

Colgate-Palmolive Company

Core Strength; raising estimates

Reiterate Rating: BUY | PO: 90.00 USD | Price: 83.56 USD

Exiting '23 with broad based momentum

CL's 4Q23 ended the year with organic sales growth of +7% and high-quality EPS of \$0.87 vs our \$0.84 forecast, inclusive of -7c of combined non-operating headwinds. Flat pricing was +100bps ahead of BofAe and would have been positive excluding the drag from private label exits in Hill's, with pricing of +7% about -50bps lighter than our forecast. Initial guidance for +3-5% organic growth, CL's long-term algorithm, seems conservative in our view, baking in commodity inflation, transportation disruption and rebasing pet food category demand. Still, with savings contributing a record +300bps to 4Q gross margin expansion, we see good opportunity for this momentum to persist, with good line of sight to both sequential volume recovery and additional pricing.

We like... "Flex" and "Core" in 24

In our year ahead report, our base case is for minimal multiple expansion. Against that backdrop we expect positive revisions and earnings quality to be key performance differentiators. CL screens well in this regard because 1) its core businesses (e.g. oral care) and geographies (e.g. Latin America) are driving growth. Our conversations with investors over the past two months suggest a higher value placed on "core" led vs "Hills" led growth. 2) Flexibility up and down the P&L helped by strong sales growth, moderating inflation, a ramp up in net productivity. Given the risks/volatility in the operating environment CL sets up well to absorb it and deliver returns to investors, with 4Q serving as a prime example.

Model assumptions for 1Q24 and FY24

We raise our FY24 organic sales growth estimate from +4.5% to +5.4% and gross margin by +60ps to 59.6% reflecting some incremental savings benefits. We raise FY24E EPS from \$3.48 to \$3.50. For 1Q24, we estimate organic sales of +5.4% YoY, gross margin at 59.1% as savings momentum is partially offset by promotion-heavy Chinese New Year volume given the timing shift to February from January last year.

Maintain Buy rating, \$90 PO

Our \$90 PO still 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.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	2.97	3.23	3.50	3.78	4.11
GAAP EPS	2.15	2.77	3.50	3.78	4.11
EPS Change (YoY)	-7.5%	8.8%	8.4%	8.0%	8.7%
Consensus EPS (Bloomberg)			3.48	3.79	4.11
DPS	1.86	1.91	1.99	2.09	2.20
Valuation (Dec)					
P/E	27.9x	25.6x	23.7x	21.9x	20.2x
GAAP P/E	38.5x	29.9x	23.7x	21.9x	20.2x
Dividend Yield	2.2%	2.3%	2.4%	2.5%	2.7%
EV / EBITDA*	19.5x	17.9x	16.8x	15.9x	15.0x
Free Cash Flow Yield*	2.5%	4.1%	5.0%	1.0%	4.8%

* For full definitions of *IQmethod*SM measures, see page 5.

29 January 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	19,853.5	20,108.8
2025E Rev (m)	20,659.3	20,927.3
2026E Rev (m)	21,615.6	21,897.7
2024E EPS	3.48	3.50
2025E EPS	3.76	3.78
2026E EPS	4.09	4.11

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Stock Data

Price	83.56 USD
Price Objective	90.00 USD
Date Established	15-Dec-2023
Investment Opinion	A-1-7
52-Week Range	67.62 USD - 83.62 USD
Mrkt Val (mn) / Shares Out (mn)	74,185 USD / 887.8
Free Float	99.6%
Average Daily Value (mn)	422.43 USD
BofA Ticker / Exchange	CL / NYS
Bloomberg / Reuters	CL US / CLN
ROE (2024E)	316.7%
Net Dbt to Eqty (Dec-2023A)	NA
ESGMeter TM	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

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Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 29 January 2024 11:13AM EST

iQprofileSM Colgate-Palmolive Company

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	23.9%	24.6%	27.1%	6.9%	30.4%
Return on Equity	492.7%	530.6%	316.7%	241.5%	158.5%
Operating Margin	20.5%	20.7%	21.6%	21.5%	22.4%
Free Cash Flow	1,860	3,040	3,694	757	3,561

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.0x	1.4x	1.5x	1.2x	1.2x
Asset Replacement Ratio	1.3x	1.2x	0.9x	0.9x	0.9x
Tax Rate	26.1%	27.6%	24.5%	24.5%	24.5%
Net Debt-to-Equity Ratio	NM	NM	407.6%	392.6%	137.6%
Interest Cover	24.1x	17.4x	17.9x	20.0x	24.8x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	17,967	19,457	20,109	20,927	21,898
% Change	3.1%	8.3%	3.4%	4.1%	4.6%
Gross Profit	10,248	11,327	11,975	12,575	13,249
% Change	-1.2%	10.5%	5.7%	5.0%	5.4%
EBITDA	4,226	4,603	4,920	5,183	5,501
% Change	-4.7%	8.9%	6.9%	5.3%	6.1%
Net Interest & Other Income	(153)	(232)	(242)	(220)	(197)
Net Income (Adjusted)	2,493	2,682	2,869	3,073	3,318
% Change	-8.3%	7.6%	7.0%	7.1%	8.0%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,805	2,299	2,869	3,073	3,318
Depreciation & Amortization	545	567	578	590	602
Change in Working Capital	(726)	455	363	41	23
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	932	424	386	34	166
Capital Expenditure	(696)	(705)	(503)	(523)	(547)
Free Cash Flow	1,860	3,040	3,694	757	3,561
% Change	-32.6%	63.4%	21.5%	-79.5%	370.7%
Share / Issue Repurchase	(908)	(730)	(800)	(800)	(800)
Cost of Dividends Paid	(1,691)	(1,749)	(1,634)	(1,702)	(1,775)
Change in Debt	1,647	(314)	(300)	(800)	(800)

