

Colgate-Palmolive Company

4Q23 quicktake: high quality quarter,
algorithm the starting point for FY24

Reiterate Rating: BUY | PO: 90.00 USD | Price: 81.22 USD

Organic sales +7% YoY; EPS \$0.87

CL reported 4Q23 organic sales growth of +7% YoY vs BofA/Street of +6.6%/+6.4%, respectively, beating across all segments save for Europe and Hill's. Adj. EPS was \$0.87 compared to BofAe at \$0.84 (we were 1c below Street ests.), noting advertising ratio was -30bps lower than our model as a % of sales. We see 2c of combined drag to EPS vs our estimates from a higher tax rate and higher post-retirement costs than we had modeled, with -5c of additional drag from higher Other Expense above the line. Net of these impacts, EPS would have been \$0.94. Flat organic volume YoY, which already exceeded our forecast of -1% YoY decline, would have been up YoY excluding the private label exits impacting Red Collar volume. We anticipate questions from here will center on the health of the pet food category and the trajectory of the Hill's business' profitability given plant start-up costs, expected magnitude of packaging and raw material inflation which is expected to impact 2H24, and volume vs pricing sensitivity, particularly in CL's international regions.

Detailed highlights

Organic Sales Growth was +7% YoY vs BofAe +6.6% and Consensus +6.4%. By segment, North America was +3.5% (BofAe +1%), Europe was +3.5% (BofAe +5%), LatAm was +16.5% (BofAe +14%), Asia/Pac was +1% (BofAe +1%), Africa/Eurasia was +17% (BofAe +15%), and Hill's was +4.5% (BofAe +7%). **Gross Margin** of 59.6% was up +400bps YoY and beat both BofAe by +170bps and Street by +100bps. **Adj. operating Profit & Margin** was \$2,950mn and 21.7% of sales vs BofAe at 20.9%. Advertising costs were \$593mn in 4Q23, up 18% YoY, accounting for 12.0% of sales vs BofAe ratio to sales of 12.3%. **Adj. EPS** of \$0.87 compared to BofAe/Street at \$0.84/\$0.85 and includes -1c of drag vs our model from each of higher post-retirement costs and higher tax rate.

FY24 outlook in line with long-term algo

CL initiated FY24 guidance, calling for organic sales growth of +3-5% (BofAe +4.5%, Street+4.8%), noting we had expected FY24 organic sales growth to be in line with or better than CL's long-term algorithm of +3-5% organic sales growth. Net sales growth was forecasted to be +1-4% YoY, or \$19.7Bn to \$20.2Bn, compared to BofAe/Street estimates of \$19.85Bn and \$20.1Bn, respectively. Adjusted gross margin is expected to increase YoY again (BofAe/Street: +120bps/+100bps), with advertising also still expected to increase YoY on both a dollar and % of sales basis. Management forecasts adjusted EPS growth of mid-single to high-single digits YoY, implying a range of \$3.36 to 3.52 (assuming +4-9%), compared to BofAe EPS of \$3.48 and consensus of \$3.49.

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Stock Data

| | |
|---------------------------------|-----------------------|
| Price | 81.22 USD |
| Price Objective | 90.00 USD |
| Date Established | 15-Dec-2023 |
| Investment Opinion | A-1-7 |
| 52-Week Range | 67.62 USD - 82.09 USD |
| Mrkt Val (mn) / Shares Out (mn) | 72,107 USD / 887.8 |
| Free Float | 99.6% |
| Average Daily Value (mn) | 387.75 USD |
| BofA Ticker / Exchange | CL / NYS |
| Bloomberg / Reuters | CL US / CLN |
| ROE (2023E) | 1,075.2% |
| Net Dbt to Eqty (Dec-2022A) | NA |
| ESGMeter™ | High |

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Exhibit 1: CL 4Q23A vs Ests.

