 2019 or 2020, among other provisions. The increased limitation resulted in a current tax benefit for the six months ended June 30, 2020 of \$9.1 million. The increased limitation also resulted in a \$5.6 million valuation allowance reversal in the six months ended June 30, 2020.

## 11. Employee Benefits

The Company sponsors various post-employment benefit plans including, in certain countries outside the U.S., defined benefit and defined contribution pension plans, retirement compensation arrangements, and plans that provide extended health care coverage to retired employees, the majority of which relate to Nordion.

*Defined benefit pension plan*

The interest cost and expected return on plan assets are recorded in “Other income, net” and the service cost component is included in the same financial statement line item as the applicable employee’s wages in the Consolidated Statements of

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Operations and Comprehensive Income (Loss). The components of net periodic pension cost for the defined benefit plans for the three and six months ended June 30, 2021 and 2020 were as follows:

<i>(thousands of U.S. dollars)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Service cost	\$ 307	\$ 267	\$ 605	\$ 543
Interest cost	1,662	1,943	3,275	3,950
Expected return on plan assets	(3,665)	(3,484)	(7,222)	(7,083)
Amortization of net actuarial loss	275	191	542	388
<b>Net periodic benefit</b>	<b>\$ (1,421)</b>	<b>\$ (1,083)</b>	<b>\$ (2,800)</b>	<b>\$ (2,202)</b>

#### *Other benefit plans*

Other benefit plans include a supplemental retirement arrangement, a retirement and termination allowance, and post-retirement benefit plans, which include contributory health and dental care benefits and contributory life insurance coverage. All but one, non-pension post-employment benefit plans are unfunded. The components of net periodic pension cost for the other benefit plans for the three and six months ended June 30, 2021 and 2020 were as follows:

<i>(thousands of U.S. dollars)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Service cost	\$ 7	\$ 7	\$ 14	\$ 14
Interest cost	61	71	120	144
Amortization of net actuarial loss	9	13	17	26
<b>Net periodic benefit cost</b>	<b>\$ 77</b>	<b>\$ 91</b>	<b>\$ 151</b>	<b>\$ 184</b>

We currently expect funding requirements of approximately \$2.8 million in each of the next five years to fund the regulatory solvency deficit, as defined by Canadian federal regulation, which require solvency testing on defined benefit pension plans.

The Company may obtain a qualifying letter of credit for solvency payments, up to 15% of the market value of solvency liabilities as determined on the valuation date, instead of paying cash into the pension fund. As of June 30, 2021, and December 31, 2020, we had letters of credit outstanding relating to the defined benefit plans totaling \$44.9 million and \$41.3 million, respectively. The actual funding requirements over the five-year period will be dependent on subsequent annual actuarial valuations. These amounts are estimates, which may change with actual investment performance, changes in interest rates, any pertinent changes in Canadian government regulations and any voluntary contributions.

## 12. Related Parties

We do business with a number of companies affiliated with Warburg Pincus and GTCR, which we refer to collectively as the “Sponsors,” who continue to have substantial control over us. All transactions with these companies have been conducted in the ordinary course of our business and are not material to our operations.

## 13. Other Comprehensive Income (Loss)

Amounts in accumulated other comprehensive income (loss) are presented net of the related tax. Foreign currency translation is not adjusted for income taxes.

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Changes in our accumulated other comprehensive income (loss) balances, net of applicable tax, were as follows:

<i>(thousands of U.S. dollars)</i>	Defined Benefit Plans	Foreign Currency Translation	Interest Rate Swaps	Total
<b>Beginning balance – April 1, 2021</b>	\$ (44,392)	\$ (52,770)	\$ —	\$ (97,162)
Other comprehensive income (loss) before reclassifications	(705)	20,115	—	19,410
Amounts reclassified from accumulated other comprehensive income (loss)	284 <sup>(a)</sup>	—	—	284
<b>Net current-period other comprehensive income (loss)</b>	<b>(421)</b>	<b>20,115</b>	<b>—</b>	<b>19,694</b>
<b>Ending balance – June 30, 2021</b>	<b>\$ (44,813)</b>	<b>\$ (32,655)</b>	<b>—</b>	<b>\$ (77,468)</b>
<b>Beginning balance – January 1, 2021</b>	\$ (44,143)	\$ (49,699)	\$ —	(93,842)
Other comprehensive income (loss) before reclassifications	(1,229)	17,044	—	15,815
Amounts reclassified from accumulated other comprehensive income (loss)	559 <sup>(a)</sup>	—	—	559
<b>Net current-period other comprehensive income (loss)</b>	<b>(670)</b>	<b>17,044</b>	<b>—</b>	<b>16,374</b>
<b>Ending balance – June 30, 2021</b>	<b>\$ (44,813)</b>	<b>\$ (32,655)</b>	<b>—</b>	<b>\$ (77,468)</b>

<i>(thousands of U.S. dollars)</i>	Defined Benefit Plans	Foreign Currency Translation	Interest Rate Swaps	Total
<b>Beginning balance – April 1, 2020</b>	\$ (24,906)	\$ (140,420)	\$ (3,300)	\$ (168,626)
Other comprehensive income (loss) before reclassifications	(967)	24,440	(1,298)	22,175
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	2,763 <sup>(b)</sup>	2,763
<b>Net current-period other comprehensive income (loss)</b>	<b>(967)</b>	<b>24,440</b>	<b>1,465</b>	<b>24,938</b>
<b>Ending balance – June 30, 2020</b>	<b>\$ (25,873)</b>	<b>\$ (115,980)</b>	<b>(1,835)</b>	<b>\$ (143,688)</b>
<b>Beginning balance – January 1, 2020</b>	\$ (27,113)	\$ (67,453)	\$ 179	\$ (94,387)
Other comprehensive income (loss) before reclassifications	1,240	(48,527)	(4,590)	(51,877)
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	2,576 <sup>(b)</sup>	2,576
<b>Net current-period other comprehensive income (loss)</b>	<b>1,240</b>	<b>(48,527)</b>	<b>(2,014)</b>	<b>(49,301)</b>
<b>Ending balance – June 30, 2020</b>	<b>\$ (25,873)</b>	<b>\$ (115,980)</b>	<b>(1,835)</b>	<b>\$ (143,688)</b>

- (a) For defined benefit pension plans, amounts reclassified from accumulated other comprehensive income (loss) are recorded to “Other income, net” within the Consolidated Statements of Operations and Comprehensive Income (Loss).
- (b) For interest rate swaps, amounts reclassified from accumulated other comprehensive income (loss) are recorded to “Interest expense, net” within the Consolidated Statements of Operations and Comprehensive Income (Loss).

#### 14. Share-Based Compensation

##### *Pre-IPO Awards*

Restricted stock distributed in respect of pre-IPO Class B-1 time vesting units vests on a daily basis pro rata over a five-year vesting period (20% per year) beginning on the original vesting commencement date of the corresponding Class B-1 time vesting units, subject to the grantee’s continued services through each vesting date. Upon the occurrence of a change in control

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of the Company, all then outstanding unvested shares of our common stock distributed in respect of Class B-1 Units will become vested as of the date of consummation of such change in control, subject to the grantee's continued services through the consummation of the change in control.

Restricted stock distributed in respect of pre-IPO Class B-2 Units (which were considered performance vesting units) are scheduled to vest only upon satisfaction of certain thresholds. These units generally vest as of the first date on which (i) our Sponsors have received actual cash proceeds in an amount equal to or in excess of at least two and one-half times their invested capital in Sotera Health Topco Parent, L.P. (of which the Company was a direct wholly owned subsidiary prior to the IPO) and (ii) the Sponsors' internal rate of return exceeds twenty percent, subject to such grantee's continued services through such date. In the event of a change in control of the Company, any outstanding shares of our common stock distributed in respect of Class B-2 Units that remain unvested immediately following the consummation of such a change in control of the Company shall be immediately canceled and forfeited without compensation. Stock based compensation expense attributed to the pre-IPO Class B-2 awards was recorded in the fourth quarter of 2020 as the related performance conditions were considered probable of achievement and the implied service conditions were met. As of June 30, 2021, these awards remain unvested.

We recognized \$0.7 million and \$1.4 million of share-based compensation expense related to the pre-IPO Class B-1 awards for the three months ended June 30, 2021 and 2020, and \$1.3 million and \$3.1 million for the six months ended June 30, 2021 and 2020, respectively.

A summary of the activity for the six months ended June 30, 2021 related to the restricted stock awards distributed to the Company service providers in respect of the pre-IPO awards (Class B-1 and B-2 Units) is presented below:

	Restricted Stock - Pre- IPO B-1	Restricted Stock - Pre- IPO B-2
Unvested at December 31, 2020	2,201,239	2,323,333
Forfeited	(43,361)	(284,850)
Vested	(558,446)	—
<b>Unvested at June 30, 2021</b>	<b>1,599,432</b>	<b>2,038,483</b>

#### **2020 Omnibus Incentive Plan**

We maintain a long-term incentive plan (the "2020 Omnibus Incentive Plan" or the "2020 Plan") that allows for grants of incentive stock options to employees (including employees of any of our subsidiaries), nonstatutory stock options, restricted stock awards ("RSAs"), restricted stock units ("RSUs") and other cash-based, equity-based or equity-related awards to employees, directors, and consultants, including employees or consultants of our subsidiaries.

We recognized \$2.8 million (\$1.3 million for stock options and \$1.5 million for RSUs) of share-based compensation expense for these awards for the three months ended June 30, 2021, and \$5.6 million (\$2.5 million for stock options and \$3.1 million for RSUs) for the six months ended June 30, 2021 in our Consolidated Statements of Operations and Comprehensive Income (Loss), in "Selling, general and administrative expenses."

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### Stock Options

Stock options have a four-year vesting period, an exercise price equal to the fair market value of a share of common stock on the date of grant, and a contractual term of 10 years. The following table summarizes our stock option activity for the six months ended June 30, 2021:

	Number of Shares	Weighted- average Exercise Price
At December 31, 2020	2,389,258	\$ 23.00
Granted	34,373	24.73
Forfeited	(19,145)	23.13
Exercised	—	—
<b>At June 30, 2021</b>	<b>2,404,486</b>	<b>\$ 23.02</b>

As of June 30, 2021, there were no stock options vested or exercisable.

### RSUs

RSUs generally vest ratably over a period of one to four years and are valued based on our market price on the date of grant. The following table summarizes our unvested RSUs activity for the six months ended June 30, 2021:

	Number of Shares	Weighted- average Grant Date Fair Value
Unvested at December 31, 2020	771,276	\$ 23.00
Granted	103,762	24.16
Forfeited	(13,582)	23.19
Vested	(46,952)	23.00
<b>Unvested at June 30, 2021</b>	<b>814,504</b>	<b>\$ 23.15</b>

### 15. Earnings Per Share

Basic earnings per share represents the amount of income attributable to each common share outstanding. Diluted earnings per share represents the amount of income attributable to each common share outstanding adjusted for the effects of potentially dilutive common shares. Potentially dilutive common shares include stock options and other stock-based awards. In the periods where the effect would be antidilutive, potentially dilutive common shares are excluded from the calculation of diluted earnings per share.

In periods in which the Company has net income, earnings per share is calculated using the two-class method. This method is required as unvested restricted stock distributed in respect of pre-IPO Class B-1 and B-2 awards have the right to receive non-forfeitable dividends or dividend equivalents if the Company were to declare dividends on its common stock. Pursuant to the two-class method, earnings for each period are allocated on a pro-rata basis to common stockholders and unvested pre-IPO Class B-1 and B-2 restricted stock awards. Diluted earnings per share is computed using the more dilutive of (a) the two-class method, or (b) treasury stock method, as applicable, to the potentially dilutive instruments.

In periods in which the Company has a net loss, the two-class method is not applicable because the pre-IPO Class B-1 and B-2 restricted stock awards do not participate in losses.

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Our basic and diluted earnings per common share are calculated as follows:

<i>in thousands of U.S. dollars and share amounts (except per share amounts)</i>	Three Months Ended		Six Months Ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
<b>Earnings:</b>				
Net income	\$ 42,615	\$ 7,252	\$ 53,680	\$ 5,266
Less: Net income attributable to noncontrolling interests	16	235	239	213
Less: Allocation to participating securities	574	—	746	—
Net income attributable to Sotera Health Company common shareholders	<u>\$ 42,025</u>	<u>\$ 7,017</u>	<u>\$ 52,695</u>	<u>\$ 5,053</u>
<b>Weighted Average Common Shares:</b>				
Weighted-average common shares outstanding - basic	279,078	232,400	278,953	232,400
Dilutive effect of potential common shares	136	—	124	—
Weighted-average common shares outstanding - diluted <sup>(a)</sup>	<u>279,214</u>	<u>232,400</u>	<u>279,078</u>	<u>232,400</u>
<b>Earnings per Common Share:</b>				
Net income per common share attributable to Sotera Health Company common shareholders - basic	\$ 0.15	\$ 0.03	\$ 0.19	\$ 0.02
Net income per common share attributable to Sotera Health Company common shareholders - diluted	<u>0.15</u>	<u>0.03</u>	<u>0.19</u>	<u>0.02</u>

(a) An additional 2,404,486 and 3,645 equivalent shares related to stock options and RSUs, respectively, issued in connection with the 2020 Omnibus Incentive Plan were excluded from the calculation of diluted weighted average common shares outstanding for the three and six months ended June 30, 2021, as they were anti-dilutive. For the three and six months ended June 30, 2020, there were no potentially dilutive common shares outstanding.

