

SIGMA-ALDRICH. NASDAQ:SIAL

A Financial analysis and perspective

By

Jon Liebman

Anthony Vatterott

John Kleber

Manoj Vakeel

YuXiao Xiang

- Ticker Symbol: SIAL
- Exchange: NASDAQ
- 52- Week High: \$62.90
- 52- Week Low: \$31.45
- Beta: 0.52
- Shares Outstanding: 122.13M
- Market Cap: 5.0B

Head Quarters

Sigma-Aldrich Corp.

3050 Spruce Street

St Louis, MO 63103

United States

Phone: 1-800-521-8956

Web Site: www.sigma-aldrich.com

Highlights

- Founded in 1945 as Sigma Chemical Company to manufacture saccharin.
- In 1975 Sigma chemical company and Aldrich chemical company merged to form the company as we know it today.
- A Fortune 1000 company, ranking # 882 in sales
- Diversified Portfolio makes Sigma Aldrich recession resistant
- Industry leader in life science and high technology research

Highlights

- Top 10 fine chemical manufacturer
- Consistent history of profitable growth with strong cash flows
- Strong Balance sheet and record of execution.
- Growing markets of Brazil, China and India saw 15% growth in 2008
- 6 acquisitions and 140 new licensing agreements in 2008

Company Overview

- Incorporated May 1975 in Delaware
- Leader in Life Science and High Technology
- Chemical and biological products used in genetic, proteomic, diagnostic, pharmaceutical and disease research
- 37 countries and has 7,900 employees

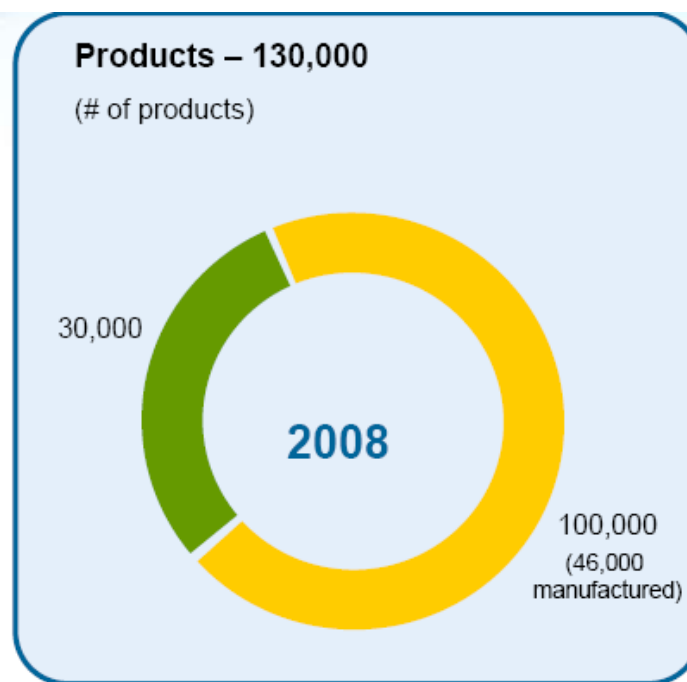
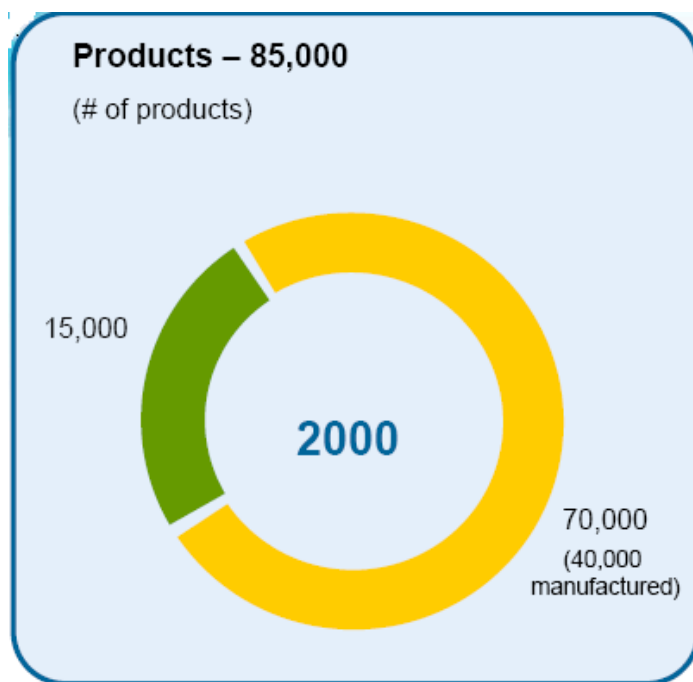
Product Mix

