



A VAIN CULTURE PRODUCES MORE PROFITS FOR STERICYCLE

A suppie (senior urban professional) inquires about a chin lift, learns about the **obaji blue peel**, and discovers why our American obsession with skin beautification could mean earnings of *epicdermic* proportions for **Stericycle (NASDAQ: SRCL)**.

On a spring morning in 1988 a family of vacationers from New York City, hoping to enjoy a day away from the congestion and the smog of the Big Apple, headed for their favorite beach on the Jersey shore, believing they would find clean air and a pristine coastline within a few hours' drive from their home. After a three hour drive they found their favorite beach, located the parking lot, found a parking space, turned off the ignition and walked to the beach. They were spreading their blankets out on the sand and setting up their umbrella when they noticed that as every wave broke, needles and syringes washed up on the shore.

Disgusted and alarmed, the vacationers reported their sightings to the local authorities who reported the vacationers' findings of the spent needles and syringes to authorities at the state and federal levels. A few months later, after much nationwide publicity about the hazards that medical waste posed to the environment, to the recreational business, and to the health of the population, Congress passed the **Medical Waste Tracking Act of 1988**, an act that set the stage for the robust growth of the medical waste disposal industry in the United States.

Stericycle (NASDAQ: SRCL), with a market share ten times the size of the next competitor, and with more than 345,000 accounts, dominates the domestic medical waste disposal industry. Every day its trucks with the green logo drive up to barber shops, beauticians' establishments, doctors' offices, dentists' offices and hospital unloading docks, picking up plastic containers filled with **bandages, blood products, dental amalgam, needles, syringes, and trace chemotherapy**, hauling this garbage to landfills where the company destroys the waste, rendering the pathogens that live in this waste harmless.

I have long admired **Stericycle's** operations but my knowledge of the company's penetration into the **beauty business** was about to expand.

Hearing whispers everyday and rumors about men and women who had undergone the knife and had emerged from the operating room with newly engineered bodies and faces, I was more aware than ever that there was a dynamic new business developing for **Stericycle**. After all it took a lot of needles and bandages to augment breasts and to tighten chins, and some company, most likely **Stericycle**, would be the one to dispose of the medical waste that these procedures created. So I decided one morning after a Come to Jesus meeting with my face in the mirror, to learn more about skin beautification, to further my knowledge of the dermis and the epidermis, and to find out where **Stericycle** might fit in the beautification business.

The best way to proceed would be to talk with some firms in the skin beautification business. This way was perhaps not the conventional way to obtain new knowledge about the beauty business, but then again I am not known to do many things the prescribed, usual, or conventional way or route, including, doing what I like to do best: managing money. I would of course read some 10-Ks and annual reports of companies in the skin beauty business, but this would be of secondary importance in gaining some knowledge about **Stericycle's** new frontier, hauling away medical waste for companies that serve the skin trade. The most fertile ground for learning would be to talk directly to the people who stretched the skin, eliminated the follicles, and who otherwise made every customer

feel that they had just been given an exclusive membership in the [Ponce de Leon Fountain of Youth club](#).

It was early in the morning, about two weeks ago on a cold day in January, in what I call the prehistoric time of the morning (I say prehistoric because it is still dark outside and the sounds of civilization are few, and my mind is not yet organized and alert enough to recall events clearly and hence to record history accurately) when I am moving slow, not sure of what I am doing, not sure of what the day will bring, but very grateful for one thing: a reliable coffee maker at work brewing good coffee. Sometimes I have the patience to wait until the coffee has finished brewing, but often I do not have this patience, so I take advantage of the pause and serve feature of the [Cuisinart](#) to pour myself some coffee before I head to the bathroom to shave.

As I take a look in the mirror, this morning, things begin to get rough. This is the time when the morning dives to a low point, especially for a yuppie, as I am, as we face ourselves and come head to head with reality.