## 16. Commitments and Contingencies

From time to time, we may be subject to various lawsuits and other claims, as well as gain contingencies, in the ordinary course of our business. In addition, from time to time, we receive communications from government or regulatory agencies concerning investigations or allegations of noncompliance with laws or regulations in jurisdictions in which we operate.

We establish reserves for specific liabilities in connection with regulatory and legal actions that we determine to be both probable and reasonably estimable. No material amounts have been accrued in our consolidated financial statements with respect to any loss contingencies. In certain of the matters described below, we are not able to make a reasonable estimate of any liability because of the uncertainties related to the outcome and/or the amount or range of loss. While it is not possible to determine the ultimate disposition of each of these matters, we do not expect that the ultimate resolution of pending regulatory and legal matters in future periods, including the matters described below, will have a material effect on our financial condition or results of operations. Despite the above, the Company may incur material defense and settlement costs, diversion of management resources and other adverse effects on our business, financial condition, or results of operations.

### *FM Global Business Interruption Claim (NRU Outage)*

Nordion, due to the shutdown of AECL's NRU reactor in 2009, suffered a cessation of supply of radioisotopes and business interruption loss. Nordion, by Statement of Claim dated October 22, 2010, issued in Ontario Superior Court an action against the insurer, Factory Mutual Insurance Company (FM Global), claiming \$25.0 million USD in losses resulting from the shutdown of AECL's reactor and its inability to supply radioisotopes through the specified period of approximately 15 months. FM Global objected to Nordion's claim.

On March 30, 2020, Nordion received a favorable judgment in the amount of \$25.0 million USD, plus pre-judgment interest, for a total judgment value of \$39.8 million USD, or \$56.4 million CAD based on exchange rates approved by the trial court. In addition, costs and disbursements have been assessed and awarded by the trial court in favor of Nordion in the approximate amount of \$1.1 million CAD (\$0.9 million USD) and \$161,863 CAD (\$0.1 million USD), respectively. On April 27, 2020, FM Global appealed the judgment. Hearing before the Court of Appeal was held on April 15, 2021. Pending a favorable judgment in the appellate court, any final proceeds would be subject to post judgment interest, a contingent fee owed to legal counsel and



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applicable taxes. As the judgment is considered a contingent gain, any favorable outcome will be recognized in a future period when all appeals are exhausted. It is anticipated that the overall appeal process could take a year or more to complete.

*Ethylene Oxide Tort Litigation - Illinois*

Since September 2018, tort lawsuits on behalf of approximately 835 personal injury plaintiffs (which are further described in the following paragraphs) have been filed in Illinois state courts against Sotera Health LLC, Sterigenics U.S., LLC, GTCR, LLC and other parties related to Sterigenics' Willowbrook, Illinois operations. Specifically, those plaintiffs allege that they suffered personal injuries including cancer and other diseases, or wrongful death, resulting from purported emissions and releases of ethylene oxide ("EO") from the Willowbrook facility. Additional derivative claims are alleged on behalf of other individuals related to these personal injury plaintiffs. Plaintiffs seek damages in an amount to be determined by the trier of fact. Sterigenics denies these allegations and intends to vigorously defend against these claims. Plaintiffs have voluntarily dismissed without prejudice a number of cases since September 2018, including certain individual cases alleging personal injuries and two class actions seeking damages for alleged diminution of property values.

Sterigenics sought consolidation of the cases for pretrial purposes, and in October 2019 obtained an order consolidating the then-pending cases and related cases filed in the future in the Cook County Circuit Court, Illinois (the "Consolidated Case"). All plaintiffs in the Consolidated Case filed a single Master Complaint on October 24, 2019 by which Sotera Health LLC was added as a co-defendant, followed by a series of Amended Master Complaints.

Plaintiffs filed an Amended Master Complaint on April 16, 2021, including claims against Griffith Foods International, Inc. ("Griffith"). Griffith filed a motion to dismiss and all other defendants filed answers to the Complaint. The answer of Sterigenics included counterclaims for contribution against Griffith.

Written and deposition fact discovery is on-going in the Consolidated Case. Currently, there are no dates set for the close of fact discovery, for expert discovery or for dispositive motion practice. Plaintiffs have not yet made any specific damages claims.

Trials in three of the individual cases included in the Consolidated Case have been scheduled for July 18, 2022, September 12, 2022 and November 7, 2022.

*Ethylene Oxide Tort Litigation – Georgia*

On May 19, 2020, a lawsuit against Sotera Health LLC, Sterigenics U.S., LLC and other parties was filed in the State Court of Cobb County, Georgia by 53 employees of a contract sterilization customer of Sterigenics. Plaintiffs claim personal injuries resulting from alleged exposure to residual EO while working at the customer's distribution center in Lithia Springs, Georgia, allege they were unaware that they were being exposed to EO in their workplace and seek damages. Defendants' motions to dismiss are scheduled for hearing in September 2021. All defendants are being defended and indemnified by Sterigenics' contract sterilization customer (plaintiffs' employer and a co-defendant in the lawsuit).

In May 2020, the Cobb County, Georgia Board of Tax Assessors reduced certain residential property value assessments around the Sterigenics Atlanta facility by 10% citing an "Epd-identified environmental issue," without supporting market data. On August 14, 2020, Sterigenics U.S., LLC filed a lawsuit against members of the Cobb County Board of Tax Assessors in the U.S. District Court for the Northern District of Georgia, seeking a declaration that the reduction in property value assessments is arbitrary and unlawful and is causing Sterigenics reputational and imminent economic harm. On February 5, 2021 the Court issued an order finding that Sterigenics lacks standing to obtain the relief sought and dismissed the case. Sterigenics has appealed that decision to the 11th Circuit Court of Appeals.

Since August 17, 2020, 15 lawsuits against Sotera Health LLC, Sterigenics U.S., LLC and other parties have been filed by 41 plaintiffs in the State Court of Cobb County, Georgia and the State Court of Gwinnett County, Georgia in which plaintiffs allege that they suffered personal injuries and loss of consortium resulting from emissions and releases of EO from Sterigenics' Atlanta facility. Our subsidiaries are also defendants in two lawsuits alleging that the Atlanta facility has devalued and harmed plaintiffs' use of real properties they own in Smyrna, Georgia and caused other damages. These personal injury and property devaluation Plaintiffs seek various forms of relief including damages. Ten of the personal injury lawsuits pending in Cobb County have been consolidated for pretrial purposes, governed by a phased case management order pursuant to which general causation issues are scheduled to be determined by November 15, 2022, specific causation issues are scheduled to be

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determined by March 2023, and one case is scheduled to be trial-ready by July 2023. The remaining personal injury and property devaluation cases are in various early stages of pleadings and motions practice and fact discovery.

*Suspension of Georgia Facility Operations & Related Litigation*

On August 7, 2019, Sterigenics U.S., LLC entered into a voluntary Consent Order with the Georgia Environmental Protection Division (“EPD”) under which Sterigenics agreed to install emissions reduction enhancements at its Atlanta facility to further reduce the facility’s EO emissions below already permitted levels. Sterigenics voluntarily suspended operations at the facility in early September 2019 to expedite completion of the enhancements. Installation of these enhancements is complete and Sterigenics successfully tested the enhanced emissions controls in cooperation with EPD during the second quarter of 2020 while the facility was in operation.

In October 2019, while Sterigenics had voluntarily suspended the facility’s operations, Cobb County, Georgia officials asserted that the facility had an incorrect “certificate of occupancy” and could not resume operations without obtaining a new certificate of occupancy after a third-party code compliance review they required.

After the Cobb County officials would not allow Sterigenics to resume operations, on March 30, 2020, Sterigenics U.S., LLC filed a lawsuit in the United States District Court for the Northern District of Georgia against Cobb County, Georgia and Cobb County officials Nicholas Dawe and Kevin Gobble. In the lawsuit, Sterigenics sought immediate injunctive relief and permanent declaratory relief to resume normal operations of the Atlanta facility in the interest of public health and on the basis that the positions asserted by Cobb County were unfounded. On April 1, 2020 the Court entered a Temporary Restraining Order prohibiting Cobb County officials from precluding or interfering with the facility’s normal operations. On April 8, 2020, the Court entered a Consent Order extending the Temporary Restraining Order and allowing the facility to continue normal operations until entry of a final judgment in the case. Defendants filed a motion to dismiss the claims. On November 9, 2020, the Court held a hearing and denied the motion to dismiss. The parties are conducting discovery, which is scheduled to end in April 2022. A settlement conference is scheduled to be held by April 27, 2022.

*Ethylene Oxide Litigation – New Mexico*

On December 22, 2020, the New Mexico Attorney General filed a lawsuit in the Third Judicial District Court, Doña Ana County, New Mexico (the “Third Judicial District”) against the Company, Sterigenics U.S., LLC and other subsidiaries alleging that emissions of EO from Sterigenics’ sterilization facility in Santa Teresa, New Mexico constitute a public nuisance and have deteriorated the air quality in Santa Teresa and surrounding communities and materially contributed to increased health risks suffered by residents of those communities. The Complaint asserts claims for public nuisance, negligence, strict liability, violations of New Mexico’s Public Nuisance Statute and Unfair Practices Act and a request for a temporary restraining order and preliminary injunctive relief.

On May 26, 2021 the Third Judicial District held a preliminary injunction hearing. On June 29, 2021, the Court entered an Order Granting Preliminary Injunction (the “Order”). The Order does not require closure of the facility, but prohibits Sterigenics from allowing any uncontrolled emission or release of EO from the facility, including prohibitions on leaving doors open when not in use and allowing EO to escape through point sources prior to filtration or processing through emission controls. Sterigenics promptly took steps to monitor its compliance with the Order. The Order instructed the parties to discuss a protocol to monitor Sterigenics’ compliance and, if agreement could not be reached, to request a hearing so the Court can determine a monitoring protocol and how the costs of monitoring will be paid. The parties conferred and on July 29, 2021, the parties notified the Court that agreement could not be reached and requested a hearing.

As to the other claims for relief in the Complaint, motions to dismiss are scheduled for hearing on October 28, 2021 and the parties are conducting fact discovery.

Before this lawsuit was filed, Sterigenics was working to implement additional emission control enhancements at the Santa Teresa facility to further reduce EO emissions beyond permitted levels. On June 11, 2021, Sterigenics received a permit from the New Mexico Environment Department, clearing the way for the next steps in Sterigenics’ implementation of these additional emission control enhancements.

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Our insurance for litigation related to alleged environmental liabilities, like the litigation pending in Illinois, Georgia and New Mexico described above has limits of \$10.0 million per occurrence and \$20.0 million in the aggregate. The per occurrence limit related to the Willowbrook, Illinois litigation was fully utilized by June 30, 2020. The remaining \$10.0 million limit is currently being utilized for occurrences related to the EO litigation in Georgia and New Mexico described above. As of June 30, 2021, we have utilized approximately \$1.0 million of the remaining \$10.0 million limit. Our insurance for future alleged environmental liabilities excludes coverage for EO claims.

Additional personal injury, property devaluation or other lawsuits may be filed in the future against us or our subsidiaries relating to Sterigenics' Willowbrook, Atlanta, Santa Teresa or other EO sterilization facilities. The Company, Sterigenics U.S., LLC and other Company subsidiaries intend to defend themselves vigorously in all such current or future EO litigation.

While an adverse outcome in one or more of the proceedings could have a material adverse effect on our business, financial condition and results of operations, no contingency reserve has been reflected in our consolidated financial statements as a loss is not deemed probable or a loss or range of losses is not reasonably estimable at this time.

## 17. Financial Instruments and Financial Risk

### *Derivative Instruments*

We do not use derivatives for trading or speculative purposes and are not a party to leveraged derivatives.

#### *Derivatives Designated in Hedge Relationships*

During the third quarter of 2019, we entered into two interest rate swap agreements to hedge our exposure to interest rate movements and to manage interest expense related to our then outstanding variable-rate debt. The notional amount of the interest rate swap agreements totaled \$1,000.0 million. These swaps were designated as cash flow hedges and were designed to hedge the variability of cash flows attributable to changes in LIBOR, the benchmark interest rate being hedged. We received interest at one-month LIBOR and paid a fixed interest rate under the terms of the swap agreement. The swap agreements terminated on August 31, 2020.

#### *Derivatives Not Designated in Hedge Relationships*

In October 2017, we entered into two interest rate cap agreements with a total notional amount of \$400.0 million for a total option premium of \$0.6 million; these agreements terminated on September 30, 2020. The interest rate caps limited the Company's cash flow exposure related to LIBOR under the variable rate Term Loan borrowings to 3.0%.

