

# **Colgate-Palmolive Company (CL) Annual Evercore ISI Consumer and Retail Conference (Transcript)**

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**Body**

Colgate-Palmolive Company (CL)

Annual Evercore ISI Consumer and Retail Conference

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Company Participants

John Faucher - Chief Investor Relations Officer & M&A

Conference Call Participants

Robert Ottenstein - Evercore ISI

Presentation

Robert Ottenstein

Good afternoon, and good evening for our friends in Europe. Very happy to have John Faucher from Colgate today. John heads up both Investor Relations and M&A. Lot to cover, so we'll go right into it.

So John, so far, it's been a great year for Colgate. You guys have been delivering on what you promised over the last few years. As you stand back right now and kind of go back to where things were and what you were looking at in January, what has developed better than expected over the last six months? And what has been perhaps a little bit more challenging?

Question-and-Answer Session

A - John Faucher

Sure. So first off, Robert, thanks for having us. Always nice to join you here at this event, and thanks to everyone who's watching today. Look, I think as we look at the environment and a little more focused on sort of the first quarter as opposed to what's going on in the second quarter, I think what we're seeing is just a very constructive operating environment around the world.

We've been able to continue to get some pricing whether that is some carryover pricing on some of our developed markets businesses from last year, some incremental pricing related to inflation in sort of emerging markets and then also on Hill's. And then we have seen some additional inflation related to hyperinflationary markets. That has been very constructive. On top of that, we did see a return to reported volume growth in the first quarter and that includes -- so we delivered volume growth of 1.3%, which includes some headwind from lower private label volumes at Hill's.

So I think that balance that we're seeing on the business, right, where it's demand is coming back after a couple of years of heavy pricing, the ability to still deliver value to consumers despite getting some pricing in through relaunches, through innovation, what have you. And then as we talked about at CAGNY, Diana Schildhouse, our Head of Data and Analytics presented we're still seeing great response to the investment we're making behind our brands in terms of improvements in ROI, behind advertising, et cetera.

So I think the market seems very conducive to the type of strategy we have, which is really investing behind the businesses to drive balanced top line growth and then turning that into consistent compounded earnings per share growth and then top-tier TSR. So I think as people talk about sort of as a flywheel, that seems to be working right now.

Robert Ottenstein

Great. And in terms of that constructive environment, has that largely followed through into kind of May, April, May, June?

John Faucher

I mean I have to be a little bit careful, right, because we talked specifically about the business. Look, I think as you look at whether it's the reported data or whether it's commentary you're hearing from our retail partners like Chewy, I think what you see is, again, sort of a constructive view in terms of how markets are going.

I think if you look at Noel's commentary last week when he spoke in an event, I think he was relatively positive in terms of the fundamentals of the business. So I'd say, we continue to be focused on delivering against our plans. And I'd say the environment continues to remain, again, conducive to the strategy that we have in place.

Robert Ottenstein

Great. And then just focusing quickly on Mexico and Brazil, both super strong markets for you, great market positions and have been very vibrant recently. You've got -- you've had an election in Mexico. Brazil can always be a little volatile. What can you tell us about the outlook there for the second half of the year, maybe in terms of market initiatives new products and strategy, any different changes in terms of how you're addressing those markets to give investors some confidence that the momentum can continue.

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John Faucher

Look, I'm going to talk less about the back half of the year and more about the plans that we have in place and how they're working. So as we look at this, we feel very good about the strength of the Latin American business broadly. And I think you can see that in the reported results that we've delivered really coming up on two years now. And the key for us in Latin America was we took pricing early, right?

We've got great brands with big market shares in key categories. So when raw materials really went up in 2022, we led on pricing, which is what we tend to do in those markets. We restored the gross margin which allowed us to invest back in the business. And now you're seeing that pay off in terms of balanced growth, both volume and pricing, right?