A suppie is a senior urban professional and it is a description applied to people when they get to a certain age (usually about fifty). A yuppie often graduates into a suppie. The two categories share many things in common, such as a taste for material comfort, for things that feel and taste good, and for products that have a status premium built into the price, such as [Starbucks Cinnamon Dulce Latte](#) or [Skinny Mocha](#), a [Breitling watch](#), a [Porsche Boxster](#), or a [Prada handbag](#).

With my freshly brewed coffee in hand, preparing to shave, I take another look in the mirror. With a second chin gaining prominence, and with more wrinkles than a well-crafted suspense story by [Patricia Cornwell](#) or [John Grisham](#), I might have been mistaken for a [Chinese Shar-Pei](#).



Meredith Bobot meets the Chinese Shar-Pei Von Wrinkles on the internet

Things are not looking good. Maybe some more caffeine will alter, enhance, and improve my mood, making me believe that the second chin is a positive attribute, a sign of knowledge and wisdom.

With a few more sips of coffee my mood does improve. I take another look, concentrating on the chin. Things do not seem too bad, as I recall my genetic history, believing it will forestall any major work on my skin. I remember that last week my mother had turned 92. In a phone conversation that I had with her earlier in the week, I had congratulated her on her birthday and had asked her what

she was going to do to celebrate. She said that she was headed to the gym for a workout on the elliptical machine. So, judging by my mother's health and discipline, I have some good things going for me. Perhaps the second chin will never become more pronounced. At least I am hoping this is so. In fact, my skin looks pretty good overall, and that is probably because I spend few minutes a day in the sun, I swim a lot, and my diet is good.

But even as I reassure myself that I look all right I recall some disturbing literature that I had come across the week before, solemn statements that I had found in the 2006 10-K of [Cutera, Inc.](#), a company that is a leading provider of laser and other light-based aesthetic systems to physicians, especially to dermatologists and to plastic surgeons, and to cosmetologists and estheticians. The material that I had studied reminded me that fighting off the advances of age, fighting off the wrinkles, keratoses, and other marks of tired skin was most likely a losing battle.

The skin is the body's largest organ and is comprised of layers called the epidermis and dermis. The epidermis is the outer layer.

Many factors, such as age, sun damage and the human body's diminished ability to repair and renew itself over time, can result in aesthetically unpleasant changes in the appearance of the skin. These changes can include undesirable hair growth. Additionally, blood vessels can enlarge or swell due to circulatory changes and become visible at the skin's surface in the form of unsightly veins. Collagen can deteriorate, thereby weakening the skin, leading to wrinkles and looseness. Long-term sun exposure can result in uneven pigmentation, or sun spots.

Cutera, Inc. 10-K for the fiscal year ended December 31, 2006, page three

Reminded of the dire forecasts about skin that [Cutera, Inc.](#) had made in its 10-K, I took another look in the mirror, and decided that maybe, maybe more than maybe, I had to do something about my skin's appearance. I vowed not to procrastinate. As soon as I got to the office I would begin my makeover, my rejuvenation.

My shave completed, I took my coffee over to the computer, booted up, went to the internet, and [Googled](#) beauty salons in Tulsa. The names of many establishments flooded the screen. I examined many of the web sites and I found them intriguing.

One in particular excited me with an unqualified, unrestrained promise of complete rejuvenation. The home page featured several attractive men and women smiling, all with perfect, glossy complexions. These complexions, the page purred, could be mine if I were willing to make a logical, modest investment in my appearance. Promises of perfection were dangerously seductive and judging by the way I looked that morning, I needed, it appeared, all the promises I could get.

The salon had a catchy name, [Beauty is Skin Deep](#), and I quickly imagined that after I had been lasered and poked, and after a technician or esthetician had reworked my face, I would be a different person, a different man, and I would possess a new view of life. In other words, work on the skin would transform the inner man, my psyche. The idea of a powerful and positive change took over, my mood was elevated, and my adrenalin fired up, encouraging me to write down the phone number on the page.