- *Research Essentials, 2008 Sales: \$421 million*
biological buffers, cell culture reagents, biochemicals, chemicals, solvents, and other reagents and kits
- *Research Specialties, 2008 Sales: \$824 million*
organic chemicals, biochemicals, analytical reagents, chromatography, laboratory consumables, reference materials and high-purity products

Product Mix

- *Research Biotech, 2008 Sales: \$332 million*
immunochemical, molecular biology, cell signaling and neuroscience biochemicals and kits used in biotechnology, genomic, proteomic and other life science research applications.
- *SAFC, 2008 Sales: \$624 million*
Large-scale organic chemicals & biochemicals used in development & production by pharmaceutical, biotechnology, industrial, diagnostic & electronics companies.

Product Portfolio growth



■ Chemicals

■ Laboratory equipment items

Customer Base

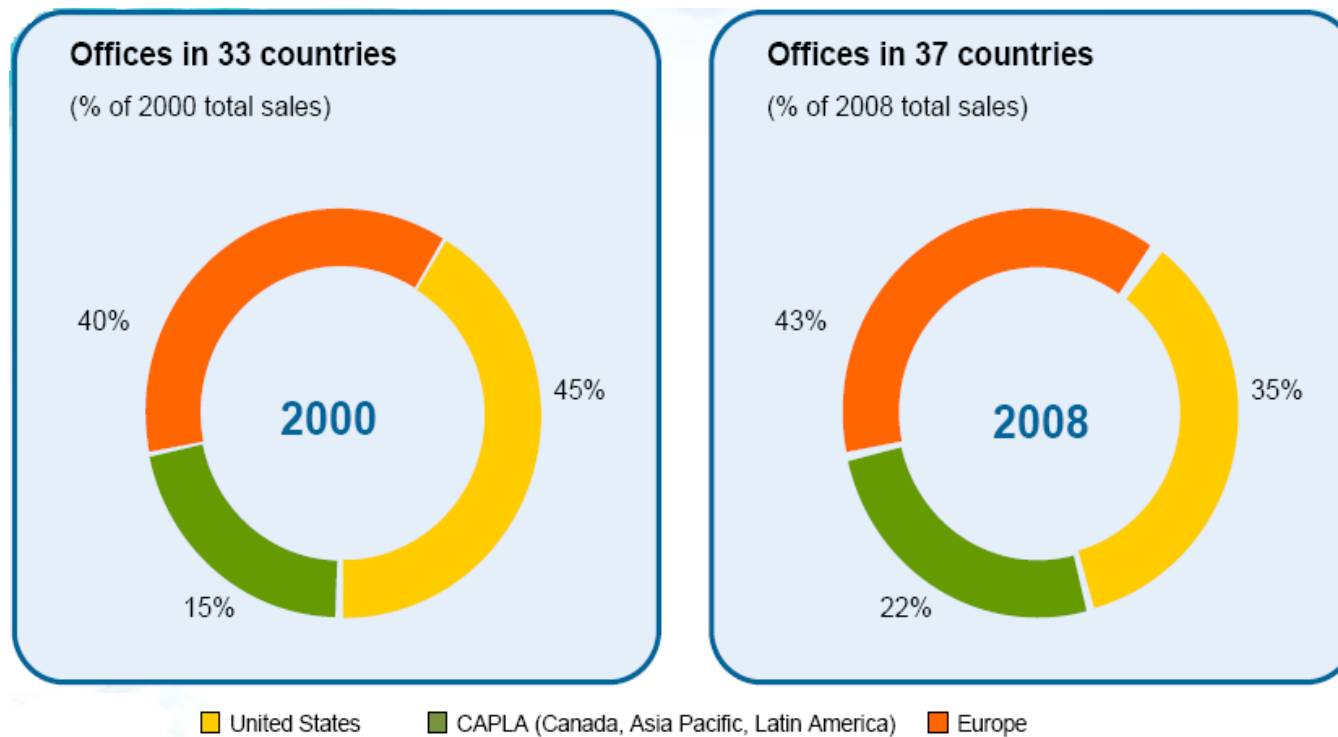


■ Pharmaceutical, Diagnostics, Biotechnology Companies
■ Chemical & Allied Industrial Companies



■ Universities, Government, Not-for-Profit Organizations
■ Hospitals & Commercial Laboratories

Global Share of Sales



Key Management

David R. Harvey, Age 68

- He served as Chief Executive Officer for more than five years until December 31, 2005
- Served as President for more than five years until August 2004
- He has been a director of the Company since 1981

Key Management

Jai P. Nagarkatti, Age 61

- President and Chief Executive Officer of the Company since January 1, 2006
- President and Chief Operating Officer from August 2004 to December 31, 2005
- Previously he served as the President of the Company's Scientific Research business unit from December 2002 to August 2004

Key Directors

Barrett A. Toan, Age 60

- Former Chairman of Express Scripts, Inc., a pharmacy benefits management company, St. Louis, Missouri
- He was Chairman of Express Scripts, Inc. for more than five years until May 2006
- He has been a director of the Company since 2001

Key Directors

J. Pedro Reinhard, Age 62

- He was Executive Vice President and Chief Financial Officer of The Dow Chemical Company, for more than five years until December 2005 and September 2005, respectively
- He has been a director of the Company since 2001. He is also a director of Colgate Palmolive Co. and Royal Bank of Canada

SWOT Analysis

Strengths

- Technology: low labor cost overseas, great technology ability, good experience of marketing, good qualified service
- Tangible assets: advanced manufacturing line, adequate capital
- Intangible assets: good business credit , great brand awareness, advanced Corporate Culture

