

## COMPANY PROFILE ON ECOLAB

### Quick Facts:

#### Company:

A \$4.5 billion company, Ecolab is the world's leading provider of cleaning, food safety and health protection products and services for the hospitality, foodservice, healthcare and industrial markets.

#### Headquarters:

St. Paul, Minnesota, USA

#### Revenue/turnover (US \$ Mn):

4534.832

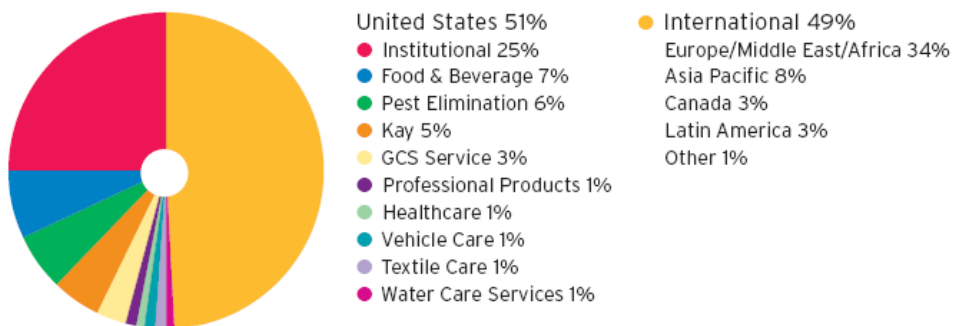
#### Employees:

More than 22,000 associates worldwide

#### Patents:

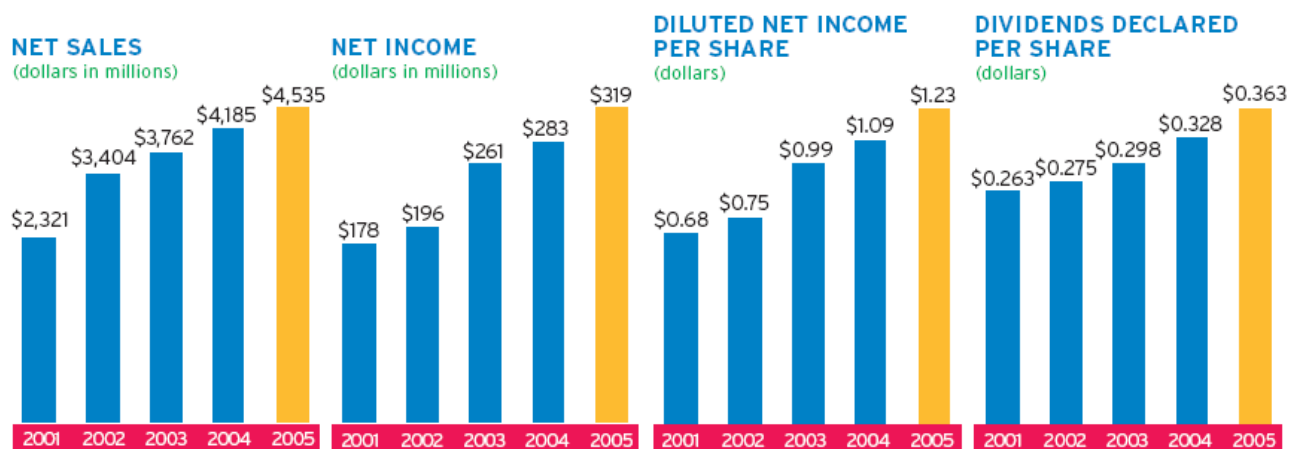
Ecolab has been issued more than 4,000 patents worldwide, including the industry's first patents for solid warewashing detergent, clean-in-place technology for beverage and food processing, and a no-rinse enzyme-based floor cleaner for grease removal in foodservice operations.