And so Latin America, along with Africa, Eurasia was really the first division to get back to volume growth in the middle of 2023, it was also one of the first divisions, again, to get back to gross profit growth, so we've been able to deliver that great balance, right, volume, pricing, profit growth. We see that continuing into 2024. We've seen market share strength in these markets. We've seen overall category growth.

You're getting a nice level of underlying inflation as the economies are growing and as wages continue to rise, so that's allowed us to continue to get some pricing. And we're investing very nicely back into the business. We have high market shares in those markets, right? So toothpaste market share is up around 80 in Mexico and in the low 70s in Brazil, with very high share of market. So when we really ramp up the investing we're doing off of a high base, which gives us a really strong competitive advantage.

As we look out towards the balance of the year, obviously, you've seen a little bit of currency volatility, particularly on the peso since the election. Still early days there. We'll see what happens. We're obviously watching it closely. We have a history of, as you well know, Robert, of dealing with currency in a way where we drive value shorter and longer term, and we're focused on doing the right things for the business.

But on an underlying basis, we feel really good about Latin America broadly, right? So those are two big Latin American businesses, but we've got a lot of big Latin American businesses. We have Colombia, which is working very well for us right now. And then we've got other great markets there, Central America, the Caribbean, what have you. Latin America right now is working very well across the entire division.

Robert Ottenstein

Terrific. I want to shift over both to two brands that we're hearing more about than we did in the past, elmex and meridol. Maybe for those who are not as familiar, maybe tell us a little bit of what those brands are. You've had them for a while. Why are we only hearing about them more recently and their great success has been in Europe. You've talked about some significant market share gains there. What have you learned from that? And can you take elmex and meridol around the world?

John Faucher

Sure. So I will tell you, you talked about how we've had them for a while. In my old job when I used to cover Colgate, that picked up coverage in late 2003, and the GABA acquisition happened right about that time. this is an acquisition that we had worked on for years, and years, and years. Two phenomenal therapeutic brands in Europe, meridol in the gum side and then elmex on both cavity and sensitivity.

And so, why are you hearing more about them now? I think you're seeing -- let me go back five years ago to when Noel first presented at CAGNY. And he talked about a strategy of core adjacencies, faster growth markets and channels. And what that really has allowed us to do over the last five years has been to -- again, we invest in core [indiscernible] on Oral Care core is predominantly Colgate, right? But the adjacencies in the faster-growth markets and channels really allowed us to change a little bit of the emphasis in the portfolio beyond just Colgate, right?

So when we had focused on therapeutic and we had focused on some of these other faster growth segments previously, we tried to do that with the Colgate brand, which wasn't going to work everywhere. And so what we decided to do was to take these brands, these therapeutic brands but also other parts of our portfolio like Tom's of Maine, and potentially hello, and move these brands around geographically. Now the key thing is if you want to drive long-term value, you have to do this methodically, right?

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Launching an elmex in mass in the U.S. would not have really grown the business longer term. So you and I have had discussions years ago about launching elmex in Brazil. And so we took elmex in Brazil, we took elmex to Brazil and also to Argentina markets with really strong pharmacy businesses. Okay. In markets where the Colgate brand has very high market share, but where our business would underindex in some of these higher priced, higher profitability and higher growth channels like pharmacy.

So we took elmex into pharmacies in Brazil with a very long-term strategy to provide a great growth opportunity for these pharmacy chains, where they wanted a brand that wasn't necessarily competing with Colgate and another retailer at a hypermarket or some sort of cash and carry, right? They wanted some -- they wanted a brand that was their own. So we bring elmex in, we work with the profession to drive brand affinity. We invest behind advertising with the thought that we're going to build to scale over many years, right?

So we did that with elmex in Brazil and Argentina. We've done it with meridol in several markets in the Africa/Eurasia division. And so it's been -- it starts off small and we need to invest for years, but you're beginning to see some of that scale pay off. Now what you've also seen over the last couple of years is a big focus on elmex in Europe. And it's really been part of a two brand strategy within the European division over the last couple of years that's really paying off very nicely for us.