In June 2020, SHH entered into two interest rate cap agreements with notional amounts of \$1,000.0 million and \$500.0 million, respectively, for a total option premium of \$0.3 million. These instruments were initially scheduled to terminate on August 31, 2021 and February 28, 2022, respectively. The interest rate caps limit our cash flow exposure related to the LIBOR base rate under a portion of our variable rate borrowings to 1.0%. In February 2021, we amended the two interest rate cap agreements referenced above to reduce the strike rate from 1.0% to 0.5%, and extend the termination date of the \$1,000.0 million notional cap to September 30, 2021. Premiums paid to amend the interest rate caps were immaterial. We also entered into two additional interest rate cap agreements in February 2021 with a combined notional amount of \$1,000.0 million, for a total option premium of \$0.4 million. These instruments are effective September 30, 2021, and will terminate on December 31, 2022. The amended and new interest rate caps limit our cash flow exposure related to LIBOR under a portion of our variable rate borrowings to 0.5%.

The interest rate caps were entered into to manage economic risks associated with our variable rate borrowings, but were not designated in hedge relationships. These instruments are recorded at fair value on the Consolidated Balance Sheets, with any changes in the value being recorded in "Interest expense, net" in the Consolidated Statements of Operations and Comprehensive Income (Loss).

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The Company also entered into foreign currency forward contracts to manage foreign currency exchange rate risk of our intercompany loans in certain of our international subsidiaries. The foreign currency forward contracts expire on a monthly basis. The fair value of the outstanding foreign currency forward contracts was zero as of June 30, 2021 and December 31, 2020, respectively.

#### Embedded Derivatives

We have embedded derivatives in certain of our customer and supply contracts as a result of the currency of the contract being different from the functional currency of the parties involved. Changes in the fair value of the embedded derivatives are recognized in “Other income, net” in the Consolidated Statements of Operations and Comprehensive Income (Loss).

The following table provides a summary of the notional and fair values of our derivative instruments:

<i>(in U.S. Dollars; notional in millions, fair value in thousands)</i>	June 30, 2021			December 31, 2020		
	Notional Amount	Fair Value		Notional Amount	Fair Value	
		Derivative Assets	Derivative Liabilities		Derivative Assets	Derivative Liabilities
<b>Derivatives not designated as hedging instruments:</b>						
Interest rate caps	\$ 2,500.0	\$ 85	\$ —	\$ 1,500.0	\$ 7	\$ —
Embedded derivatives	79.1 <sup>(a)</sup>	1,318	391	83.3	—	670
Total	\$ 2,579.1	\$ 1,403	\$ 391	\$ 1,583.3	\$ 7	\$ 670

(a) Represents the total notional amounts for certain of the Company’s supply and sales contracts accounted for as embedded derivatives.

The interest rate caps and embedded derivative assets are included in “Prepaid expenses and other current assets” or “Other assets” on the Consolidated Balance Sheets depending upon their respective maturity dates. Embedded derivative liabilities are included in “Accrued liabilities” on the Consolidated Balance Sheets.

The following tables summarize the activities of our derivative instruments for the periods presented, and the line item they are recorded in the Consolidated Statements of Operations and Comprehensive Income (Loss):

*(thousands of U.S. dollars)*

<b>Three Months Ended June 30,</b>	2021	2020
Unrealized loss on interest rate caps recorded in interest expense, net	\$ 293	\$ 172
Unrealized (gain) loss on embedded derivatives recorded in other income, net	(761)	(2,776)
Realized (gain) loss on foreign currency forward contracts recorded in foreign exchange (gain) loss	231	—

*(thousands of U.S. dollars)*

<b>Six Months Ended June 30,</b>	2021	2020
Unrealized loss on interest rate caps recorded in interest expense, net	\$ 383	\$ 172
Unrealized (gain) loss on embedded derivatives recorded in other income, net	(1,614)	2,043
Realized (gain) loss on foreign currency forward contracts recorded in foreign exchange (gain) loss	(2,143)	—

In addition, during the three and six months ended June 30, 2020, we recognized \$1.5 million of gains and \$2.0 million of losses, net of tax, in accumulated other comprehensive income (loss) related to the change in fair value of the interest rate swaps.

#### Credit Risk

Certain of our financial assets, including cash and cash equivalents, are exposed to credit risk.

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We are also exposed, in our normal course of business, to credit risk from our customers. As of June 30, 2021 and December 31, 2020, accounts receivable was net of an allowance for uncollectible accounts of \$0.7 million.

Credit risk on financial instruments arises from the potential for counterparties to default on their contractual obligations to us. We are exposed to credit risk in the event of non-performance, but do not anticipate non-performance by any of the counterparties to our financial instruments. We limit our credit risk by dealing with counterparties that are considered to be of high credit quality. In the event of non-performance by counterparties, the carrying value of our financial instruments represents the maximum amount of loss that would be incurred.

### **Fair Value Hierarchy**

The fair value of our financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The valuation techniques we would use to determine such fair values are described as follows: Level 1—fair values determined by inputs utilizing quoted prices in active markets for identical assets or liabilities; Level 2—fair values based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable; Level 3—fair values determined by unobservable inputs reflecting our own assumptions, consistent with reasonably available assumptions made by other market participants.

The following table discloses the fair value of our financial assets and liabilities:

#### **As of June 30, 2021**

<i>(thousands of U.S. dollars)</i>	Carrying Amount	Fair Value		
		Level 1	Level 2	Level 3
<b>Derivatives not designated as hedging instruments<sup>(a)</sup></b>				
Interest rate caps	\$ 85	\$ —	\$ 85	\$ —
Embedded derivative assets	1,318	—	1,318	—
Embedded derivative liabilities	(391)	—	(391)	—
<b>Long-Term Debt<sup>(b)</sup></b>				
Term loan, due 2026	1,741,077	—	1,758,692	—
Senior notes, due 2026	96,613	—	99,685	—
Other long-term debt	443	—	443	—
Finance Lease Obligations (with current portion) <sup>(c)</sup>	34,549	—	34,549	—

#### **As of December 31, 2020**

<i>(thousands of U.S. dollars)</i>	Carrying Amount	Fair Value		
		Level 1	Level 2	Level 3
<b>Derivatives not designated as hedging instruments<sup>(a)</sup></b>				
Interest rate caps	\$ 7	\$ —	\$ 7	\$ —
Embedded derivative liabilities	(670)	—	(670)	—
<b>Long-Term Debt<sup>(b)</sup></b>				
Term loan, due 2026	1,728,018	—	1,772,180	—
Senior notes, due 2026	96,329	—	99,863	—
Other long-term debt	442	—	442	—
Finance Lease Obligations (with current portion) <sup>(c)</sup>	36,112	—	36,112	—

- (a) Derivatives that are not designated as hedging instruments are measured at fair value with gains or losses recognized immediately in the Consolidated Statements of Operations and Comprehensive Income (Loss). Interest rate caps are valued using pricing models that incorporate observable market inputs including interest rate and yield curves. Embedded derivatives are valued using internally developed models that rely on observable market inputs including foreign currency forward curves.

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- (b) Carrying amounts of long-term debt instruments are reported net of discounts and debt issuance costs. The estimated fair value of these instruments is based on information provided by the agent under the Company's senior secured credit facility. Fair value approximates carrying value for "Other long-term debt."
- (c) Fair value approximates carrying value.

### 18. Segment Information

We identify our operating segments based on the way we manage, evaluate and internally report our business activities for purposes of allocating resources and assessing performance. We have three reportable segments: Sterigenics, Nordion and Nelson Labs. We have determined our reportable segments based upon an assessment of organizational structure, service types, and internally prepared financial statements. Our chief operating decision maker evaluates performance and allocates resources based on net revenues and segment income after the elimination of intercompany activities. The accounting policies of our reportable segments are the same as those described in Note 1, "Significant Accounting Policies" of our 2020 Form 10-K.

#### Sterigenics

Sterigenics provides outsourced terminal sterilization and irradiation services for the medical device, pharmaceutical, food safety and advanced applications markets using three major technologies: gamma irradiation, EO processing and E-beam irradiation.

#### Nordion

Nordion is a leading global provider of Co-60 used in the sterilization and irradiation processes for the medical device, pharmaceutical, food safety, and high-performance materials industries, as well as in the treatment of cancer. In addition, Nordion is a leading global provider of gamma irradiation systems.

#### Nelson Labs

Nelson Labs provides outsourced microbiological and analytical chemistry testing and advisory services for the medical device and pharmaceutical industries.

For the three months ended June 30, 2021, two customers reported within the Nordion segment individually represented 10% or more of the segment's total net revenues. These customers represented 17.9% and 16.1% of the total segment's external net revenues for the three months ended June 30, 2021. For the three months ended June 30, 2020, four customers reported within the Nordion segment individually represented 10% or more of the segment's total net revenues. These customers represented 17.6%, 19.0%, 13.1%, and 10.2% of the total segment's external net revenues for the three months ended June 30, 2020.

For the six months ended June 30, 2021, four customers reported within the Nordion segment individually represented 10% or more of the segment's total net revenues. These customers represented 14.8%, 12.6%, 13.1%, and 10.5% of the total segment's external net revenues for the six months ended June 30, 2021. For the six months ended June 30, 2020, two customers reported within the Nordion segment individually represented 10% or more of the segment's total net revenues. These customers represented 14.5% and 18.9% of the total segment's external net revenues for the six months ended June 30, 2020.

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

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<i>(thousands of U.S. dollars)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
<b>Segment revenues<sup>(a)</sup></b>				
Sterigenics	\$ 145,182	\$ 120,372	\$ 276,333	\$ 237,652
Nordion	49,125	42,141	75,043	65,766
Nelson Labs	57,610	50,572	112,689	97,867
<b>Total net revenues</b>	<b>\$ 251,917</b>	<b>\$ 213,085</b>	<b>\$ 464,065</b>	<b>\$ 401,285</b>
<b>Segment income<sup>(b)</sup></b>				
Sterigenics	\$ 79,569	\$ 65,030	\$ 148,030	\$ 126,121
Nordion	31,168	27,409	44,954	40,431
Nelson Labs	23,826	21,990	46,896	39,760
<b>Total segment income</b>	<b>\$ 134,563</b>	<b>\$ 114,429</b>	<b>\$ 239,880</b>	<b>\$ 206,312</b>

- (a) Revenues are reported net of intersegment sales. Our Nordion segment recognized \$7.0 million and \$9.0 million in revenues from sales to our Sterigenics segment for the three months ended June 30, 2021 and 2020, and \$17.5 million and \$19.9 million in revenues from sales to our Sterigenics segment for the six months ended June 30, 2021 and 2020, respectively, that is not reflected in net revenues in the table above. Intersegment sales for Sterigenics and Nelson Labs are immaterial for these periods.
- (b) Segment income is only provided on a net basis to the chief operating decision maker and is reported net of intersegment profits.

Corporate operating expenses for executive management, accounting, information technology, legal, human resources, treasury, corporate development, tax, purchasing, and marketing not directly incurred by a segment are allocated to the segments based on total revenue. Corporate operating expenses that are directly incurred by a segment are reflected in each segment's income.

Capital expenditures by segment for the six months ended June 30, 2021 and 2020 were as follows:

<i>(thousands of U.S. dollars)</i>	Six Months Ended June 30,	
	2021	2020
Sterigenics	\$ 35,851	\$ 20,965
Nordion	6,376	982
Nelson Labs	2,562	1,491
<b>Total capital expenditures</b>	<b>\$ 44,789</b>	<b>\$ 23,438</b>

Total assets and depreciation and amortization expense by segment are not readily available and are not reported separately to the chief operating decision maker.

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A reconciliation of segment income to consolidated income (loss) before taxes is as follows:

(thousands of U.S. dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
<b>Segment income</b>	<b>\$ 134,563</b>	<b>\$ 114,429</b>	<b>\$ 239,880</b>	<b>\$ 206,312</b>
<b>Less adjustments:</b>				
Interest expense, net	19,163	55,250	40,445	111,812
Depreciation and amortization <sup>(a)</sup>	37,461	35,034	75,122	71,057
Share-based compensation <sup>(b)</sup>	3,493	1,393	6,942	3,118
(Gain) loss on foreign currency and embedded derivatives <sup>(c)</sup>	(660)	(3,023)	(996)	1,244
Acquisition and divestiture related charges, net <sup>(d)</sup>	844	1,295	659	2,289
Business optimization project expenses <sup>(e)</sup>	275	750	536	1,799
Plant closure expenses <sup>(f)</sup>	756	451	1,298	1,222
Loss on extinguishment of debt <sup>(g)</sup>	—	—	14,312	—
Professional services relating to EO sterilization facilities <sup>(h)</sup>	10,644	9,494	24,043	13,640
Accretion of asset retirement obligation <sup>(i)</sup>	602	492	1,153	982
COVID-19 expenses <sup>(j)</sup>	188	2,271	487	2,347
<b>Consolidated income (loss) before taxes</b>	<b>\$ 61,797</b>	<b>\$ 11,022</b>	<b>\$ 75,879</b>	<b>\$ (3,198)</b>

(a) Includes depreciation of Co-60 held at gamma irradiation sites.

(b) Represents non-cash share-based compensation expense.

