Industry Surveys

Household Products

AUGUST 2022

Arun Sundaram, CFA, CPA
Equity Analyst

Xiong Jun Goon
Industry Analyst

CONTENTS

Contacts

Sales Inquires & Client Support
800.220.0502
cservices@cfraresearch.com

Media Inquiries
press@cfraresearch.com

CFRA
977 Seminole Trail, PMB 230
Charlottesville, VA 22901

Contributors

Raymond Jarvis
Senior Editor

Atifi Kuddus, Geraldine Tan
Associate Editors

Marc Bastow
Contributing Editor

CHARTS & FIGURES

NEW THEMES

What's Changed: What are the factors that drive market share? We added the list of factors on page 11.

What's Changed: While the past two years saw strong growth in the pet industry, we expect the pet market to slow in 2022. Read more on page 18.

EXECUTIVE SUMMARY

Our 12-month fundamental outlook for the household products sub-industry is neutral. While demand has moderated from the pandemic highs, it has remained above pre-pandemic levels, which we believe will continue due to increased work-from-home adoption and other newly formed habits, including forever altered health, hygiene, and cleaning habits caused by the pandemic. We also believe pricing and productivity savings will catch up to cost inflation (e.g., higher commodities, wages, and transportation) and help strengthen margins over the next year. Our outlook is tempered by the rising U.S. dollar, which will create foreign currency translation headwinds for many household product manufacturers, as well as the impact of high U.S. inflation and low consumer sentiment on premium brands. We think we could see consumers trade down to value brands and private label over the next year, which would be a headwind for several household product manufacturers.

Consumers Continue to Face Higher Prices

While there are some signs that inflation is cooling in the U.S., prices continue to be elevated on a year-over-year basis. The Consumer Price Index (CPI), which is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumers goods and services, increased 8.5% Y/Y in July 2022. Household product companies are still in the process of implementing additional price increases, which thus far has been a net positive for sales growth, as higher price/mix has more than offset volume declines. In Q2 2022, Procter and Gamble realized 8% Y/Y growth from pricing, Colgate-Palmolive 12.5%, Kimberly-Clark 9%, and Clorox 10%. We expect strong price-related growth to continue over the next few quarters, as household product manufacturers continue benefit from prior pricing actions and start to benefit from new pricing actions.

Covid-19 Demand Tailwinds are Fading

We expect volume-related growth to be under pressure over the next year due to normalizing demand and the impact of higher prices. We are also seeing consumers trade down to value brands, including private label, as consumers increasingly exhibit price-conscious shopping behavior amid record inflation. Some companies are even facing market share losses, largely due to increased competitive activity over the past few years. For example, Clorox has lost market share in key categories, including disinfecting wipes and sprays. This is largely due to the impact of new entrants, as Covid-19 drove more companies to produce cleaning solutions.

The Stronger U.S. Dollar Creates Foreign Currency Translation Headwinds

When the U.S. dollar strengthens relative to foreign currencies, companies with international exposure may experience foreign currency translation headwinds. This is because the value of international revenues, profits, and cash flows are reduced. The U.S. Dollar Index (DXY) is a measure of the value of the U.S. dollar relative to a basket of foreign currencies. The index currently stands around 107, up about 12% since the start of the year. The household products industry has significant international exposure, meaning the strength of the U.S. dollar is creating significant foreign currency translation headwinds. The companies with the most international exposure are as follows: Colgate-Palmolive (70% of total 2021 revenues came from international markets), Procter and Gamble (56%), Kimberly-Clark (about 50%), and Clorox (16%).

CFRA **Industry Snapshot** www.cfraresearch.com

HOUSEHOLD PRODUCTS

Outlook: Neutral

MARKET CAP BREAKDOWN*

RANK NO.	COMPANY NAME	MARKET CAP ($ billion)
1	Procter & Gamble	346.8
2	Colgate-Palmolive	67.9
3	Kimberly-Clark	45.5
4	Church & Dwight	21.3
5	Clorox	17.8
	Others†	6.9

Source: CFRA, S&P Global Market Intelligence.
**Data as of August 8, 2022.*
†Refer to the "Comparative Company Analysis (CCA)" section of this survey for the list of companies.

ETF FOCUS

ETF	AUM ($M)	Expense Ratio
XLP Consumer Staples Select Sector SPDR	15,461	0.12
VDC Vanguard Consumer Staples	6,830	0.10
IYK iShares U.S. Consumer Goods	1,411	0.43
FSTA Fidelity MSCI Consumer Staples	1,058	0.08

BY THE NUMBERS

2.7% U.S. consumer packaged good (CPG) sales growth in 2021

5.0% price/mix growth for the U.S. CPG industry in 2021

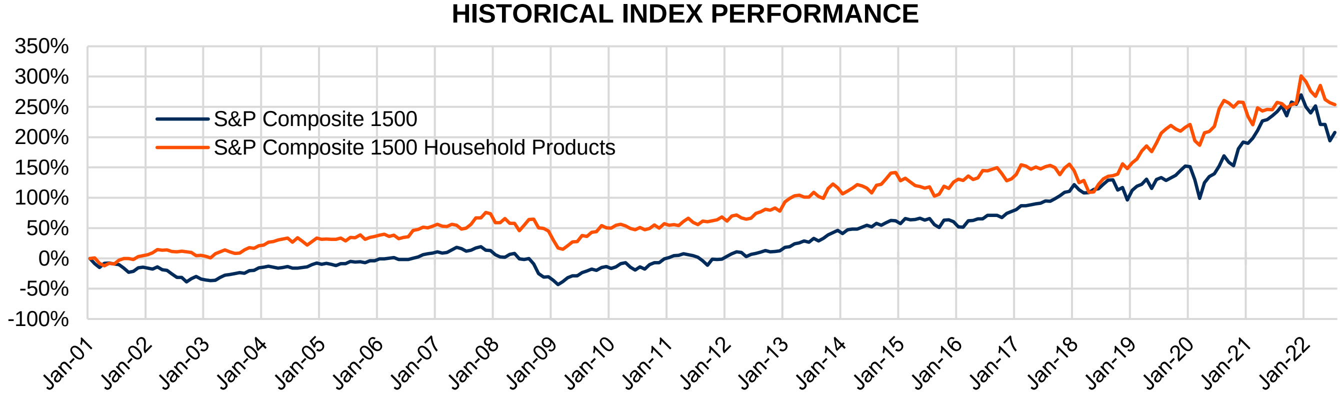
~31% two-year increase in pulp, paper, and paperboard prices as of July 2022

~50% two-year increase in plastic and resin prices as of July 2022

8.5% overall consumer price inflation as of July 2022

~12% year-to-date increase in the U.S. Dollar Index

HISTORICAL INDEX PERFORMANCE

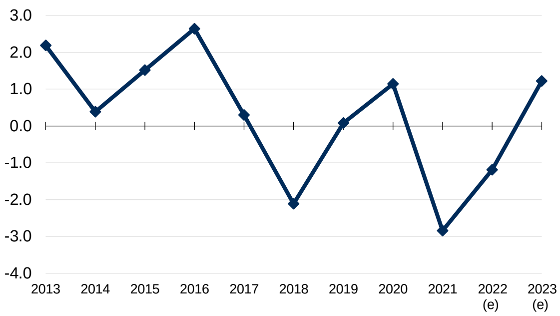


Data through August 4, 2022.
Source: CFRA, S&P Global Market Intelligence.

FINANCIAL METRICS

Gross Margin Growth

(percent change, Y/Y)

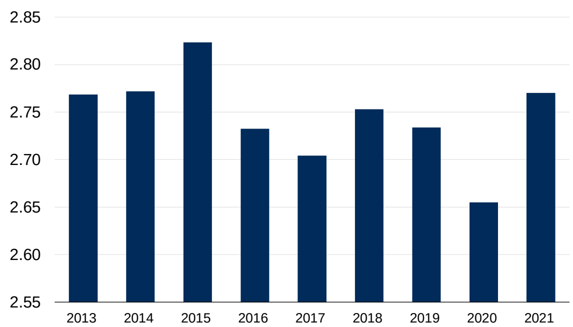


e-Estimate.
Source: CFRA, S&P Global Market Intelligence.

- The industry experienced record inflation and unprecedented supply chain challenges in 2021 and the first half of 2022, resulting in industry-wide gross margin compression.
- We're seeing strong inflation in raw material, packaging, labor, transportation, and freight. Procter & Gamble forecasts $3.3 billion of after-tax incremental cost headwinds in FY 23 (June). Kimberly-Clark expects input costs to be up between $1.4 billion and $1.6 billion in 2022.

R&D Expenditures

($, in billions)

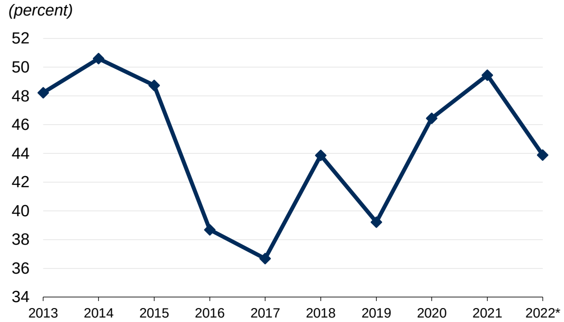


Source: CFRA, S&P Global Market Intelligence.

- R&D leads to innovation and sales growth if properly balanced with increased advertising and marketing spending. We forecast R&D expenditures remaining at elevated levels, as innovation is key to fighting off competition.
- In 2022, we think companies will seek to innovate core and adjacent products to compete against lower-priced, private label brands. Premiumization is also a strategy for boosting gross margins.

Percentage International Sales

(percent)



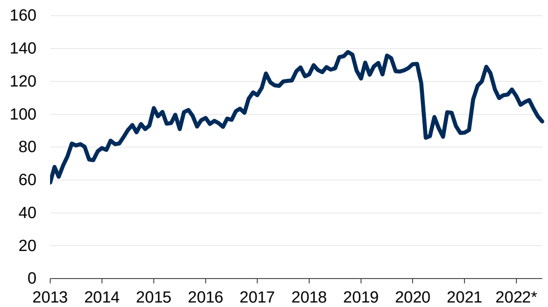
*Data based on companies listed in the CCA tables. Data through Q2.
Source: Company reports.

- International markets present a growth opportunity for household products companies due to a growing middle class and relatively low household penetration.
- Unfortunately, many international markets (particularly emerging markets) were disproportionately impacted by Covid-19, leading to weaker-than-expected international sales for many household products companies.
- We expect international sales to bounce back as we move past the pandemic, as the sub-industry hasn't taken its foot off the pedal. In fact, companies are increasing investments in these markets to capture long-term growth.

KEY INDUSTRY DRIVERS

U.S. Consumer Confidence Index (CCI)

(index, 1985=100)



*Data through July.
Source: The Conference Board.

- Consumers are no longer confident about the near future due to runaway inflation that hurts disposable income for food, fuel, and shelter costs. This is evidenced by a plunge of 41.3% Y/Y growth in the consumer sentiment index in June 2022.
- The July 26, 2022 release for the Conference Board Expectations Index dipped to 95.7 compared to 103.2 in May 2022. Headwinds came from inflation with continued price increases, and rising interest rates will put more pressure on consumers.