So we are investing behind elmex in both cavities and sensitivity, and we're seeing growth there behind significant innovation as well as big increases in advertising. But we're also seeing great growth on the Colgate side, particularly on the whitening side, right? So Robert, you've heard us talk a lot about innovation in whitening, whether it's our hydrogen peroxide formulas in North America and Latin America and Australia or our new MPS technology, which we've talked about the last couple of years, which is allowing us to launch high-efficacy whitening products in markets where hydrogen peroxide is either not allowed or only allowed a trace amounts.

So on the Colgate side in Europe, we've launched a number of whitening products with strong efficacy, really building the whitening category as well as our whitening market share. So in Europe, it's investment in innovation and advertising behind elmex, but I'd also have to add, we're seeing really strong penetration and share growth on the Colgate side as well.

Robert Ottenstein

Great. And that leads into my next question, well, is maybe kind of step back and you started to go there, just the global whitening strategy, is this a strategy that can kind of work in all countries? Obviously, you've got a -- it's got to be nuanced by local demand. But maybe talk about kind of what that is accomplishing for you in terms of channel penetration, premiumization and the metric that you've said is the most important household penetration.

John Faucher

Sure. So great question. And I think if you look at how our strategy has truly evolved over the last five or six years, one of the things we've really talked a lot about is science, okay? And the role that science plays in our portfolio, and whether that's clinical research, what have you, whether it's oral care, whether it's Pet Nutrition, whether it's skin, what have you, we have really leaned into the science and really invested behind bringing that science back into our portfolio.

And so as you look at whitening, right? What we have decided is this is an area where we have the advantage, right? We have incredibly high efficacy in our products. And so we weren't doing enough with them, right? And so we were getting distracted if you go back 5 or six years ago by smaller segments where insurgent brands seeing strong growth, right? So we were focusing on naturals like ayurvedic and getting distracted from where our true strength is, which is in science.

And I think whitening is really sort of the best example of that, and that whitening is basically a universal need within oral care, okay? Pretty much everyone wants whiter teeth or to keep their teeth white. So what we have done is, and Noel has talked about this, and you'll hear him talk about this more, is we created, I'll take a step back here, we created a group at the center called Enterprise Oral Care that really has done a lot of work in terms of going into the need states within oral care and truly understanding what are the need states that we are addressing with our whitening products.

So as we look at consumer behavior and understand the purchase occasions and the usage occasions in a category like whitening, that we can really drive the fundamentals of the business, right? Whether that's using a toothpaste all the time and maybe using a whitening pen before graduation or a wedding, for example, right? So thinking about taking this all the way to the consumer need states. And as we brought the innovation along with the need state work as well as the increased marketing, what you've seen is big increases in the growth of the category for whitening, increases in our market share in the whitening segment.

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And then, to your point, it's driving household penetration. And we're doing a better job using our data and analytics capabilities over the past couple of years of tracking that household penetration, which we can then use to fine-tune the marketing, the advertising, right? We know that digital is driving more effective household penetration than traditional TV, for example. So it creates that flywheel where the momentum in the business drives additional investment, which creates more momentum. So I think whitening is a great example of that. And we've launched this MPS product in many countries around the world, but there's still more room to go from both an innovation as well as an advertising standpoint.

Robert Ottenstein

And so if we kind of stand back, you've got the therapeutics. You've got the whitening. And I guess all of those as part of your general strategy to bring your average -- your pricing up from 92 to 100, maybe even higher, which all sounds great, but it also adds complexity and certain costs. Is there a way to manage all that so that you -- so that these initiatives can be margin accretive. I know they help the top line, but is there a way to over time when you have enough scale in the products, make it so that they're also margin accretive.

