

Ecolab Inc. (ECL)

\$194.83 (As of 07/29/20)

Price Target (6-12 Months): **\$166.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 06/26/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:D

Value: F

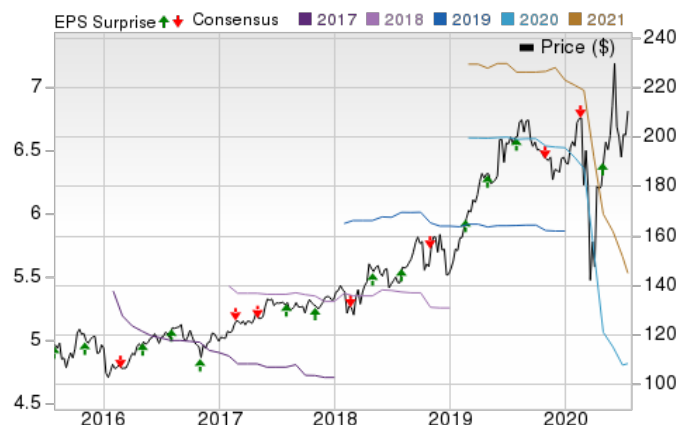
Growth: C

Momentum: B

Summary

Ecolab exited the second quarter on a weak note. The company witnessed sluggish performance across Global Industrial and Global Institutional business segments in the quarter under review. Contraction in both gross and operating margins raises concern. The company has also not provided either quarterly or full-year 2020 guidance in view of the continued uncertainty due to the COVID-19 pandemic. The stock has underperformed the industry in a year's time. Nonetheless, the company witnessed growth in its Specialty business in the second quarter. Moreover, Ecolab's Global Healthcare and Life Sciences segment exhibited solid performance. The company remains optimistic about its efficiency program that will generate \$325 million of run rate savings by 2021.

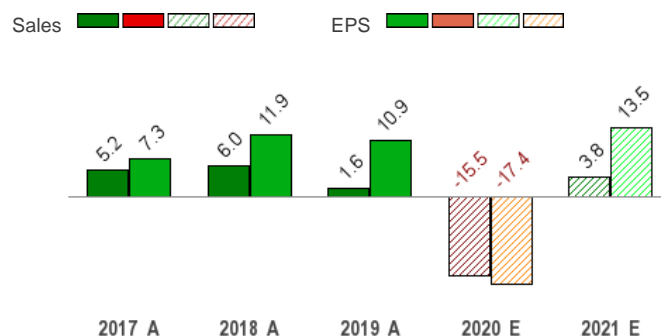
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$231.36 - \$124.60
20 Day Average Volume (sh)	1,193,852
Market Cap	\$56.3 B
YTD Price Change	1.0%
Beta	1.00
Dividend / Div Yld	\$1.88 / 1.0%
Industry	Chemical - Specialty
Zacks Industry Rank	Top 44% (111 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-21.7%
Last Sales Surprise	-5.5%
EPS F1 Est- 4 week change	-2.8%
Expected Report Date	11/03/2020
Earnings ESP	-4.1%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,076 E	3,225 E	3,316 E	3,390 E	13,064 E
2020	3,581 A	2,686 A	2,972 E	3,159 E	12,591 E
2019	3,505 A	3,759 A	3,818 A	3,824 A	14,906 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.05 E	\$1.31 E	\$1.48 E	\$1.62 E	\$5.46 E
2020	\$1.13 A	\$0.65 A	\$1.25 E	\$1.40 E	\$4.81 E
2019	\$1.03 A	\$1.42 A	\$1.71 A	\$1.66 A	\$5.82 A

*Quarterly figures may not add up to annual.

P/E TTM	37.8
P/E F1	40.5
PEG F1	3.3
P/S TTM	4.1

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/29/2020. The reports text is as of 07/30/2020.

Overview

Headquartered in St. Paul, MN, Ecolab Inc is a leading provider of water, hygiene and energy technologies and services that protect people and vital resources.

The company's programs and services helps in promoting safe food, maintaining clean environments, optimizing water and energy use, and improving operational efficiencies for customers in the food, energy, healthcare, industrial and hospitality markets in more than 170 countries.

The company's three main reportable segments are Global industrial, Global Institutional and Global Energy. The Other segment comprises fee-for-service business.

Global Industrial segment consists of the Water, Food & Beverage, Paper and Textile Care operating units. The segment provides water treatment & process applications, and cleaning & sanitizing solutions primarily to large industrial customers within the manufacturing, food and beverage processing, chemical, mining and primary metals, power generation, pulp and paper, and commercial laundry industries.