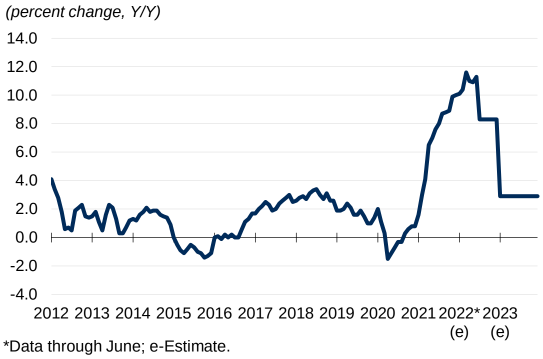
U.S. Consumer Price Index (CPI)

(percent change, Y/Y)

*Data through June; e-Estimate.
Source: Bureau of Labor Statistics, Action Economics.

- We project the CPI to end the year with an 8.2% hike from the previous year after reaching a high of 9.1% in June 2022. The CPI reached a 40-year high amid rising food and fuel prices brought on mainly by the Russia-Ukraine conflict.
- According to research firm IRI, the non-edible basket of goods constituted the highest increase in price, at 6%. Within the basket, beauty, general merchandise, and home care contributed most to the increase, at around 6%-7%.
- For more analysis regarding inflation, see "Inflation Is Here to Stay – For Now" in Industry Trends.

U.S. Producer Price Index



*Data through June; e-Estimate.
Source: U.S. Department of Labor, Action Economics.

- Covid-19, for a while, delayed the onset of inflation that is now in full force, given the confluence of high consumer demand and rising input costs with supply chain challenges.

- Raw materials and wage inflation are the leading contributors to a rise in the PPI index. In the June 2022 index, the PPI rose to 11.3%. Nearly one-third of the rise in the index for final demand was due to a 3.8% advance in food and alcohol retailing.

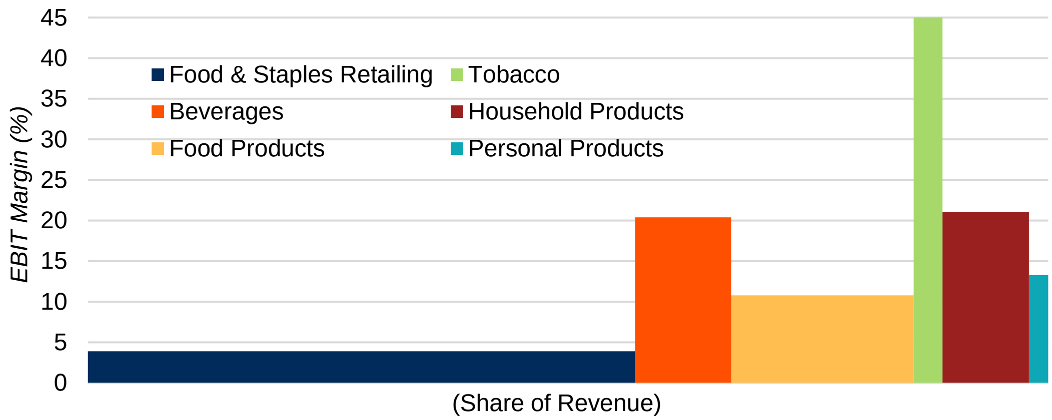
- We expect higher energy and other material costs to remain elevated amid the ongoing Russia-Ukraine conflict. In our opinion, cost-push inflation from higher salaries and wages is expected to be less transitory to inflation in 2022-2023.

INDUSTRY TRENDS

Industry Outlook and Profitability Overview
Our 12-month fundamental outlook for the household products sub-industry is neutral. While demand has moderated from the pandemic highs, it has remained above pre-pandemic levels, which we believe will continue due to increased work-from-home adoption and other newly formed habits, including forever altered health, hygiene, and cleaning habits caused by the pandemic. We also believe pricing and productivity savings will catch up to cost inflation (e.g., higher commodities, wages, and transportation) and help strengthen margins over the next year. Our outlook is tempered by the rising U.S. dollar, which will create foreign currency translation headwinds for many household product manufacturers and the impact of high U.S. inflation and low consumer sentiment on premium brands. We think we could see consumers trade down to value brands and private labels over the next year, which would be a headwind for several household product manufacturers.

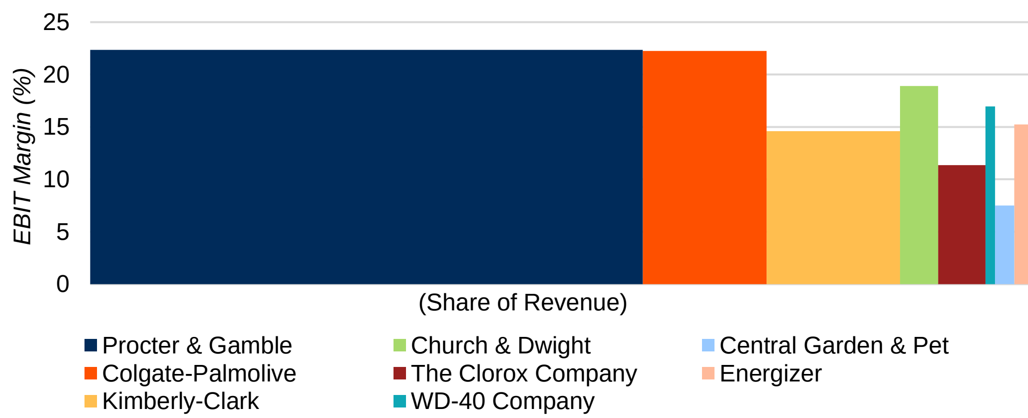
The household products industry is within the consumer staples sector. The following charts illustrate the profitability map of the consumer staples sector and household products industry.

PROFIT SHARE MAP OF THE CONSUMER STAPLES SECTOR
(2016-2021 average)



Source: CFRA, S&P Global Market Intelligence.

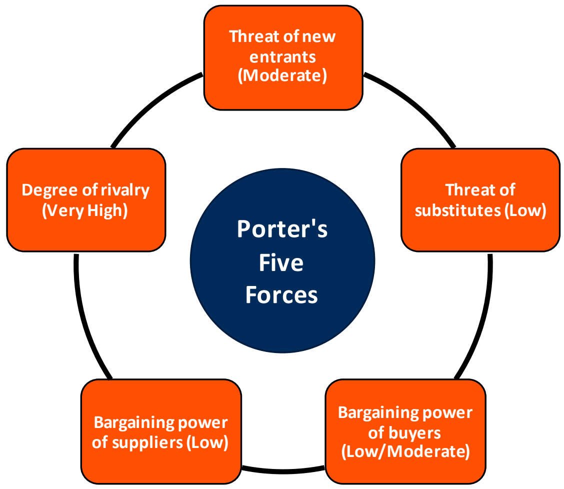
PROFIT SHARE MAP OF THE HOUSEHOLD PRODUCTS SUB-INDUSTRY
(as of year-end 2021)



Source: CFRA, S&P Global Market Intelligence.

Competitive Environment

Below, we use the Porter's Five Forces framework to analyze the competitive environment of the household products industry.



1) Threat of New Entrants (Moderate)

The industry has a moderate threat of new entrants since less time and money are required for a competitor to enter the household goods market vs. other industries. However, to be successful in this industry, economies of scale are needed to compete with large companies like Procter & Gamble. Since economies of scale and strong distribution channels are difficult to achieve immediately, we think there is a moderate force of new entrants entering the market. Refer to the "How the Big Get Bigger" paragraph within the "How the Industry Operates" section for further information.

2) Threat of Substitutes (Low)

Although the degree of competition in this industry is relatively high, there is a low threat for substitute products, in our view. For example, it is unlikely that consumers will substitute toothpaste or laundry detergent with a completely different product to clean their teeth or clothes. Consumers may choose to use other brands (further illustrating the high degree of competition); however, in our view, they will not be able to find any other relevant substitutes.

3) Bargaining Power of Buyers (Low/Moderate)

The bargaining power of the buyer deals with how much power a buyer must have to drive prices down. From the perspective of the consumer, bargaining power is low. A collective group of consumers is much more important to the industry than any individual consumer. Therefore, the client base is not strong individually but much more powerful when acting collectively. However, from the perspective of the retailer, including mass merchandisers, grocery stores, membership club stores, distributors, drug stores, etc., its bargaining power is higher than the consumer. A major reason is Walmart, a customer of most companies in this industry. Clorox, Procter & Gamble, Kimberly-Clark, Colgate-Palmolive, and Energizer have more than 10% of their sales with Walmart. As such, Walmart has the bargaining power to control prices since the retailing giant does not rely on any single supplier and is aware of the suppliers' reliance on Walmart's purchases.

4) Bargaining Power of Suppliers (Low)

Suppliers support this industry with the availability of raw and packaging materials needed for business operations. This industry has several key raw materials, including pulp, resin, natural gas, crude oil, chemicals, industrial products, and fibers. Most companies in this industry do not rely on a single supplier for raw materials; however, some unique raw materials do come from single-source suppliers. Also, most raw and packaging materials are commodities, so there is little to no way to differentiate the product. Therefore, in our view, there is low bargaining power of suppliers to control prices.

5) Degree of Rivalry/Competition (Very High)

The degree of rivalry and competition for this sub-industry is particularly high due to the number of available products offered by small and large companies, including some well-known global competitors. Switching costs are low-to-none for consumers since they can easily switch from one brand to another. In many markets, products compete against other branded products as well as retailers' private label brands. Product cannibalization is another factor to consider in the household products industry. Companies like Procter & Gamble have several brands within the same product line that compete against each other. Ideally, cannibalization hurts sales of one brand to increase the total sales of all the brands that a company owns within that product line. In our view, the degree of rivalry and competition will continue to be very high in all fast-moving consumer goods industries. Refer to the "How the Big Get Bigger" paragraph within the "How the Industry Operates" section for further information.

FACTORS THAT DRIVE MARKET SHARE

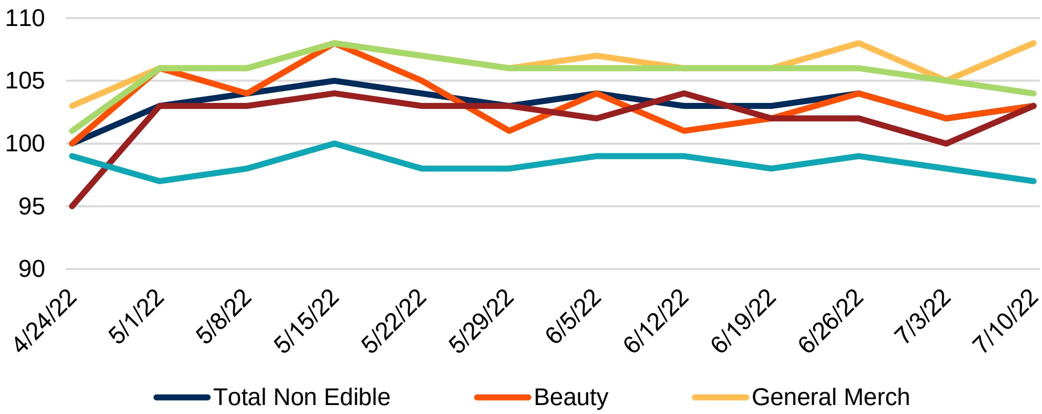
1. Innovation	How well is the company innovating? Do new products resonate with the consumer? A useful metric to analyze innovation is the percentage of sales derived from products introduced in the last few years.
2. Price	The goal is to set prices that maximize sales and profits. Common pricing strategies include: 1) cost-based pricing; 2) competitive pricing; 3) penetration pricing; 4) value-based pricing; and 5) price skimming.
3. Product Quality	Quality of product and packaging relative to the competition. Does pricing strategy match with product and packaging quality?
4. Service Levels	How well is the company meeting customer demand? Is demand outpacing supply and resulting in customer orders being put on allocation?
5. Convenience	Is the product making the life of the consumer easier? Does the product get the intended job done effectively and efficiently?
6. Brand Recognition and Loyalty	How well is the brand known? How is the brand perceived? Is there strong customer loyalty backing the brand?
7. Marketing and Distribution Effectiveness	The goal is to convince consumers to buy the product. Also, are the products located in the right channels (e.g., mass, drug store, discount store, club store, theater, vending, etc.)?
8. Promotional Activity	Is the company using an effective promotional strategy? Are promotions driving a higher return on investment?

