# PRESS RELEASES

Oct 22, 2002

## Ecolab's Third Quarter Beats Forecasted Range; Double-Digit EPS Gain From Ongoing Operations Expected For Full Year

ST. PAUL, Minn., Oct 22, 2002 (BUSINESS WIRE) -- Ecolab, Inc.(NYSE:ECL):

2002 THIRD QUARTER HIGHLIGHTS:

- Pro forma diluted earnings per share from ongoing operations of $0.56, +12% over last year and better than the company's $0.52-$0.55 projection
- Diluted net income per share, as reported, +25% to $0.55, after special charges
- Sales of $895 million, +8% when compared with last year's pro forma sales (including Europe joint venture)
- Focused, aggressive sales efforts on key domestic and international end-markets and strong cost controls lead the quarter's growth
- 2002 full year pro forma diluted EPS from ongoing operations expected to rise to $1.80-$1.83 range compared with 2001's $1.63; net income, as reported to $1.54-$1.61

| | Third Quarter and Nine Months Ended Sept. 30 | | | |
|---|---|---|---|---|
| | Third Quarter | | Nine Months | |
| | 2002 | 2001 | 2002 | 2001 |
| (Diluted earnings per share) | | | | |
| Pro forma income from ongoing operations | $0.56 | $0.50 | $1.39 | $1.29 |
| Pro forma adjustments: | | | | |
| Acquisition of Europe joint venture | -- | (0.02) | -- | (0.02) |
| Adoption of FAS 142 - to eliminate goodwill amortization | -- | (0.04) | -- | (0.11) |
| Adoption of FAS 142 - transitional impairment charge | -- | -- | (0.03) | -- |
| One-time gain from benefit plan change | -- | -- | 0.03 | -- |
| Special charges | (0.01) | -- | (0.19) | -- |
| Discontinued operations | -- | -- | 0.01 | -- |
| Net income, as reported | $0.55 | $0.44 | $1.22 | $1.15 |

Per share amounts do not necessarily sum due to changes in shares outstanding and rounding.

Continued growth in key customer segments and focused sales efforts to leverage them, good performances from all geographic regions and strong cost savings led Ecolab's third quarter as pro forma diluted earnings per share from ongoing operations rose to $0.56 and exceeded the Company's forecasted range for the quarter ended September 30, 2002.

Net income per share as reported of $0.55 for the third quarter included restructuring and integration costs. Excluding these special charges, pro forma income from ongoing operations totaled $0.56 per diluted share. Comparison of the third quarter 2002 results to those of a year ago is affected by the adoption of FAS 142, Goodwill and Other Intangible Assets (the elimination of goodwill amortization), and the acquisition and consolidation of the former European joint venture at the end of last year. Pro forma earnings per share, as reported from ongoing operations for the third quarter of 2001, were $0.50 per share after adjustment for these changes; net income per share as reported was $0.44. The Company has published certain historic unaudited pro forma financial information for 2001 on its website at www.ecolab.com/investor/proforma.asp to assist investors in understanding the pro forma effects of the adoption of FAS No. 142, and the acquisition of the former joint venture as well as the effects of certain reclassifying adjustments.

Commenting on the quarter, Allan L. Schuman, Ecolab's Chairman and Chief Executive Officer said, "We continued our strong earnings performance as aggressive efforts

focusing on new account sales in key hospitality markets, improved divisional operations and excellent cost savings actions led the quarter. We again demonstrated our excellent business and geographic balance as we leveraged market growth opportunities and offset slower business elsewhere. Our people did a great job in providing Ecolab's high standard of service to our customers, delivering robust financial results despite challenging market conditions and making good competitive gains. We are proud of their tireless efforts and results.

"We expect the fourth quarter 2002 pro forma earnings per share from ongoing operations to show more than a 20% gain as our strong momentum continues into the quarter and we compare against results which were affected by the aftermath of the September 11, 2001 terrorist attacks on the hospitality business. Further, we believe current consensus analyst estimates for full-year 2002 and 2003 to be appropriate. We are seeing good fundamental trends in key areas of our businesses this year, and are working aggressively to exploit them. In addition, as demonstrated by our recent actions, we continue to make strategic investments to broaden our service platform and build our global business to establish the growth engines for next year and beyond. Ecolab is a strong company building a stronger future, with the market opportunities, the people and the resources to develop them. We have an exciting outlook and are determined to realize the strong growth potential we possess."