Global Institutional segment comprises Institutional, Specialty and Healthcare operating units. The segment offers specialized cleaning and sanitizing products to the foodservice, hospitality, lodging, healthcare, government and education and retail industries.

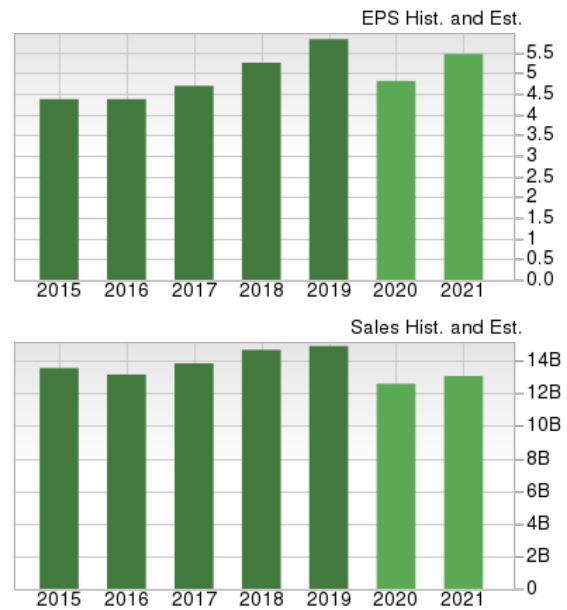
Global Energy segment serves the process chemicals and water treatment needs of the global petroleum and petrochemical industries in both upstream and downstream applications.

The **Other segment** comprises the remaining two units Pest Elimination and Equipment Care which are primarily fee-for-service businesses.

2019 at a Glance

Ecolab's 2019 revenues totaled \$14.91 billion, up 1.6%.

Global Industrial sales were \$5.57 billion (37.4% of net sales), Global Institutional sales grossed \$5.24 billion (35.1%), Global Energy revenues were \$3.33 billion (22.4%), while Other revenues were \$907.5 million (6.1%).



Reasons To Sell:

- ▼ **Weak Stock Performance:** In the past year, Ecolab's stock has lost 3.4%, against the industry's rally of 29.3%. Intense competition and cost fluctuations continue to weigh on the company's overall growth.
- ▼ **Suspension of 2020 Outlook:** The company has not issued either quarterly or full-year 2020 outlook owing to the continued uncertainty surrounding the COVID-19 pandemic and the full scope of its impact on the global economy and duration of the same.

Intensifying competition, foreign exchange volatility, higher raw material costs and integration risks are primary headwinds.

On the basis of a gradual, although uneven, recovery from the first half of the impact of the pandemic, full-year 2020 sales in Healthcare & Life Sciences segment are anticipated to improve from the previous year. Modest pressure is anticipated on Industrial segment businesses, while lowering but still substantial strain is expected on sales in Institutional and Other segments.

The pandemic's impact on restaurant, hospitality, and entertainment is expected to result in a noticeable decrease for the Institutional division within the Institutional unit and Pest Elimination for the year.

Nonetheless, the company anticipates to see gradual sequential improvement from second-quarter levels in the second half with product and service innovation, investments in new hygiene and digital technologies, and successful sales initiatives driving a sustainable recovery in customer activity.

- ▼ **Segmental Softness:** In second-quarter 2020, Ecolab's Global Industrial sales declined 1.8% year over year to \$1.48 billion. Further, sales at Global Institutional segment plunged 35.1% year over year to \$722.4, owing to a steep decline in the Institutional business, which more than negated solid growth in Specialty business. With respect to the Other segment, sales fell 19.3% year over year to \$247.1 million.
 - ▼ **Cutthroat Competition:** Ecolab operates in highly competitive markets. The company's competitors can be grouped into two classes: large companies, selling directly or through distributors, and many smaller regional players who focus on limited geographical areas, product line, and/or end-user division. Notably, Ecolab faces competition from bigwigs like P&G, Unilever, PuroClean and ChemStation. The company's U.S. Cleaning & Sanitizing and International divisions face stiff competition from Clorox and Church & Dwight.
 - ▼ **Cost Fluctuations:** The fluctuation in the cost of raw materials, especially in Europe, has the potential to affect Ecolab adversely. The frequent changes in oil or raw material prices, the absence of adequate and reasonably priced raw materials or their substitutes coupled with other factors, can hinder the business model of the company. Although Ecolab employs effective pricing strategies to offset raw material inflation, raw material cost is expected to remain a headwind, moving ahead.
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Risks

- **Cost Efficiency Program:** Ecolab recently announced an efficiency program that will generate \$325 million of run rate savings by 2021. These additional savings are expected to have a greater impact in 2020 and 2021. In fact, as a result of the May 2020 program, the company expects to more than \$130 million with respect to selling, general and administrative costs in 2020.