Sales Growth Driven by Higher Prices

The IRI CPG Demand Index provides a standard metric for tracking changes in spending on consumer-packaged goods. It measures weekly changes in consumer purchases, by dollar sales, against the year-ago period across departments, including fixed and random weight products, grocery aisles, and retail formats. As seen in the figure below, inflation has lifted sales of beauty, health, and home care products. Adjusting for inflation, we believe unit sales are modestly declining versus year-ago periods. Going forward, we expect weekly sales to fluctuate based on Covid-19 trends, including the impact of potentially new variants, as well as the level of promotional activity, as promotions/discounts have been relatively muted since the start of the pandemic.

IRI WEEKLY DEMAND INDEX*

(index)



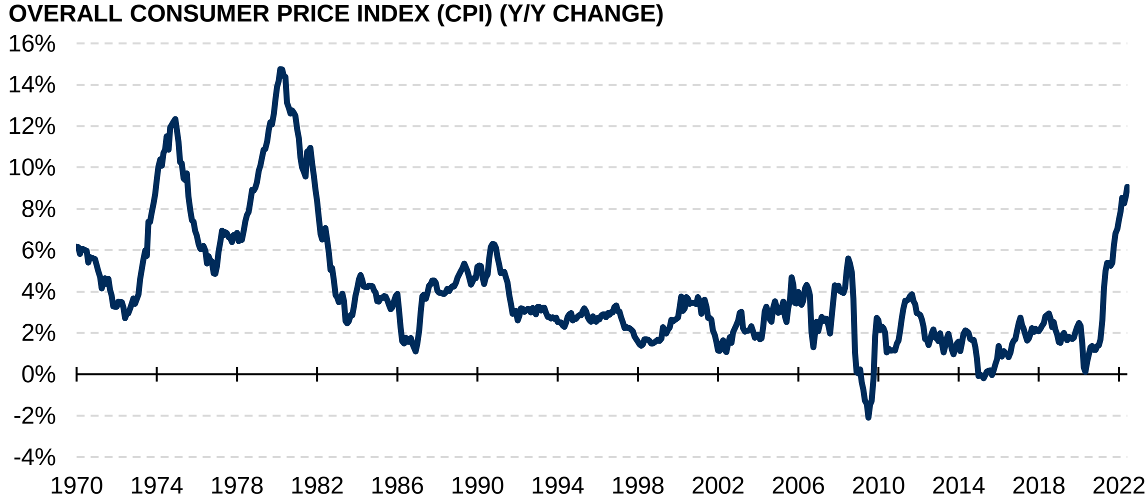
*Y/Y Change. Note: Index <100 = Decline, >100 = Growth

Source: IRI.

Inflation Is Here to Stay – For Now

We've seen persistent and pervasive inflation flood the U.S. economy for the better part of the last year. Inflation is currently at a 40-year high, forcing the Federal Reserve to become more restrictive with its monetary policy. While there has been a healthy debate on the causes of this inflationary cycle, there is no doubt that expansionary monetary and fiscal policy and supply chain bottlenecks are a few reasons for the current supply-demand imbalance.

OVERALL CONSUMER PRICE INDEX (CPI) (Y/Y CHANGE)



Note: Data through June 2022.

Source: CFRA. U.S. Bureau of Labor Statistics. (BLS)

For the household products sub-industry, most companies are facing labor pressures and higher raw material and transportation costs. For example, pulp, the main raw material used in most paper-based products like tissue paper, paper towels, diapers, etc., is a commodity with surging prices. According to the U.S. Bureau of Labor Statistics, producers paid, on average, 18% more Y/Y for pulp, paper, and allied products in June 2022. Over the past two years, pulp, paper, and allied product costs have surged approximately 30%.

Transportation costs are also surging, driven by a robust economic recovery, a shortage of truck drivers, and higher fuel expenses. According to the Cass Truckload Linehaul Index, which tracks per-mile truckload linehaul rates (ex-fuel), freight rates are up 11.6% Y/Y in June 2022. One positive for the sub-industry is modest cost inflation can typically be passed on to the customer or consumer. The downside is this inflationary cycle currently looks steeper than previous ones, suggesting that many companies might not be able to fully pass these higher costs to the consumer.

Managing Inflation

Due to accelerating cost inflation, manufacturers and retailers are implementing pricing actions and cost-saving strategies to support their margins. Generally, larger manufacturers and retailers lead when it comes to raising prices, and then the smaller manufacturers and retailers follow. CFRA anticipates household products manufacturers implementing about a 10% list price increase in 2022, which, combined with a stronger product mix, will result in about 12%-13% of positive price/mix.

In addition, we anticipate most household products companies looking to generate about 2%-3% of productivity savings, which should benefit the cost of goods sold and help support gross margins. As a result, we think household products companies will be able to manage about 14%-16% of cost inflation. Cost inflation over 14%-16% will likely result in margin deterioration unless further price increases or productivity savings are realized.

Tools to Manage Inflation

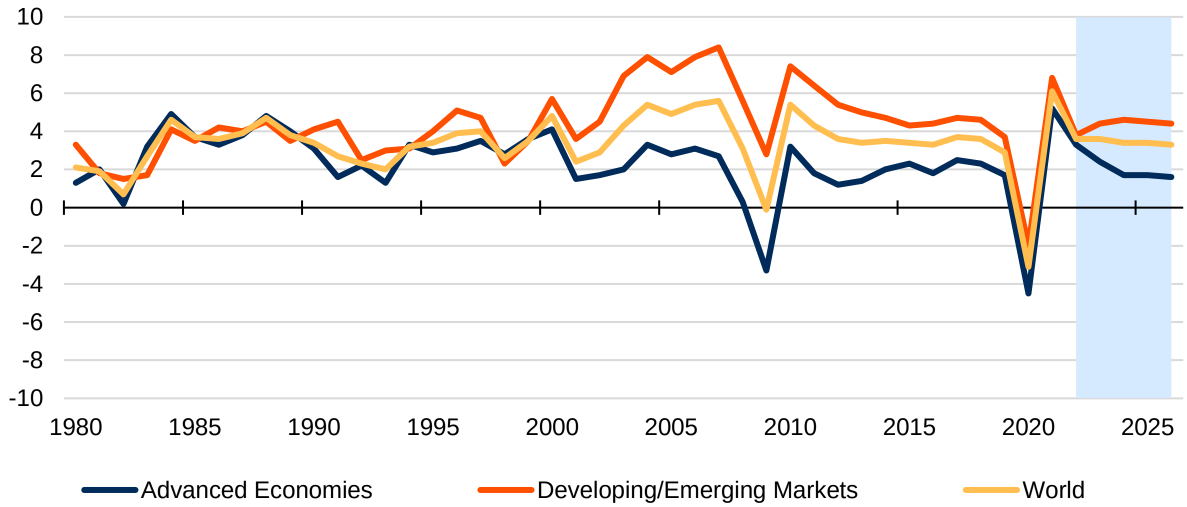
Pricing	Mix	Cost Savings	Other
List price increase	Channel mix	Productivity	Fixed cost leverage
Price-pack architecture	Brand mix	Synergies	Acquisitions
Lower promotional activity	Segment mix	Automation	Divestitures
Innovation	Product mix	Reformulating products or packaging	Hedging / Forward Contracts
	Country mix		

Operating Environment

Growth Potential in Emerging Markets

Despite widespread inflation, we still think emerging markets have much to offer. Latin America and Asia-Pacific offer the best prospects for long-term growth, in CFRA's view, although Eastern Europe is also very important for some companies, notwithstanding its proximity to the ongoing Russian-Ukraine conflict. In developing countries, social changes like urbanization and improvements in living conditions are crucial to the industry because they can increase the per-capita consumption of basic household products. GDP, disposable income, and population growth for some regions outpace the U.S. and Western Europe. We continue to see household products companies focusing on opportunities outside their home markets in 2022 and beyond.

REAL GDP GROWTH
(annual percent change)



Note: Grey area denotes projection.
Source: International Monetary Fund.

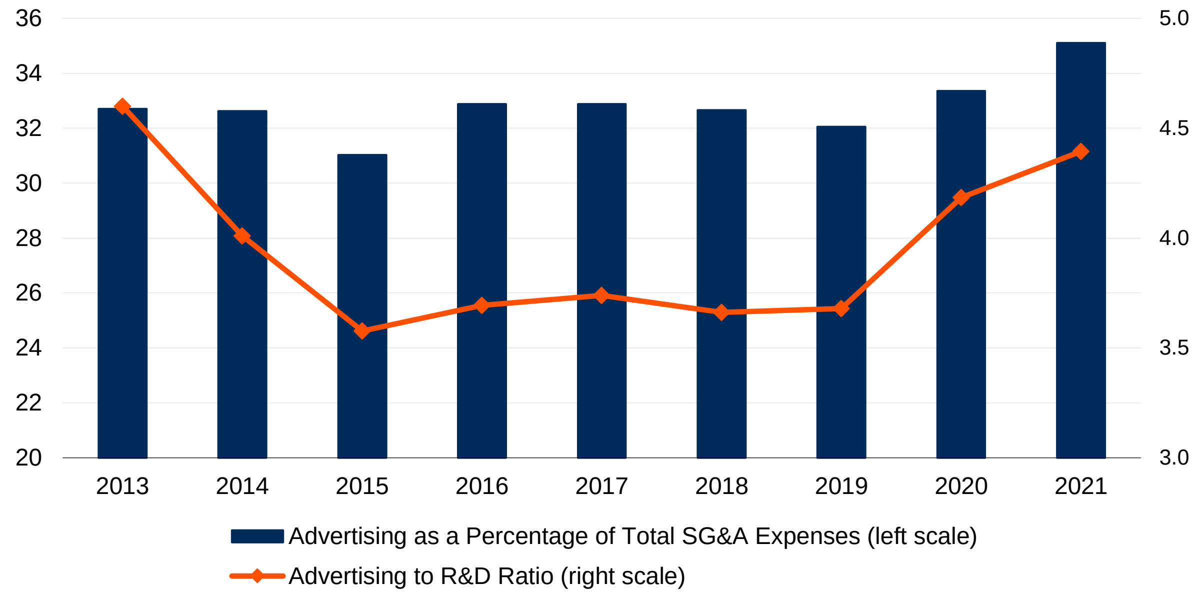
In CFRA's view, it is important for a company to enter developing markets while its brands are still in the early stages of growth. Once those brands are established, the company will likely maintain a strong position as these markets mature. However, a company that neglects its market share in industrialized nations while focusing on new growth markets will likely falter because of the long time horizon for meaningful profits in these undeveloped countries.