Third quarter sales for Ecolab's United States Cleaning & Sanitizing operations rose 5% over the third quarter of 2001 to $426 million, with healthy gains in Institutional and Kay operations and improved growth in Food & Beverage. Ecolab's United States Cleaning & Sanitizing operating income rose 13% to $80 million, reflecting the adoption of FAS 142, new products, aggressive sales efforts and tight cost control. Excluding the impact of FAS 142, operating income increased 9%.

United States Other Services sales increased 18% to $82 million in the third quarter; excluding acquisitions, sales rose 5%. Operating income in the third quarter of 2002 grew 21% to $11 million due to improved results in both Pest Elimination and GCS, as well as the benefits of adopting FAS 142. Excluding the impact of FAS 142 and acquisitions, operating income rose 9%.

Sales of Ecolab's International Cleaning & Sanitizing operations include the results of operations in Europe (formerly the Henkel-Ecolab joint venture, which was acquired at the end of 2001). Reported International sales rose 190% in the third quarter when measured at fixed currency rates. Excluding acquisitions, sales rose 1% at fixed rates, as good gains in Latin America offset soft results elsewhere. Fixed currency operating income rose 181% to $40 million. Excluding FAS 142 and acquisitions, International operating income rose 6% with gains from productivity improvements and cost controls.

Third quarter results include special charges related to plans management announced earlier in the year to undertake restructuring and cost saving actions during 2002. Actions taken in the third quarter included workforce reductions, product discontinuations and asset write-downs totaling $2.4 million. Further actions are anticipated during the fourth quarter of 2002.

Business Outlook

Certain statements herein, including those that follow, are based on current expectations. These statements are forward-looking, and actual results may differ materially. These statements do not include the potential impact of business acquisitions or other material corporate transactions, which may be completed after the date of this release. This Business Outlook section should be read in conjunction with the information on "Forward-Looking Statements" at the end of this release.

Ecolab expects consolidated sales (in fixed currencies and adjusted for acquisitions) to increase 12%-14% in the fourth quarter 2002 over pro forma sales for the fourth quarter 2001. Gross margins are expected to be around 50%, reflecting a reclassification of certain Selling, General and Administrative (SG&A) expenses to Cost of Sales. Excluding the impact of the reclassification, and the component of the restructuring charges to be included in Cost of Sales, gross margins should be higher than 2001's fourth quarter. Conversely, SG&A expenses are expected to decline to around 38% of sales, reflecting the effects of the same reclassification. Excluding the impact of the reclassification, the SG&A expense ratio will likely be slightly higher than the fourth quarter of 2001. Interest expense is likely to be approximately $12 million for the fourth quarter, reflecting the additional debt incurred in the purchase of Henkel-Ecolab. Currency is expected to be a slightly favorable influence.

Pro forma diluted earnings per share from ongoing operations for the fourth quarter of 2002 are expected to be in the $0.41-$0.44 range compared to $0.34 per share in the fourth quarter 2001. Net income per diluted share, as reported is expected to be in the $0.33-$0.40 range.

For the full year ended December 31, 2002, Ecolab expects pro forma diluted earnings per share from ongoing operations to be in the $1.80-$1.83 range compared with pro forma earnings of $1.63 in 2001. Net income per diluted share, as reported is expected to be in the $1.54-$1.61 range.

The following table presents a summary of the outlooks for the fourth quarter and full year 2002:

EARNINGS PER SHARE OUTLOOK

| | Fourth Quarter | | Full Year | |
|---|---|---|---|---|
| (Diluted earnings per share) | 2002E | 2001 | 2002E | 2001 |
| Pro forma income from ongoing operations | $0.41-$0.44 | $0.34 | $1.80-$1.83 | $1.63 |
| Pro forma adjustments: | | | | |
| Acquisition of Europe joint venture | | | | (0.03) |
| Adoption of FAS 142 | | | | |
| Goodwill amortization | | (0.04) | | (0.15) |
| Transitional impairment charge | | | (0.03) | |
| One-time gain from benefit plan change | | | 0.03 | |
| Special charges | (0.04)-(0.08) | | (0.23)-(0.27) | |
| Discontinued operations | | | 0.01 | |
| Net income, as reported | $0.33-$0.40 | $0.30 | $1.54-$1.61 | $1.45 |

With worldwide sales exceeding $3 billion, Ecolab is the leading global developer and marketer of premium cleaning, sanitizing, pest elimination, maintenance and repair products and services for the hospitality, institutional and industrial markets.

Ecolab shares are traded on the New York Stock Exchange and the Pacific Exchange under the symbol ECL. Ecolab news releases and other investor information are available on the Internet at http://www.ecolab.com.