### ECOLAB Business mix 2005



## FINANCIAL HIGHLIGHTS

(thousands, except per share)	2005	2004	2003	Percent Change	
				2005	2004
Net Sales	\$4,534,832	\$4,184,933	\$3,761,819	8%	11%
Net Income	319,481	282,693	260,590	13	8
Percent of Sales	7.0%	6.8%	6.9%		
Diluted Net Income Per Common Share	1.23	1.09	0.99	13	10
Diluted Weighted-Average Common Shares Outstanding	260,098	260,407	262,737	-	(1)
Cash Dividends Declared Per Common Share	0.3625	0.3275	0.2975	11	10
Cash Provided by Operating Activities	590,136	570,908	523,932	3	9
Capital Expenditures	268,783	275,871	212,035	(3)	30
Shareholders' Equity	1,649,210	1,598,141	1,321,081	3	21
Return on Beginning Equity	20.0%	21.4%	23.3%		
Total Debt	746,301	701,577	674,644	6	4
Total Debt to Capitalization	31.2%	30.5%	33.8%		
Total Assets	\$3,796,628	\$3,716,174	\$3,228,918	2%	15%



All financial information for all periods reflects the company's adoption of Statement of Financial Accounting Standards No. 123 (Revised 2004), "Share-Based Payment" in the fourth quarter of 2005. All prior periods have been restated.

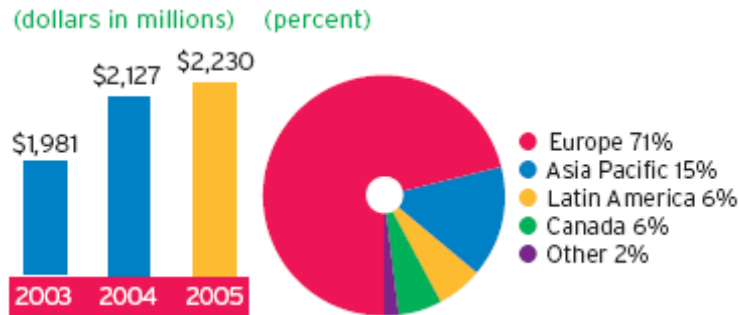
## Associates

(December 31)	2003	2004	2005
Institutional*	3,190	3,055	3,155
Kay	275	325	350
Pest Elimination	1,645	1,725	1,830
Professional Products**	180	95	90
Healthcare**	-	70	80
GCS Service	535	470	470
Textile Care	80	75	75
Food & Beverage	405	450	425
Water Care Services	95	95	125
Vehicle Care	100	100	100
Europe/Africa/ME	3,285	3,915	4,150
Asia Pacific	1,015	960	995
Canada	340	355	375
Latin America	540	590	690
Total	11,685	12,280	12,910

\*2004 decrease of 250 associates due to the sale of a grease management product line.

\*\*2004 reflects the separation of Healthcare from Professional Products.

## International Sales Business mix 2005



## SWOT Analysis

Ecolab develops and markets products and services for the hospitality, foodservice, institutional and industrial markets. The company enjoys a wide geographic presence with operations in about 170 countries across North America, Europe, Asia Pacific, Latin America, the Middle East and Africa. In the global market the company operates through 70 wholly owned subsidiaries. However, the rising prices of raw materials would pressurize the company's margins.

<p><b>Strength</b></p> <ul style="list-style-type: none"> <li>• Broad array of product platforms</li> <li>• Steady growth</li> <li>• Major global player</li> </ul>	<p><b>Weakness</b></p> <ul style="list-style-type: none"> <li>• Excessive dependence on acquisitions</li> <li>• Modest growth profile in the US</li> <li>• Lower margins</li> </ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>• Surface protectant for cars</li> <li>• Positive outlook for cleaning chemicals in the US</li> <li>• Entry into new markets</li> </ul>	<p><b>Threat</b></p> <ul style="list-style-type: none"> <li>• Rising raw material prices</li> <li>• Competitor strategies</li> <li>• Environmental and regulatory issues</li> </ul>