Strengths

- Human Resources: Company possesses highly educated workforce with specialized talents
- Organization: High quality control system, loyal customers, complete information management system
- High value contextual search applications provide Internet superiority

Weakness

- Due to the global exposure, currency fluctuations and a strong US dollar could affect revenues
- Weakness in European pharmacy market due to restrictions by EU and regulators
- Few large competitors and numerous local and specialized competitors pose a challenge in that a competitive strategy varies from segment to segment

Opportunities

- Chemistry - Diversification beyond Pharmacy
- Bio-Chemistry – Diversify into high value proteins and enzymes
- Economic downturn could weed out smaller players presenting opportunities
- Company can buyout smaller players and merge others companies becoming a global multinational company

Opportunities

- Collaboration with small regional companies to improve brand image and awareness
- It is possible to go in to education arena

Threats

- Green Movement to reduce and eliminate the use of hazardous substances
- Inflationary trends in the economy could put pressure on company to increase prices
- Competitors from low cost countries

Threats

- Economic downturn could spur lower margins and competitive prices
- Since the company deals with highly toxic substances, export regulations are stringent and the fall outs from customers using them for chemical weapons could be significant

Industry Overview

Industry Overview

- Specialty chemicals are produced by a complex, interlinked industry
- They can be single-chemical entities or formulations/combinations of several chemicals whose composition sharply influences the performance and processing of the customer's product
- Products and services in the specialty chemicals industry require intensive knowledge and powerful innovation

Industry Overview

- Commodity chemicals, at the other extreme, are sold strictly on the basis of their chemical composition
- Market-oriented specialty chemicals are groups of chemicals that are utilized by a specific industry or market, such as electronic chemicals or oil field chemicals

Industry Overview

- Functional specialty chemicals, on the other hand, are groups of products that serve the same defined function, such as adhesives, antioxidants or biocides
- In several specialty chemical markets prices have been falling, especially when volumes have increased and production has shifted overseas to places like China/Southeast Asia