(c) Represents the effects of (i) fluctuations in foreign currency exchange rates, primarily related to remeasurement of intercompany loans denominated in currencies other than subsidiaries' functional currencies, and (ii) non-cash mark-to-fair value of embedded derivatives relating to certain customer and supply contracts at Nordion.

(d) Represents (i) certain direct and incremental costs related to the acquisitions of the noncontrolling interests in our China subsidiaries and BioScience in 2021, Iotron in July 2020, and Nelson Labs Fairfield in 2018 (including the first quarter 2021 gain on the mandatorily redeemable noncontrolling interest as described in Note 4, "Acquisitions"), and certain related integration efforts as a result of those acquisitions, (ii) the earnings impact of fair value adjustments (excluding those recognized within amortization expense) resulting from the businesses acquired, and (iii) transition services income and non-cash deferred lease income associated with the terms of the divestiture of the Medical Isotopes business in 2018.

(e) Represents professional fees, contract termination and exit costs, severance and other payroll costs, and other costs associated with business optimization and cost savings projects relating to the integration of recent acquisitions, the Sotera Health rebranding, operating structure realignment and other process enhancement projects.

(f) Represents professional fees, severance and other payroll costs, and other costs including ongoing lease and utility expenses associated with the closure of the Willowbrook, Illinois facility.

(g) Represents expenses incurred in connection with the repricing of our Term Loan in January 2021 including accelerated amortization of prior debt issuance and discount costs.

(h) Represents professional fees related to litigation associated with our EO sterilization facilities and other related professional fees. See Note 16, "Commitments and Contingencies".

(i) Represents non-cash accretion of asset retirement obligations related to Co-60 and gamma processing facilities, which are based on estimated site remediation costs for any future decommissioning of these facilities (without regard for whether the decommissioning services would be performed by employees of Nordion, instead of by a third party) and are accreted over the life of the asset.

(j) Represents non-recurring costs associated with the COVID-19 pandemic, including incremental costs to implement workplace health and safety measures. For the three and six months ended June 30, 2020, costs also included donations to related charitable causes, and special bonuses for front-line personnel working on-site during lockdown periods.



## Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

*You should read the following discussion and analysis in conjunction with our consolidated financial statements and related notes included in Part I, Item 1 of this Quarterly Report on Form 10-Q, as well as the audited consolidated financial statements and notes and Management’s Discussion and Analysis of Financial Condition and Results of Operations contained in our 2020 Form 10-K. This discussion and analysis contains forward-looking statements that are based on management’s current expectations, estimates and projections about our business and operations. Our actual results may differ materially from those currently anticipated and expressed in such forward-looking statements as a result of various factors, including the factors we describe in the section entitled Part II, Item 1A, “Risk Factors” in this Quarterly Report on Form 10-Q, as well as Part I, Item 1A, “Risk Factors” in our 2020 Form 10-K.*

### OVERVIEW

We are a leading global provider of mission-critical end-to-end sterilization solutions, lab testing and advisory services for the healthcare industry. We are driven by our mission: Safeguarding Global Health®. We provide end-to-end sterilization as well as microbiological and analytical lab testing and advisory services to help ensure that medical, pharmaceutical and food products are safe for healthcare practitioners, patients and consumers in the United States and around the world. Our services are an essential aspect of our customers’ manufacturing process and supply chains, helping to ensure sterilized medical products reach healthcare practitioners and patients. Most of these services are necessary for our customers to satisfy applicable government requirements.

We serve our customers throughout their product lifecycles, from product design to manufacturing and delivery, helping to ensure the sterility, effectiveness and safety of their products for the end user. We operate across two core businesses: sterilization services and lab services. The combination of Sterigenics, our terminal sterilization business, and Nordion, our Co-60 supply business, makes us the only vertically integrated global gamma sterilization provider in the sterilization industry. For financial reporting purposes, our sterilization services business consists of two reportable segments, Sterigenics and Nordion, and our lab services business consists of one reportable segment, Nelson Labs.

For the three and six months ended June 30, 2021, respectively, we recorded net revenues of \$251.9 million and \$464.1 million, net income of \$42.6 million and \$53.7 million, Adjusted Net Income of \$71.7 million and \$123.2 million, and Adjusted EBITDA of \$134.6 million and \$239.9 million. For the definition of Adjusted Net Income and Adjusted EBITDA and the reconciliation of these non-GAAP measures from net income (loss), please see “Non-GAAP Financial Measures.”

### STRATEGIC DEVELOPMENTS AND KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

The following summarizes strategic developments and key factors that have underpinned our operating results for the three and six months ended June 30, 2021 and may continue to affect our performance and financial condition in future periods.

- **Driving organic growth.** During the three and six months ended June 30, 2021, we continued to make investments to expand capacity and implement EO facility enhancements in our Sterigenics business and expand our cobalt development resources in our Nordion business. In addition, we continue to expand capacity to meet demand for microbiological testing and extractables and leachables testing in our Nelson Labs business.
- **Disciplined and strategic M&A activity.** We continue to pursue strategic acquisitions to grow our footprint and expand our capabilities. On March 8, 2021, we acquired BioScience Laboratories, LLC (“BioScience”) with one location in Bozeman, Montana. BioScience is a provider of outsourced topical antimicrobial and virology product testing in the pharmaceutical, medical device, and consumer products industries. BioScience’s expertise in analytical testing and clinical trial services will complement Nelson Labs’ existing strengths in antimicrobial and virology testing. In July 2020, we acquired Iotron Industries Canada, Inc. (“Iotron”), an E-beam processing services and equipment provider. Additionally, on May 18, 2021, we completed the purchase of the outstanding noncontrolling interests of 15% and 33% of our two China subsidiaries, respectively, for a total purchase price of \$8.6 million. On March 11, 2021, we completed the acquisition of the remaining 15% ownership of Nelson Labs Fairfield for \$12.4 million. Pursuant to the terms of the transaction, we acquired 85% of the equity interests of Nelson Labs Fairfield in August 2018 and were required to acquire the 15% noncontrolling interest within three years from the date of the acquisition.
- **Borrowings and financing costs.** A combination of lower outstanding borrowings and reduced pricing on our debt resulted in a reduction in cash interest expense for the three and six months ended June 30, 2021 compared to the three and six months ended June 30, 2020. On January 20, 2021 we amended our Term Loan to reduce the interest rate spread over LIBOR from 4.50% to 2.75%, and the LIBOR floor from 1.00% to 0.50%. The changes resulted in an

effective reduction in current interest rates of 2.25%. We expect the amendment to provide additional cash interest savings of approximately \$40.0 million per year based on the outstanding principal balance as of the date of the amendment. Interest savings in 2021 will be offset by cash and non-cash charges associated with the repricing amendment. In connection with this transaction, we wrote off approximately \$11.3 million in debt issuance costs and debt discounts and incurred approximately \$2.9 million in costs directly related to the refinancing transaction. In addition, on March 26, 2021, we amended our Revolving Credit Facility to reduce the interest rate spread over LIBOR applicable to revolving loans from 3.50% to 2.75%.

- **Impacts of our IPO.** As a newly public company, we continue to incur certain expenses on an ongoing basis that we did not incur as a private company including third-party and internal resources related to accounting, auditing, Sarbanes-Oxley Act compliance, legal, and investor and public relations expenses. These costs are primarily classified as selling, general and administrative (“SG&A”) expenses. We continue to dedicate internal resources, hire additional personnel, and engage outside consultants to assess and document the adequacy of internal controls over financial reporting. In addition, in March 2021, we incurred costs related to a secondary offering of 25 million shares of our common stock offered by selling stockholders, which included certain affiliates of Warburg Pincus LLC and GTCR, LLC as well as certain current and former members of management of the Company.
- **Litigation costs and exit activities.** In connection with the ongoing litigation related to our Willowbrook, Illinois, Atlanta, Georgia and Santa Teresa, New Mexico facilities, as described in Note 16, “Commitments and Contingencies”, we recorded costs of \$10.6 million and \$24.0 million for the three and six months ended June 30, 2021, respectively, relating to legal and other professional service costs, as well as \$0.8 million and \$1.3 million, respectively, related to the closure of the Willowbrook, Illinois facility.
- **Impact of COVID-19 pandemic.** We remain subject to risks and uncertainties as a result of the COVID-19 pandemic. Our business continuity plans remain in effect and we have maintained certain measures to decrease exposure risk and manage our supply chain for critical materials. The extent to which our operations will continue to be impacted by the pandemic will largely depend on future developments, which still remain uncertain and cannot be predicted.

## CONSOLIDATED RESULTS OF OPERATIONS

### Three Months Ended June 30, 2021 as compared to Three Months Ended June 30, 2020

The following table sets forth the components of our results of operations for the three months ended June 30, 2021 and 2020.

<i>(thousands of U.S. dollars)</i>	2021	2020	\$ Change	% Change
<b>Total net revenues</b>	\$ 251,917	\$ 213,085	\$ 38,832	18.2 %
<b>Total cost of revenues</b>	108,156	94,118	14,038	14.9 %
<b>Total operating expenses</b>	65,489	57,225	8,264	14.4 %
<b>Operating income</b>	78,272	61,742	16,530	26.8 %
<b>Net income</b>	42,615	7,252	35,363	487.6 %
<b>Adjusted Net Income<sup>(a)</sup></b>	71,672	31,433	40,239	128.0 %
<b>Adjusted EBITDA<sup>(a)</sup></b>	134,563	114,429	20,134	17.6 %

<sup>(a)</sup> Adjusted Net Income and Adjusted EBITDA are non-GAAP financial measures. For more information regarding our calculation of Adjusted Net Income and Adjusted EBITDA, including information about their limitations as tools for analysis and a reconciliation of net income, the most directly comparable financial measure calculated and presented in accordance with GAAP, to Adjusted Net Income and Adjusted EBITDA, please see the reconciliation included below in “Non-GAAP Financial Measures.”

### Total Net Revenues

The following table compares our revenues by type for the three months ended June 30, 2021 to the three months ended June 30, 2020.

(thousands of U.S. dollars)

<u>Net revenues for the three months ended June 30,</u>	<u>2021</u>	<u>2020</u>	<u>\$ Change</u>	<u>% Change</u>
Service	\$ 208,710	\$ 174,444	\$ 34,266	19.6 %
Product	43,207	38,641	4,566	11.8 %
<b>Total net revenues</b>	<b>\$ 251,917</b>	<b>\$ 213,085</b>	<b>\$ 38,832</b>	<b>18.2 %</b>

Net revenues were \$251.9 million in the three months ended June 30, 2021, an increase of \$38.8 million, or 18.2%, as compared with the three months ended June 30, 2020. Excluding the impact of foreign currency exchange rates, net revenues in the three months ended June 30, 2021 increased approximately 14.3% compared with the three months ended June 30, 2020.

#### Service revenues

Service revenues increased \$34.3 million, or 19.6%, to \$208.7 million in the three months ended June 30, 2021 as compared to \$174.4 million in the three months ended June 30, 2020. The increase in net service revenues reflected a \$10.4 million increase due to the July 31, 2020 acquisition of Iotron and March 8, 2021 acquisition of BioScience. The increase in net service revenue was also driven by organic volume growth of \$10.0 million in the Sterigenics segment. Nelson Labs organic volume growth contributed \$2.9 million to the revenue increase in the three months ended June 30, 2021, exclusive of an overall decline in personal protective equipment testing of \$2.6 million. The onset of COVID-19 in the first half of 2020 generated significant demand for testing of personal protective equipment, which subsequently declined in the three months ended June 30, 2021. In addition, service revenue growth stemmed from favorable pricing of \$4.7 million and \$2.0 million in the Sterigenics and Nelson Labs segments, respectively. The remainder of the increase was attributable to a \$2.5 million increase in service revenue at Nordion, primarily related to production irradiator refurbishments, and changes in foreign currency exchange rates across all segments.

#### Product revenues

Product revenues increased \$4.6 million, or 11.8%, to \$43.2 million in the three months ended June 30, 2021 as compared to \$38.6 million in the three months ended June 30, 2020. The increase in product revenues was primarily attributable to favorable impacts from foreign currency exchange rates and pricing of \$3.8 million and \$3.3 million, respectively, partially offset by lower sales volumes.

### Total Cost of Revenues

The following table compares our cost of revenues by type for the three months ended June 30, 2021 to the three months ended June 30, 2020.

(thousands of U.S. dollars)

<u>Cost of revenues for the three months ended June 30,</u>	<u>2021</u>	<u>2020</u>	<u>\$ Change</u>	<u>% Change</u>
Service	\$ 91,391	\$ 80,620	\$ 10,771	13.4 %
Product	16,765	13,498	3,267	24.2 %
<b>Total cost of revenues</b>	<b>\$ 108,156</b>	<b>\$ 94,118</b>	<b>\$ 14,038</b>	<b>14.9 %</b>

Total cost of revenues accounted for approximately 42.9% and 44.2% of our consolidated net revenues for the three months ended June 30, 2021 and 2020, respectively.