John Faucher

Yes. I mean the plan is to -- the plan is to continue to improve our gross margin. But to your previous point, what drives the flywheel is gross profit dollars, right? So we need to grow organic sales, we need to grow net sales in dollars, right? And then if we deliver gross margin expansion, which is the plan, then we will deliver more gross profit dollars, which allows us to, a, invest back in the business; and b, deliver the type of consistent compounded earnings per share growth and therefore, the TSR that our investors are looking for.

So the issue is gross margin is going to be an outcome of running the business the right way. So not every product is going to be gross margin accretive, right? So some of our hydrogen peroxide formulas, for example, are not gross margin accretive. They're more neutral to maybe slightly below because hydrogen peroxide is a high-cost ingredient. But as we look at this, we can deliver on revenue growth management, we can deliver on innovation, we can deliver on funding the growth, which will help us drive overall gross margin on our portfolio, right? So we're less focused sort of product by product and more focus on holistically how are we moving that gross margin going forward, right?

And again, the focus needs to be on the gross profit dollars, but it will lead to gross margin expansion over time. The other piece of this, Robert, is noel's talked a lot about how COVID created a lot of complexity, not just in our supply chain, but in everyone's supply chain. And we are still working through some of that complexity. And we did see a lot of increase in the number of SKUs. We're starting to see that come down between COVID and the increase in raw material prices, we saw a big increase in inventories, right?

Because you were creating more SKUs for COVID and then the increase in raw materials happen, so we're seeing inventories come down. And so as that complexity comes down, which I think data and analytics and AI will help us from a forecasting demand standpoint, et cetera, I think there's room for further efficiencies within our supply chain, which will also help.

And then I will add over time, just because I know we get a lot of questions about this, the Hill's business we'll see less of the private label that we got from the Red Collar acquisition flowing through the business. Therefore, we will see that headwind abate a little more over time, which will also help us a little bit on the gross margin.

Robert Ottenstein

Great. And I want to go to Hill's right now, actually. So two questions on Hill's. First, we're hearing in general that the consumer has to more and more make choices, right, in terms of what they buy as the cost of staples, utilities rent is up. So one, how much of an impact is that kind of consumer belt tightening having on Hill's? So that's number one.

And then number two, what is the strategy for Hill's in terms of the top line over the next three to five years? And is this still -- do you still feel this is a business that can do high single digit, low double-digit type growth.

John Faucher

So I'm not necessarily going to comment on the overall top line growth rate, right? Except to say that I think if you look at our long-term targets, in our four categories, Hill's in Pet Nutrition should be the fastest-growing of those categories. So I think you can figure out where that would get us in sort of that range. Do I think we're necessarily going to see the type of growth we saw sort of during peak COVID, unlikely. But this is a business -- this is a category that should grow mid-single digits, and I think this is a business where we feel very confident that we can continue to grow market share going forward given the brand that we have, the strategy we have and the levels of investment that we have put in.

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So the key on Hill's from this standpoint is it is a brand going back to the science argument is a brand that is truly steeped in science, and we returned to that science positioning back really in 2018 and 2019 in what we call the Science Diet relaunch, right? So the pendulum had swung dramatically in the category over the sort of 2013 to 2018 time frame towards organics and naturals and that obviously did not play to the strengths of Hill's. And so we decided back in 2018, 2019 to lean back into science. And fortunately, the pendulum seems to have swung back a little bit from that standpoint as well, but we are going to deliver high-value, high efficacy products with professional support. So we continue to work with vets and vet techs, we continue to work with schools of veterinary medicine to ensure that consumers understand the value that our products bring from a nutrition standpoint.

And so, when you combine that effort -- those efforts with the profession, with the significant increase in advertising, the innovation, the increased availability that we have now, we feel very good about the consistency of demand for our products and our competitive positioning, okay? So yes, our products do tend to be at the higher end of the price range. And while volume growth has fallen off a little bit, what you can see is that we continue to gain volume and value share within our chance, right?