Advertising Is More than a Discretionary Expense

In general, CFRA does not view advertising as a discretionary expense in the household products industry. However, on a short-term basis, a company can temper advertising spending to help boost earnings. Additionally, when demand is naturally high, companies tend to cut advertising spending since the return on investment (ROI) will be limited. At the time of the Covid-19 pandemic, many companies did exactly that. Since demand far exceeded supply during the pandemic, advertising activity would have only exacerbated out-of-stock issues.

Some of the most successful companies, such as Colgate-Palmolive, have long histories of, and strategies for, improving their cost of goods sold (COGS) to generate greater resources to put into marketing.

ADVERTISING TRENDS IN THE HOUSEHOLD PRODUCTS INDUSTRY



Source: CFRA, S&P Global Market Intelligence.

Advertising remained relatively consistent as a percentage of total SG&A through 2020 (close to 33%) in contrast to the advertising-to-R&D ratio, which remained low after a huge drop in 2015. In 2021, however, that figure increased to 35% as companies ramped up advertising efforts in anticipation of the recovering economy and increased consumption. This also shows that companies had increased their advertising expenses to fend off competitors and tap into new markets rather than prioritizing R&D.

Notwithstanding, we think companies are actively looking for alternatives to cut costs (e.g., supply-chain efficiencies, headcount reduction, etc.) to offset the increase in R&D and advertising costs, as evidenced by the relatively stable total SG&A expense across the industry. In our view, this could help the industry sustain EPS growth when external factors such as cost inflation, a global economic slowdown, or geopolitical factors present plausible and potent risks for margin compression.

Digital Marketing Boom

People are spending less time with traditional television and moving to digital media. According to market research firm eMarketer, individuals aged 18 and up spend more than 52% of their daily media time on digital media (about six and a half hours per day) and only 28% of their daily total media time watching television (about three and a half hours per day). Consumers tend to actively watch digital media (i.e., less multitasking involved) instead of passively watching television (i.e., keeping the television running while preparing a meal), which is beneficial for companies looking to run ads on digital channels.

The large amount of data generated by online consumer behavior gave household products companies tremendous insight into allocating advertising spending to generate the greatest return. In the U.S., we have seen companies push personalized advertising within digital media to target younger demographics. However, companies still use television in many emerging markets to communicate with consumers.

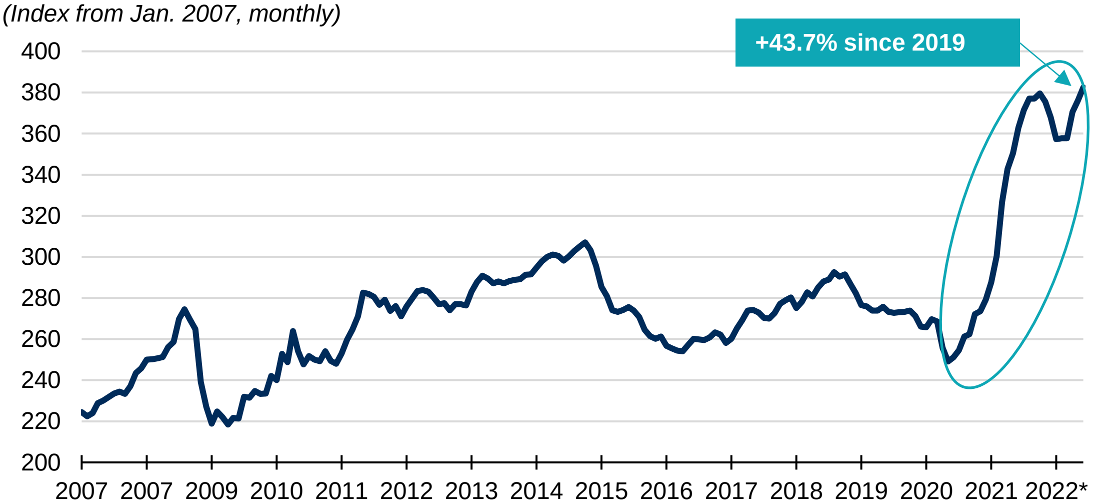
Input Costs: Pulp
Commodities linked to the household products industry include crude oil, pulp, resins, natural gas, chemicals, industrial products, and fibers. Pulp prices have been very volatile, dating back to 2017 (see chart below). Pulp prices are now in an upcycle as global demand strengthens from the Covid-19 recovery, and supplies remain tight due to supply chain constraints and increased transportation costs. Prices will likely remain elevated for the coming months as high oil prices and supply chain disruptions continue to plague the market.

PRODUCER PRICE INDEX: WOOD PULP
(Index from Jan. 2007, monthly)

Note: Data through June 2022.
Source: U.S. Bureau of Labor Statistics.

Input Costs: Plastics and Resins
Plastics and resins are also key raw materials for household products companies. As seen in the chart below, prices for plastics and resins have risen to historic highs, driven by strong global demand and tight supplies. Experts think it could take years for production capacity to catch up with demand. As a result, we expect prices to remain elevated through 2022.

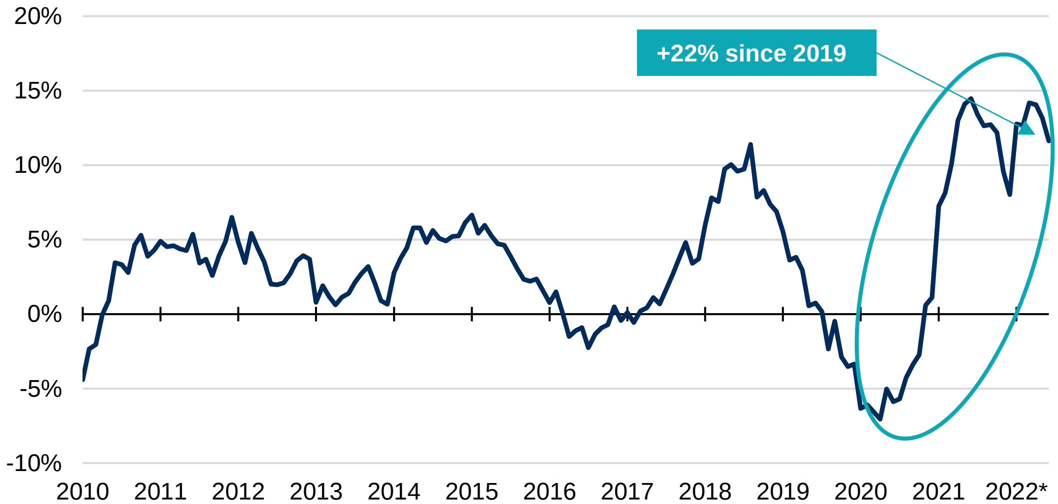
PRODUCER PRICE INDEX: PLASTIC AND RESINS MANUFACTURING
(Index from Jan. 2007, monthly)



*Data through June.
Source: U.S. Bureau of Labor Statistics.

Input Costs: Freight
Transportation costs have been soaring due to strong demand and major supply constraints in two critical components – drivers and tractors. The Cass Truckload Linehaul Index, which tracks per-mile truckload linehaul rates (independent of fuel), illustrates this trend in the chart below. The index increased 14.5% Y/Y in June 2021, the largest Y/Y increase since the data was first collected in 2005. Freight rates are still increasing Y/Y, but the growth rate has decelerated in recent months. We expect freight to remain elevated in 2022 due to continued strong demand and tight capacity. We note more freight is being moved to trucks from rails due to the port congestion on the West Coast.

CASS TRUCKLOAD LINEHAUL INDEX
(per-mile truck hauling rates - not including fuel, Y/Y change)



*Data through June.
Source: Cass Information Systems, Inc.

The Industry Is Being Transformed by New Demographic Trends
Americans are more racially and ethnically diverse than ever. Millennials now make up the largest generation of the U.S. labor force, and women now have a much larger role in the labor force than ever before. Additionally, despite a recent increase, Americans generally have fewer and fewer babies each year.

According to the Centers for Disease Control and Prevention, U.S. birth rates increased for the first time in seven years by 1% in 2021, with a recorded 3,659,289 births. However, it is important to note that birth rates had been on a downward trend, so this increase is coming off a low base figure. In comparison, birth rates fell 4% in 2020 from 2019 and were comparable to the number of births back in 1980. In 2021, the general fertility rate, which is a better metric to show national birth trends over time, also increased by 1% to 56.6 births per 1,000 women ages 15 to 44. The number was marginally higher than the historic low of 55.8 births per 1,000 women in 2020.

We think this is the outcome of several factors, including a cultural shift toward focusing on one's career over an intimate relationship and more women entering the workforce as the gender pay gap narrows (especially in leadership positions that require more time at work). Millennials completing major milestones later in life than previous generations could also be a contributing factor. Additionally, large amounts of student loan debt could make the prospect of forming a family feel more challenging until later in life. 2020 figures are also likely impacted by the Covid-19 pandemic, although this trend has occurred for several years prior to Covid-19. We see these dramatic shifts and trends as having a profound impact on the household products industry over the long term.

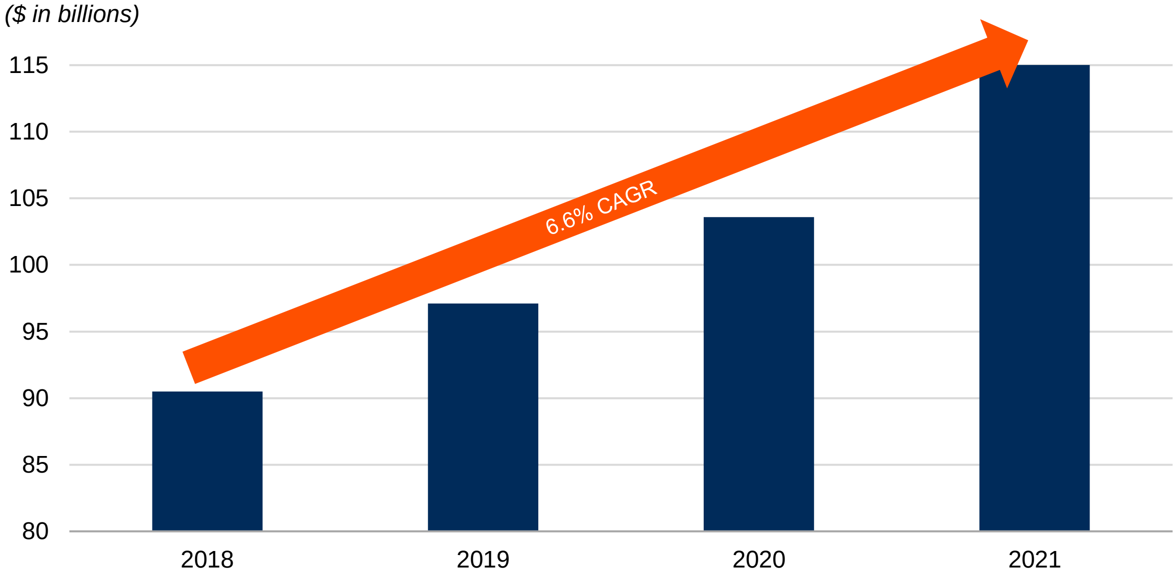
Pet Industry Growth Expected to Slow

The past two years saw strong growth in the pet industry, with pet expenditures in the country growing at an average of 8.4% CAGR. We attribute this to shelter-in-place orders across the country that saw many taking up pets as house companions. In 2022, however, CFRA expects the pet market to slow amid rising costs for both owners and pets. In fact, pet food cost 12% more in May 2022 than it did in early 2020, according to a NielsenIQ finding.