Ecolab will host a live webcast to review the third quarter earnings announcement today at 1:00 p.m. Eastern Daylight Time. The webcast will be available to the public on Ecolab's website at http://www.ecolab.com/investor/. A replay of the webcast will be available at that site through November 1, 2002.

Listening to the webcast requires Internet access, a soundcard and the Windows Media Player or other compatible streaming media player. If you do not have the Windows Media client installed on your PC, you may download a free version, Media Player 7.1, at http://www.microsoft.com/windows/windowsmedia/players.asp. Supplementary information regarding historical pro forma earnings may be found on Ecolab's web site at http://www.ecolab.com/investor/proforma.asp.

This news release contains various "Forward-Looking Statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These include statements concerning our 2002 fourth quarter and 2002, 2003 full year financial and business prospects. These statements, which represent Ecolab's expectations or beliefs concerning various future events, are based on current expectations that involve a number of risks and uncertainties that could cause actual results to differ materially from those of such Forward-Looking Statements. These risks and uncertainties include: the vitality of the hospitality and travel industries; restraints on pricing flexibility due to competitive factors and customer consolidations; changes in oil or raw material prices or unavailability of adequate and reasonably priced raw materials; the occurrence of capacity constraints or the loss of a key supplier; the effect of future acquisitions or divestitures or other corporate transactions; the company's ability to achieve plans for past acquisitions; the possibility that the company's actual costs for its previously announced restructuring and integration activities will differ from current estimates set forth herein; the costs and effects of complying with: (i) laws and regulations relating to the environment and to the manufacture, storage, distribution, efficacy and labeling of the company's products and (ii) changes in tax, fiscal, governmental and other regulatory policies; economic factors such as the worldwide economy, interest rates and currency movements, including, in particular, the company's exposure to foreign currency risk; the occurrence of (i) litigation or claims, (ii) the loss or insolvency of a major customer or distributor, (iii) war, (iv) natural or manmade disasters (including material acts of terrorism or other hostilities which impact the company's markets) and, (v) severe weather conditions affecting the food service and the hospitality industries; loss of, or changes in, executive management; the company's ability to continue product introductions and technological innovations; and other uncertainties or risks reported from time-to-time in the company's reports to the Securities and Exchange Commission. In addition, the company notes that its stock price can be affected by fluctuations in quarterly earnings. There can be no assurances that the company's earnings levels will meet investors' expectations. Ecolab undertakes no duty to update its Forward-Looking Statements.

ECOLAB INC.
CONSOLIDATED STATEMENT OF INCOME
THIRD QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 2002
(unaudited)

| | Third Quarter | | Nine Months | |
|---|---|---|---|---|
| (thousands, except per share) | 2002 | 2001 | 2002 | 2001 |
| Net Sales | $894,866 | $607,631 | $2,520,205 | $1,766,012 |
| Cost of Sales(a) | 434,195 | 288,669 | 1,243,565 | 844,078 |
| Selling, General and Administrative Expenses | 327,666 | 224,899 | 947,974 | 670,438 |
| Special Charges | 2,109 | (53) | 26,223 | (245) |
| Operating Income | 130,896 | 94,116 | 302,443 | 251,741 |
| Interest Expense, Net | 10,988 | 7,010 | 33,455 | 20,494 |
| Income from Continuing Operations Before Income Taxes and Equity in Earnings of Henkel-Ecolab | 119,908 | 87,106 | 268,988 | 231,247 |
| Provision for Income Taxes | 47,826 | 35,279 | 108,204 | 93,655 |
| Equity in Earnings of Henkel-Ecolab | - | 5,434 | - | 12,276 |
| Income from Continuing Operations Before Cumulative Effect of Change in Accounting | 72,082 | 57,261 | 160,784 | 149,868 |
| Change in Accounting for Goodwill and Other Intangible Assets | - | - | (4,002) | - |
| Gain from Discontinued Operations | - | - | 1,882 | - |
| Net Income | $72,082 | $57,261 | $158,664 | $149,868 |
| Diluted Income per Common Share | | | | |
| Income from Continuing Operations | $0.55 | $0.44 | $1.23 | $1.15 |

| | | | | |
|---|---|---|---|---|
| Change in Accounting | - | - | (0.03) | - |
| Gain from Discontinued Operations | - | - | 0.01 | - |
| Net Income | $0.55 | $0.44 | $1.22 | $1.15 |
| Weighted-Average Common Shares Outstanding | | | | |
| Basic | 129,287 | 127,675 | 128,866 | 127,323 |
| Diluted | 130,611 | 129,809 | 130,563 | 130,096 |

(a) Cost of sales includes special charges of $301 for the third quarter and $7,393 for the nine months ended September 30, 2002.

