

Company Overview

Ecolab is the industry leader in water, hygiene, and energy technologies. The sanitation industry is driven predominantly by market share, which Ecolab excels and continues to grow. ECL serves large multinational corporations that are diversified throughout 40 plus sectors, that are located all over the world. Some clients of ECL include: Ford, Marriott, Paper Mills, and Nalco. The products and services that ECL provides are vital for the continued day to day operation of some of the largest corporations in the world. Sanitation and safety are paramount to the financial success of a company no matter how big or small, and that belief transcends all sectors and geographies. ECL's competition mainly consists of Church & Dwight (CHD), and Henkel (HENYOY). In addition to larger market share and a more diversified business strategy ECL outperforms its competitors financially. Q3 of 2018 ECL reported revenue growth of 5.16% and net income growth of 10.74%, with a net margin of 11.7%, while competitors experience revenue contraction of roughly -1.64%, demonstrating higher profitability and efficiency than its competitors. ECL's main weapon among its competitors is its innovation hungry mergers and acquisitions division. ECL has recently acquired Holchem Group Limited, a U.K.-based supplier of hygiene and cleaning products and services for the food and beverage, foodservice and hospitalities industries. Holchem operates in the U.K. and Ireland, and the company's 2017 sales were approximately \$56 million. ECL has also made an offer to acquire Bioquell PLC (LSE: BQE), a leading provider of hydrogen peroxide vapor bio-decontamination systems and services for the life sciences and healthcare industries. They are headquartered in Andover, U.K. and had approximately \$37 million of sales in 2017. This shows Ecolab's consistent effort to grow and expand as a company into new markets and new locations. Below is a list of some of Ecolab's key features.

- **Products:**

- Commercial dishwashing chemicals
- Hand Soaps
- Air Fresheners
- Floor Cleaners
- Disinfectants
- Water Filtration systems
- Water Softeners
- All purpose cleaners
- Commercial beverage dispenser cleaners

- **Consumer Base:**

- Restaurants (qs,fs)
- Hotels
- Food Retail
- Hospitals, nursing homes, general medical
- Colleges
- Office
- Commercial laundry
- Food and beverage plants
- Cruise lines, amusement parks, health clubs
- Government facilities
- Shopping malls, general retail
- Airlines
- Vehicle facilities

- **Manufacturing Capabilities:**

- ECL operates 46 manufacturing plants around the world. (USA 14, Asia Pacific 12, Europe 11, Latin America 6, Africa 2, Canada 1.)
- Manufacturing process for ECL typically consists of the automated blending of powders, liquids, and casting solids. Computerized planning systems and a fleet of flexible short run moving equipment help deliver product to a customer the next day 98% of the time.

- **New Products**

- Apex- efficiency software for cleaning and maintenance.
- Wash 'n Walk- Enzyme based cleaning technology.
- Formula 1- More efficient laundry chemicals.

- **Primary Distributors:**

- Sysco
- Shamrock
- Owens & Minor
- Unisource
- US Foods
- Food Services of America
- Performance Food Group
- Gordon Food Service

Investment Thesis

Ecolab operates in safe and diversified markets spanning almost every significant industry. ECL's products require low capital intensity and are highly consumable leading to a relatively predictable cash flow. ECL will continue to have steady growth into the future because of its innovation focused m/a and r/d divisions, in addition to favorable population dynamics into the future.

Valuation, Recommendation, & Risks

The intrinsic value of ECL is based on future growth and stability like what has been demonstrated in the past. The potential return is not as drastic as other investments could be, however for the stabilized return over a long period of time the investment is worth it if the market is headed towards a later phase in the economic cycle. Investment in ECL is a profitable yet safe investment with geographical exposure as well as financial exposure spread across the globe and in various industry sectors. A risk associated with ECL is that its growth does not meet the industry standard of 18.4%, however that could be because of the sheer magnitude of the company already in existence.

Disclosure

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities. This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. You should independently evaluate particular investments and consult an independent financial adviser before dealing in any securities mentioned in this report.

The information or views in the report ("Information") has been obtained or derived from sources believed by SMIF to be reliable. However, SMIF makes no representation as to the accuracy or completeness of such sources or the Information and SMIF accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. SMIF and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of SMIF and its connected persons are subject to change without notice. SMIF reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) SMIF, its connected persons and its officers and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) SMIF, its connected persons and its officers and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; and (3) the officers, employees and representatives of SMIF may also serve on the board of directors. (All of the foregoing is hereafter referred to as the "Subject Business".)

However, as of the date of this report, neither SMIF nor its representative(s) who produced this report (each a "research analyst"), has any proprietary position or material interest in, and SMIF does not make any market in, the securities which are recommended in this report.

Each research analyst of SMIF who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her/them; (3) he/she/they does not carry out, whether for himself/herself/their self or on behalf of SMIF or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she/they has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report.