Banfield Pet Hospital, the nation's largest provider of preventive veterinary medicine, confirmed the huge boom in U.S. pet ownership for the past couple of years, sharing that 9.2% more juvenile dogs and 12.4% more juvenile cats were brought into Banfield for veterinary visits in 2020 compared to 2019. This is the first increase in the percentage of juvenile pets seen at the practice in 10 years.

TOTAL U.S. PET INDUSTRY EXPENDITURES

($ in billions)



Source: American Pet Products Association.

Household products manufacturers that participate meaningfully in the pet food market include Colgate-Palmolive with the brand Hill's Science Diet, Church & Dwight with its Arm & Hammer cat litter products, and Clorox with its Fresh Step and Scoop Away brands of cat litter. Other leading participants are primarily food companies, including General Mills (Blue Buffalo), Mars (Pedigree, Royal Canin), Nestlé (Purina), and J.M. Smucker (Rachael Ray Nutrish, Nature's Recipe, Milk-Bone).

HOW THE INDUSTRY OPERATES

Companies in the household products industry develop and manufacture a variety of everyday household items, including soaps and other detergents like laundry detergents and bleaches; polishes and sanitation goods, including waxes and trash bags; and other cleansing agents.

Consumers buy household products at a variety of venues, including retail specialty stores, department stores, mass merchandisers, supermarkets, drugstores, and online sites. Among other factors, the makers of these products compete based on brand recognition, product quality and performance, and the level of service that they provide to the wholesalers and retailers that are their customers.

Product Mix

For a household products manufacturer, product mix—the type and quantity of merchandise it sells—is a critical factor in the company's success, even its survival. Because products sometimes appear to be indistinguishable from one another, a company's main objective is to develop brands that are well recognized by consumers. The goal is to attain a leading market share in a category that has an expanding customer base.

The nature and quality of a company's product mix affects the bottom line. For instance, personal products tend to carry higher profit margins than household goods. (Consumers seem to be less willing to experiment with lower-quality toothpaste or cosmetics than with cut-rate floor cleaner or bleach.) However, a low-price product may still be quite profitable if it sells in large volumes. Therefore, it is important for a company to offer a portfolio of products with an optimal mix of low- and high-margin items.

The Power of the Brand

For most consumers, a brand is more than a name—it's a lifestyle that allows one to feel a tremendous amount of loyalty to a product or service. From a household products manufacturer's perspective, it is one of the most genius ways for a company to indirectly build subscription-type revenue for a non-subscription product or service. A strong brand fosters consumer loyalty, which in turn creates opportunity for additional market share growth and above-average pricing flexibility. A company can also leverage a strong brand name by developing product line extensions.

Having a product with a leading market share is important for several reasons. First, the higher a company's market share, the more power it will have with retailers. This helps to ensure that its products are given prime shelf space. Second, if a product is in high demand, the company will be able to produce it in large volumes, resulting in manufacturing and distribution efficiencies. Third, substantial market share translates into more sales dollars, which the company can use for additional advertising and promotional spending to support the brand further.

Within each product category that a consumer products company offers, several brand names are generally available at different price points to appeal to customers of every income level. A range of products also gives a company an advantage in manufacturing and distribution and can help increase total market share in a category.

New Products are the Key to Success

Given the maturity of the household products industry, new product development is a key driver of a company's future sales growth and a factor in determining market position. New products evolve largely through the efforts of a company's research and development (R&D) department, in conjunction with its marketing and product development division. Once new products are conceived and manufactured, they are test-marketed to determine their commercial viability.

Makers of household products try to develop new products as quickly as possible to be the first to enter the market. Once a new product has been on the market and consumers have begun to use it, competitors need to exert considerable marketing muscle to lure those customers away.

Another benefit of launching new products is that they typically carry higher profit margins than established items. Their special qualities, which manufacturers tout, are designed to appeal to a target market, and consumers are willing to spend more to obtain the real or perceived value added.

New product development, however, also carries risks. Efforts to create innovative or improved items increase development and marketing costs, and the new products might not succeed. Depending on the nature of the product, the time frame for a major manufacturer to conceive of a new product, develop and test-market it, and get it onto store shelves can be one to two years or longer. Introducing a "new and improved" version or a product line extension usually takes less time than inventing an entirely new product.

Cultivating Demand

Advertising and marketing budget play an important role in the success of a consumer product. Retaining existing customers is no easy feat but getting them to accept a completely new brand name is particularly difficult; it takes a tremendous amount of advertising to gain a potential customer's awareness. Through marketing and advertising, companies try to convey what certain brands "stand for" and to show consumers why and how these brands will meet their needs. Campaigns strive to get consumers' attention and persuade them to use a product repeatedly.

To assess the impact of advertising on their products' sales and market share, companies continuously monitor their marketing and advertising budgets. A good marketing and advertising program can help build all-important brand loyalty. Such loyalty can give the manufacturer flexibility in pricing the product and the opportunity to leverage the brand's name across several different product categories.

Value-priced products typically do not receive much in the way of advertising and marketing, because their margins are narrower than full-priced brands.

What Drives Demand?

Factors such as price, demographics, household income, and innovation are likely to affect the demand for household products and are taken into consideration by manufacturers in the R&D phase, as well as during later marketing years.

◆ **Price.** Many household products are considered necessities, so the quantity that a nation consumes tends to remain steady during periods of both recession and prosperity. However, the quality of the products purchased—as gauged by their relative prices—is directly related to real disposable personal income. A decline in disposable income puts downward pressure on consumer products prices. At such times, consumers often begin to favor lower-priced and private label goods over premium-priced brand name products.

Manufacturers offer products that target a specific range of price points. Although the bargain brands' profit margins are generally lower than those of premium brands, they help the manufacturer keep capacity utilization at higher levels and thus maintain efficiency.

◆ **Demographics.** Overall demand for consumer products is closely linked to population growth. However, as the U.S. population ages, the rate of new household formations—a major driver of consumer goods demand—decreases correspondingly. Marketers study the age range, size, and spending patterns of their various target markets. With the U.S. population expanding at an annual rate of just under 1%, the domestic market for household products is slow growing and quite mature. The prospect of limited population growth means that consumer goods companies must target existing markets very carefully in order to continue selling their products.

Manufacturers are finding more opportunities outside the U.S., in countries where populations are growing rapidly, and market penetration is lower. The U.S. Department of Commerce anticipates that the world's developing countries will continue to grow much more rapidly than developed countries. By 2050, the world population is expected to reach 9.7 billion, driven in part by growth in the 47 least developed countries, according to a 2019 report from the United Nations (U.N.). Accordingly, companies in the household products industry have made rapid expansions abroad in recent years.

◆ **Household Income.** Demand for household products is also linked directly to household income trends. As a household's income level rises, its members tend to trade up from bargain products to premium ones. In addition, they tend to add certain products to their shopping baskets that they might not ordinarily have purchased, such as a special cleaner for the bathroom rather than just an all-purpose one. However, after a certain income level is reached, income is not a major determinant of demand for consumer staples. No matter how wealthy people may be, they can use only so much soap.

◆ **Innovation.** Companies create excitement for their products by adding or emphasizing benefits like convenience or ease of use. To be able to offer a breakthrough new product is of the utmost importance.

Manufacturing

Makers of household products use a variety of raw materials in both their products and their packaging. The cost to manufacture most household products depends largely on an array of chemical prices, while packaging expenses tend to mirror price shifts in petrochemicals and paper. Most of the large global manufacturers obtain their raw materials through global suppliers. In many cases, the manufacturers' buying power ensures reasonable terms. On average, raw materials account for 70% of the cost of goods sold (COGS) for consumer products companies and almost evenly divided between ingredient and packaging costs. The remaining 30% includes labor and factory overhead expenses.

Many of the larger companies in the household products industry have separate manufacturing facilities for each of their product lines. A given facility may manufacture just one kind of product, like soap, or it may produce several items that use similar raw materials. Most products are made in computer-controlled continuous batches. Each production process follows proprietary formulas created by a company's R&D team. The entire process is highly automated—from initial ordering through manufacturing, product delivery, and billing.

As the industry has become more global, many companies have set up manufacturing operations throughout the world to help them align their product costs with their sales and/or the use of third-party manufacturers. This helps to protect profits from unfavorable currency movements and bolsters a company's competitive position against others trying to enter the market. Companies without foreign manufacturing facilities often use complex hedging strategies to protect profits from adverse currency movements.

Distribution

Once a product is manufactured, it is packaged and transferred to one of several places: a company distribution center, a customer distribution center, or a retail store. To reduce inventory levels, manufacturers and retailers have implemented computer systems that automate the flow of merchandise downstream. Through a process called continuous replenishment, manufacturers track their clients' sales real-time and replenish once an inventory reaches a certain threshold. This helps to minimize inventories for both manufacturers and retailers, while avoiding costly stock shortages.

Government Regulation Affects All Areas

Virtually all a household products manufacturer’s operations are subjected to federal laws and regulations. In the U.S., the Food and Drug Administration (FDA) regulates manufacturing, labeling, and sale of over-the-counter (OTC) drug and cosmetic products. The U.S. Environmental Protection Agency (EPA) regulates substances used in manufacturing of disinfectant products. The Consumer Product Safety Commission (CPSC) regulates labeling of household products. The Federal Trade Commission (FTC) regulates packaging and labeling of all consumer products and monitors advertising practices of consumer products companies with respect to claims made about product functionality and efficacy. Household products are also subjected to regulation by various state laws and regulatory agencies, as well as those imposed by foreign jurisdictions.

Patents and Trademarks

Before a new product is marketed, patents or trademarks are obtained on the new formula, packaging, or technology to prevent imitation. These intellectual properties are valuable as it enables the company to seek damages from a competitor if infringed.

How the Big Get Bigger

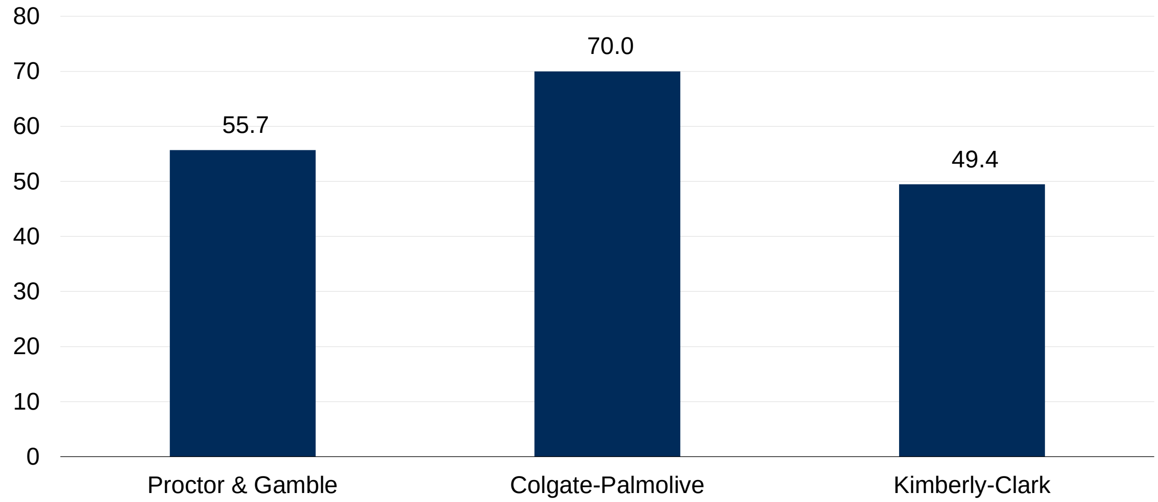
On a local level, it is relatively easy to launch a household products company because the technological skills and financial resources required are not substantial. Although costs related to marketing and distribution are potentially significant, they can be kept to a minimum if there are enough establishments within reasonable proximity where the products can be sold.