#### Cost of service revenues

Cost of service revenues increased \$10.8 million, or 13.4%, for the three months ended June 30, 2021 as compared to the three months ended June 30, 2020. The increase was largely attributable to the incremental contribution of \$4.0 million from the Iotron and BioScience acquisitions. The increase was also driven by the impact of foreign currency exchange rates on cost of revenues within our foreign subsidiaries. The remainder of the increase was attributable to overall increases in direct costs in support of the revenue growth cited above.

### Cost of product revenues

Cost of product revenues increased \$3.3 million, or 24.2%, for the three months ended June 30, 2021 as compared to the three months ended June 30, 2020. The increase was primarily a result of an unfavorable Co-60 supply mix and an unfavorable impact from foreign currency exchange rates.

### Operating Expenses

The following table compares our operating expenses for the three months ended June 30, 2021 to the three months ended June 30, 2020:

(thousands of U.S. dollars)

<u>Operating expenses for the three months ended June 30,</u>	<u>2021</u>	<u>2020</u>	<u>\$ Change</u>	<u>% Change</u>
Selling, general and administrative expenses	\$ 49,828	\$ 42,684	\$ 7,144	16.7 %
Amortization of intangible assets	15,661	14,541	1,120	7.7 %
<b>Total operating expenses</b>	<b>\$ 65,489</b>	<b>\$ 57,225</b>	<b>\$ 8,264</b>	<b>14.4 %</b>

Operating expenses accounted for approximately 26.0% and 26.9% of our consolidated net revenues for the three months ended June 30, 2021 and 2020, respectively.

### SG&A

SG&A increased \$7.1 million, or 16.7%, for the three months ended June 30, 2021 as compared to the three months ended June 30, 2020. The increase was driven primarily by the following:

- \$4.0 million in incremental corporate expenses largely attributed to costs associated with being a public company. This includes \$1.8 million in incremental costs attributable to public company director and officer liability insurance;
- An increase in share-based compensation expense of \$2.1 million related to our 2020 Omnibus Incentive Plan;
- \$1.2 million increase in legal and other professional services expense associated with EO litigation.

Offsetting these costs was a \$2.1 million decrease in costs directly associated with the COVID-19 pandemic, which included donations to related charitable causes, special bonuses for front-line personnel working on-site during lockdown periods and measures to ensure workplace health and safety.

### Amortization of intangible assets

Amortization of intangible assets was \$15.7 million for the three months ended June 30, 2021, or 7.7% above the three months ended June 30, 2020. The change was primarily attributable to amortization on newly acquired intangible assets related to the Iotron and BioScience acquisitions.

### Interest Expense, Net

Interest expense, net decreased \$36.1 million, or 65.3%, for the three months ended June 30, 2021 as compared to the three months ended June 30, 2020. The decrease was largely due to lower outstanding debt for the three months ended June 30, 2021 and lower interest rates subsequent to the January 2021 Term Loan refinancing. The weighted average interest rate on our outstanding debt was 3.45% and 6.93% at June 30, 2021 and 2020, respectively.

### Foreign Exchange Loss (Gain)

Foreign exchange loss was \$0.1 million for the three months ended June 30, 2021 as compared to a gain of \$0.2 million in the three months ended June 30, 2020. The foreign exchange loss (gain) in our Consolidated Statements of Operations and Comprehensive Income (Loss) relates primarily to U.S. dollar denominated intercompany indebtedness with certain of our European and Canadian subsidiaries.

### Other Income, Net

Other income, net was \$2.8 million for the three months ended June 30, 2021 compared to \$4.4 million for the three months ended June 30, 2020. The fluctuation was driven by changes in the fair value of the embedded derivatives in Nordion's contracts. We recorded an unrealized gain on embedded derivatives of \$0.8 million for the three months ended June 30, 2021 as compared to an unrealized gain on embedded derivatives of \$2.8 million for the three months ended June 30, 2020.

### Provision for Income Taxes

Provision for income tax increased \$15.4 million to a net provision of \$19.2 million for the three months ended June 30, 2021 as compared to \$3.8 million in the three months ended June 30, 2020. The change was primarily attributable to an increase in pre-tax income of \$50.8 million for the three months ended June 30, 2021 from the three months ended June 30, 2020, offset by a decrease in global intangible low-tax income (“GILTI”) tax expense.

Provision for income taxes for the three months ended June 30, 2021 differed from the statutory rate primarily due to the impact of the foreign rate differential, GILTI, a net increase in the interest expense valuation allowance, and a discrete item pertaining to an income tax rate change in the United Kingdom. Provision for income taxes for the three months ended June 30, 2020 differed from the statutory rate primarily due to GILTI, the foreign rate differential, non-deductible expenses as well as the impact of the 2020 Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”), which increased the limitation on interest expense deductions and resulted in a valuation allowance reversal.

### Net Income (Loss), Adjusted Net Income and Adjusted EBITDA

Net income for the three months ended June 30, 2021 was \$42.6 million, as compared to net income of \$7.3 million for the three months ended June 30, 2020. Adjusted Net Income was \$71.7 million for the three months ended June 30, 2021, as compared to \$31.4 million for the three months ended June 30, 2020, due to the factors described above. Adjusted EBITDA was \$134.6 million for the three months ended June 30, 2021, as compared to \$114.4 million for the three months ended June 30, 2020, due to the factors described above. Please see “Non-GAAP Financial Measures” below for a reconciliation of Adjusted Net Income and Adjusted EBITDA to their most directly comparable financial measure calculated and presented in accordance with GAAP.

### Six Months Ended June 30, 2021 as compared to Six Months Ended June 30, 2020

The following table sets forth the components of our results of operations for the six months ended June 30, 2021 and 2020.

<i>(thousands of U.S. dollars)</i>	2021	2020	\$ Change	% Change
<b>Total net revenues</b>	\$ 464,065	\$ 401,285	\$ 62,780	15.6 %
<b>Total cost of revenues</b>	204,932	185,801	19,131	10.3 %
<b>Total operating expenses</b>	134,497	108,877	25,620	23.5 %
<b>Operating income</b>	124,636	106,607	18,029	16.9 %
<b>Net income</b>	53,680	5,266	48,414	919.4 %
<b>Adjusted Net Income<sup>(a)</sup></b>	123,178	55,171	68,007	123.3 %
<b>Adjusted EBITDA<sup>(a)</sup></b>	239,880	206,312	33,568	16.3 %

(a) Adjusted Net Income and Adjusted EBITDA are non-GAAP financial measures. For more information regarding our calculation of Adjusted Net Income and Adjusted EBITDA, including information about their limitations as tools for analysis and a reconciliation of net income (loss), the most directly comparable financial measure calculated and presented in accordance with GAAP, to Adjusted Net Income and Adjusted EBITDA, please see the reconciliation included below in “Non-GAAP Financial Measures.”

### Total Net Revenues

The following table compares our revenues by type for the six months ended June 30, 2021 to the six months ended June 30, 2020.

<i>(thousands of U.S. dollars)</i>	2021	2020	\$ Change	% Change
<b>Net revenues for the six months ended June 30,</b>				
Service	\$ 397,408	\$ 341,849	\$ 55,559	16.3 %
Product	66,657	59,436	7,221	12.1 %
<b>Total net revenues</b>	\$ 464,065	\$ 401,285	\$ 62,780	15.6 %

Net revenues were \$464.1 million in the six months ended June 30, 2021, an increase of \$62.8 million, or 15.6%, as compared with the six months ended June 30, 2020. Excluding the impact of foreign currency exchange rates, net revenues in the six months ended June 30, 2021 increased approximately 12.7% compared with the six months ended June 30, 2020.

#### *Service revenues*

Service revenues increased \$55.6 million, or 16.3%, to \$397.4 million in the six months ended June 30, 2021 as compared to \$341.8 million in the six months ended June 30, 2020. The increase in net service revenues reflected a \$17.4 million increase due to the July 31, 2020 acquisition of Iotron and March 8, 2021 acquisition of BioScience. The increase in net service revenue was also driven by organic volume growth of \$12.7 million and \$4.2 million in the Sterigenics and Nelson Labs segments, respectively, coupled with \$8.5 million and \$3.9 million related to pricing in the Sterigenics and Nelson Labs segments, respectively. The remainder of the increase was attributable to a \$3.3 million increase in service revenue at Nordion, primarily related to production irradiator refurbishments, and changes in foreign currency exchange rates across all segments.

#### *Product revenues*

Product revenues increased \$7.2 million, or 12.1%, to \$66.7 million in the six months ended June 30, 2021 as compared to \$59.4 million in the six months ended June 30, 2020. The increase in product revenues was primarily attributable to favorable impacts from foreign currency exchange rates and pricing of \$4.7 million and \$4.2 million, respectively, partially offset by lower sales volumes compared to the six months ended June 30, 2020.

#### **Total Cost of Revenues**

The following table compares our cost of revenues by type for the six months ended June 30, 2021 to the six months ended June 30, 2020.

*(thousands of U.S. dollars)*

<b>Cost of revenues for the six months ended June 30,</b>	<b>2021</b>	<b>2020</b>	<b>\$ Change</b>	<b>% Change</b>
Service	\$ 176,427	\$ 163,689	\$ 12,738	7.8 %
Product	28,505	22,112	6,393	28.9 %
<b>Total cost of revenues</b>	<b>\$ 204,932</b>	<b>\$ 185,801</b>	<b>\$ 19,131</b>	<b>10.3 %</b>

Total cost of revenues accounted for approximately 44.2% and 46.3% of our consolidated net revenues for the six months ended June 30, 2021 and 2020, respectively.

#### *Cost of service revenues*

Cost of service revenues increased \$12.7 million, or 7.8%, for the six months ended June 30, 2021 as compared to the six months ended June 30, 2020. The increase was attributable to an incremental contribution of \$6.0 million from the Iotron and BioScience acquisitions and a \$3.6 million impact from foreign currency exchange rates on cost of revenues within our foreign subsidiaries. The remainder of the increase is primarily a result of approximately \$2.2 million of incremental costs associated with increased sales volumes referenced above.

#### *Cost of product revenues*

Cost of product revenues increased \$6.4 million, or 28.9%, for the six months ended June 30, 2021 as compared to the six months ended June 30, 2020. The increase primarily stemmed from unfavorable Co-60 supply mix. The remainder of the increase is primarily due to an unfavorable impact from foreign currency exchange rates of \$2.9 million.

### **Operating Expenses**

The following table compares our operating expenses for the six months ended June 30, 2021 to the six months ended June 30, 2020:

(thousands of U.S. dollars)

<b>Operating expenses for the six months ended June 30,</b>	<b>2021</b>	<b>2020</b>	<b>\$ Change</b>	<b>% Change</b>
Selling, general and administrative expenses	\$ 102,293	\$ 79,737	\$ 22,556	28.3 %
Amortization of intangible assets	32,204	29,140	3,064	10.5 %
<b>Total operating expenses</b>	<b>\$ 134,497</b>	<b>\$ 108,877</b>	<b>\$ 25,620</b>	<b>23.5 %</b>

Operating expenses accounted for approximately 29.0% and 27.1% of our consolidated net revenues for the six months ended June 30, 2021 and 2020, respectively.

#### **SG&A**

SG&A increased \$22.6 million, or 28.3%, for the six months ended June 30, 2021 as compared to the six months ended June 30, 2020. The increase was driven primarily by the following:

- An \$10.4 million increase in legal and other professional services expense associated with EO litigation;
- \$8.0 million in incremental corporate expenses largely attributed to costs associated with being a public company. This includes \$3.7 million in incremental costs attributable to public company director and officer liability insurance;
- An increase in share-based compensation expense of \$3.8 million primarily related to our 2020 Omnibus Incentive Plan.

Offsetting these costs was a \$1.9 million decrease in costs directly associated with the COVID-19 pandemic, which included donations to related charitable causes, special bonuses for front-line personnel working on-site during lockdown periods and certain measures to ensure workplace health and safety.

#### **Amortization of intangible assets**

Amortization of intangible assets was \$32.2 million for the six months ended June 30, 2021, or 10.5% above the six months ended June 30, 2020. The change was primarily attributable to amortization on newly acquired intangible assets related to the Iotron and BioScience acquisitions.

#### **Interest Expense, Net**

Interest expense, net decreased \$71.4 million, or 63.8%, for the six months ended June 30, 2021 as compared to the six months ended June 30, 2020. The decrease was largely due to lower outstanding debt during the six months ended June 30, 2021 and lower interest rates subsequent to the January 2021 Term Loan refinancing. The weighted average interest rate on our outstanding debt was 3.45% and 6.93% at June 30, 2021 and 2020, respectively.

#### **Foreign Exchange Loss (Gain)**

Foreign exchange loss was \$0.7 million for the six months ended June 30, 2021 as compared to a gain of \$0.8 million in the six months ended June 30, 2020. The foreign exchange loss (gain) in our Consolidated Statements of Operations and Comprehensive Income (Loss) relates primarily to U.S. dollar denominated intercompany indebtedness with certain of our European and Canadian subsidiaries.

#### **Other Income, Net**

Other income, net was \$6.7 million for the six months ended June 30, 2021 compared to \$1.2 million for the six months ended June 30, 2020. The fluctuation was driven by changes in the fair value of the embedded derivatives in Nordion's contracts. We recorded an unrealized gain on embedded derivatives of \$1.6 million for the six months ended June 30, 2021 compared to a \$2.1 million loss for the six months ended June 30, 2020. In addition, we recorded \$1.2 million of other income related to the gain on our purchase of the 15% mandatorily redeemable noncontrolling interest of Nelson Labs Fairfield as compared to the amount previously accrued.