Industry Overview

- In the last few years, energy and raw material input prices have risen considerably
- These segments are expected to experience good growth: specialty polymers, advanced ceramic materials, separation membranes, nutraceutical ingredients, and nanoscale chemicals

Industry Overview

- These segments are expected to experience good growth: specialty polymers, advanced ceramic materials, separation membranes, nutraceutical ingredients, and nanoscale chemicals
- Three major regions are stagnating or declining—anticorrosion coatings, photographic chemicals, pesticides, textile chemicals

Direct Competition

- SIAL's top competitors are two privately owned companies; Brenntag Holding GmbH & Co and VWR International
- SIAL, Braskem, Lubrizol CP, Sensient Technologies, Westlake Chemical Corp. are the industry leaders by market capitalization.
- Market Capitalization ranges from 5billion to 1.18billion
- Quarterly revenue growth is negative across the board except for Westlake Chemical Corp.

Direct Competition

- SIAL
- Brenntag Holding GmbH & Co
- VWR International
- Braskem
- Lubrizol CP
- Sensient Technologies
- Westlake Chemical Corp

Financial Projections

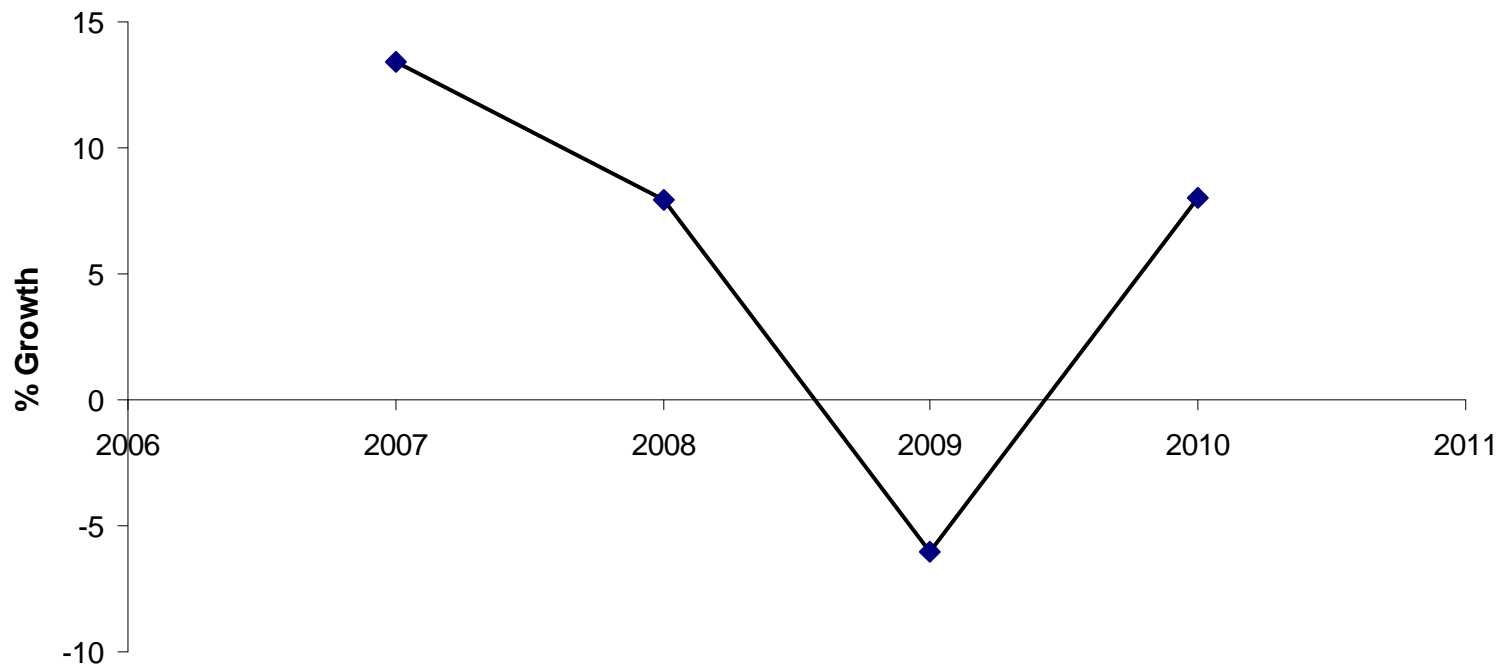
- In the last 3 quarters growth has been slowing down at approximately 6 % from quarter to quarter
- Global recession and certain sub-segments in their line of products have caused decline
- Photographic chemicals, pesticides, textile chemicals, anticorrosion coatings and synthetic dyes have all shown slow growth