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	775	966	1,926	2,067	2,253
Trade Receivables	1,504	1,586	1,377	1,491	1,560
Other Current Assets	2,834	2,727	2,683	2,752	2,638
Property, Plant & Equipment	4,307	4,582	4,519	4,466	4,424
Other Non-Current Assets	6,311	6,532	6,284	6,281	6,258
Total Assets	15,731	16,393	16,790	16,671	17,133
Short-Term Debt	25	18	18	18	18
Other Current Liabilities	3,979	4,411	4,614	4,557	4,916
Long-Term Debt	8,741	8,531	8,231	8,031	6,631
Other Non-Current Liabilities	2,180	2,476	2,375	2,375	2,375
Total Liabilities	14,925	15,436	15,238	14,981	13,940
Total Equity	806	957	1,551	1,690	3,194
Total Equity & Liabilities	15,731	16,393	16,790	16,671	17,133

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Household Products

Company Description

Colgate-Palmolive Company is a consumer products company that markets its products throughout the world. The Company's products include toothpaste, toothbrushes, shampoos, deodorants, bar and liquid soaps, dishwashing liquid, and laundry products, as well as pet nutrition products for cats and dogs.

Investment Rationale

We rate CL with a Buy. CL's dominant market shares, low private label exposure, geographic depth, and more aggressive stance in driving growth should benefit them in an economic downturn, noting an inflection in US market share gains signals long-term obstacles have been structurally addressed. CL's size and scale has helped them gain ground and leverage effective pricing actions which should now also benefit margins as key commodity cost inflation is abating.

Stock Data

Average Daily Volume 5,055,383

Quarterly Earnings Estimates

	2023	2024
Q1	0.73A	0.81E
Q2	0.77A	0.85E
Q3	0.86A	0.87E
Q4	0.87A	0.97E

Summary of 4Q23 results

Exhibit 1: CL 4Q23 Earnings Summary

EPS of \$0.86 was helped by 6c of below-the-line benefits vs BofAe

	4Q23	BofA	% Diff.	\$ Diff	4Q22	% Diff.	Consensus	% Diff.
Net Sales	\$4,950	\$4,875	1.5%	\$75.3	\$4,629	6.9%	\$4,950	0.0%
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%	\$2,950	0.0%
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%	1,876	0.0%
Operating Income	\$1,074	\$1,017	5.6%	\$56.5	\$941	14.1%	\$1,074	0.0%
Post-retirement costs	21	15	40.0%	\$6.0	13	61.5%	21	-0.6%
Interest Expense, net	62	63	-1.9%	-\$1.2	55	12.7%	62	0.0%
Pre-tax Income	\$991	\$939	5.5%	\$51.7	\$873	13.5%	\$991	0.0%
Tax Exp.	229	211	8.4%	\$17.7	194	18.0%	229	0.0%
Non-Controlling Int.	42	39	8.4%	\$3.2	38	10.5%	42	0.0%
Net Income	\$720	\$689	4.5%	\$30.8	\$641	12.3%	\$720	0.0%
EPS	\$0.87	\$0.84	4.4%	\$0.03	\$0.77	13.6%	\$0.87	0.0%
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.	59.6%	0 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.	37.9%	0 bps.
Operating Margin	21.7%	20.9%	80 bps.	20.3%	140 bps.	21.7%	0 bps.
Tax Rate	23.1%	22.5%	60 bps.	22.2%	90 bps.	23.1%	0 bps.
Net Margin	14.5%	14.1%	40 bps.	13.8%	70 bps.	14.5%	0 bps.

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 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.