### ***Provision (Benefit) for Income Taxes***

Provision for income tax increased \$30.7 million to a net provision of \$22.2 million for the six months ended June 30, 2021 as compared to a \$8.5 million benefit in the six months ended June 30, 2020. The change was principally attributable to pre-tax income of \$75.9 million in the six months ended June 30, 2021 compared to a pretax loss of \$3.2 million for the six months ended June 30, 2020.

Provision for income taxes for the six months ended June 30, 2021 differed from the statutory rate primarily due to the impact of the foreign rate differential, GILTI, a net increase in the interest expense valuation allowance, and a discrete item pertaining to an income tax rate change in the United Kingdom. This was partially offset by an additional discrete item in the first quarter of 2021, which reversed the valuation allowance on deferred tax assets related to certain asset retirement obligations. Provision for income taxes for the six months ended June 30, 2020 differed from the statutory rate primarily due to GILTI, the foreign rate differential, non-deductible expenses as well as the year-to-date impact of the 2020 CARES Act, which increased the limitation on interest expense deductions and resulted in a valuation allowance reversal.

### ***Net Income (Loss), Adjusted Net Income and Adjusted EBITDA***

Net income for the six months ended June 30, 2021 was \$53.7 million, as compared to net income of \$5.3 million for the six months ended June 30, 2020. Adjusted Net Income was \$123.2 million for the six months ended June 30, 2021, as compared to \$55.2 million for the six months ended June 30, 2020, due to the factors described above. Adjusted EBITDA was \$239.9 million for the six months ended June 30, 2021, as compared to \$206.3 million for the six months ended June 30, 2020, due to the factors described above. Please see “Non-GAAP Financial Measures” below for a reconciliation of Adjusted Net Income and Adjusted EBITDA to their most directly comparable financial measure calculated and presented in accordance with GAAP.

### **NON-GAAP FINANCIAL MEASURES**

To supplement our consolidated financial statements presented in accordance with U.S. Generally Accepted Accounting Principles (“GAAP”), we consider Adjusted Net Income and Adjusted EBITDA, financial measures that are not based on any standardized methodology prescribed by GAAP.

We define Adjusted Net Income as net income (loss) before amortization and certain other adjustments that we do not consider in our evaluation of our ongoing operating performance from period to period as discussed further below. We define Adjusted EBITDA as Adjusted Net Income before interest expense, depreciation (including depreciation of Co-60 used in our operations) and income tax provision applicable to Adjusted Net Income.

We use Adjusted Net Income and Adjusted EBITDA, non-GAAP financial measures, as the principal measures of our operating performance. Management believes Adjusted Net Income and Adjusted EBITDA are useful because they allow management to more effectively evaluate our operating performance and compare the results of our operations from period to period without the impact of certain non-cash items and non-routine items that we do not expect to continue at the same level in the future and other items that are not core to our operations. We believe that these measures are useful to our investors because they provide a more complete understanding of the factors and trends affecting our business than could be obtained absent this disclosure. In addition, we believe Adjusted Net Income and Adjusted EBITDA will assist investors in making comparisons to our historical operating results and analyzing the underlying performance of our operations for the periods presented. Our management also uses Adjusted Net Income and Adjusted EBITDA in their financial analysis and operational decision-making, and Adjusted EBITDA serves as the basis for the metric we utilize to determine attainment of our primary annual incentive program. Adjusted Net Income and Adjusted EBITDA may be calculated differently from, and therefore may not be comparable to, a similarly titled measure used by other companies.

Adjusted Net Income and Adjusted EBITDA should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. There are a number of limitations related to the use of Adjusted Net Income and Adjusted EBITDA rather than net income, the nearest GAAP equivalent. For example, Adjusted Net Income and Adjusted EBITDA exclude:

- certain recurring non-cash charges such as depreciation of fixed assets, although these assets may have to be replaced in the future, as well as amortization of acquired intangible assets and asset retirement obligations;
- costs of acquiring and integrating businesses, which will continue to be a part of our growth strategy;
- non-cash gains or losses from fluctuations in foreign currency exchange rates, primarily related to remeasurement of intercompany loans denominated in currencies other than subsidiaries’ functional currencies, and the mark-to-fair value of embedded derivatives relating to certain customer and supply contracts at Nordion;



- impairment charges on long-lived assets and intangible assets;
- expenses and charges related to the litigation and other activities associated with our EO sterilization facilities in Willowbrook, Illinois, Atlanta, Georgia and Santa Teresa, New Mexico, even though that litigation remains ongoing;
- in the case of Adjusted EBITDA, interest expense or the cash requirements necessary to service interest or principal payments on our indebtedness; and
- share-based compensation expense, which has been, and will continue to be for the foreseeable future, a significant recurring expense and an important part of our compensation strategy.

In evaluating Adjusted Net Income and Adjusted EBITDA, you should be aware that in the future, we will incur expenses similar to the adjustments in the table below. Our presentations of Adjusted Net Income and Adjusted EBITDA should not be construed as suggesting that our future results will be unaffected by these expenses or any unusual or non-recurring items. When evaluating our performance, you should consider Adjusted Net Income and Adjusted EBITDA alongside other financial performance measures, including our net income and other GAAP measures.

The following table presents a reconciliation of net income (loss), the most directly comparable financial measure calculated and presented in accordance with GAAP to Adjusted Net Income and Adjusted EBITDA, for each of the periods indicated:

(thousands of U.S. dollars)	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
<b>Net income</b>	\$ 42,615	\$ 7,252	\$ 53,680	\$ 5,266
Amortization of intangibles	21,778	19,711	44,060	39,624
Share-based compensation <sup>(a)</sup>	3,493	1,393	6,942	3,118
(Gain) loss on foreign currency and embedded derivatives <sup>(b)</sup>	(660)	(3,023)	(996)	1,244
Acquisition and divestiture related charges, net <sup>(c)</sup>	844	1,295	659	2,289
Business optimization project expenses <sup>(d)</sup>	275	750	536	1,799
Plant closure expenses <sup>(e)</sup>	756	451	1,298	1,222
Loss on extinguishment of debt <sup>(f)</sup>	—	—	14,312	—
Professional services relating to EO sterilization facilities <sup>(g)</sup>	10,644	9,494	24,043	13,640
Accretion of asset retirement obligations <sup>(h)</sup>	602	492	1,153	982
COVID-19 expenses <sup>(i)</sup>	188	2,271	487	2,347
Income tax provision (benefit) associated with pre-tax adjustments <sup>(j)</sup>	(8,863)	(8,653)	(22,996)	(16,360)
<b>Adjusted Net Income</b>	<b>71,672</b>	<b>31,433</b>	<b>123,178</b>	<b>55,171</b>
Interest expense, net	19,163	55,250	40,445	111,812
Depreciation <sup>(k)</sup>	15,683	15,323	31,062	31,433
Income tax provision (benefit) applicable to Adjusted Net Income <sup>(l)</sup>	28,045	12,423	45,195	7,896
<b>Adjusted EBITDA<sup>(m)</sup></b>	<b>\$ 134,563</b>	<b>\$ 114,429</b>	<b>\$ 239,880</b>	<b>\$ 206,312</b>

(a) Represents non-cash share-based compensation expense.

(b) Represents the effects of (i) fluctuations in foreign currency exchange rates, primarily related to remeasurement of intercompany loans denominated in currencies other than subsidiaries' functional currencies, and (ii) non-cash mark-to-fair value of embedded derivatives relating to certain customer and supply contracts at Nordion.

(c) Represents (i) certain direct and incremental costs related to the acquisitions of the noncontrolling interests in our China subsidiaries and BioScience in 2021, Iotron in July 2020, and Nelson Labs Fairfield in 2018 (including the first quarter 2021 gain on the mandatorily redeemable noncontrolling interest as described in Note 4, "Acquisitions"), and certain related integration efforts as a result of those acquisitions, (ii) the earnings impact of fair value adjustments (excluding those recognized within amortization expense) resulting from the businesses acquired, and (iii) transition services income and non-cash deferred lease income associated with the terms of the divestiture of the Medical Isotopes business in 2018.

(d) Represents professional fees, contract termination and exit costs, severance and other payroll costs, and other costs associated with business optimization and cost savings projects relating to the integration of recent acquisitions, the Sotera Health rebranding, operating structure realignment and other process enhancement projects.

(e) Represents professional fees, severance and other payroll costs, and other costs including ongoing lease and utility expenses associated with the closure of the Willowbrook, Illinois facility.

(f) Represents expenses incurred in connection with the repricing of our Term Loan in January 2021 including accelerated amortization of prior debt issuance and discount costs.

- (g) Represents professional fees related to litigation associated with our EO sterilization facilities and other related professional fees. See Note 16, “Commitments and Contingencies”.
- (h) Represents non-cash accretion of asset retirement obligations related to Co-60 and gamma processing facilities, which are based on estimated site remediation costs for any future decommissioning of these facilities (without regard for whether the decommissioning services would be performed by employees of Nordion, instead of by a third party) and are accreted over the life of the asset.
- (i) Represents non-recurring costs associated with the COVID-19 pandemic, including incremental costs to implement workplace health and safety measures. For the three and six months ended June 30, 2020, costs also included donations to related charitable causes, and special bonuses for front-line personnel working on-site during lockdown periods.
- (j) Represents the tax benefit or provision associated with the reconciling items between net income (loss) and Adjusted Net Income. To determine the aggregate tax effect of the reconciling items, we utilized statutory income tax rates ranging from 0% to 35%, depending upon the applicable jurisdictions of each adjustment.
- (k) Includes depreciation of Co-60 held at gamma irradiation sites.
- (l) Represents the difference between income tax provision or benefit as determined under U.S. GAAP and the income tax provision or benefit associated with pre-tax adjustments described in footnote (j).
- (m) \$21.8 million and \$19.7 million of the adjustments for the three months ended June 30, 2021 and 2020, respectively, and \$42.5 million and \$40.7 million of the adjustments for the six months ended June 30, 2021 and 2020, respectively, are included in cost of revenues, primarily consisting of amortization of intangibles, depreciation, and accretion of asset retirement obligations.

## SEGMENT RESULTS OF OPERATIONS

We have three reportable segments: Sterigenics, Nordion and Nelson Labs. Our chief operating decision maker evaluates performance and allocates resources within our business based on Segment Income, which excludes certain items which are included in income (loss) before tax as determined in our Consolidated Statements of Operations and Comprehensive Income (Loss). The accounting policies for our reportable segments are the same as those for the consolidated Company.

### Our Segments

#### *Sterigenics*

Sterigenics provides outsourced terminal sterilization and irradiation services for the medical device, pharmaceutical, food safety and advanced applications markets using three major technologies: gamma irradiation, EO processing and E-beam irradiation.

#### *Nordion*

Nordion is a leading global provider of Co-60 used in the sterilization and irradiation processes for the medical device, pharmaceutical, food safety, and high-performance materials industries, as well as in the treatment of cancer. In addition, Nordion is a leading global provider of gamma irradiation systems.

As a result of the time required to meet regulatory and logistics requirements for delivery of radioactive products, combined with accommodations made to our customers to minimize disruptions to their operations during the installation of Co-60, Nordion sales patterns can often vary significantly from one quarter to the next. However, timing-related impacts on our sales performance tend to be resolved within several quarters, resulting in more consistent performance over longer periods of time. In addition, sales of production irradiators occur infrequently and tend to be for larger amounts.

Results for our Nordion segment are also impacted by Co-60 supplier mix, harvest schedules and product and service mix.

#### *Nelson Labs*

Nelson Labs provides outsourced microbiological and analytical chemistry testing and advisory services for the medical device and pharmaceutical industries.

For more information regarding our reportable segments please refer to Note 18, “Segment Information” to our consolidated financial statements.

## Segment Results for the Three Months Ended June 30, 2021 and 2020

The following tables compare segment net revenue and segment income for the three months ended June 30, 2021 to the three months ended June 30, 2020:

(thousands of U.S. dollars)	Three Months Ended June 30,		\$ Change	% Change
	2021	2020		
<b>Net Revenues</b>				
Sterigenics	\$ 145,182	\$ 120,372	\$ 24,810	20.6 %
Nordion	49,125	42,141	6,984	16.6 %
Nelson Labs	57,610	50,572	7,038	13.9 %
<b>Segment Income</b>				
Sterigenics	\$ 79,569	\$ 65,030	\$ 14,539	22.4 %
Nordion	31,168	27,409	3,759	13.7 %
Nelson Labs	23,826	21,990	1,836	8.3 %
<b>Segment Income margin</b>				
Sterigenics	54.8 %	54.0 %		
Nordion	63.4 %	65.0 %		
Nelson Labs	41.4 %	43.5 %		

### Net Revenues by Segment

Sterigenics net revenues were \$145.2 million for the three months ended June 30, 2021, an increase of \$24.8 million, or 20.6%, as compared to the three months ended June 30, 2020. The increase is attributable to an 8.3% growth in organic sales volume, a 3.9% favorable impact from pricing and a 2.8% favorable impact from changes in foreign currency exchange rates. The increase also reflects a 5.6% increase in revenues attributable to the Iotron acquisition.