As soon as I got to the office I called the number listed on the web page of [Beauty Is Skin Deep](#). On the second ring a woman answered. I summarized my situation and asked what could they do to help me? There were many things, she assured me, they could do, all of which would make my skin

look like new. She skirted the issue of the double chin, making me believe that only a radical, invasive step like surgery would do the trick.

The first was an [obaji blue peel](#). But there were many other exotic procedures, all of which, the woman on the other end of the phone said, would make me into a new person. Excited, I asked, what other procedures could they offer?

Before she could answer my mind drifted off into a welcome escape. I could not help but imagine walking around the track at the [St. John Health Club in Tulsa](#) or walking around the swimming pool deck at the [Aspen Recreation Center](#) as women turned their heads and whispered to each other, "...who is that distinguished looking guy with the almost perfect facial features...?" Of course, I would have to work on other things as well. Perhaps a tummy tuck would take care of the aftermath of hundreds of expense account meals wrapped up in the fifteen extra pounds I transported each day around my middle. But at least the [obaji blue peel](#) would be a start.

One of the most popular procedures, she continued, was the [biolift](#). What exactly was a [biolift](#), I asked? The [biolift](#), she said, is an injectable mixture of natural ingredients that produces plumping of fine lines, wrinkles, and folds in the skin. The [biolift](#), she promised, would produce skin that was soft and radiant.

After she had described the [biolift](#), I imagined myself as an astronaut ten seconds before liftoff at [Cape Canaveral](#). After liftoff I was soaring into the stratosphere with several beautiful female astronauts, all reassuring me that I had never looked so good since I had experienced the [biolift](#).

The astronauts were spellbound by my newly taught skin, a skin so flawless that it looked like a wrinkle free pair of [Levis](#) that had just emerged from the dry and fluff cycle of a super efficient [Kenmore](#) dryer.

My mind drifted back to reality, a drift accelerated by the impatient voice of the woman at the other end who said "...sir, are you there, sir..."

I was in the mood for making puns, so I told her that her explanation of the [biolift](#) was quite uplifting. I could hear her suppress a laugh and I knew that her mind was on selling, on closing, and convincing me that my skin needed much work. She would not let her concentration sag.

She said that the [biolift](#) would require a series of treatments with reinforcements every six months, and with each treatment there would be many injections and some pain.

Immediately, my mood turned negative. I imagined myself [Ponce de Leon](#), navigating with his maps produced by [Google](#) and [Navteq](#), and having come upon the place, the spit of land, rumored to hold the [Fountain of Youth](#), he saw that the fountain had sputtered to death, leaving only a trickle of water on hot, desiccated earth in the middle of the Florida panhandle in the midday heat of an August sun. [Ponce de Leon](#) sadly realized that youth was hard to recapture, and I now painfully understood that I would probably never look as cute as I once did to those brainy [Swarthmore](#) girls who begged me to take them to my dorm room, so we could study [Macbeth](#) together and get ready for the first quiz in [Shakespeare](#).

Then I heard the saleswoman's voice. Of course she said, at your age a facelift was only a matter of time. Nevertheless, a [biolift](#), although not a permanent answer to sagging skin, could put off a facelift for several years, and when compared to the facelift, the [biolift](#) had another advantage: it was much less invasive, although it did require injections.

Stericycle, Inc. (NASDAQ:SRCL) Investment Thesis

Since the 1980s, government regulation has increasingly required the proper handling and disposal of the medical waste generated by the health care industry. Anything that can cause an infectious disease, including single-use disposable items, such as needles, syringes, gloves and other medical supplies; cultures and stocks of infectious agents; and blood products are considered medical waste.

Stericycle, Inc.’s success is driven by a number of factors that include:

- **Pressure to reduce healthcare costs**

Health care providers can reduce cost by reducing their handling and compliance costs, reducing their potential liability related to employee exposure to medical waste, and reducing the amount of time and money invested in infection control and compliance.

- **Shift to off-site treatment**

Many common diseases and conditions are now being treated in smaller non-institutional settings.

- **Aging of U.S. population**

As people age, they typically require more medical attention and a wider variety of tests and procedures. As technology improves more tests and procedures become available, leading to increased medical waste.