Barriers to succeed on a grander scale, however, could be very high. For starters, access to capital for a larger manufacturing facility can be prohibitive. Next, more capital would be needed for advertising and marketing needed to capture and educate a new target market. Considering the high costs of manufacturing, marketing, and distribution, it is little wonder that large corporations dominate the household products industry.

Many of the industry’s large global players began by making one simple product, and, over the years, evolving into giant manufacturing powerhouses with highly developed distribution channels. Today, large companies that want to grow typically do so via international growth, often through acquisitions or joint ventures.

International Outreach
Compared to the other industries in the consumer staples sector, the household products industry has greater exposure to international markets, which are the source of about 50% or more of sales from the three largest participants (Procter & Gamble, Colgate-Palmolive, and Kimberly-Clark) in the industry.

PERCENTAGE NET SALES OUTSIDE U.S.
(FY 21, in percent)



Source: Company Reports.

Some basic products have universal appeal, and expanding their markets worldwide is relatively easy. When trying to enter foreign markets, companies use several strategies. These include building a worldwide brand and infrastructure from scratch, acquiring local infrastructure and using it to expand their U.S. franchises, acquiring sizable existing country or regional franchises, and establishing joint ventures with local companies.

With significant international operations come a full range of risks, such as fluctuation in exchange rates for foreign currencies, limits imposed on import and export of raw materials or finished products, political & economic instability, and foreign ownership restrictions.

Several large household products manufacturers enter foreign markets via partnerships with local companies. Joint ventures allow a company to test the waters without having to create an infrastructure from scratch, which is usually a costly and lengthy endeavor. In addition, such partnerships allow companies to learn a market's customs, tastes, and regulatory issues from partners.

Once such market knowledge is established, the company could acquire its partners and expand the business through more joint ventures and/or acquisitions. However, this strategy carries certain risks. One danger, particularly in countries with less developed intellectual property rights, could be the local partner imitating the products or business process and circumventing the joint venture agreement by selling goods outside the partnership.

HOW TO ANALYZE A COMPANY IN THIS INDUSTRY

Analysis of a company in the household products industry must be based on a range of factors, both quantitative and qualitative. Quantitative evaluation comes from studying the company's income statement, balance sheet, and cash flow data, with an eye toward growth trends, comparative statistics, and performance ratios. In contrast, many qualitative factors, such as the strength of a company's management team, must be assessed subjectively.

Qualitative Factors

Assessing the Business
In the household products industry, a company's most important features are its brand names, product mix, market share, and competitive position. The firm's geographical diversification and plans for international expansion are also important. While some of these factors, such as market share statistics, can be quantified, an overall assessment of these areas is largely subjective.

Market Position and Brand Strength
Market leadership—having a brand that outsells all other similar products by a significant margin—is the big dream for consumer products companies. Dominance in a product category offers a company many benefits, including greater negotiating power with suppliers and retailers, and the potential to realize substantial economies of scale. Competitive advantages are particularly evident in areas of raw materials procurement, manufacturing efficiency, and marketing.

Market position is related to brand strength; therefore, the two characteristics should be considered together. Indeed, brand strength is best measured by how well a product sells relative to competing products. Does the company have several brands that lead its market segments?

Product Mix and Competitive Environment
Many of the large manufacturers of household products have extremely diversified product lines. Therefore, they typically face different competitors in each category.

An investor should assess how many competitors the company has in each product category and their respective market shares; whether rival products are gaining or losing market share; if the category has any private label competition; and whether the category itself is growing, declining, or stagnating.

Quantitative Factors

The first step in quantitative analysis should be to dissect the components of the income statement. To reduce seasonal factors, results should be compared with the year-earlier period. Comparing sales and earnings trends over a longer period can also be revealing. In addition, a company's results should be compared with those of its competitors.

Afterward, the cash flow and balance sheet statements should be analyzed for financial strength, changes in financial position, and other key indicators, as described below. Finally, performance ratios help to put these figures into perspective.

Components of the Income Statement
The most basic review of the income statement includes an analysis of sales, gross margins, operating margins, interest expense, and net income—the bottom line. Earnings per share (EPS) and the price-to-earnings (P/E) ratio help investors put a value on the company's stock.

◆ **Sales.** Net sales growth is a sign of health for a business. However, one needs to look at how a company's sales growth compares with that of its market, in general, and of its specific competitors. It is also important to determine what is behind any sales growth (pricing, unit volume gains, acquisitions, divestitures, etc.) and if the company is gaining market share, or if it is just riding market growth spurts.

With a rising percentage of sales made outside the U.S., overall sales figures are likely to be affected (for better or worse) by fluctuations in foreign currency exchange rates. Other factors that can affect sales figures include new product introductions, a shift in contributions from mature industrialized nations vs. emerging growth countries, and/or weak economies in a geographic market.

Watch Out! *Costs for bad debts, sales returns, obsolete inventory, and other provisions are estimated by management and recorded as either expenses or offsets to revenue (depending upon the provision). Management has discretion in calculating these estimates, and therefore has the ability to manipulate earnings, and sometimes revenues. Specifically, by under-provisioning or reversing previous provisions, management can generate artificial, and therefore unsustainable, earnings.*

Watch Out! *Companies may hide a revenue slowdown by recognizing revenue in an earlier period than originally expected. As such, the reported revenue growth during a period in which revenue has been accelerated is likely unsustainable. Some of the tactics include allocating a higher proportion of transaction price to elements delivered upfront in contracts with multiple deliverables or performance obligations, faster recognition of deferred revenue, large shipments at period-end, a change in revenue recognition policy, and a change in the interpretation of the revenue recognition policy.*

◆ **Gross profit margins.** Defined as sales minus cost of goods sold (COGS), and expressed as a percentage of sales, gross margins generally reflect a company's product mix and its operational efficiency. Often, the higher the volume a company produces and the more stable its manufacturing processes, the more efficient its operations. It is important to understand the reasons for any year-to-year changes in a company's gross margins and to compare the margins with those of other companies in the same business. Cutting prices to boost demand may temporarily increase volume and therefore sales comparisons, but gross margins may suffer.

Changes in raw materials prices, a major component of COGS, can also have a major impact on gross margins. If raw materials prices rise and a company is unable to pass on the higher costs to customers, it will have to absorb the additional costs. To lessen the impact on profit margins, manufacturers typically use their global purchasing power to seek out the least expensive raw materials prices, often buying the materials on a futures basis. Some companies maintain reserves on their balance sheets for negative swings in raw materials prices, so that a sudden increase will not adversely affect the company's results.

◆ **Operating margin.** The performance of the operating margin considers the operating expenses required to run the business. These costs include rent, advertising and promotion, research and development (R&D), and employee payrolls. The operating margin equals operating income divided by sales. Because operating expenses are generally more controllable than raw materials costs, year-to-year changes in this ratio can be used to measure how efficiently a company is running its business. Ideally, over time, a company should show declining operating expenses as a percentage of sales.

◆ **Interest expense.** The manufacturing of household products is not particularly capital intensive, so interest expense typically is not a big line item for these companies. Most interest charges are related to borrowing costs for acquisitions or share repurchases.

If interest charges show a substantial increase, the investor should ask why. For example, a major acquisition or investment in new manufacturing facilities could be a bullish sign that the company predicts increased demand for its products, or that it is expanding overseas. At the same time, increased debt leverage and the associated interest charges may crimp near-term earnings and reduce the amount of funds available for investment in the business.

◆ **Net income.** This is the bottom line. Net income measures the profits or losses of a company. An investor should be on the lookout for special items that can distort the net income figure. Special (or "extraordinary" or "nonrecurring") credits could include a profit gain from an asset sale, favorable legal settlements, or a one-time benefit from a change in accounting practices.

Special charges can result from business restructuring initiatives, losses derived from asset sales, an unfavorable legal decision, or a change in accounting practices. In recent years, many of the major U.S. companies in the household products industry incurred such charges, mostly to restructure existing operations. These charges against earnings were often taken to pay the costs of consolidating facilities, reduce excess manufacturing capacity, dispose of underperforming or nonstrategic businesses, and lay off employees.

Watch Out! *Companies record special charges for unusual or infrequent items, e.g., restructuring charges. Such charges are often excluded from non-GAAP earnings, and therefore provide dishonest management with the ability to enhance analysts' perception of its profitability through aggressive use of these special charges.*

Watch Out! *Companies in the household products industry are fixed asset intensive, making depreciation a significant expense for most of these companies. Since depreciation is based on estimates of asset lives, management can manipulate these estimates to manage earnings. Also, be wary of companies where capital expenditures consistently exceed depreciation as these companies may be understating depreciation expense or may experience an increase in depreciation expense in future periods.*

◆ **Earnings per share.** Defined as net income divided by the number of shares outstanding, earnings per share (EPS) represents the amount of profits available to each stockholder. After adjusting for special items, it is useful to look at EPS trends over the course of a few years to determine a company's underlying health. However, keep in mind that companies have some flexibility in bolstering the EPS figure. For example, a company can increase the amount of stock it repurchases, or it can temporarily trim its marketing budget.

Cash Flow Figures

Cash flow numbers show where a company is putting its earnings to work. Most of the larger U.S. companies in the household products industry generate substantial amounts of free cash that can be put to work beyond the upkeep of existing equipment. Free cash flow is often defined as net income plus depreciation and amortization minus capital expenditures and cash dividends. Free cash can be used to reduce debt; repurchase shares; make acquisitions; enter new markets; or reinvest in existing operations, automation, or technology. It is important for a company to find the optimal balance between reinvesting free cash into its business and using the cash to reward shareholders.

Looking at the Balance Sheet

It is important to examine several balance sheet ratios to assess a company's financial position and to catch early signs of possible cash flow problems. A significant drop in a company's current ratio (current assets divided by current liabilities) can signal a potential drain on the capital needed to run the business. In addition, an unusual inventory increase could lead to an asset write-down and could slow production. The rate of inventory turnover (inventory divided by the sales ratio) can reveal changes in production or inventory bottlenecks.

◆ **Debt leverage.** A company's debt leverage can be measured with either of two standard ratios: debt to shareholders' equity, or long-term debt as a percentage of total invested capital (total invested capital is the sum of stockholders' equity, long-term debt, capital lease obligations, and deferred income taxes). Investors must weigh the benefits and disadvantages of various debt levels. An increased debt load can enhance earnings growth and shareholder returns. On the other hand, a clean balance sheet allows for a greater degree of safety, a potentially higher credit rating, and ready availability of funds for any potential opportunity.

Performance Ratios

To determine how well a company uses its resources, analysts look at such ratios as return on assets (ROA), which is profits divided by average assets; and return on equity (ROE), or profits divided by average equity. High ROA and ROE ratios are generally viewed as positive signs that a company is maximizing performance.

Valuation Measures

◆ **Price-to-earnings ratio.** When valuing a company's stock, a good place to start is the basic investment ratio of stock price-to-earnings per share, the P/E ratio. This ratio (or earnings multiple) serves as a benchmark for valuing the company's stock against those of its peers, companies outside the household products industry, stock indices (such as the S&P 500), and the company's historical average earnings multiple.