Certain reclassifications have been made in prior years' financial statements to conform to classifications used in the current year. These reclassifications had no impact on previously reported net income or net income per share.

Per share amounts do not necessarily sum due to changes in shares outstanding and rounding.

ECOLAB INC.

OPERATING SEGMENT INFORMATION

THIRD QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 2002

(unaudited)

| | Third Quarter | | Nine Months | |
|---|---|---|---|---|
| (thousands) | 2002 | 2001 | 2002 | 2001 |
| Net Sales | | | | |
| United States | | | | |
| Cleaning & Sanitizing | $426,339 | $407,542 | $1,220,801 | $1,190,190 |
| Other Services | 81,629 | 69,296 | 230,943 | 200,857 |
| Total | 507,968 | 476,838 | 1,451,744 | 1,391,047 |
| International Cleaning & Sanitizing | 362,842 | 124,931 | 1,043,134 | 352,046 |
| Effect of Foreign Currency Translation | 24,056 | 5,862 | 25,327 | 22,919 |
| Consolidated | $894,866 | $607,631 | $2,520,205 | $1,766,012 |
| Operating Income | | | | |
| United States | | | | |
| Cleaning & Sanitizing | $80,361 | $71,129 | $214,280 | $193,710 |
| Other Services | 10,761 | 8,875 | 25,247 | 22,682 |
| Total | 91,122 | 80,004 | 239,527 | 216,392 |
| International Cleaning & Sanitizing | 39,938 | 14,226 | 93,686 | 35,471 |
| Corporate Expense(a) | (2,411) | (685) | (33,617) | (2,819) |
| Effect of Foreign Currency Translation | 2,247 | 571 | 2,847 | 2,697 |
| Consolidated | $130,896 | $94,116 | $302,443 | $251,741 |

(a) Consistent with the company's internal management reporting, corporate expense includes special charges of $2,410 and $39,407 for the third quarter and nine months ended September 30, 2002, respectively.

Corporate expense also includes a curtailment gain of $5,791 for the nine months ended September 30, 2002.

ECOLAB INC.

CONSOLIDATED BALANCE SHEET

SEPTEMBER 30, 2002

| (thousands) | September 30 2002 | December 31 2001 | September 30 2001 |
|---|---|---|---|

| | (unaudited) | | (unaudited) |
|---|---|---|---|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | $95,462 | $41,793 | $89,845 |
| Accounts receivable, net | 571,406 | 514,074 | 382,720 |
| Inventories | 296,295 | 279,785 | 171,700 |
| Deferred income taxes | 60,099 | 53,781 | 49,591 |
| Other current assets | 49,365 | 40,150 | 12,153 |
| Total current assets | 1,072,627 | 929,583 | 706,009 |
| Property, plant and equipment, net | 657,820 | 644,323 | 523,465 |
| Investment in Henkel-Ecolab | - | - | 204,073 |
| Goodwill, net | 650,100 | 596,925 | 242,609 |
| Other intangible assets, net | 182,469 | 178,951 | 52,650 |
| Other assets | 202,566 | 175,218 | 131,111 |
| Total assets | $2,765,582 | $2,525,000 | $1,859,917 |
| Liabilities and Shareholders' Equity | | | |
| Current liabilities | | | |
| Short-term debt | $132,350 | $233,393 | $133,143 |
| Accounts payable | 205,391 | 199,772 | 136,136 |
| Compensation and benefits | 157,437 | 132,720 | 88,586 |
| Income taxes | 36,081 | 18,887 | - |
| Other current liabilities | 311,089 | 243,180 | 191,982 |
| Total current liabilities | 842,348 | 827,952 | 549,847 |
| Long-term debt | 539,636 | 512,280 | 246,706 |
| Postretirement health care and pension benefits | 206,373 | 183,281 | 127,418 |
| Other liabilities | 124,536 | 121,135 | 73,379 |
| Shareholders' equity | 1,052,689 | 880,352 | 862,567 |
| Total liabilities and shareholders' equity | $2,765,582 | $2,525,000 | $1,859,917 |

The balance sheet as of December 31, 2001 and September 30, 2002 includes the assets and liabilities of Henkel-Ecolab.

Contact:
Ecolab Inc., St. Paul
Michael J. Monahan, 651/293-2809
Fax: 651/225-3123

Source:
Ecolab Inc.

**Back to Press Releases**