- **Environmental and safety regulation**

Many businesses that are not using outsourced medical waste services, such as manufacturing facilities, schools, restaurants, casinos, and hotels, are unaware either of the need for proper training of employees or the U.S. Occupational Safety and Health Administration, OSHA, requirements regarding the handling of medical waste. In addition, home health care is unregulated and may become subject to similar blood borne pathogen regulations in the future.

When I heard the words injections and needles, I thought about [Lynn Anderson, M.D.](#), a dermatologist in Tulsa, with a thriving practice who had told me in a conversation I had had with her while we were both elevating our heart rates at the health club on parallel elliptical machines, that she uses dermal fillers that are prepackaged in syringes and needles to avoid contamination. Anderson noted that of course the needles were single-use items that **Stericycle** picked up several times a week from her office. I also thought of my friend [Bernard Swartz, M.D.](#) a highly respected plastic surgeon who has a busy practice helping people with plastic and reconstructive surgery.

The woman on the other end of the phone described the injections that would be performed during the [biolift](#), and when I asked her, after explaining what **Stericycle** did, what her business did with the used needles, she noted that it was **Stericycle** that picked up the needles and disposed of them according to the regulations that [OSHA](#) stipulates.

“Yes, when we inject dermal fillers and wrinkle fillers into the patient’s face, we do that with needles which we must throw out as needles are a type of infectious waste that [OSHA](#) governs. She said, her voice now becoming just a little bit more impatient and aggressive, “...now that you’ve educated me

on Stericycle, sir, would you like to make an appointment?” I did not answer, buying time, and then, risking the further taxation of her patience, I said, “...exactly what is a dermal filler or wrinkle filler?”

She answered, as follows, “... A dermal filler such as Sculptra is an injectable implant that contains microparticles of poly-L-lactic acid, a biocompatible, biodegradable synthetic polymer from the alpha-hydroxy-acid family...” She paused, and I could feel a sense of triumph at the other end, as she had clearly raised the ante on knowledge.

I thanked her, told her I would think about her salon, and hung up.

My interest piqued about the role that Stericycle might play with dermal fillers. Meredith Bohot went to the Sculptra web site and made a discovery that made my heart flutter with excitement. I was looking for the word **needle**, the most obvious form of medical waste, a hazardous byproduct that is common to Stericycle’s business, and I found this word, gratifyingly, many times on the Sculptra web site.

Under the section, instructions for use of Sculptra, I read the following:

- Single-use 5 mL sterile syringe
- Single-use 1-3 mL sterile syringes (at least two)
- 18 G sterile needles (at least two)
- 26 G sterile needles (several should be available)

This was good news. I recalled the Cutera, Inc. 10-K:

The American Society of Plastic Surgeons estimates that in 2005 its members administered 3.8 million injections of Botox and over 870,000 injections of collagen and other soft-tissue fillers.

Cutera, Inc. 10-K for the fiscal year ended December 31, 2006, page four

Furthermore, as many dermatologists and plastic surgeons have told me, the beautification work, the cosmetic surgery that they do, was free of the insurance company meddling and expensive form filing that characterizes much of an M.D.’s work today. When you get dermal filler, or other cosmetic work, there is no insurance reimbursement and the patient typically pays as he or she exits the dermatologist’s office.

When it Comes to the Future of Cosmetic Surgery and Profits for Stericycle, There are no Ifs, Ands, or Butts

With a biolift a suppie,
Dissatisfied with his outward appearance
Can augment his pigment
And so youth is no longer
Of imagination a figment.

Once a decision is made to proceed, the patient
Must undergo a piercing of the skin.
And when needle and syringe are spent,
And the patient looks better,
And cash has changed hands,
Then the call must be made to Stericycle:

Come here quick, because even if haste does not make waste,
Needles and syringes, and bandages are no good, they can infect, they create hazardous waste.
So please, Stericycle come quickly, and put an end to any infectious waste, post haste.