So we can't necessarily control the overall volume growth of the category and again, we have mid-single-digit market share roughly in the U.S., which is our largest market, we can control our share performance within our retailers. And between the investment we put in place, the increase in innovation, we've been able to do that in a category that has seen some challenges over the past, let's say, 12 to 18 months. I think we are optimistic that as the category improves, and we're not sure when that's going to be as the category improves over the next several quarters in terms of volume growth that we are very well positioned to capitalize on that acceleration in volume growth.

So I think we heard some positive comments from Chewy a couple of weeks ago about adoptions, dog adoptions seem to have bottomed, potentially moving up a little bit. Cat adoptions have remained strong. So as we look at this, I think the outlook is very good.

Again, I think I would go back to the investment that we put in place on this business. So we have opened up our new wet pet food facility in Tonganoxie, Kansas, state-of-the-art, gives us capacity in so many fast-growing segments like small dogs, cat, wet where we under-index. So we're much better competitively positioned from that standpoint. We added dry capacity through the Red Collar acquisition. We've invested behind innovation with the opening of our Small Paws Innovation Center which, again, small dogs is the fastest-growing segment of dogs. We under-index there.

And then finally, going back to the advertising piece. So you can see the increase in advertising to sales from 2016 to let's say, Q1 of 2024, very significant on a total company basis. The increase at Hill's has actually been bigger than the total company increase. So we've had a big increase in sales at Hill's and a big increase in advertising to sales means a very large increase in advertising dollars, which we can leverage across not just the U.S., but really around the world as we look to build market share with what we think is just a tremendously great brand in the category.

Robert Ottenstein

Great. Great. Well, you guys have done a terrific job kind of systematically putting the Oral Care business on a better trajectory. As you mentioned, Hill's on a good trajectory. Household products been more challenging. What can we expect to see from you over the next three years from that business in terms of the opportunity to elevate the business, I don't know, premiumize it, whatever the strategy is so that it becomes a greater contributor to the growth of the company.

John Faucher

Well, first off, I'd sort of challenge that a little bit of the framing there, Robert, which is we have delivered consistent solid organic sales growth on both our Personal Care and our household businesses over the last couple of years. So I think we're doing a good job there. It is not the same growth as Oral Care or Pet Nutrition, but also those categories don't necessarily grow at the same rate. So I understand the context, but I just push back a little bit because I think the results have been strong, and we're seeing the market share performance in those categories pick up as well.

So I think the key for us on those businesses has been -- and this echoes similarly what we -- what I said on the Oral Care business getting the gross margins back up to reinvest in those businesses, right? So if you go back seven, eight years ago, we probably weren't investing enough in advertising, in Personal Care and Home Care.

We have taken the margin benefit of the last couple of years to invest back into more advertising and invest back into innovation. So for example, if you take a look at a market like Mexico, where the majority of our business is actually home and personal care, we've had significant innovation in categories like dish, in hand soap and in even categories like shampoo, which you're less familiar with in terms of being a good category for us, but it really helped us drive nice growth in market share and profit performance in those businesses.

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We've seen in a category like fabric softeners in France under the Soupline brand, where we have the #1 market share. We launched Soupline Hearts, which is the first solid unit dose, fabric softener business, and it's working very well. It's great from a consumer differentiation standpoint, it's great from a sustainability standpoint. So the investment behind those businesses is there. I think as we continue, and Noel's talked about this before, one of the advantages of the continued increase in that advertising to sales number has been the ability to broaden out the investment, okay?

So when we initially started raising the advertising to sales, Hill's in Oral Care were, to be fair, the primary beneficiaries. We've seen the increased investment across the portfolio over the past couple of years, and that's how we've been able to drive that growth, combined with solid innovation as well. Another example, I would give on this, is Sanex. There's probably no category that we compete in that's more crowded than body wash in Western Europe. We are seeing very strong growth on the Sanex brand as we did several product relaunches last year.