Core growth of +7.0% YoY was +0.4.pts. higher than BofAe

| | Core growth | 4Q23A | BofA | Street |
|----------------|-------------|-------------|-------------|--------|
| North America | 3.5% | 1.0% | 2.8% | |
| Europe | 3.5% | 5.0% | 5.1% | |
| Latin America | 16.5% | 14.0% | 13.2% | |
| Asia Pacific | 1.0% | 1.0% | -0.8% | |
| Africa/Eurasia | 17.0% | 15.0% | 11.7% | |
| Hill's | 4.5% | 7.0% | 7.4% | |
| Total | 7.0% | 6.6% | 6.4% | |

Source: Company reports, VisibleAlpha, BofA Global Research

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CL 4Q23 earnings summary

Exhibit 2: CL 4Q23 Earnings Summary

CL 4Q23 EPS of \$0.87 was +3c higher than BofAe

| | 4Q23 | BofA | % Diff. | \$ Diff | 4Q22 | % Diff. | Consensus | % Diff. |
|--------------------------------|----------------|----------------|-------------|----------------|----------------|--------------|----------------|-------------|
| Net Sales | \$4,950 | \$4,875 | 1.5% | \$75.3 | \$4,629 | 6.9% | \$4,911 | 0.8% |
| COGS | 2,000 | 2,050 | -2.5% | -\$50.4 | 2,055 | -2.7% | | N/A |
| Gross Profit | \$2,950 | \$2,824 | 4.4% | \$125.6 | \$2,574 | 14.6% | \$2,878 | 2.5% |
| SG&A | 1,210 | 1,188 | 1.9% | \$22.1 | 1,128 | 7.3% | | |
| Advertising | 593 | 599 | -1.0% | -\$6.0 | 504 | 17.7% | | |
| Other (Income) Expense | 73 | 20 | 265.0% | \$53.0 | 1 | 7200.0% | | |
| Total Operating Expense | 1,876 | 1,807 | 3.8% | \$69.1 | 1,633 | 14.9% | 1,832 | 2.4% |
| Operating Income | \$1,074 | \$1,017 | 5.6% | \$56.5 | \$941 | 14.1% | \$1,046 | 2.7% |
| Post-retirement costs | 21 | 15 | 40.0% | \$6.0 | 13 | 61.5% | 15 | 38.3% |
| Interest Expense, net | 62 | 63 | -1.9% | -\$1.2 | 55 | 12.7% | 60 | 4.1% |
| Pre-tax Income | \$991 | \$939 | 5.5% | \$51.7 | \$873 | 13.5% | \$971 | 2.1% |
| Tax Exp. | 229 | 211 | 8.4% | \$17.7 | 194 | 18.0% | 229 | -0.2% |
| Non-Controlling Int. | 42 | 39 | 8.4% | \$3.2 | 38 | 10.5% | 40 | 5.0% |
| Net Income | \$720 | \$689 | 4.5% | \$30.8 | \$641 | 12.3% | \$702 | 2.6% |
| EPS | \$0.87 | \$0.84 | 4.4% | \$0.03 | \$0.77 | 13.6% | \$0.85 | 2.5% |
| Diluted Shares Out. | 825 | 825 | 0.1% | | 834 | -1.1% | 825 | 0.0% |

CL Income Statement Ratios

| | 4Q23 | BofA | Bps. Diff. | 4Q22 | Bps. Diff. | Consensus | Bps. Diff. |
|-------------------------|-------|-------|------------|-------|------------|-----------|------------|
| Gross Margin | 59.6% | 57.9% | 170 bps. | 55.6% | 400 bps. | 58.6% | 100 bps. |
| SG&A Ratio | 24.4% | 24.4% | 0 bps. | 24.4% | 0 bps. | | |
| Advertising Ratio | 12.0% | 12.3% | -30 bps. | 10.9% | 110 bps. | | |
| Operating Expense Ratio | 37.9% | 37.1% | 80 bps. | 35.3% | 260 bps. | 37.3% | 60 bps. |
| Operating Margin | 21.7% | 20.9% | 80 bps. | 20.3% | 140 bps. | 21.3% | 40 bps. |
| Tax Rate | 23.1% | 22.5% | 60 bps. | 22.2% | 90 bps. | 23.6% | -50 bps. |
| Net Margin | 14.5% | 14.1% | 40 bps. | 13.8% | 70 bps. | 14.3% | 20 bps. |