Financial Projections

- 2009 we predict that they may see a 6% dip in revenues
- However, in 2010 we may see a turn around in the economy because of the stimulus that the government has pumped in to the market

Financial Projections

SIAL Growth



Financial Analysis

Financial Analysis

- Inventory Turnover
 - Estimated at 3.3 over 2009 and 2010
 - Remains steady over three years
- Receivables Days Sales (DSO)
 - Estimated at 44.5 in 2009 and 44.8 in 2010
 - Remains steady over two years estimated

1 YEAR HISTORICAL TRACK

SIGMA ALDRICH CP
as of 8-Apr-2009

Splits: ▼



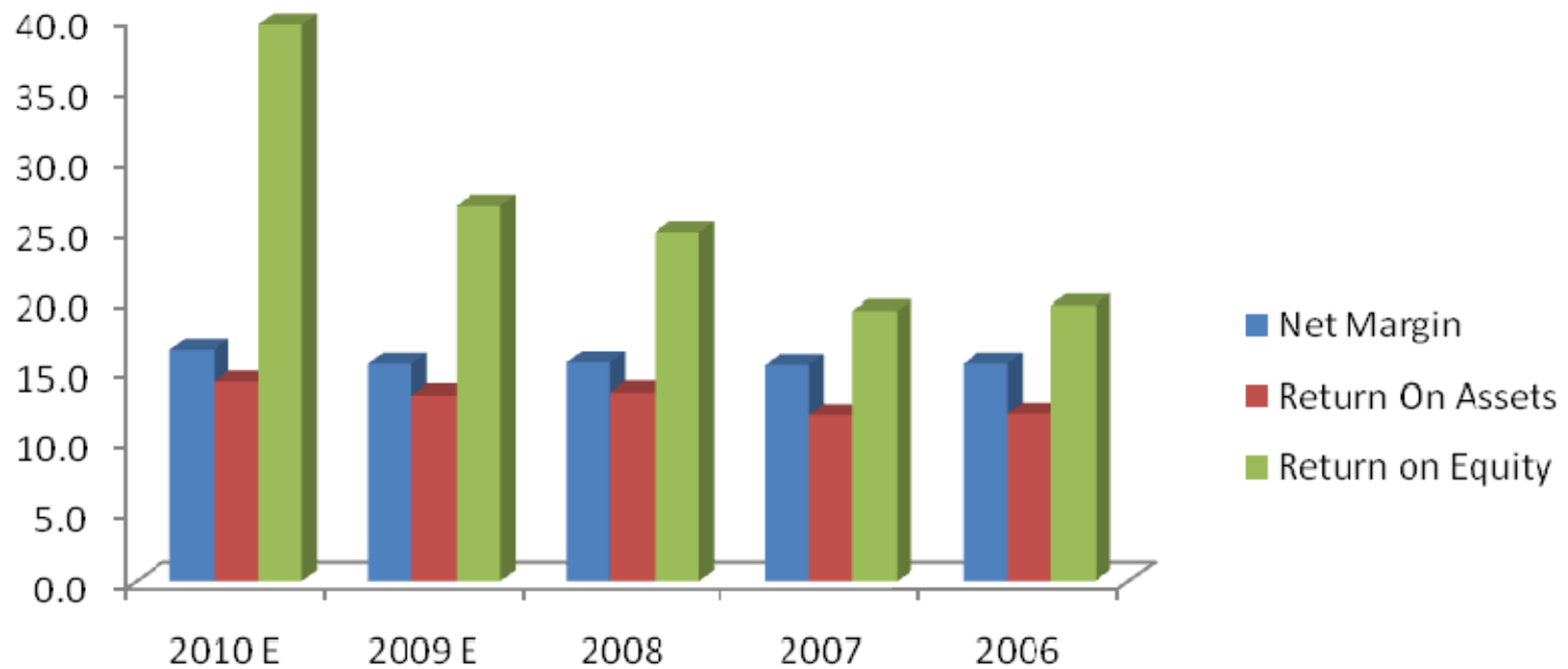
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Profitability Ratios