Nordion net revenues were \$49.1 million for the three months ended June 30, 2021, an increase of \$7.0 million, or 16.6%, as compared to the three months ended June 30, 2020. The increase reflects a 9.5% impact from the strengthening of the Canadian dollar compared to the U.S. dollar for the three months ended June 30, 2021 as compared to the three months ended June 30, 2020 and a 8.2% impact from favorable pricing, offset by a 1.1% impact from lower volumes of industrial-use Co-60.

Nelson Labs net revenues were \$57.6 million for the three months ended June 30, 2021, an increase of \$7.0 million, or 13.9%, as compared to the three months ended June 30, 2020. An increase in organic volume contributed 5.8% to revenue growth in the three months ended June 30, 2021, exclusive of an overall decline in personal protective equipment testing of 5.2%. The onset of COVID-19 in the first half of 2020 generated significant demand for testing of personal protective equipment, which subsequently declined in the three months ended June 30, 2021. The revenue increase also reflects favorable pricing impacts of 4.0%. Furthermore, the increase is attributable to a 7.4% revenue contribution from the acquisition of BioScience Labs. The remainder of the difference is due to changes in foreign currency exchange rates.

### Segment Income

Sterigenics segment income was \$79.6 million for the three months ended June 30, 2021, an increase of \$14.5 million, or 22.4%, as compared to the three months ended June 30, 2020. The increase in segment income was primarily a result of the contributions of the Iotron acquisition coupled with organic revenue growth stemming from both favorable pricing and volume, as referenced above. This was partially offset by incremental overhead associated with being a public company.

Nordion segment income was \$31.2 million for the three months ended June 30, 2021, an increase of \$3.8 million, or 13.7%, as compared to the three months ended June 30, 2020. The increase in segment income was primarily due to the favorable impact from foreign currency exchange rates as well as favorable customer pricing. This is partially offset by slightly lower sales volume referenced above and incremental overhead associated with being a public company.

Nelson Labs segment income was \$23.8 million for the three months ended June 30, 2021, an increase of \$1.8 million, or 8.3%, as compared to the three months ended June 30, 2020, due to the contribution of BioScience Labs coupled with the impact of increased volumes and favorable pricing, as described above. The increase was partially offset by the reduced demand for testing of personal protective equipment and incremental overhead associated with being a public company.

## Segment Results for the Six Months Ended June 30, 2021 and 2020

The following tables compare segment net revenue and segment income for the six months ended June 30, 2021 to the six months ended June 30, 2020:

(thousands of U.S. dollars)	Six Months Ended June 30,		\$ Change	% Change
	2021	2020		
<b>Net Revenues</b>				
Sterigenics	\$ 276,333	\$ 237,652	\$ 38,681	16.3 %
Nordion	75,043	65,766	9,277	14.1 %
Nelson Labs	112,689	97,867	14,822	15.1 %
<b>Segment Income</b>				
Sterigenics	\$ 148,030	\$ 126,121	\$ 21,909	17.4 %
Nordion	44,954	40,431	4,523	11.2 %
Nelson Labs	46,896	39,760	7,136	17.9 %
<b>Segment Income margin</b>				
Sterigenics	53.6 %	53.1 %		
Nordion	59.9 %	61.5 %		
Nelson Labs	41.6 %	40.6 %		

### Net Revenues by Segment

Sterigenics net revenues were \$276.3 million for the six months ended June 30, 2021, an increase of \$38.7 million, or 16.3%, as compared to the six months ended June 30, 2020. The increase reflects a 5.3% growth in organic sales volume and a 3.6% favorable impact from pricing. The Iotron acquisition further contributed 5.3% of revenue growth. In addition, Sterigenics net revenue increased by 2.1% attributable to changes in foreign currency exchanges rates.

Nordion net revenues were \$75.0 million for the six months ended June 30, 2021, an increase of \$9.3 million, or 14.1%, as compared to the three months ended June 30, 2020. The increase reflects a 7.6% impact from the strengthening of the Canadian dollar compared to the U.S. dollar for the six months ended June 30, 2021 as compared to the six months ended June 30, 2020 and a 6.7% impact from favorable pricing, offset by lower volumes of industrial-use Co-60.

Nelson Labs net revenues were \$112.7 million for the six months ended June 30, 2021, an increase of \$14.8 million, or 15.1%, as compared to the six months ended June 30, 2020. Net revenue growth was driven by volume growth of 4.3% and favorable impacts from pricing of 3.9%. The increase also reflects a 5.0% revenue contribution from the acquisition of BioScience Labs. The remainder of the increase was attributable to changes in foreign currency exchanges rates.

### Segment Income

Sterigenics segment income was \$148.0 million for the six months ended June 30, 2021, an increase of \$21.9 million, or 17.4%, as compared to the six months ended June 30, 2020. The increase in segment income was primarily a result of organic sales volume growth coupled with the contributions of the Iotron acquisition and favorable pricing, as referenced above. This was partially offset by incremental overhead associated with being a public company.

Nordion segment income was \$45.0 million for the six months ended June 30, 2021, an increase of \$4.5 million, or 11.2%, as compared to the six months ended June 30, 2020. The increase in segment income was primarily due to the favorable impact from foreign currency exchange rates as well as favorable customer pricing. This was partially offset by decreases in sales volume of industrial-use Co-60 referenced above and incremental overhead associated with being a public company.

Nelson Labs segment income was \$46.9 million for the six months ended June 30, 2021, an increase of \$7.1 million, or 17.9%, as compared to the six months ended June 30, 2020, due to the incremental contribution of BioScience Labs and favorable pricing referenced above. This increase was partially offset by incremental overhead associated with being a public company.

## LIQUIDITY AND CAPITAL RESOURCES

The primary sources of liquidity for our business are cash flows from operations and borrowings under our credit facilities. We expect that our primary liquidity requirements will be to service our debt, to invest in fixed assets to build and/or expand existing facilities, to fund selective business acquisitions, make capital expenditures and for other general corporate purposes.

As of June 30, 2021, we had \$156.2 million of cash and cash equivalents. This is an increase of \$53.8 million from the balance at December 31, 2020. Our foreign subsidiaries held cash of approximately \$123.9 million at June 30, 2021 and \$88.8 million at December 31, 2020. No material restrictions exist to accessing cash held by our foreign subsidiaries notwithstanding any potential tax consequences.

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, Co-60 used by Sterigenics at its gamma irradiation facilities, cobalt development projects and information technology enhancements. During the six months ended June 30, 2021, our capital expenditures amounted to \$44.8 million, compared to \$23.4 million for the six months ended June 30, 2020.

We expect that cash on hand, operating cash flows and amounts available under our credit facilities will provide sufficient working capital to operate our business, make expected capital expenditures, meet litigation costs and meet foreseeable liquidity requirements, including debt service on our long-term debt, for at least the next twelve months. Cash provided by operations in excess of amounts needed may be used to fund potential acquisitions, to repay outstanding debt, or for other general corporate purposes. As of June 30, 2021, there were no outstanding borrowings on the Revolving Credit Facility. Our ability to meet future working capital, capital expenditures and debt service requirements will depend on our future financial performance, which will be affected by a range of macroeconomic, competitive and business factors, including interest rate changes and changes in our industry, many of which are outside of our control. As of June 30, 2021, our interest rate caps limit our cash flow exposure related to LIBOR for approximately 81% of our variable rate borrowings to the facility LIBOR floor of 0.5%. Refer to Note 17, "Financial Instruments and Financial Risk" under the heading "Derivative Instruments" for additional information regarding the interest rate caps used to manage economic risks associated with our variable rate borrowings.

### Cash Flow Information

#### Six Months Ended June 30, 2021 compared to the Six Months Ended June 30, 2020

(thousands of U.S. dollars)

	2021	2020
Net Cash Provided by (Used in):		
Operating activities	\$ 134,256	\$ 52,687
Investing activities	(70,974)	(23,438)
Financing activities	(12,090)	(6,518)
Effect of foreign currency exchange rate changes on cash and cash equivalents	2,578	601
Net increase in cash and cash equivalents, including restricted cash, during the period	<u>\$ 53,770</u>	<u>\$ 23,332</u>

#### Operating activities

Cash flows provided by operating activities increased \$81.6 million to net cash provided of \$134.3 million in the six months ended June 30, 2021 compared to \$52.7 million for the six months ended June 30, 2020. Higher cash flows from operating activities in the six months ended June 30, 2021 compared to the six months ended June 30, 2020 were driven by an increase in operating income of \$18.0 million and a decrease in cash paid for interest of \$76.1 million, offset by an increase in cash paid for income taxes of \$19.5 million.

#### Investing activities

Cash used by investing activities increased \$47.5 million to net cash used of \$71.0 million in the six months ended June 30, 2021 compared to \$23.4 million for the six months ended June 30, 2020. The change was attributable to an increase in cash paid for capital expenditures of \$21.4 million, the acquisition of BioScience on March 8, 2021 for a net purchase price of approximately \$13.8 million, and the acquisition of the mandatorily redeemable noncontrolling interest in Nelson Labs Fairfield for \$12.4 million.

## *Financing activities*

For the six months ended June 30, 2021, net cash used in financing activities increased \$5.6 million to \$12.1 million compared to net cash used of \$6.5 million for the six months ended June 30, 2020. The primary use of cash from financing activities was the payment of \$7.7 million for the acquisition of the noncontrolling interests in our China subsidiaries and \$3.7 million of debt issuance costs in connection with our refinancing of the Senior Secured Credit Facilities as described in “Debt Facilities” below. Our principal use of cash for financing activities for the six months ended June 30, 2020 was principal payments on debt.

## **Debt Facilities**

### *Senior Secured Credit Facilities*

On December 13, 2019, Sotera Health Holdings, LLC (“SHH”), our wholly owned subsidiary, entered into senior secured first lien credit facilities (the “Senior Secured Credit Facilities”), consisting of both a prepayable senior secured first lien term loan (the “Term Loan”) and a senior secured first lien revolving credit facility (the “Revolving Credit Facility”) pursuant to a first lien credit agreement (the “Credit Agreement”). The Term Loan matures on December 13, 2026, and the Revolving Credit Facility’s original maturity date was December 13, 2024. On December 17, 2020, we increased the capacity of our Revolving Credit Facility from \$190.0 million to \$347.5 million. The Senior Secured Credit Facilities also provide SHH the right at any time and under certain conditions to request incremental term loans or incremental revolving credit commitments based on a formula defined in the Senior Secured Credit Facilities. As of June 30, 2021 and December 31, 2020, total borrowings under the Term Loan were \$1,763.1 million and \$1,763.1 million, respectively, and there were no borrowings outstanding on the Revolving Credit Facility. The weighted average interest rate on borrowings under the Term Loan for the three months ended June 30, 2021 and June 30, 2020 was 3.25% and 5.50%, respectively, and 3.64% and 5.84% for the six months ended June 30, 2021 and June 30, 2020, respectively.

On January 20, 2021, we closed on an amendment repricing our Term Loan. The interest rate spread over the London Interbank Offered Rate (“LIBOR”) on the facility was reduced from 450 basis points to 275 basis points, and the facility’s LIBOR floor was reduced from 100 basis points to 50 basis points. The changes result in an effective reduction in current interest rates of 2.25%. As a result of the repricing, we expect cash interest savings of approximately \$40.0 million per year based on the outstanding principal balance as of June 30, 2021. In connection with this amendment, we wrote off \$11.3 million of unamortized debt issuance and discount costs and incurred an additional \$2.9 million of expense related to debt issuance costs attributable to the refinancing. These costs were recorded to “Loss on extinguishment of debt” in our Consolidated Statements of Operations and Comprehensive Income (Loss).

As of June 30, 2021 and December 31, 2020, capitalized debt issuance costs totaled \$2.9 million and \$3.4 million, respectively, and debt discounts totaled \$19.1 million and \$31.6 million, respectively, related to the Senior Secured Credit Facilities. Such costs are recorded as a reduction of debt on our Consolidated Balance Sheets and amortized as a component of interest expense over the term of the debt agreement.

On March 26, 2021, we amended the Revolving Credit Facility, to (i) decrease the Applicable Rate (as defined in the Credit Agreement) related to any Revolving Loans (as defined in the Credit Agreement) from a rate per annum that ranged from an alternative base rate (“ABR”) plus 2.50% to ABR plus 3.00% depending on SHH’s Senior Secured First Lien Net Leverage Ratio to ABR plus 1.75%; and in the case of Eurodollar Loans (as defined in the Credit Agreement) from a rate per annum which ranged from the Adjusted LIBOR plus 3.50% to the Adjusted LIBOR plus 4.00% depending on SHH’s Senior Secured First Lien Net Leverage Ratio (as defined in the Credit Agreement), to the Adjusted LIBOR (as defined in the Credit Agreement) plus 2.75% and (ii) extend the maturity date of the Revolving Facility from December 13, 2024 to June 13, 2026. The other material terms of the Credit Agreement are unchanged and the amendment does not change the capacity of our Revolving Credit Facility, which is \$347.5 million. No unamortized debt issuance costs associated with the Revolving Credit Facility were written off and direct fees and costs incurred in connection with the amendment were immaterial.