The program leverages on the company's \$600 million in the last five years in technology. Ecolab is driving efficiency in G&A by leveraging its Workday and SAP platforms, consolidating systems, consolidating back offices, and by consolidating third-party vendors.

- **Product-Portfolio Solid:** Ecolab has major launches underway including the new Smartpowerware wash platform, which is expected to drive institutional improvements. Ecolab also continues to invest significantly in customer-facing technology and in infrastructure technology. In June, Ecolab's subsidiary, Nalco Water, launched Rapid Bio Intelligence — a total aerobic bacteria test kit that drastically simplifies water chemistry testing and compliance for cooling water systems. Through this, the company aims to maintain efficient cooling of water systems, which is crucial in protecting assets, adhering to safety and environmental regulations, and controlling operating costs. In the same month, the company also introduced its Pest Elimination Rodent Ceiling Service, which will offer additional monitoring and protection with hard-to-access ceiling areas. This new service is likely to provide a boost to the company's Other Segment that comprises two units, Pest Elimination and Equipment Care, and are primarily fee-for-service businesses.

Ecolab has been gaining traction in digital technology markets also. The company expects huge investments in the coming quarters to enhance its digital portfolio. New customer digital programs like SMARTPOWER, 3D CIP, 3D TRASAR, new QSR and FRS digital safety platforms continue to improve field efficiency, customer service and capability.

- **Global Industrial Drives Growth:** Sales at the segment decreased 1.8% year over year to \$1.48 billion. Lower volumes in other Industrial businesses more than offset modest growth in Food & Beverage. Although the segment saw a modest decline in sales in the second quarter due to the COVID-19 impact, it exhibited a robust margin performance, which drove strong income gains.

Last year, Ecolab acquired New York-based Cascade Water Services Inc., a privately-held company that provides water treatment programs and services to the U.S. institutional market. Notably, acquisition broadens services and improves opportunities in strategic water treatment market in the Global Industrial unit.

- **Strong Business:** Ecolab's consistent delivery of considerable earnings growth despite the current challenging business environment continues to impress. One can derive comfort from the company's large base of recurring revenues and its industry-leading technologies along with excellent field service, to support long-term growth for the company. Management remains optimistic regarding improvement in its ability to attract new customers, and opportunities for greater customer penetration through new product development.

- **Strategic Acquisitions & Divestments:** Ecolab continues to focus on investment in key growth businesses and bolt-on acquisitions to gain market traction and boost profits.

In May, Ecolab completed the acquisition of CID Lines — a leading global provider of livestock biosecurity and hygiene solutions — forming a new Animal Health division. On the back of the combined strengths and experience, Ecolab will be able to build and expand the hygiene solutions for the future of the food industry.

- **Separation of ChampionX Business:** On Dec 19, 2019, Ecolab entered into a definitive agreement wherein it decided to separate the ChampionX business and at the same time combining it with Apergy Corporation in a tax-free Reverse Morris Trust transaction. The transaction is likely to build a stronger business that can push through the current downturn and also become a successful, long-term market leader with more robust cash generation, low capital intensity and large base of consumable revenues.

The transaction was completed on Jun 3, 2020. Notably, ChampionX will be accounted as a discontinued operation for Ecolab's full-year 2020.

- **Strong International Presence:** Ecolab has a significant presence in the international market. The largest international operations of the company are in Europe, Asia-Pacific, Latin America and Canada. Ecolab operates on a smaller scale in Africa and the Middle East. Latin America represents a key growth area for the company's overseas operation. Ecolab's strong international presence has boosted its growth and we believe will continue doing so in the coming years, buoyed by the strong performance from emerging markets.

- **Stable Liquidity Position:** Ecolab exited the second quarter with cash and cash equivalents of \$1.37 billion, lower than \$1.66 billion, sequentially. Meanwhile, long-term debt amounted to \$6.75 billion in the quarter, slightly increasing from \$6.74 billion sequentially. The long-term debt level is significantly higher than the quarter's cash and cash equivalent level. However, we can see that the current debt level of \$534.9 million in the quarter, down from \$1.04 billion sequentially, is in fact much lower than the short-term cash level. This is good news in terms of the company's solvency level as, at least during the year of economic downturn, it has sufficient cash for debt repayment.

Last Earnings Report

Ecolab Earnings and Revenues Lag Estimates in Q2

Ecolab Inc. reported second-quarter 2020 adjusted earnings per share of 65 cents, missing the Zacks Consensus Estimate of 83 cents by 21.7%. Further, the figure declined 48.8% on a year-over-year basis.