## Strengths

### Broad array of product platforms

The wide array of product categories and industries served by Ecolab is a key strength for the company. Such a broad portfolio has enabled the company to acquire a diversified customer base. Ecolab operates nine key business units including core businesses such as institutional, pest elimination, and food and beverage. These business divisions cover several industries namely foodservice, hotels, restaurants, healthcare and educational

facilities, food processors and beverage processors. This diversity enables a broad earnings base for the company. Furthermore, Ecolab continuously strives to launch innovative products to sustain this key strength. For instance in 2004, it introduced Wash 'n Walk, which revolutionized floor cleaning by reducing grease buildup on floors; Grease Express, which dramatically reduces cleaning time for restaurant grills; Allur-Ring cockroach bait station, a portable, dual action device that monitors and eliminates cockroaches; and STEPs Check Quality Assurance System, an electronic-based technology that allows facility managers to audit their staff's adherence to established cleaning criteria. The diversity in products has bolstered the company's reach within niche segments of the market to tap new opportunities in the emerging markets.

### Steady growth

The company has a proven and demonstrated ability to deliver strong financial performance and figures. It recorded revenues of \$4184.9 million during the fiscal year ended December 2004, an increase of 11.2% over 2003. The operating income of the company during fiscal 2004 was \$534.1 million, an increase of 10.7% over fiscal 2003. The net income was \$310.5 million during fiscal year 2004, an increase of 11.9% over 2003. Revenues have increased at a compound annual growth rate of 24.4% between fiscal 2000 and 2004. The company's robust performance and strong market position in a significant geography provides the company with a competitive edge.

### Major global player

Ecolab is a global manufacturer of cleaning, sanitizing, pest elimination and repair products for the hospitality, foodservice, institutional and industrial markets. The company enjoys a wide geographic presence with operations in about 170 countries across North America, Europe, Asia Pacific, Latin America, the Middle East and Africa. In the global market the company operates through 70 wholly owned subsidiaries. With 47% of total sales from international operations the company has established itself well in the global market.

## **Weaknesses**

### Excessive dependence on acquisitions

Over the past few years the company has primarily grown only through acquisitions. Between fiscal 2000 and 2004, the company made about 30 acquisitions (mostly bolt on acquisitions). Although bolt-on acquisitions are cheaper than large scale acquisitions, they are estimated to be initially less profitable as they lack scale of operation. On an average, the profitability of most small acquisitions is brought up to group averages in about three years. The challenges to

incorporate bolt-on acquisitions into larger portfolios are enormous. Companies have to undertake re-branding, adjust store layouts, modify product lines and centralize buying systems, in order to incorporate and achieve benefit from these investments. A poorly managed acquisition could result in integration problems and disrupt normal business activities.

#### Modest growth profile in the US

Although Ecolab has been operating chiefly in the US it has posted a marginal year over-year growth since 2002. Revenue from the US accounts for about 52% of the total sales and has increased at a compound annual growth rate (CAGR) of 5% between fiscal 2002 and 2004. On the other hand, the international revenue posted a big leap, growing at a CAGR of 17.7% for the same period. Despite having core operations in the US, the company has not been able to post significant growth in the region. Low growth or loss of market share in the company's core regions may have a direct impact on its businesses.

#### Lower margins

Ecolab has been experiencing low operating and pre-tax margins as compared to its peers in fiscal 2004. The company's operating margin was 12.7% when compared with its competitors, Rentokil Initial (14.9%) and Procter & Gamble (19.42%). The net profit margin was 7.46% which is lower than the net profit margins of Rentokil Initial (79.31%) and Procter & Gamble (12.87%). Similarly, Ecolab had a net pre-tax margin of 11.67% in fiscal 2004 while the margins of Procter & Gamble were much higher at 18.58%.

Relatively low margins of the company places the company at a disadvantage compared to its peers.

## **Opportunities**

#### Surface protectant for cars

In June 2005, Ecolab vehicle care division has introduced Rain-X Online Protectant, the car wash industry's first complete surface protectant, designed to deliver increased shine, water repellency and more durable protection to a vehicle's glass, chrome, trim and paint. Rain-X Online Protectant features Ecolab's advanced polymer and protectant technology, including a special polymer formulation engineered to create a water repellent layer that chemically bonds to all exterior vehicle surfaces, then cures to the surfaces to provide better water beading and sheeting. To enable car wash operators to grow sales with Rain-X Online Protectant, Ecolab also introduced a full line of marketing and promotion materials, called the Rain-X Complete Surface

Protectant customer marketing program. This program features marketing, messaging and promotional items for both in-bay and tunnel car washes, and includes two dispensing arch options as well as a dispensing system that bolts onto an existing arch. Launch of innovative products in the vehicle care market will help the company gain higher market share.

