

Sotera Health: Where Should the Next Growth Dollar Go?

Internal ID: S&F-STR-513

Topic: Growth Strategy, Capital Allocation, Operations Strategy

Industry: Life Sciences Tools & Services

Source: Strategy & Finance

Publication date: 5 October 2026

License: Not specified

Strategy case; information cutoff: October 2, 2026, end of day ET

In May 2026, Sotera Health appointed Alton Shader chief executive, effective May 26, with former CEO Michael B. Petras, Jr. becoming executive chairman. [S11] The company's second-quarter filing described a familiar corporate task: its chief executive also serves as chief operating decision maker and evaluates the company's three businesses using segment revenue and segment income. [S1]

By the end of the third quarter, Sotera's public disclosures showed several investment programs underway. Sterigenics was expanding sterilization capacity and investing in ethylene oxide (EO) facilities; Nordion was developing cobalt-60 (Co-60) sources and systems; Nelson Labs was adding cleanroom and embedded-lab capacity. The company had also opened an X-ray sterilization facility in North Carolina and was working with energy partners on prospective U.S. Co-60 production. None of the public materials disclosed a new project-specific approval request or a capital-allocation vote. [S3-S7]

The question for this case is hypothetical: how should a CEO-led review sequence the next *discretionary* growth-investment increments after 2026? The decision does not include cancelling active projects, deferring safety or compliance work, or assuming that every segment is competing for a fixed pool of money. Sotera reported substantial available liquidity, and the public record does not establish a funding bottleneck. Any comparison must first separate already-underway projects, contractual commitments, maintenance and compliance spending from genuinely discretionary increments. [S1, S3]

Three businesses, different signals

Sotera's businesses participate in connected parts of the healthcare supply chain, but they have different customers, assets, technologies and operating cycles. Sterigenics provides contract sterilization using EO, gamma, electron beam and X-ray modalities. Nordion supplies Co-60 and gamma irradiation systems. Nelson Labs provides microbiological and analytical testing and advisory services. [S1]

The second-quarter results presented both opportunity and uncertainty. Sterigenics and Nordion reported strong year-over-year growth; Nelson Labs grew more slowly and its segment income declined. Nordion's H1 volume and mix benefited from favorable Co-60 harvest timing, a reminder that one period's growth may not persist at the same rate. Segment income is an internal reporting measure, not the contribution or free cash flow of a new project. [S1, S2]

Exhibit 1. Segment results and recent signals

Segment	Q2 2026 revenue	Q2 segment income	H1 2026 revenue	H1 segment income	Reported H1 year-over-year signal
Sterigenics	\$211.6m	\$118.1m	\$397.7m	\$214.5m	Revenue +9.1%; +6.6% constant currency
Nordion	\$49.1m	\$28.0m	\$91.2m	\$51.7m	Revenue +21.6%; +20.8% constant currency; volume/mix +18.1%, with favorable harvest timing
Nelson Labs	\$60.7m	\$19.6m	\$112.6m	\$34.2m	Revenue +2.9%; +0.9% constant currency; segment income –4.9%

Source: Q2 2026 Form 10-Q, printed pp.34-36, and Q2/H1 results release [S1, S2]. Segment income is not project-level profit or cash flow. Constant-currency figures are company-defined non-GAAP measures.

Sotera's 2026 capital-spending outlook was \$200-225 million. It spent \$92.615 million in H1: \$77.413 million at Sterigenics, \$7.660 million at Nordion and \$7.542 million at Nelson Labs. The 2025 Form 10-K estimated about \$51 million of 2026 spending for environmental facility enhancements and anticipated further investment in later periods without specifying future timing or amount. The environmental estimate sits within the company's overall 2026 capex outlook; it is not an additional project budget. [S1, S3]

Exhibit 2. Capital and liquidity context

Measure	Publicly reported value or status	What it does not show
2026 capex guidance	\$200-225m	Allocation by project or remaining commitments
H1 2026 capital expenditures	\$92.615m	Project-by-project cost, completion or return
H1 operating cash flow	\$117.930m	Repeatable annual cash flow or cash available for growth
Cash at June 30	\$356.7m	Unrestricted project budget after all obligations
Total debt at June 30	About \$2.2bn	A project-specific financing limit
Net leverage	3.0x; company's target range was 2.0-3.0x	An imposed capital-spending ceiling
Available liquidity	About \$950m; \$600m revolver undrawn	Evidence of a hard funding constraint
Environmental enhancements	About \$51m estimated for 2026 within capex guidance	The total future compliance cost or post-2026 timing

Sources: Q2 2026 Form 10-Q and Q2/H1 release [S1, S2]. Totals and liquidity are as reported by Sotera; do not add them to create a discretionary-growth budget.

The investment slate

The 2025 annual report described two active Sterigenics capacity projects, Co-60 source-development projects, and Nelson Labs pharmaceutical-testing expansion. The August investor presentation described ongoing work more specifically: two Sterigenics capacity expansions and EO investments; Nordion Co-60 development; and Nelson Labs cleanroom and embedded-lab expansions. The disclosures did not identify project sites, remaining costs, schedules, contracted utilization, customer commitments or expected returns. [S3, S4]

Several recent developments complicated a simple segment ranking. Sotera announced on April 7 that its Haw River, North Carolina X-ray facility had opened, with a March 24 ribbon-cutting, beside an existing gamma facility. The company described the addition as increasing capacity and flexibility but did not disclose facility capacity, utilization, customer commitments or economics. This completed opening was not a pending project proposal. [S5]