As of June 30, 2021 and December 31, 2020, there were no borrowings on the Revolving Credit Facility. SHH borrowed \$50.0 million on the Revolving Credit Facility during the first quarter of 2020 which was repaid in the second quarter of 2020. The interest rate on the borrowings under the Revolving Credit Facility during 2020 averaged approximately 5.0%.

All of SHH’s obligations under the Senior Secured Credit Facilities are unconditionally guaranteed by the Company and each existing and subsequently acquired or organized direct or indirect wholly-owned domestic restricted subsidiary of the Company, with customary exceptions including, among other things, where providing such guarantees is not permitted by law, regulation or contract or would result in material adverse tax consequences. All obligations under the Senior Secured Credit

Facilities, and the guarantees of such obligations, are secured by substantially all assets of the borrower and guarantors, subject to permitted liens and other exceptions and exclusions, as outlined in the Senior Secured Credit Facilities.

Outstanding letters of credit are collateralized by encumbrances against the Revolving Credit Facility and the collateral pledged thereunder, or by cash placed on deposit with the issuing bank. As of June 30, 2021, the Company had \$69.0 million of letters of credit issued against the Revolving Credit Facility, resulting in total availability under the Revolving Credit Facility of \$278.5 million.

#### *First Lien Notes*

On July 31, 2020, SHH issued \$100.0 million aggregate principal amount of senior secured first lien notes due 2026 (the “First Lien Notes”), which mature on December 13, 2026. The First Lien Notes bear interest at a rate equal to LIBOR subject to a 1.00% floor plus 6.00% per annum. Interest is payable on a quarterly basis with no principal due until maturity. The weighted average interest rate on the First Lien Notes for the three and six months ended June 30, 2021 was 7.00%.

SHH is entitled to redeem all or a portion of the First Lien Notes, at any time and from time to time, subject to certain premiums depending on the date of redemption; any time on or prior to July 31, 2021, a customary make-whole premium applies and, thereafter, specified premiums that decline to zero apply (in each case as described in the indenture governing the First Lien Notes).

All of SHH’s obligations under the First Lien Notes are unconditionally guaranteed by the Company and each existing and subsequently acquired or organized direct or indirect wholly-owned domestic restricted subsidiary of SHH, with customary exceptions including, among other things, where providing such guarantees is not permitted by law, regulation or contract or would result in material adverse tax consequences. All obligations under the First Lien Notes, and the guarantees of such obligations, are secured by substantially all of the assets of the borrower and guarantors, subject to permitted liens and other exceptions and exclusions, as outlined in the First Lien Notes. Such collateral is substantially the same collateral that secures the Senior Secured Credit Facilities. Such collateral securing the First Lien Notes ranks pari passu with that of the Senior Secured Credit Facilities.

At June 30, 2021 and December 31, 2020, capitalized debt issuance costs were \$0.8 million and \$0.9 million, respectively, and debt discounts were \$2.6 million and \$2.8 million, respectively, related to the First Lien Notes, which are recorded as a reduction of debt on our Consolidated Balance Sheets and amortized into interest expense over the term of the debt agreement.

#### *2020 Debt Repayments*

On November 24, 2020, we closed our initial public offering (the “IPO”), in which we sold 53,590,000 shares of our common stock at a price of \$23.00 per share, which included the full exercise by the underwriters of their option to purchase up to an additional 6,990,000 shares of common stock. We raised approximately \$1.2 billion in net proceeds after deducting underwriters’ discounts and commissions. We used the net proceeds received by us from the IPO to (i) redeem \$770.0 million in aggregate principal amount of the Second Lien Senior Secured Notes with an original maturity date of December 13, 2027 (the “Second Lien Notes”), plus accrued and unpaid interest thereon and \$15.4 million of redemption premium, (ii) repurchase 1,568,445 shares of our common stock from certain of our executive officers at a purchase price per share equal to the IPO price per share of our common stock less an amount equal to the underwriting discounts and commissions payable thereon and (iii) repay \$341.0 million of the outstanding indebtedness under the Term Loan, plus accrued and unpaid interest thereon. In connection with the debt repayments, we wrote off \$28.9 million of debt issuance and discount costs and recognized \$15.4 million in premiums paid for the early extinguishment of the Second Lien Notes. We recognized these costs within “Loss on extinguishment of debt” in our Consolidated Statements of Operations and Comprehensive Income (Loss) in the fourth quarter of 2020.

#### *Notice of Redemption of First Lien Notes*

On August 12, 2021 the Company issued a full redemption notice to the holders of the First Lien Notes. Full redemption is scheduled for the third quarter of 2021 at a redemption price equal to 103.000%. In connection with the redemption, we estimate that we will write off approximately \$3.3 million of previously capitalized unamortized debt issuance and discount costs.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The preparation of consolidated financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make judgments, estimates and assumptions at a specific point in time and in certain circumstances that affect amounts reported in the accompanying consolidated financial statements. In preparing these consolidated financial statements, management has made its best estimates and judgments of certain amounts, giving due consideration to materiality. The application of accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates.

A comprehensive discussion of the Company's critical accounting policies and management estimates made in connection with the preparation of the financial statements is included in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2020. There have been no significant changes in critical accounting policies, management estimates or accounting policies since the year ended December 31, 2020.

## **NEW ACCOUNTING PRONOUNCEMENTS**

For a description of recent accounting pronouncements applicable to our business, see Note 2, "Recent Accounting Standards".

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Market risks are described within "Quantitative and Qualitative Disclosures About Market Risk" in Part II, Item 7A of our 2020 Form 10-K. These market risks have not materially changed for the three and six months ended June 30, 2021.

### **Item 4. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's "disclosure controls and procedures," (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act")). Based upon their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission ("SEC"), and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

#### **Changes in Internal Control**

During the three and six months ended June 30, 2021, there were no changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



## Part II—OTHER INFORMATION

### Item 1. Legal Proceedings.

From time to time, we may be subject to various legal proceedings arising in the ordinary course of our business, including claims relating to personal injury, property damage, workers' compensation and employee safety. In addition, from time to time, we receive communications from government or regulatory agencies concerning investigations or allegations of noncompliance with laws or regulations in jurisdictions in which we operate. At this time, and except as is noted herein, we are unable to predict the outcome of, and cannot reasonably estimate the impact of, any pending litigation matters, matters concerning allegations of non-compliance with laws or regulations and matters concerning other allegations of other improprieties, or the incidence of any such matters in the future. Information regarding our legal proceedings is included below.

#### Legal Proceedings Described in Note 16 of Our Consolidated Financial Statements

Note 16, "Commitments and Contingencies" to our consolidated financial statements for the three and six months ended June 30, 2021 contained in this Quarterly Report on Form 10-Q includes information on legal proceedings that constitute material contingencies for financial reporting purposes that could have a material effect on our financial condition or results of operations. This item should be read in conjunction with Note 16 for information regarding the following legal proceedings, which information is incorporated into this item by reference:

- FM Global Business Interruption Claim (NRU Outage)
- Ethylene Oxide Tort Litigation – Illinois
- Ethylene Oxide Tort Litigation – Georgia
- Suspension of Georgia Facility Operations & Related Litigation; and
- Ethylene Oxide Litigation – New Mexico

#### Legal Proceedings That Are Not Described in Note 16 to Our Consolidated Financial Statements

In addition to the matters that are identified in Note 16 to our consolidated financial statements for the three and six months ended June 30, 2021 contained in this Quarterly Report on Form 10-Q, and incorporated into this item by reference, the following matter also constitutes a material pending legal proceeding, other than ordinary course litigation incidental to our business, to which we are or any of our subsidiaries is a party.

##### *Zoetermeer, Holland Criminal Proceedings and Criminal Financial Investigation*

In early 2010, the Dutch Public Prosecution Service started criminal proceedings against DEROSS Holding B.V. ("DEROSS B.V."), formerly known as Sterigenics Holland B.V., in relation to certain EO emissions and alleged environmental permit violations in the period from 2004 to 2009 at its Zoetermeer processing facility. On the basis of the final indictment issued in April 2017, assuming a rarely applied increasing mechanism is not applied in this case, fines in the amount of €0.8 million (US\$1.0 million) may be imposed.

In November 2010, the Public Prosecution Service also started a criminal financial investigation against DEROSS B.V. to determine whether it has obtained illegal advantages by committing the alleged criminal offenses noted above. Any illegally obtained advantage could then be recovered from DEROSS B.V. in subsequent confiscation proceedings. According to the October 2013 report of this criminal financial investigation, the Public Prosecution Service estimates the illegally obtained advantage by DEROSS B.V. to be in the amount of €0.6 million (US\$0.7 million).

In January 2018, the trial in first instance took place in the criminal case against DEROSS B.V., and in February 2018, the court discharged DEROSS B.V. from further prosecution on one of the two counts asserted and acquitted DEROSS B.V. on the other count. In March 2018, the public prosecutor filed an appeal against the favorable judgment in first instance for DEROSS B.V., as well as the favorable judgments in first instance for the two individuals overseeing environmental compliance during the time period of the alleged claims and the municipality of Zoetermeer. The appeal procedure is pending.

DEROSS B.V. has agreed to defend and indemnify the two individuals overseeing environmental compliance during the time period of the alleged claims by the Public Prosecutor. Assuming a rarely applied increasing mechanism is not applied in this case, the possible monetary penalties relating to the individuals currently are estimated at a maximum of €0.2 million (US\$0.2 million).

In 2011, former shareholders established an escrow account to satisfy indemnity claims for losses resulting from governmental claims related to this matter, including those relating to environmental law violations, financial advantage claims, as well as criminal and civil fines and penalties. The balance of the special escrow at June 30, 2021 was approximately US\$1.9 million and the cash collateral held by ABN Amro to provide security for the claims was approximately €2.4 million (US\$2.9 million) as of June 30, 2021. These amounts are available to satisfy claims relating to the ongoing matter through its anticipated resolution. At this time, we expect that the appeal of this matter will likely take several years to resolve, barring unforeseen delays. However, we believe the indemnification receivable continues to be recoverable and plan to ensure escrow funds remain in place to cover outcomes of an appeal.

It is possible that individuals living in the vicinity of our former Zoetermeer facility may file civil claims at some time in the future. While we have received letters from a small number of individuals claiming to live or work in the vicinity of the Zoetermeer facility, no civil claims have been filed against DEROSS B.V. or us. We have not provided for a contingency reserve in connection with any civil claims as we are unable to determine the likelihood of an unfavorable outcome and no reasonable estimate of a loss or range of losses, if any, can be made.

**Item 1A. Risk Factors.**

There have been no material changes to the risk factors previously disclosed in our 2020 Form 10-K. Refer to Part I, Item 1A of our 2020 Form 10-K for a detailed discussion of risk factors affecting us.

**Item 6. Exhibits.**

The exhibits listed in the following Exhibit Index are filed, furnished, or incorporated by reference as part of this Quarterly Report on Form 10-Q.

Exhibit No	Description of Exhibits	Incorporated by Reference				Furnished/Filed Herewith
		Form	File No.	Exhibit	Filing Date	
31.1	<a href="#">Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>					*
31.2	<a href="#">Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>					*
32.1	<a href="#">Certifications of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>					**
101.INS	Inline XBRL Instance Document - The XBRL Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document					*
101.SCH	Inline XBRL Taxonomy Extension Schema Document					*
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					*
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					*
101.LAB	Inline XBRL Taxonomy Label Linkbase Document					*
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					*
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)					*

\* Filed Herewith

\*\* Furnished Herewith

**SIGNATURES**

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

SOTERA HEALTH COMPANY

By: /s/ Scott J. Leffler

Name: Scott J. Leffler

Title: Chief Financial Officer and Treasurer  
(Principal Financial Officer)

Date: August 12, 2021

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER****PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael B. Petras, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sotera Health Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 12, 2021

/s/ Michael B. Petras, Jr.  
Michael B. Petras, Jr.  
Chairman and Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER****PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Scott J. Leffler, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sotera Health Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 12, 2021

/s/ Scott J. Leffler  
Scott J. Leffler  
Chief Financial Officer and Treasurer  
(Principal Financial Officer)

**CERTIFICATIONS OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), each of the undersigned officers of Sotera Health Company (the "Company"), do hereby certify, to each such officer's knowledge, that the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2021 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 12, 2021

/s/ Michael B. Petras, Jr.

Michael B. Petras, Jr.

Title: Chairman and Chief Executive Officer

*(Principal Executive Officer)*

Dated: August 12, 2021

/s/ Scott J. Leffler

Scott J. Leffler

Title: Chief Financial Officer and Treasurer

*(Principal Financial Officer)*

The foregoing certifications are furnished and are not deemed filed with the Securities and Exchange Commission for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (Exchange Act), and are not deemed to be incorporated by reference into any filing of Sotera Health Company under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that Sotera Health Company specifically incorporates them by reference.