We got some premiumization in the business. We got some margin back into the business. We've invested back into advertising, and we are seeing great growth on Sanex with really strong market share performance. So the ability to invest behind innovation and advertising, we continue to ramp that up. We're doing a great job creating some marketing and advertising from the center but also relying on the regional natures of these businesses. A lot of our Personal Care and Home Care brands are more regional. So we're able to drive that efficiency really in these markets like Europe, Mexico, what have you.

In the U.S., we still have some work to do. Noel talked about this last week. But I think we are in better shape than we were several years ago. Again, we're getting solid growth in North America right now. I think there are some categories where we can be a little sharper competitively, and I think you'll see that. But we're going to do this the right way. It's about driving long-term growth and building these brands again, which is going to take increased advertising and improved innovation.

Robert Ottenstein

Filorga, Elta, PCA SKIN. Can you talk a little bit about what you've learned from those acquisitions? What changes have been made, need to be made to make them more relevant to the company. And again, sorry, if I'm framing it in a way you don't like, but I'll let you correct me on that. And any thoughts on channel strategy?

John Faucher

Sure. So I thought that wasn't a perfectly bad question, so thank you for that. Channel strategy, we're probably not seeing a whole lot of difference in channels right now in terms of as we're looking at these businesses. Obviously, with a brand like Filorga, the big shift in channel strategy was the weakness in China and Travel Retail, which you're very familiar with and the investors are because it's impacted, obviously, companies like L'Oreal and Estee Lauder, et cetera; Procter with SK-II business.

So China remains a difficult market in that category, which you know. The key for us is we look at skin, and we would like skin to be a bigger part of the business longer term. We've seen solid organic sales growth. Again, Filorga's been challenged, but Elta and PCA have delivered very strong growth. And going back to the channel piece, it's really because we've been disciplined on the channels, and we've been disciplined on the innovation and the marketing, right?

These are science-driven brands that work with professional recommendations. And we've stayed in channels that we think give us the opportunity to leverage that innovation in those recommendations, right? So it's derms for Elta and it's spas and [indiscernible] for PCA. They both have good e-commerce businesses as well. And for Filorga, particularly in Europe, it's driven more on pharmacies, and we see continued growth in the pharmacy channel, particularly in markets like Italy, Portugal, Spain.

So I'm going to go back to that the comments I made before about Colgate and Hill's, when you have that science-driven brand, with the professional recommendation, it's very powerful. So we're seeing really strong growth on Elta and PCA. I think you'll see that continue to tick up as a percentage of the portfolio as we get growth in skin ahead of our overall growth. As far as opportunities for inorganic growth, it's something that in my other role I look at. And I think longer term, we'll see what happens. Those assets are expensive, and we're very particular. Science-based professional recommendation. We think that's the best path for us in that category.

Robert Ottenstein

So my last question and probably take some more time, so apologies. But how do you balance the idea that science-driven professional recommendations when it seems that 99% of the world get the recommendations of the person on the street and TikTok, right? So how do you sort of bring that strategy to the TikTok world?

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John Faucher

I mean, look, social media, I mean, you can help on the messaging. If you follow, let's say, Elta on Instagram, which I do, right, we have professionals who are involved, whether it's key opinion leaders, whether it's people internally, the scientists that we have developing our products or derms that we have on staff, same thing with Hill's, people appreciate expertise.

Yes, they do like the fact that some person randomly on the street has an opinion, but people are listening to science. Again, that pendulum has swung back. So we're very focused on providing them with the information they need to make the right decisions. And I think we're pretty competitive in using social media the right way with the efficacy and the recommendations that we need.

Robert Ottenstein

Terrific. Well, I think that's a great way to wrap things up. John, thank you so much for giving us your time and thoughts today.

John Faucher

Thanks, as always, Robert, and thanks to everyone for tuning in today.

Robert Ottenstein

Thank you.

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