- Net margin
 - We estimated a net margin of 15.4 in 2009
 - Small decrease over the previous year
 - We estimated a net margin of 16.4 in 2010
 - Large increase over 2009
- Return on Assets (ROA)
 - ROA of 13.2% in 2009 and 14.1% in 2010
- Return on Equity (ROE)
 - ROE of 26.6% in 2009 and 39.5 in 2010

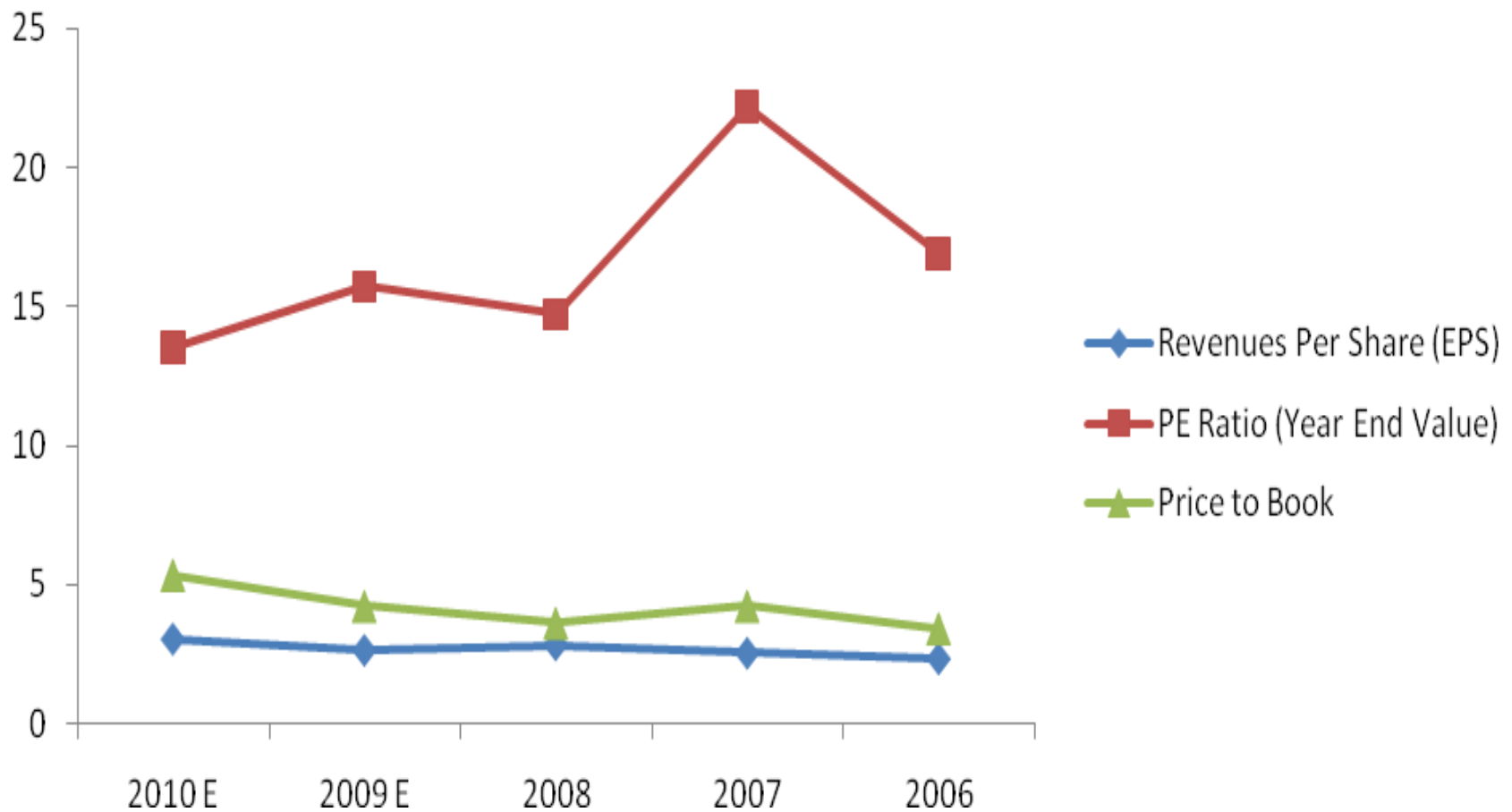
Profitability Ratios Graph



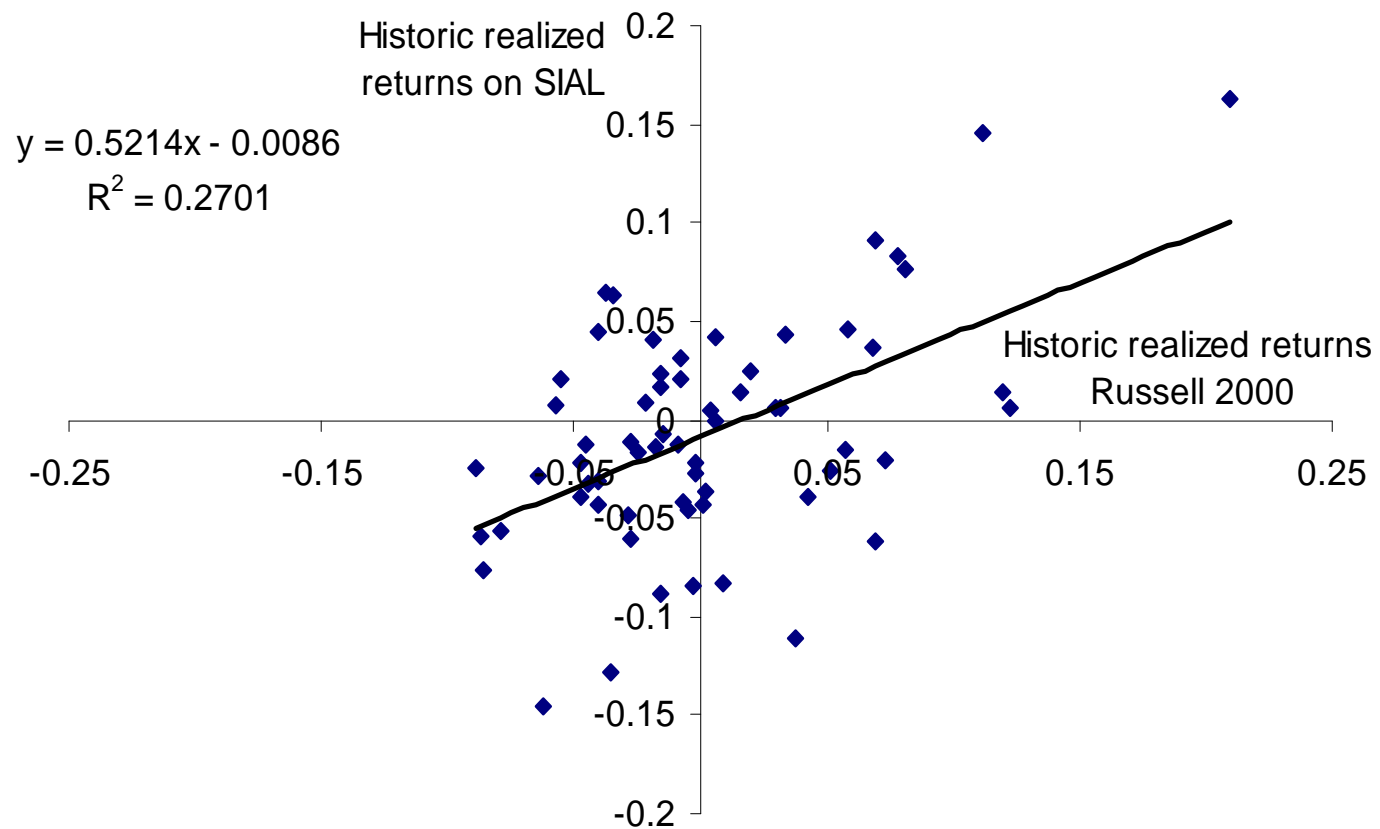
Market Value Ratios

- Earnings Per Share (EPS)
 - Decrease in EPS to \$2.6 in 2009
 - Increase in EPS to \$3 in 2010
- PE Ratio
 - Estimated a PE Ratio of \$15.7 in 2009 and \$13.5 in 2010
- Price to Book
 - Estimated at \$4.2 in 2009 and \$5.3 in 2010

Market Value Ratios



Beta co-efficient



Valuation

- Risk Free rate – Current 10 year treasury yield of 10 %
- Uncertain times a market risk premium of 6 % was used
- Beta of .52

$R(s) = \text{Risk-free rate} + (\text{Market Risk Premium} * \text{Beta})$

Expected Rate of Return = 6.1%

Outlook and Recommendations

Outlook

SIAL has identified five key initiatives to drive growth.

- Building on our customer- centric approach
- Expanding in faster growing markets
- Building on Internet superiority
- Leveraging process improvement
- Investing in long term growth