The company's quarterly net sales were 2.69 billion, down 15.3% from the year-ago figure. Moreover, net sales surpassed the Zacks Consensus Estimate by 5.5%.

Quarter Ending **06/2020**

Report Date	Jul 28, 2020
Sales Surprise	-5.50%
EPS Surprise	-21.69%
Quarterly EPS	0.65
Annual EPS (TTM)	5.15

Segmental Analysis

With effect from the first quarter, the company has made modifications to the way it reports its segments, as discussed below.

Global Industrial

Sales at the segment fell 1.8% year over year to \$1.48 billion. Lower volumes in other Industrial businesses more than offset modest growth in Food & Beverage.

Global Institutional

Sales plunged 35.1% year over year to \$722.4, owing to a steep decline in the Institutional business, which more than negated solid growth in Specialty business.

Global Healthcare and Life Sciences

Sales at the segment improved 21.7% year over year to \$307.6 million, courtesy of strong performance that gained from higher sales owing to the COVID-19 related demand in both the Healthcare and Life Sciences business lines.

Other

Sales declined 19.3% year over year to \$247.1 million.

Margin Analysis

Ecolab registered adjusted gross profit of \$1.16 billion, down 17.4% year over year. As a percentage of revenues, adjusted gross margin in the second quarter was 40.1%, down 400 basis points (bps).

Adjusted operating income in the quarter was \$300.3 million, down 39.7% year over year. Adjusted operating margin in the quarter was 11%, which contracted 470 bps year over year.

Guidance

The company has not issued either quarterly or full-year 2020 outlook due to the continued uncertainty surrounding the COVID-19 pandemic and the full scope of its impact on the global economy and duration of the same.

On the basis of a gradual, although uneven, recovery from the first half of the impact of the pandemic, full-year 2020 sales in Healthcare & Life Sciences segment are anticipated to improve from the previous year. Modest pressure is estimated on Industrial segment businesses, while lowering but still substantial amount of pressure is expected on sales, in Institutional and Other segments.

The pandemic's impact on restaurant, hospitality, and entertainment is expected to result in a noticeable decrease for the Institutional division within the Institutional unit and Pest Elimination for the year.

Nonetheless, the company anticipates to see gradual sequential improvement from second-quarter levels in the second half with product and service innovation, investments in new hygiene and digital technologies, and successful sales initiatives driving a sustainable recovery in customer activity.

Recent News

Ecolab's Unit Unveils Test Kit for Cooling Water Management: Jun 25, 2020

Ecolab's subsidiary, Nalco Water, launched Rapid Bio Intelligence, a total aerobic bacteria test kit that drastically simplifies water chemistry testing and compliance for cooling water systems. Through this, the company aims to maintain efficient cooling of water systems, which is crucial in protecting assets, adhering to safety and environmental regulations, and controlling operating costs.

Ecolab's New Pest Elimination Service to Ensure Food Safety: Jun 23, 2020

Ecolab introduced its Pest Elimination Rodent Ceiling Service, which will offer additional monitoring and protection with hard-to-access ceiling areas. This new service is likely to provide a boost to the company's Other Segment that comprises of two units — Pest Elimination and Equipment Care and are primarily fee-for-service businesses.

Ecolab's AdvaCare Disinfectant Receives First EPA Approval: Jun 8, 2020

Ecolab announced that its AdvaCare Disinfectant has received the first approval given by the U.S. Environmental Protection Agency (EPA). This crucial approval is for a laundry disinfectant and oxidizer emerging viral pathogen claim that is effective against SARS-CoV-2 — the virus causing COVID-19. The company's Global Industrial segment is likely to get a boost following this approval.

Ecolab Completes Acquisition of CID Lines: May 13, 2020

Ecolab closed on its acquisition of CID Lines, a leading global provider of livestock biosecurity and hygiene solutions.

Valuation

Ecolab's shares are up 1% in the year-to-date period while down 3.4% in the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Basic Materials Market are up 29.7% and 1.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and market are up 29.3% and 5.6%, respectively.

The S&P 500 index is up 0.1% in the year-to-date period and 8.4% in the past year.

The stock is currently trading at 4.4X Forward 12-months sales, which compares to 6.3X for the Zacks sub-industry, 2X for the Zacks sector and 3.5X for the S&P 500 index.

Over the past five years, the stock has traded as high as 4.9X and as low as 2.1X, with a 5-year median 2.7X.

Our Underperform recommendation indicates that the stock will perform below the market. Our \$166 price target reflects 3.7X forward 12-months sales.

The table below shows summary valuation data for ECL.