Analyst Certification

I, Bryan D. Spillane, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Consumables Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	BellRing Brands Inc	BRBR	BRBR US	Bryan D. Spillane
	Coca-Cola Europacific Partners plc	CCEP	CCEP US	Bryan D. Spillane
	Colgate-Palmolive Company	CL	CL US	Bryan D. Spillane
	Constellation Brands	STZ	STZ US	Bryan D. Spillane
	Coty Inc.	COTY	COTY US	Anna Lizzul
	e.l.f. Beauty	ELF	ELF US	Anna Lizzul
	Freshpet, Inc.	FRPT	FRPT US	Bryan D. Spillane
	Kenvue Inc.	KVUE	KVUE US	Anna Lizzul
	Keurig Dr Pepper	KDP	KDP US	Bryan D. Spillane
	Kraft Heinz Company	KHC	KHC US	Bryan D. Spillane
	Lamb Weston Holdings Inc	LW	LW US	Peter T. Galbo, CFA
	McCormick & Co.	MKC	MKC US	Peter T. Galbo, CFA
	Mondelez International	MDLZ	MDLZ US	Bryan D. Spillane
	Monster Beverage Corporation	MNST	MNST US	Peter T. Galbo, CFA
	PepsiCo	PEP	PEP US	Bryan D. Spillane
	Philip Morris International	PM	PM US	Lisa K. Lewandowski
	Pilgrim's Pride Corp.	PPC	PPC US	Peter T. Galbo, CFA
	The Coca Cola Company	KO	KO US	Bryan D. Spillane
	The Procter & Gamble Company	PG	PG US	Bryan D. Spillane
NEUTRAL				
	Altria Group	MO	MO US	Lisa K. Lewandowski
	Celsius Holdings Inc	CELH	CELH US	Jonathan Keypour
	Church & Dwight	CHD	CHD US	Anna Lizzul
	Clorox	CLX	CLX US	Anna Lizzul
	Conagra Brands, Inc.	CAG	CAG US	Peter T. Galbo, CFA
	Estee Lauder Companies Inc.	EL	EL US	Bryan D. Spillane
	General Mills	GIS	GIS US	Bryan D. Spillane
	JM Smucker Company	SJM	SJM US	Peter T. Galbo, CFA
	Kellanova	K	K US	Peter T. Galbo, CFA
	Molson Coors Beverage Company	TAP	TAP US	Bryan D. Spillane
	The Duckhorn Portfolio, Inc.	NAPA	NAPA US	Peter T. Galbo, CFA

US - Consumables Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	The Hershey Company	HSY	HSY US	Bryan D. Spillane
	Utz Brands	UTZ	UTZ US	Peter T. Galbo, CFA
	WK Kellogg Co	KLG	KLG US	Peter T. Galbo, CFA

UNDERPERFORM

	Brown-Forman Corporation	BFB	BF/B US	Bryan D. Spillane
	Campbell Soup Company	CPB	CPB US	Peter T. Galbo, CFA
	Canopy Growth	YWEE	WEED CN	Lisa K. Lewandowski
	Canopy Growth	CGC	CGC US	Lisa K. Lewandowski
	Cronos Group	YCRON	CRON CN	Lisa K. Lewandowski
	Cronos Group	CRON	CRON US	Lisa K. Lewandowski
	Dole plc	DOLE	DOLE US	Bryan D. Spillane
	Herbalife Nutrition Ltd	HLF	HLF US	Anna Lizzul
	Hormel Foods Corp.	HRL	HRL US	Peter T. Galbo, CFA
	Kimberly-Clark	KMB	KMB US	Anna Lizzul
	Tyson Foods, Inc.	TSN	TSN US	Peter T. Galbo, CFA

RSTR

	The Vita Coco Company, Inc.	COCO	COCO US	Bryan D. Spillane
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iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

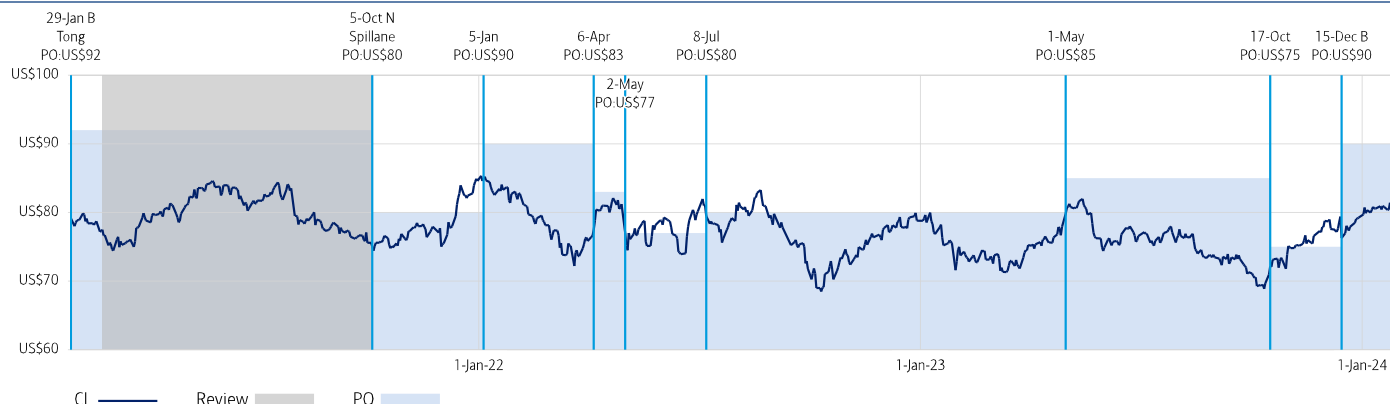
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Disclosures

Important Disclosures

Colgate-Palmolive (CL) Price Chart



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

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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