As I learned more about Stericycle's role in carting away the waste created by cosmetic procedure, I came upon an interesting document, a memorandum written by a Colorado public official who was entrusted with the cleanliness and safety of barber shops and beauty salons in the state.



Dora
Department of Regulatory Agencies

Office of Barber and Cosmetology Licensure

STATE OF COLORADO
BARBER AND COSMETOLOGY LICENSURE
Department of Regulatory Agencies
Kevin D. Heupel, Section Director Tambor Williams
Executive Director

M E M O R A N D U M

October 1, 2006

TO: Colorado Salon Owners and Licensees

FROM: Kevin D. Heupel,
Section Director

RE: **Safe "Sharps" Disposal**

The Colorado Office of Barbering and Cosmetology Licensure (Office) is concerned about the disposal of sharp objects used in salons, spas, and barbershops. Unfortunately, many salons and shops have not complied with the disposal requirements for sharps. Pursuant to Rule 2(A)(9): Lancets, disposable razors, and other sharp objects shall be disposed in puncture-resistant containers marked with a biohazard symbol for disposal immediately after use on a client.

The Office realizes that many owners and licensees have not been aware of nor have known how to comply with this requirement. **Used needles** and **other sharps** should never be placed loosely in your trash or flushed down the toilet. This increases the risk of accidental exposure for sanitation and sewage treatment workers, janitors, and your family. **Used sharps** should always be placed in a rigid container with a screw-on or other tightly secured lid.

A new program by Stericycle called the "**Steri-Safe Sharps Mailback Program**" helps to ensure compliance with Rule 2. Basically, this program allows salons and shops to collect used sharps in a puncture resistant container, and once the container is full, it can be mailed to a disposal location. The attached flier provides more information about the program.

Kevin D. Heupel, Section Director of Barber and Cosmetology Licensure was very irritated, believing that many of the salons, spas, and barbershops that are under his jurisdiction have unwittingly and sometimes knowingly violated the rules written to insure the safe disposal of sharp objects, objects such as **lancets**, **disposable razors**, and **needles** that he terms, in regulatory jargon, **sharps**.

Heupel is clear about the sharps: once the practitioner uses a sharp object on a patient, he or she (the practitioner) must immediately dispose of the object. He then recommends the use of the **Stericycle Steri-Safe Sharps Mailback Program**.

That memo made my day. Yuppies and suppies, many of which have lots of disposable income, excess cash flow, or to put the concept most plainly, plenty of money to burn, are undertaking skin treatments at an accelerating rate. After they visit the beauty salons, the cosmetologists and the estheticians, there is going to be more waste for Stericycle to unload and more cash flow for Stericycle.

My mood was much improved. I brought out a mirror from my desk, took a quick look. Hey, for a suppie I did not look bad at all. It was going to be a great day, whether or not I got a **biolift**.

Sincerely,



Fredric E. Russell

Clients, officers, shareholders, and employees of the **Fredric E. Russell Investment Management Co.** have a position in **Stericycle**, a position which consists of **71,255** shares, and whose market value, as of the close of trading on February 8, 2008 is **\$4,000,968.10**.

Our limited warranty: we warrantee that our investment letters will be free from **soporific jargon**. Also, we believe, the letters will entertain you. If they do not entertain you, you may complain to us and we will do our best to make the next letter more entertaining, but achieving this goal may depend on the strength of the coffee that the writer, Fredric E. Russell, consumes while writing his letters.

We will, nevertheless, always write our letters with respect for your intelligence and we will always strive to make the letters worthy of your time and energy.

The writer of this report, **Fredric E. Russell**, lists his academic and professional background as follows: **B.A.**, Swarthmore College, Swarthmore, PA; **M.B.A.**, and **M.A.**, **Washington University**, St. Louis, MO. He also holds the **CPA certificate**, and has taught accounting at the university level. He believes his love for writing and his usually correct grammar come from spending four years learning the English language at **Deerfield Academy** in Deerfield, MA, and from reading everything well written he can find.

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