Valuation Multiples - ECL					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	4.38	6.31	2.04	3.54
	5-Year High	4.86	6.32	2.31	3.54
	5-Year Low	2.12	2.99	1.33	2.53
	5-Year Median	2.73	3.87	1.9	3.02
P/B TTM	Current	6.36	9.43	2.77	4.4
	5-Year High	7.51	10.51	3.07	4.56
	5-Year Low	4.14	4.22	1.23	2.83
	5-Year Median	5.37	7.48	2.2	3.71

As of 07/29/2020

Industry Analysis Zacks Industry Rank: Top 44% (111 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
ChurchDwight Co., Inc. (CHD)	Neutral	3
ColgatePalmolive Company (CL)	Neutral	3
JohnsonJohnson (JNJ)	Neutral	3
KimberlyClark Corporation (KMB)	Neutral	3
ProcterGamble Company The (PG)	Neutral	2
Rollins, Inc. (ROL)	Neutral	2
Unilever PLC (UL)	Neutral	2
Unilever NV (UN)	Neutral	2

Industry Comparison Industry: Chemical - Specialty				Industry Peers		
	ECL	X Industry	S&P 500	PG	UL	UN
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	2	2	2
VGM Score	D	-	-	B	A	A
Market Cap	56.35 B	1.58 B	22.69 B	317.65 B	72.75 B	104.24 B
# of Analysts	8	2	14	9	2	2
Dividend Yield	0.96%	0.52%	1.8%	2.46%	2.82%	2.86%
Value Score	F	-	-	C	A	A
Cash/Price	0.03	0.08	0.07	0.05	0.09	0.07
EV/EBITDA	20.05	10.05	13.11	34.72	5.33	9.99
PEG Ratio	3.19	3.53	3.05	3.40	NA	NA
Price/Book (P/B)	9.57	1.81	3.15	7.05	3.63	5.19
Price/Cash Flow (P/CF)	20.98	10.12	12.28	21.89	7.49	10.73
P/E (F1)	39.75	17.94	22.27	24.46	22.44	21.59
Price/Sales (P/S)	4.05	1.49	2.46	4.52	NA	NA
Earnings Yield	2.47%	5.30%	4.25%	4.09%	4.47%	4.64%
Debt/Equity	1.15	0.62	0.75	0.52	0.00	1.32
Cash Flow (\$/share)	9.29	2.37	6.94	5.86	8.31	5.66
Growth Score	C	-	-	B	A	A
Hist. EPS Growth (3-5 yrs)	7.48%	6.25%	10.85%	5.01%	NA	NA
Proj. EPS Growth (F1/F0)	-17.33%	-10.38%	-7.70%	5.66%	-2.97%	-1.57%
Curr. Cash Flow Growth	8.14%	4.04%	5.31%	4.72%	1.99%	1.99%
Hist. Cash Flow Growth (3-5 yrs)	4.49%	6.38%	8.55%	-0.93%	5.95%	5.95%
Current Ratio	1.60	2.24	1.31	0.83	0.86	0.86
Debt/Capital	53.41%	39.46%	44.23%	33.66%	0.00%	56.85%
Net Margin	-6.17%	4.97%	10.45%	7.09%	NA	NA
Return on Equity	18.80%	9.44%	14.99%	29.15%	NA	NA
Sales/Assets	0.68	0.65	0.53	0.61	NA	NA
Proj. Sales Growth (F1/F0)	-15.53%	-4.51%	-1.97%	2.47%	-0.23%	1.13%
Momentum Score	B	-	-	B	C	B
Daily Price Chg	0.57%	1.01%	1.52%	0.34%	1.68%	1.43%
1 Week Price Chg	-0.14%	0.00%	0.37%	0.26%	7.99%	8.25%
4 Week Price Chg	-2.70%	9.10%	5.44%	6.94%	13.06%	13.69%
12 Week Price Chg	0.93%	25.24%	15.38%	13.45%	25.07%	28.90%
52 Week Price Chg	-3.42%	-3.46%	-1.61%	8.70%	3.56%	5.28%
20 Day Average Volume	1,193,852	105,993	1,846,377	5,869,021	923,142	1,661,492
(F1) EPS Est 1 week change	-0.46%	0.00%	0.00%	0.32%	6.94%	7.65%
(F1) EPS Est 4 week change	-2.84%	0.00%	0.27%	0.51%	7.14%	8.27%
(F1) EPS Est 12 week change	-3.46%	-3.48%	-0.85%	0.70%	3.16%	6.03%
(Q1) EPS Est Mthly Chg	-4.74%	0.00%	0.13%	0.53%	NA	NA

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	C
Momentum Score	B
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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