DCF Valuation

EcoLab Inc. (ECL) - DCF - Olivia Hill & Brandon Powell

Valuation Date:	11/26/2018
Share Price on Valuation Date:	\$154.75
Diluted Shares Outstanding	294

Select Operating Data

	Projected Annual Forecast							
	2015A	2016A	2017A	2018P	2019P	2020P	2021P	2022P
Revenue	\$13,545.1	\$13,152.8	\$13,838.3	\$14,530.2	\$15,402.0	\$16,326.1	\$17,469.0	\$18,691.8
Revenue Growth Rate (%)				5.0%	6.0%	6.0%	7.0%	7.0%
EBITDA	\$2,431	\$2,786	\$2,933	\$3,080.4	\$3,265.2	\$3,461.1	\$3,703.4	\$3,962.7
EBITDA Margin (%)	17.9%	21.2%	21.2%	21.2%	21.2%	21.2%	21.2%	21.2%
EBIT	\$1,571.0	\$1,936.0	\$2,039.0	\$2,324.8	\$2,464.3	\$2,612.2	\$2,795.0	\$2,990.7
EBIT Margin (%)	11.60%	14.72%	14.73%	16.0%	16.0%	16.0%	16.0%	16.0%
Depreciation & Amortization	\$859.5	\$850.7	\$893.3	\$944.5	\$985.7	\$1,061.2	\$1,118.0	\$1,196.3
D&A as a % of revenue	6.3%	6.5%	6.5%	6.5%	6.4%	6.5%	6.4%	6.4%

Select Balance Sheet And Other Data

	Projected Annual Forecast							
	2015A	2016A	2017A	2018P	2019P	2020P	2021P	2022P
Cash	\$92.8	\$327.4	\$211.4	211.4	211.4	211.4	211.4	211.4
Accounts Receivable	2,390.0	2,341.2	2,574.1	2,702.8	2,865.0	3,036.9	3,249.5	3,476.9
Inventories	1,388.0	1,319.4	1,445.9	1,550.0	1,650.0	1,775.0	1,910.0	2,060.0
Prepaid Expenses	94.6	98.3	153.5	140.0	145.0	150.0	155.0	160.0
Accounts Payable	\$1,050.0	\$983.2	\$1,177.1	\$1,194.8	\$1,260.5	\$1,358.8	\$1,468.8	\$1,592.2
Accrued Expenses	24.2	37.3	50.7	70.0	77.7	87.0	98.3	111.1
Debt	2,205.0	541.3	564.4	632.0	632.0	632.0	632.0	632.0
Gross PP&E (increases annually by capex)	5,956.0	6,443.0	7,136.0	7,849.6	8,713.1	9,758.6	10,929.7	12,241.2
Accounts Receivable Growth (%)				5.0%	6.0%	6.0%	7.0%	7.0%
Inventories Growth (%)				6.7%	6.1%	7.0%	7.1%	7.3%
Prepaid Expenses Growth (%)				(9.6%)	3.4%	3.3%	3.2%	3.1%
Accounts Payable Growth (%)				1.5%	5.5%	7.8%	8.1%	8.4%
Accrued Expenses Growth (%)				27.6%	11.0%	12.0%	13.0%	13.0%
Capital Expenditures Growth (%)				10.0%	11.0%	12.0%	12.0%	12.0%

Free Cash Flow Buildup

\$mm	Projected Annual Forecast							
	2015A	2016A	2017A	2018P	2019P	2020P	2021P	2022P
Period				1	2	3	4	5
Total Revenues	\$13,545.1	\$13,152.8	\$13,838.3	\$14,530.2	\$15,402.0	\$16,326.1	\$17,469.0	\$18,691.8
EBITDA	2,431.0	2,786.0	2,933.0	3,080.4	3,265.2	3,461.1	3,703.4	3,962.7
EBIT	1,571.0	1,936.0	2,039.0	2,324.8	2,464.3	2,612.2	2,795.0	2,990.7
Tax rate	35.0%	35.0%	35.0%	21.0%	21.0%	21.0%	21.0%	21.0%
EBIAT	\$1,021.2	\$1,258.4	\$1,325.4	\$1,836.6	\$1,946.8	\$2,063.6	\$2,208.1	\$2,362.6
Depreciation & Amortization	859.5	850.7	893.3	944.5	985.7	1,061.2	1,118.0	1,196.3
Accounts receivable				(128.7)	(162.2)	(171.9)	(212.6)	(227.5)
Inventories				(104.1)	(100.0)	(125.0)	(135.0)	(150.0)
Prepaid expenses				13.5	(5.0)	(5.0)	(5.0)	(5.0)
Accounts payable				17.7	65.7	98.3	110.1	123.4
Accrued expenses				19.3	7.7	9.3	11.3	12.8
Capital expenditures				(713.6)	(863.5)	(1,045.6)	(1,171.0)	(1,311.6)
Unlevered free cash flows				\$1,885.1	\$1,875.3	\$1,885.0	\$1,923.9	\$2,001.1
Discount Rate (WACC)				7.2%	7.2%	7.2%	7.2%	7.2%
Present value of free cash flows				\$1,758.0	\$1,630.9	\$1,528.8	\$1,455.0	\$1,411.4
Sum of present values of FCFs	\$7,784.1							

Terminal Value

Growth in perpetuity method:								
Long term growth rate		4.5%						
WACC		7.2%						
Free cash flow (t+1)		2,091.1						
Terminal Value		76,544.5						
Present Value of Terminal Value		\$53,987.6						

WACC

Share Price		\$154.75						
Diluted Shares Outstanding		294.0						
Cost of Debt		3.9%						
Tax Rate		35.0%						
After-tax Cost of Debt		2.5%						
Cost of Equity		7.3%						
Total Debt (\$)		\$564.4						
Total Equity (\$)		45,496.5						
Total Capital		\$46,060.9						
Debt Weighting		1.2%						
Equity Weighting		98.8%						
WACC =		7.2%						

Enterprise Value to Equity Value

Enterprise Value		\$61,771.7						
Less: Net debt		353.0						
Equity Value		\$61,418.7						
Diluted Shares Outstanding		294.0						
Equity Value Per Share		\$208.91						