CL Segment Results

| Revenue by Segment | 4Q23 | BofA | % Diff. | 4Q22 | % Diff. | Consensus | % Diff. |
|--------------------|----------------|----------------|-------------|----------------|-------------|----------------|-------------|
| North America | \$999 | \$976 | 2.4% | \$966 | 3.4% | \$993 | 0.6% |
| Europe | 685 | 685 | 0.0% | 623 | 10.0% | 677 | 1.1% |
| Latin America | 1,192 | 1,132 | 5.3% | 1,011 | 17.9% | 1,169 | 2.0% |
| Asia Pacific | 698 | 710 | -1.7% | 696 | 0.3% | 679 | 2.7% |
| Africa/Eurasia | 262 | 232 | 12.9% | 273 | -4.0% | 250 | 4.9% |
| Hill's | 1,114 | 1,140 | -2.2% | 1,060 | 5.1% | 1,144 | -2.6% |
| Total | \$4,950 | \$4,875 | 1.5% | \$4,629 | 6.9% | \$4,911 | 0.8% |

Source: Company filings, VisibleAlpha, BofA Global Research

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Price objective basis & risk

Colgate-Palmolive Company (CL)

Our \$90 price objective is based on a CY25e P/E of 24.5x. 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.

Analyst Certification

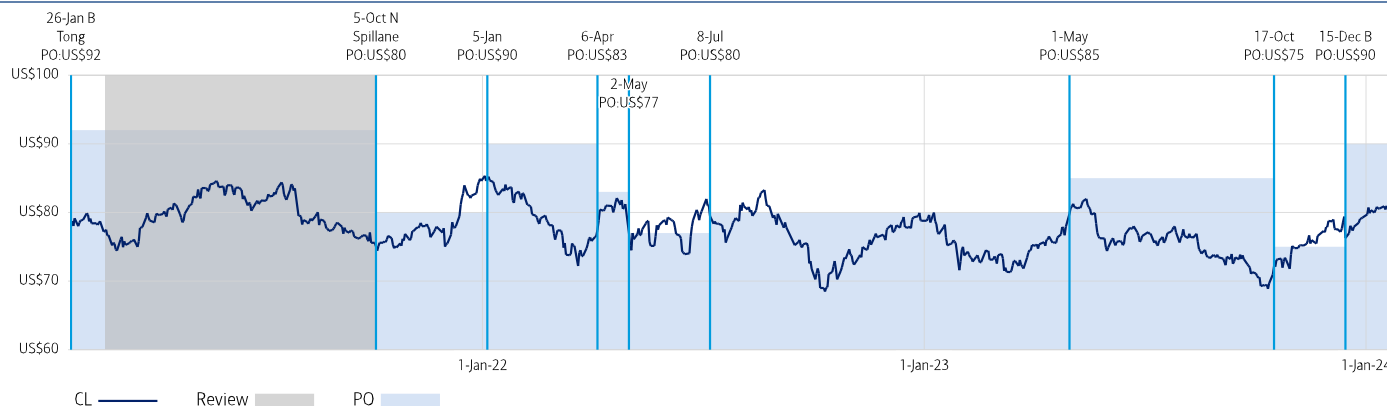
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Colgate-Palmolive (CL) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Consumer Products Group (as of 31 Dec 2023)

| 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% |

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships ^{R1} | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy | 1895 | 53.62% | Buy | 1083 | 57.15% |
| Hold | 832 | 23.54% | Hold | 454 | 54.57% |
| Sell | 807 | 22.84% | Sell | 383 | 47.46% |

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|-------------------|---|--|
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| Neutral | ≥ 0% | ≤ 30% |
| Underperform | N/A | ≥ 20% |

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