Typically, the P/E ratio of a stock will be related to the company's projected growth rate, and investors generally award a higher ratio to a company that has prospects for rapid earnings growth.

◆ **Discounted cash flows.** Investors may also use discounted cash flows to help determine the intrinsic values of companies in the household products area. The intrinsic value of a company's common stock generally equals the present value of its free cash flow to equity holders. Using discounted cash flow methodologies may help avoid the pitfalls associated with relative valuation; for example, an overvalued stock may appear attractive because it is being compared with another stock that is even more overvalued.

GLOSSARY

All-new products—A category of new product development that consists of adopting new formulas based on a newly developed concept. For example, following the launch of Clorox Co.'s disinfectant wipes in 1999, Procter & Gamble Co. introduced Swiffer dry electrostatic cloths in 2000.

Breadth of brands—The number of brands carried by a company within a product classification. The brands usually have different price points. For example, P&G offers several different laundry detergents, including Tide, Gain, and Cheer.

Consumer packaged goods (CPG)—Goods that are replaced more frequently than durable goods. Examples of CPG products are batteries, cosmetics, disposable diapers, laundry detergent, toothpaste, and toilet tissue.

Fast-moving consumer good (FMCG)—Products that sold quickly and at relatively low costs such as packaged foods, household products, over-the-counter drugs, and other consumables.

Mass merchandisers—Retailers that provide a one-stop shop for groceries as well as appliances, furniture, accessories, clothing, etc.

Membership club stores—A retail store, usually selling a wide variety of merchandise, in which customers may buy large, wholesale quantities of the store's products, which makes these clubs attractive to both bargain hunters and small business owners.

Millennials—People born between 1981 and 1996.

New and improved products—A category of new product development that focuses on tweaking formulas or packaging to provide an improvement over the original product. For example, Kimberly-Clark offered Kleenex tissues in oval-shaped boxes with new patterns for a limited time.

Private label goods—A product line manufactured under contract for, and distributed exclusively by, a wholesaler/retailer.

Product cannibalization—A reduction in sales volume, sales revenue, or market share of one product as a result of the introduction of a new product by the same producer.

Product line extension—Occurs when a company adds new products in an existing product line. For example, there are different varieties of Tide laundry detergent from P&G.

Restructuring—The process of modifying a company's organizational structure, which is usually undertaken to reduce cost. Kimberly-Clark's pulp-and-tissue restructuring plan and P&G's five-year cost-reduction program are examples of restructuring efforts conducted by household products companies.

INDUSTRY REFERENCES

GOVERNMENT AGENCIES

Centers for Disease Control and Prevention (CDC)
cdc.gov
A division of the U.S. Department of Health and Human Services that provides information about dangerous health threats.

Consumer Product Safety Commission (CPSC)
cpsc.gov
Independent federal agency responsible for protecting the public against unreasonable risks and injuries associated with consumer products; sets safety standards and initiates the recall of unsafe products.

Federal Reserve Bank of St. Louis
stlouisfed.org
One of 12 regional Reserve Banks that make up the U.S. central bank.

Federal Trade Commission (FTC)
ftc.gov
Enforces federal laws and rules prohibiting unfair or deceptive practices or advertising.

U.S. Bureau of Economic Analysis (BEA)
bea.gov
An agency of the U.S. Department of Commerce (DOC) with a mission to provide accurate and relevant GDP and economic accounts data in a timely and cost-effective manner. The cornerstone of BEA's statistics is the national income and product accounts.

U.S. Bureau of Labor Statistics (BLS)
bls.gov
The federal government's principal fact-finding agency for labor economics and statistics; a division of the U.S. Department of Labor.

U.S. Census Bureau
census.gov
A division of the U.S. Department of Commerce (DOC); collects U.S. population and economic data.

U.S. Department of Commerce (DOC)
commerce.gov
This cabinet-level department's mission is to ensure and enhance economic opportunity for Americans by working with businesses and communities to promote economic growth.

U.S. Energy Information Administration (EIA)
eia.gov
Statistical and analytical agency within the U.S. Department of Energy; collects, analyzes, and disseminates independent and impartial energy information.

U.S. Environmental Protection Agency (EPA)
epa.gov
Federal agency tasked with the protection of human health and the environment. Among other responsibilities, the agency regulates the substances used in the manufacturing of disinfectant products.

U.S. Food and Drug Administration (FDA)
fda.gov
This division of the U.S. Department of Health and Human Services (HHS) is responsible for supervising the food and pharmaceutical industries.

OTHER SOURCES OF INFORMATION

Brookings Institution
brookings.edu
An American research group that conducts research and education in the social sciences, primarily in economics, metropolitan policy, governance, foreign policy, and global economic development.

Cass Information Systems
cassinfo.com
A business intelligence expert that provides services for process improvement and savings.

eMarketer
emarketer.com
Market research company that provides insights and trends related to digital marketing, media, and commerce.

The International Monetary Fund (IMF)
imf.org
Group of 189 countries working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.

IRI
iriworldwide.com
Provides integrated big data, predictive analytics, and forward-looking insights to help fast moving consumer goods, over-the-counter health care, retail, and media companies personalize their marketing and grow their business.

Nielsen
nielsen.com
Provides media and marketing information, analytics, and manufacturer and retailer expertise about what and where consumers buy, read, watch, and listen. A leading provider of TV audience measurement services.

COMPARATIVE COMPANY ANALYSIS

			Operating Revenues																
			Million $							CAGR(%)			Index Basis (2011=100)						
Ticker	Company	Yr. End	2021	2020	2019	2018	2017	2016	2015	10-Yr.	5-Yr.	1-Yr.	2021	2020	2019	2018	2017	2016
HOUSEHOLD PRODUCTS																		
CENT	§ CENTRAL GARDEN & PET COMPANY	SEP	3,303.7	2,695.5	2,383.0	2,215.4	2,054.5	1,829.0	1,650.7	7.3	12.6	22.6	200	163	144	134	124	111
CENT.A	§ CENTRAL GARDEN & PET COMPANY	SEP	3,303.7	2,695.5	2,383.0	2,215.4	2,054.5	1,829.0	1,650.7	7.3	12.6	22.6	200	163	144	134	124	111
CHD	[] CHURCH & DWIGHT CO., INC.	DEC	5,190.1	4,895.8	4,357.7	4,145.9	3,776.2	3,493.1	3,394.8	6.6	8.2	6.0	153	144	128	122	111	103
CL	[] COLGATE-PALMOLIVE COMPANY	DEC	17,421.0	16,471.0	15,693.0	15,544.0	15,454.0	15,195.0	16,034.0	0.4	2.8	5.8	109	103	98	97	96	95
ENR	† ENERGIZER HOLDINGS, INC.	SEP	3,021.5	2,744.8	2,494.5	1,797.7	1,755.7	1,634.2	1,631.6	NA	13.1	10.1	185	168	153	110	108	100
KMB	[] KIMBERLY-CLARK CORPORATION	DEC	19,440.0	19,140.0	18,450.0	18,486.0	18,348.0	18,287.0	18,591.0	(0.7)	1.2	1.6	105	103	99	99	99	98
CLX	[] THE CLOROX COMPANY	JUN	7,341.0	6,721.0	6,214.0	6,124.0	5,973.0	5,761.0	5,655.0	3.4	5.0	9.2	130	119	110	108	106	102
PG	[] THE PROCTER & GAMBLE COMPANY	JUN	76,118.0	70,950.0	67,684.0	66,832.0	65,058.0	65,299.0	70,749.0	(0.6)	3.1	7.3	108	100	96	94	92	92
WDFC	§ WD-40 COMPANY	AUG	488.1	408.5	423.4	408.5	380.5	380.7	378.2	3.8	5.1	19.5	129	108	112	108	101	101

Note: Data as originally reported. CAGR-Compound annual growth rate. []Company included in the S&P 500. †Company included in the S&P MidCap 400. §Company included in the S&P SmallCap 600. #Of the following calendar year.
Souce: S&P Capital IQ.

			Net Income																
			Million $							CAGR(%)			Index Basis (2011=100)						
Ticker	Company	Yr. End	2021	2020	2019	2018	2017	2016	2015	10-Yr.	5-Yr.	1-Yr.	2021	2020	2019	2018	2017	2016
HOUSEHOLD PRODUCTS																		
CENT	§ CENTRAL GARDEN & PET COMPANY	SEP	151.7	120.7	92.8	123.6	78.8	44.5	32.0	18.3	27.8	25.7	475	377	290	387	247	139
CENT.A	§ CENTRAL GARDEN & PET COMPANY	SEP	151.7	120.7	92.8	123.6	78.8	44.5	32.0	18.3	27.8	25.7	475	377	290	387	247	139
CHD	[] CHURCH & DWIGHT CO., INC.	DEC	827.5	785.9	615.9	568.6	743.4	459.0	410.4	10.3	12.5	5.3	202	191	150	139	181	112
CL	[] COLGATE-PALMOLIVE COMPANY	DEC	2,166.0	2,695.0	2,367.0	2,400.0	2,024.0	2,441.0	1,384.0	(1.1)	(2.4)	(19.6)	157	195	171	173	146	176
ENR	† ENERGIZER HOLDINGS, INC.	SEP	160.9	(93.3)	51.1	93.5	201.5	127.7	(4.0)	NA	4.7	NM	NM	2,333	NM	NM	NM	NM
KMB	[] KIMBERLY-CLARK CORPORATION	DEC	1,814.0	2,352.0	2,157.0	1,410.0	2,278.0	2,166.0	1,013.0	1.3	(3.5)	(22.9)	179	232	213	139	225	214
CLX	[] THE CLOROX COMPANY	JUN	710.0	939.0	820.0	823.0	701.0	648.0	580.0	2.5	1.8	(24.4)	122	162	141	142	121	112
PG	[] THE PROCTER & GAMBLE COMPANY	JUN	14,306.0	13,027.0	3,897.0	9,750.0	15,326.0	10,508.0	7,036.0	1.9	6.4	9.8	203	185	55	139	218	149
WDFC	§ WD-40 COMPANY	AUG	70.2	60.7	55.9	65.2	52.9	52.6	44.8	6.8	5.9	15.7	157	135	125	146	118	117

Note: Data as originally reported. CAGR-Compound annual growth rate. []Company included in the S&P 500. †Company included in the S&P MidCap 400. §Company included in the S&P SmallCap 600. #Of the following calendar year
Souce: S&P Capital IQ.