#### Positive outlook for cleaning chemicals in the US

As of November 2004, estimates show that the US demand for industrial and institutional (I&I) cleaning chemicals is projected to exceed \$9 billion in 2008. With, disinfectants and sanitizers expected to record the fastest growth among I&I cleaning chemical types through 2008, well above the overall average growth rates. Furthermore, heightened safety and health concerns (regarding the spread of infectious diseases) will spur the demand for cleaning chemicals, from food and beverage processing, foodservice and health care industries. These trends will also promote an increase in the demand for hand cleansers. Estimates also show that the demand for general purpose cleaners and floor care products will continue to account for (the largest shares of I&I cleaning products demand) more than 40% of overall demand in value terms in 2008. Ecolab is one of the

leading providers of specialty chemical products in the I&I and retail markets. The segment offers a range of products including cleaners, sanitizers, disinfectants, polishes, floor finishes, degreasers, and deodorizers. The rising demand for chemical cleaning products will thus increase the demand for the company's products and increase its revenues.

#### Entry into new markets

The company is aggressively entering into several untapped markets of the world and increasing its export levels to these regions. In Armenia and Georgia, it partnered with a local distributor and strengthened its presence in Turkey. In order to tap the potential of the African region and export potential in other areas, the company grew its food and beverage business in Nigeria, Saudi Arabia and South Africa and the regions have posted double digit growth since fiscal 2002. Furthermore, the company created a unified organizational structure to enable use of the company's technical know-how and R&D and product expertise in regional markets. It also plans to enter the markets of Turkmenistan, Tajikistan, Kyrgyzstan and Uzbekistan. These moves would foster the company to earn substantial revenues, and significantly increase its market share.

## Threats

### Rising raw material prices

Ecolab uses a range of raw materials, aluminum, plastics, electrical components, solvents, surfactants, phosphates, silicates, alkalis, and petroleum-based products in order to produce its product offerings. World aluminum prices are forecasted to average 85 cents per pound (¢/lb) during 2005 from the current levels of 77¢/lb. Furthermore, rising crude oil prices are expected to further raise the prices of petroleum based products. In April 2005, crude oil prices climbed to \$58.20 per barrel, and prices are expected to hover around \$60 per barrel. Increasing raw material costs could increase the company's production costs and affect its profitability.

### Competitor strategies

Ecolab's biggest competitor in the cleaning and sanitization market, ISS has entered the Turkish market through the acquisition of Proser, the largest private cleaning and facility service provider in Turkey. The acquisition which was completed in March 2005 will make ISS the single largest company to provide cleaning and sanitization services in Turkey. The acquisition of Proser provides ISS with a strong platform in one of OECD's fastest growing markets. Further, ISS has acquired similar companies in New Zealand, Russia, and Chile in fiscal 2005. Entry of ISS into emerging economies could result in potential loss of market share for Ecolab.

### Environmental and regulatory issues

Various laws and regulations have been enacted by state, local and foreign jurisdictions pertaining to the sale of products which contain phosphorous, volatile organic compounds, or other ingredients that may impact human health or the environment. Under California Proposition 65, label disclosures are required for certain products containing chemicals listed by California. The company is also required to comply with the Insecticide Fungicide and Rodenticide Act (FIFRA) for manufacture and sale of disinfecting and sanitizing products which kill microorganisms (bacteria, viruses, fungi) on environmental surfaces and on certain food products. Ecolab's manufacturing plants are subject to federal, state, local or foreign jurisdiction laws and regulations relating to discharge of hazardous substances into the environment and to the transportation, handling and disposal of such substances. The primary federal statutes that apply to the company's activities are the Clean Air Act, the Clean Water Act, and the Resource Conservation and Recovery Act (RCRA). The company continues to make significant capital investments and expenditures to comply with environmental laws and regulations. This could effectively impact its financial performance.