

Colgate-Palmolive Company

Catching up with Colgate

Maintain Rating: BUY | PO: 90.00 USD | Price: 86.81 USD

Maintaining focus on revenue led total shareholder returns

We recently hosted a meeting in New York with CFO Stan Sutula, Chief Digital Officer Brigitte King and VP of M&A and Investor Relations John Faucher. Our take: The cumulative impact of the strategy changes implemented five years ago has positioned CL to compound consistent “top-tier” total shareholder returns. Sustained investment in marketing and product innovation is yielding balanced (category and geographic) organic sales growth yielding a higher degree of earnings flexibility across the P&L. We maintain our Buy Rating and \$90 PO which implies target P/E multiple of 24x our CY25e EPS. Our target multiple represents an 11% premium to peers vs historical average of in line, warranted in our view by favorable volume trends and pricing power, and solid market share momentum moving in the right direction

Investors focus mostly on growth and marketing ROI

Investor attention was focused on sustainability of sales growth, earnings flex, magnitude and return on incremental marketing investment in light of better savings delivery, health of the US business and CL’s retailer relationships, health of the Latam consumer and local competition, and outlook on the Hill’s business. Our primary takeaways from the meeting are: 1) Colgate’s top priority is to grow dollar sales; and 2) As they return gross margin to former levels, they see little reason to shift away from the current playbook of reinvesting into brand-building and advertising to drive sales given the ROI they’ve been able to generate. Management sees multiple vectors to drive EPS leverage first before they would resort to pulling back on advertising, including sales leverage, savings on labor through increased automation, reducing their interest expense, and buying back shares.

The digital marketing revolution is underway

Digital tools were highlighted as the centerpiece of CL’s marketing strategy. With digital marketing growing in virtually all of CL’s markets and accounting for 63% of total company marketing spend, these tools are now widely implemented to deliver targeted engagement and better ROI. Though 78% of media spend currently falls within Colgate’s top 8 countries, these digital tools have been built to scale across the business.

CL’s US focus: growth, margin, cash

Management expressed satisfaction with the progress they’ve made in the US around managing overhead (staffing, inventory management) and the growth levers at their disposal. Still, they see room for optimization, particularly in how they manage retailer inventory and in-market execution.

International: aiming for Latam volume growth in 2024

Management touted strong go-to-market strategies after nearly 100 years of experience in Latam and a well-developed manufacturing base as the basis of their expectation to generate volume growth in Latam in 2024 on top of what should be much more modest levels of pricing. Although they are seeing discounting in Home Care, the promotional environment in Oral Care appears benign.

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Equity

Bryan D. Spillane
Research Analyst
BofAS
bryan.spillane@bofa.com

Jonathan Keypour
Research Analyst
BofAS
jonathan.keypour@bofa.com

Anna Lizzul
Research Analyst
BofAS
anna.lizzul@bofa.com

Stock Data

Price	86.81 USD
Price Objective	90.00 USD
Date Established	15-Dec-2023
Investment Opinion	A-1-7
52-Week Range	67.62 USD - 86.86 USD
Mrkt Val (mn) / Shares Out (mn)	77,070 USD / 887.8
Free Float	99.6%
Average Daily Value (mn)	467.14 USD
BofA Ticker / Exchange	CL / NYS
Bloomberg / Reuters	CL US / CLN
ROE (2024E)	316.7%
Net Dbt to Eqty (Dec-2023A)	NA
ESGMeter™	High

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CL takeaways continued...

Hill's: Pet category to outgrow Oral Care long-term

Colgate expressed a willingness to maintain stepped-up investment in R&D, capacity, and advertising for their Hill's business to stoke long-term growth, helped by more efficient digital advertising tools and led by a science-based approach to innovation. Despite the recent slowdown in the pet food category overall, management sounded confident that the resilient vet channel should provide some insulation as it did in 2008-2009.

Price objective basis & risk

Colgate-Palmolive Company (CL)

Our \$90 price objective is based on a CY25e P/E of 24x. Our premium multiple factors in US sales inflection, stability in margin and earnings delivery that has taken hold over the last 4-5yrs, and strong volume/pricing power in emerging markets. This target now implies a 15% premium to relative HPC peer average (prior basis implied a +5% premium), still more than a standard deviation above CL's 2yr average relative multiple but within a standard deviation above relative multiple to peers like PG and CHD. This premium reflects CL's defensive portfolio and strong, improving US and international market share, with top and bottom line support from pricing and new cost savings initiatives as unfavorable commodity costs abate and turnaround in developed markets Oral Care share takes hold.

Risks to the downside are increased price competition, particularly from private label, a stronger US\$ in light of hyperinflationary currency pressure in Latam, Asia, and Africa, and macro volatility, particularly in emerging markets. Risks to the upside are stronger EM performance, significantly lower commodity costs, and growth ahead of category.

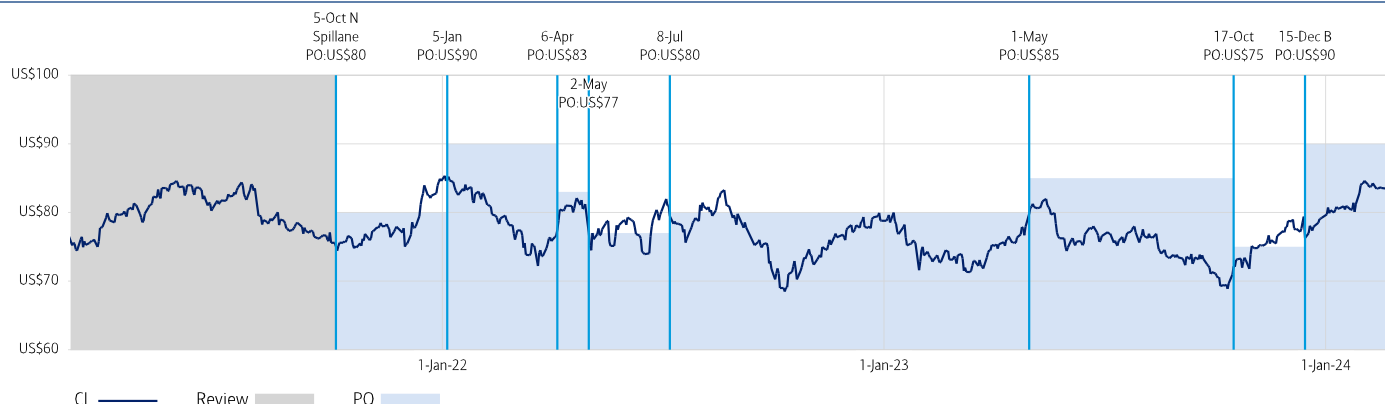
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Colgate-Palmolive (CL) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	32	50.00%	Buy	16	50.00%
Hold	19	29.69%	Hold	8	42.11%
Sell	13	20.31%	Sell	7	53.85%

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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
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Sell	807	22.84%	Sell	383	47.46%

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