			Return on Revenues (%)						Return on Assets (%)						Return on Equity(%)					
Ticker	Company	Yr. End	2021	2020	2019	2018	2017	2016	2021	2020	2019	2018	2017	2016	2021	2020	2019	2018	2017	2016
HOUSEHOLD PRODUCTS																				
CENT	§ CENTRAL GARDEN & PET COMPANY	SEP	4.6	4.5	3.9	5.6	3.8	2.4	4.9	5.2	4.6	6.5	6.0	3.8	13.3	11.7	9.5	15.6	13.4	8.6
CENT.A	§ CENTRAL GARDEN & PET COMPANY	SEP	4.6	4.5	3.9	5.6	3.8	2.4	4.9	5.2	4.6	6.5	6.0	3.8	13.3	11.7	9.5	15.6	13.4	8.6
CHD	[] CHURCH & DWIGHT CO., INC.	DEC	15.9	16.1	14.1	13.7	19.7	13.1	10.3	10.6	9.3	9.4	12.4	10.5	26.5	27.6	24.1	24.3	35.4	22.9
CL	[] COLGATE-PALMOLIVE COMPANY	DEC	12.4	16.4	15.1	15.4	13.1	16.1	14.4	16.9	15.7	19.7	16.0	20.1	225.7	344.8	669.4	1,162.7	1,672.3	NM
ENR	† ENERGIZER HOLDINGS, INC.	SEP	5.3	NM	2.0	5.2	11.5	7.8	3.2	NM	0.9	2.9	11.0	7.4	48.4	11.0	22.8	170.6	731.4	NM
KMB	[] KIMBERLY-CLARK CORPORATION	DEC	9.3	12.3	11.7	7.6	12.4	11.8	10.2	13.4	14.1	9.7	15.0	14.8	229.6	450.8	2,968.9	345.7	464.3	2,826.8
CLX	[] THE CLOROX COMPANY	JUN	9.7	14.0	13.2	13.4	11.7	11.2	11.2	15.1	16.0	16.3	15.3	14.4	95.9	128.0	127.6	129.8	167.6	312.3
PG	[] THE PROCTER & GAMBLE COMPANY	JUN	18.8	18.4	5.8	14.6	23.6	16.1	12.0	10.8	3.4	8.2	12.7	8.3	30.7	27.7	7.9	18.2	17.9	16.6
WDFC	§ WD-40 COMPANY	AUG	14.4	14.9	13.2	16.0	13.9	13.8	16.3	16.7	18.5	20.6	14.3	15.5	38.9	39.7	37.2	44.2	37.8	35.3

Note: Data as originally reported. CAGR-Compound annual growth rate. []Company included in the S&P 500. †Company included in the S&P MidCap 400. §Company included in the S&P SmallCap 600. #Of the following calendar year.
Souce: S&P Capital IQ.

Ticker	Company	Yr. End	Current Ratio 2021	2020	2019	2018	2017	2016	Debt/Capital Ratio(%) 2021	2020	2019	2018	2017	2016	Debt as a % of Net Working Capital 2021	2020	2019	2018	2017	2016
HOUSEHOLD PRODUCTS																				
CENT	§ CENTRAL GARDEN & PET COMPANY	SEP	3.0	3.5	4.7	5.7	3.1	3.4	49.2	39.2	41.0	42.1	38.3	41.6	116.0	63.9	67.4	68.9	85.4	82.1
CENT.A	§ CENTRAL GARDEN & PET COMPANY	SEP	3.0	3.5	4.7	5.7	3.1	3.4	49.2	39.2	41.0	42.1	38.3	41.6	116.0	63.9	67.4	68.9	85.4	82.1
CHD	[] CHURCH & DWIGHT CO., INC.	DEC	0.6	0.8	0.9	0.8	1.1	0.8	38.5	44.8	46.4	38.2	54.9	41.9	NM	NM	NM	NM	3641.6	NM
CL	[] COLGATE-PALMOLIVE COMPANY	DEC	1.1	1.0	1.0	1.1	1.4	1.3	88.6	90.0	96.2	97.2	96.6	99.9	2083.8	NM	5370.9	1410.2	534.8	632.4
ENR	† ENERGIZER HOLDINGS, INC.	SEP	1.5	1.3	1.9	1.6	1.8	1.7	93.1	91.5	87.1	122.3	101.8	109.2	688.8	580.7	356.3	291.4	247.1	291.6
KMB	[] KIMBERLY-CLARK CORPORATION	DEC	0.8	0.8	0.7	0.8	0.9	0.9	92.9	92.5	109.0	108.6	95.5	100.8	NM	NM	NM	NM	NM	NM
CLX	[] THE CLOROX COMPANY	JUN	0.9	1.4	0.9	1.1	0.8	1.0	80.8	75.4	94.3	82.5	92.9	110.8	NM	461.8	NM	2236.9	NM	NM
PG	[] THE PROCTER & GAMBLE COMPANY	JUN	0.7	0.8	0.7	0.8	0.9	1.1	40.7	45.7	39.3	40.0	40.5	36.2	NM	NM	NM	NM	NM	924.2
WDFC	§ WD-40 COMPANY	AUG	2.8	3.1	2.0	2.0	3.0	3.6	36.5	41.4	39.2	39.2	56.3	46.5	74.0	90.5	109.8	104.3	103.1	80.9

Note: Data as originally reported. CAGR-Compound annual grow th rate. []Company included in the S&P 500. †Company included in the S&P MidCap 400. §Company included in the S&P SmallCap 600. #Of the follow ing calendar year.
Souce: S&P Capital IQ.

Ticker	Company	Yr. End	Price/Earnings Ratio (High-Low) 2021	2020	2019	2018	2017	2016	Dividend Payout Ratio(%) 2021	2020	2019	2018	2017	2016	Dividend Yield(High-Low, %) 2021	2020	2019	2018	2017	2016
HOUSEHOLD PRODUCTS																				
CENT	§ CENTRAL GARDEN & PET COMPANY	SEP	21 - 13	20 - 11	25 - 14	19 - 15	25 - 15	30 - 13	0	0	0	0	0	0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0
CENT.A	§ CENTRAL GARDEN & PET COMPANY	SEP	21 - 13	20 - 11	25 - 14	19 - 15	25 - 15	30 - 13	0	0	0	0	0	0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0
CHD	[] CHURCH & DWIGHT CO., INC.	DEC	30 - 23	31 - 19	32 - 24	30 - 20	18 - 15	29 - 22	30	30	36	38	26	40	1.3 - 1.0	1.3 - 1.1	1.6 - 1.0	1.5 - 1.1	1.9 - 1.3	1.8 - 1.4
CL	[] COLGATE-PALMOLIVE COMPANY	DEC	33 - 29	27 - 19	27 - 21	28 - 21	34 - 28	27 - 23	78	56	62	60	69	57	2.6 - 2.1	2.4 - 2.0	2.9 - 2.0	2.9 - 2.3	2.9 - 2.1	2.4 - 2.1
ENR	† ENERGIZER HOLDINGS, INC.	SEP	24 - 18	NM - NM	105 - 57	42 - 27	18 - 13	25 - 15	62	NM	178	75	34	49	4.6 - 2.9	3.1 - 2.4	4.4 - 2.3	3.6 - 1.8	2.6 - 1.8	2.7 - 1.8
KMB	[] KIMBERLY-CLARK CORPORATION	DEC	26 - 24	23 - 16	23 - 17	30 - 24	21 - 17	23 - 19	84	62	65	98	60	61	3.9 - 3.2	3.6 - 3.0	3.8 - 2.7	3.8 - 2.9	4.1 - 3.2	3.5 - 2.9
CLX	[] THE CLOROX COMPANY	JUN	42 - 31	29 - 19	26 - 20	24 - 18	26 - 21	27 - 21	79	57	60	55	59	61	3.6 - 2.5	2.5 - 1.9	2.9 - 2.0	3.2 - 2.3	3.3 - 2.2	2.9 - 2.3
PG	[] THE PROCTER & GAMBLE COMPANY	JUN	25 - 21	25 - 19	77 - 54	25 - 19	16 - 14	22 - 18	58	60	192	75	47	71	2.6 - 2.1	2.7 - 2.2	3.1 - 2.3	3.9 - 2.7	4.0 - 2.9	3.3 - 2.9
WDFC	§ WD-40 COMPANY	AUG	65 - 37	47 - 35	46 - 37	38 - 23	32 - 27	34 - 23	54	59	59	45	51	45	1.9 - 1.2	1.4 - 0.8	1.7 - 1.2	1.6 - 1.2	1.9 - 1.3	1.9 - 1.4

Note: Data as originally reported. CAGR-Compound annual grow th rate. []Company included in the S&P 500. †Company included in the S&P MidCap 400. §Company included in the S&P SmallCap 600. #Of the follow ing calendar year.
Souce: S&P Capital IQ.

Ticker	Company	Yr. End	Earnings per Share($) 2021	2020	2019	2018	2017	2016	Tangible Book Value per Share($) 2021	2020	2019	2018	2017	2016	Share Price (High-Low, $) 2021	2020	2019	2018	2017	2016
HOUSEHOLD PRODUCTS																				
CENT	§ CENTRAL GARDEN & PET COMPANY	SEP	2.75	2.20	1.61	2.32	1.52	0.87	13.01	11.90	10.04	8.99	5.08	4.42	62.91 - 38.35	44.80 - 23.82	40.59 - 22.40	45.02 - 29.81	42.29 - 29.08	34.49 - 11.67
CENT.A	§ CENTRAL GARDEN & PET COMPANY	SEP	2.75	2.20	1.61	2.32	1.52	0.87	13.01	11.90	10.04	8.99	5.08	4.42	62.91 - 38.35	44.80 - 23.82	40.59 - 22.40	45.02 - 29.81	42.29 - 29.08	34.49 - 11.67
CHD	[] CHURCH & DWIGHT CO., INC.	DEC	3.32	3.12	2.44	2.27	2.90	1.75	(10.45)	(9.45)	(8.81)	(7.34)	(8.32)	(3.54)	103.00 - 77.62	98.96 - 47.98	80.99 - 59.64	69.49 - 44.87	54.18 - 43.21	53.68 - 38.43
CL	[] COLGATE-PALMOLIVE COMPANY	DEC	2.55	3.14	2.75	2.75	2.28	2.72	(6.11)	(7.03)	(7.09)	(4.95)	(4.14)	(4.15)	85.56 - 74.01	86.41 - 58.49	76.41 - 58.62	77.91 - 57.41	77.27 - 63.43	75.38 - 61.40
ENR	† ENERGIZER HOLDINGS, INC.	SEP	2.11	(1.58)	0.58	1.52	3.22	2.04	(38.43)	(38.18)	(35.12)	(7.59)	(6.07)	(8.02)	52.85 - 36.14	53.84 - 26.60	53.03 - 32.54	65.57 - 42.74	60.07 - 40.64	53.41 - 28.86
KMB	[] KIMBERLY-CLARK CORPORATION	DEC	5.35	6.87	6.24	4.03	6.40	5.99	(6.34)	(6.20)	(4.48)	(5.10)	(2.70)	(4.44)	143.37 - 125.27	160.16 - 110.66	143.50 - 107.44	123.50 - 97.10	136.21 - 109.67	138.87 - 111.30
CLX	[] THE CLOROX COMPANY	JUN	5.58	7.36	6.32	6.26	5.33	4.92	(16.96)	(12.39)	(15.47)	(14.10)	(10.67)	(12.64)	231.11 - 156.23	239.87 - 150.95	166.90 - 143.58	167.70 - 113.57	150.40 - 118.41	140.47 - 111.24
PG	[] THE PROCTER & GAMBLE COMPANY	JUN	5.50	4.96	1.43	3.67	5.59	3.69	(7.84)	(7.29)	(7.27)	(7.11)	(5.76)	(4.71)	164.98 - 121.54	146.92 - 94.34	126.60 - 89.08	96.90 - 70.73	94.67 - 83.24	90.33 - 74.46
WDFC	§ WD-40 COMPANY	AUG	5.09	4.40	4.02	4.64	3.72	3.64	7.10	4.09	2.88	3.35	1.97	1.80	333.42 - 207.11	272.59 - 151.16	199.48 - 153.91	187.50 - 115.55	122.65 - 100.60	125.00 - 94.00

Note: Data as originally reported. CAGR-Compound annual grow th rate. []Company included in the S&P 500. †Company included in the S&P MidCap 400. §Company included in the S&P SmallCap 600. #Of the follow ing calendar year.
Souce: S&P Capital IQ.

Disclosure