Nordion's partners announced long-term agreements to pursue Co-60 production at Salem Units 1 and 2, with output intended for Nordion. In January, the companies said regulatory review was underway and targeted implementation in 2026, subject to authorization and plant schedules. Nordion's September update said the agreements had been formalized. The updates did not report produced quantities, final timing, project cost or Sotera's expected earnings contribution. [S6, S7]

For EO sterilization, the U.S. Environmental Protection Agency had proposed reconsidering portions of the 2024 commercial-sterilizer rule. The proposal was not a final rule and did not resolve the company's current compliance obligations or litigation. The 2025 Form 10-K said Sotera could not assure timely compliance with future regulatory changes and that

requirements different from those expected could require material capital spending beyond budget. The same filing disclosed claims at several facilities and said a loss range could not be estimated. [S3, S8, S9]

The Food and Drug Administration notes that EO may be the only effective sterilization method for some device materials and geometries, and that changing a device's sterilization method or process may require additional review or a regulatory submission. That makes modality substitution a customer- and device-specific question; X-ray, gamma or another technology cannot be assumed to replace EO capacity one-for-one. [S10]

Exhibit 3. What is underway-and what remains unknown

Business / opportunity	Disclosed status by cutoff	Key information not disclosed in the cited materials
Sterigenics: capacity and EO investments	Two active capacity expansions; continuing EO investments	Site scope, remaining spend, commissioning dates, utilization, customer qualification and project returns
Sterigenics: Haw River X-ray	Facility opening announced Apr. 7, 2026; ribbon-cutting Mar. 24; adjacent to gamma operations	Capacity, capex, utilization, customer contracts and return
Nordion: Co-60 development	Salem Units 1-2 agreements formalized; regulatory/plant timing remains conditional	Output quantity, schedule certainty, cost, risk sharing and contribution to earnings
Nelson Labs: pharma testing	Cleanroom and embedded-lab expansions listed in August deck	Capacity, customers, utilization ramp, cost and project returns
Environmental enhancements	About \$51m estimated for 2026; future investment anticipated	Full future spend, timing and facility-by-facility requirements

Sources: 2025 Form 10-K, Q2 2026 investor presentation, company and partner announcements [S3-S7]. "Not disclosed" means not found in the cited sources, not necessarily unknown to management.

A review without a forced choice

A hypothetical CEO-led review could compare four post-2026 postures. Each begins with the same baseline: honor contractual and already-underway work, safety and maintenance, and applicable compliance obligations. The public evidence does not say these items can be paused or reallocated.

- 1. Give Sterigenics the next discretionary growth emphasis.** Further capacity or technology investment could support demand and network flexibility. The case file does not identify which sites are constrained, whether new capacity is contracted, or whether EO regulation will raise or reduce future requirements.
- 2. Emphasize Nordion's source and Co-60 pipeline.** Supply development could support Nordion's role in irradiation services and create future source options. Partner agreements do not establish production dates, quantities, costs or realized economics.

3. **Emphasize Nelson Labs expansion.** Cleanroom and embedded-lab capacity could deepen pharmaceutical testing capabilities. The public record does not identify demand commitments, utilization, project scope or returns; H1 segment income declined despite modest revenue growth.
4. **Keep the next increment flexible.** Fund required work and active commitments, while reserving additional growth capital or using it for optional debt reduction until management has comparable project cases. This could preserve flexibility, but waiting may delay service capacity or a supply option if demand is durable.

These are ways to structure a hypothetical next-increment decision, not disclosed management alternatives. More than one program may proceed in parallel; no published evidence says one blocks another. A useful review would ask what information would change the sequencing decision, whether a project can be divided into meaningful stages, what commitments are reversible, and how the company would compare risk-adjusted returns and strategic dependencies on a common basis.

Assignment

Assume you advise a **hypothetical CEO-led investment review**. Using only information available by October 2, 2026:

1. How should Sotera sequence its next discretionary post-2026 growth-investment increments across the three businesses, while preserving the baseline of active, contractual, maintenance and compliance work?
2. What evidence and decision gates would you require before advancing a new increment from diligence to an irreversible commitment?
3. How should you weigh the different growth signals, regulation and technology constraints, supply timing, liquidity and optional debt reduction?
4. Which assumptions matter most, and what evidence could reverse your recommendation?

Do not assume a board vote, specific project proposal, fixed capital ceiling, or project return not disclosed in the case. The case is not asking you to choose whether to comply with safety or environmental requirements.

Sources

- **S1.** Sotera Health, Q2 2026 Form 10-Q, period ended June 30, filed August 6, 2026. [SEC filing](#).
- **S2.** Sotera Health, Q2/H1 2026 earnings release, August 6, 2026, Form 8-K Exhibit 99.1. [SEC exhibit](#).
- **S3.** Sotera Health, 2025 Form 10-K, filed February 24, 2026. [SEC filing](#).
- **S4.** Sotera Health, Q2/H1 2026 earnings presentation, August 6, 2026, slide 9. [Official IR PDF](#).
- **S5.** Sterigenics, Haw River X-ray facility opening, April 7, 2026. [Company release](#).
- **S6.** Westinghouse, Nordion and PSEG, Salem Co-60 agreements update, January 27, 2026. [Westinghouse release](#).
- **S7.** Nordion, Salem Co-60 agreement update, September 8, 2026. [Nordion release](#).
- **S8.** U.S. EPA, proposed reconsideration of 2024 commercial-sterilizer rule, March 17, 2026, 91 FR 12700. [Federal Register proposal](#).
- **S9.** Sotera Health, 2025 Form 10-K, regulatory and litigation disclosures. [SEC filing](#).
- **S10.** U.S. FDA, “Sterilization for Medical Devices.” [FDA guidance overview](#).
- **S11.** Sotera Health, Form 8-K CEO succession disclosure, filed May 5, 2026, Item 5.02. [SEC filing](#).