Outlook

- Current uncertainty in global markets reduces future visibility
- Demand from some key markets may decline in 2009
- Currency expected to reduce growth by approximately 7% with exchange rates at current levels
- New program launches, global sales initiatives and market share gains should help achieve low single-digit organic sales growth

Outlook

– Business Growth

- Product portfolio provides resiliency
- 70% of business tied to research
- Moderate growth in current climate
- 30% tied to manufacturing Temporarily challenged

– Potential to expand despite currency headwind

- Supply chain improvement initiatives
- Cost management
- Strategic pricing

– Future margin expansion

- Portfolio enhancement
- Asset utilization

WACC

- For 2008
- Pre-tax cost of Debt for SIAL 5.8%
- Debt 34.6 % of capitalization

WACC of SIGMA ALDRICH 5.4 %

Future Cash Flows

MILLIONS USD	2010 E	2009 E	2008 A
Required Net Operating Working capital	975.75	903.25	960.9
Net Property and equipment	670.44	620.78	660.4
Total Net operating Capital (TNOC)	1646.19	1524.03	1621.3
Change in TNOC	122.16	-97.27	
Earnings Before Interest and Taxes (EBIT)	518.26	479.87	
Net operating Profit after taxes (NOPAT)	362.782	335.909	
Future cash Flows (FCF)	240.622	433.179	

Positioning for the future

- Robust business model— even in a downturn
- Demonstrated historical performance
- Able to fund significant growth
- Stimulus Incentive from government
- New stem cell research policy gives company additional hope

Investor Relations

- Contacted Kirk A. Richter, Treasurer
 - Sales Growth
 - Life Science & High technology markets
 - Emerging Markets
 - E-commerce Sales
 - New technologies
 - Operating Income
 - Global Supply chain improvement initiatives
 - Cost management
 - Strategic pricing

Investor Relations

How has SIAL made adjustments for the economic downturn we are seeing ?

“Our broad capabilities in product offerings, a strong commitment to service, coupled with our customer and geographic diversity is helping us through the current economic environment... We are not holding back on making the necessary, yet prudent investments, to position the Company for continued long-term growth ”

BUY

Questions / Comments

Anthony Vatterott

(636) 620-5418

anthonygvatterott@mac.com

Yuxiao Xiang

(636) 575-5914

yuxiaoxiang0916@hotmail.com

Jack Kebler

(636) 575-5914

jtl6666@gmail.com

Manoj Vakeel

(314) 324-5585

vakeelmanoj@hotmail.com

Jon Liebman

(636) 575-5914

jtl6666@gmail.com