Prepared Management Remarks
Second Quarter 2023
July 28, 2023

Please review the following prepared management remarks in conjunction with our second quarter 2023 earnings press release, our second quarter 2023 earnings presentation, our second quarter 2023 Quarterly Report on Form 10-Q and additional information regarding our non-GAAP financial measures, including GAAP to non-GAAP reconciliations, which are available in the Investor Center section of our website at www.colgatepalmolive.com/investors and in Tables 4, 6, 7, 8 and 9 of the second quarter earnings press release.

We also invite you to listen to our live question and answer webcast with Noel Wallace, Chairman, President and Chief Executive Officer, Stan Sutula, Chief Financial Officer, and John Faucher, Chief Investor Relations Officer and EVP, M&A, which will begin today at 8:00 a.m. Eastern Time. The live audio webcast can be accessed on our website at www.colgatepalmolive.com. For those unable to participate during the live webcast, a recorded version of the webcast will be made available through the Investor Center section of our website at www.colgatepalmolive.com/investors.

Cautionary Statement

These prepared remarks include forward-looking statements. Actual results could differ materially from these statements. Forward-looking statements inherently involve risks and uncertainties and are made on the basis of our views and assumptions as of July 28, 2023. We undertake no obligation to update them, except as required by law or by the rules and regulations of the SEC. Please refer to the earnings press release and our most recent filings with the SEC, including our 2022 Annual Report on Form 10-K and subsequent SEC filings, all available on our website, for a discussion of the factors that could cause actual results to differ materially from these statements. These remarks also include a discussion of non-GAAP financial measures (which exclude certain items from reported results), including those identified in Tables 4, 6, 7, 8 and 9 of the second quarter earnings press release. A full reconciliation to the corresponding GAAP financial measures and related definitions are included in the earnings press release, which is available on our website.

Management Commentary

Our strong start to the year continued through the second quarter as our robust net and organic sales growth drove improved operating and free cash flow performance in the quarter. We delivered sequential and year-over-year gross margin improvement, operating margin expansion, double-digit operating profit growth, high-single-digit Base Business EPS growth and strong operating and free cash flow performance.

Our organic sales growth in the quarter was broad based. We delivered organic sales growth in every division, with mid-single-digit growth in developed markets and double-digit growth in emerging markets.

All four of our categories grew organic sales at mid-single-digits or higher, with oral care up high-single digits and pet nutrition up double-digits.

Our organic growth improved sequentially versus the first quarter on a two-year stack basis, with improvement on both pricing and organic volume growth, as we lapped our toughest organic sales growth comparison from last year.

This strong performance gives us the confidence to raise our net and organic sales growth guidance for the year, and we now expect Base Business earnings per share to grow at the higher end of our mid-single-digit guidance range.

Importantly, we delivered this performance while positioning ourselves for future profitable growth. We continued to take pricing in the first half of the year as we look to offset raw and packaging material inflation and rebuild our gross profit margin. Our funding-the-growth initiatives also had another strong quarter, which is helping to drive gross margin improvement.

We delivered SG&A leverage and double-digit Base Business operating profit growth while still increasing advertising by 20% in the quarter, which should help fuel our return to more balanced organic sales growth. We will continue to increase investment in our brands and capabilities in the second half as we look to drive profitable growth in 2023 and beyond.

We believe the consistency in how we are executing our strategy is vital to our ability to continue to deliver compounded organic sales growth. Our investments over the past several years have strengthened our brands, our capabilities and our people.

This work has enabled us to take the steps necessary to hopefully exit the worst raw materials environment in decades well equipped to drive shareholder value.

Innovation remains a key focus capability, as we believe our focus on core and premium innovation will enable us to drive both category growth and market share. A great example of this is the recent core relaunch of Colgate Herbal toothpaste in the Africa/Eurasia division with stronger claims, an optimized formula and new marketing support. As inflation continues to impact consumers around the world, it is important that we bring news to our core brands, particularly those at lower price points. The relaunch is fueling growth in the region with Colgate Herbal toothpaste growing almost twice as fast as the category year to date, and driving market share gains and pricing in key markets.

As we discussed at CAGNY, we are not only investing more in advertising, but also working to improve the impact of our advertising spend. This includes areas like programmatic buying, the collection and use of first party data and a heightened focus on building up the effectiveness of our advertising copy itself.

And while sales growth remains the best way to drive operating leverage, our entire company remains committed to delivering on productivity. We continue to expect strong results for both our funding the growth initiatives and the 2022 Global Productivity Initiative this year.

Halfway through this year we feel pleased with the progress we have made by returning to gross and operating margin expansion this quarter while sustaining broad-based organic sales growth and raising our investment in future growth.

Second Quarter Overview

Net sales were $4.8 billion in the second quarter, representing 7.5% growth year over year. Our organic sales growth was 8.0%, with growth across all divisions and all categories.

We delivered another quarter of double-digit pricing growth, with pricing up 11.0%, putting our two-year stack on pricing at 19.5%, up from 17.5% on a two-year stack basis in the first quarter.

Volume was down 1.5% in the quarter, as the contribution of the acquired pet food businesses was more than offset by the impact of price elasticities and lower promotional levels in certain businesses as we look to offset continued cost inflation and build the long-term health of our brands. As promotional activity normalizes in the second half of the year, we expect this impact to lessen. Excluding the benefit from our acquisitions of pet food businesses, volume was down 3.0% in the quarter.

Both our GAAP and our Base Business gross margin improved by 80 basis points year over year, 150 bps excluding the impact of the acquired volume from our acquisitions of pet food businesses, and 90 basis points sequentially in the quarter. We continue to expect gross margin expansion in 2023, with sequential improvement as we progress through the year. That said, we highlight that the outlook for cost inflation in pet nutrition continues to increase.

For the quarter, pricing was a 450 basis point benefit to gross margin, while raw and packaging materials had a 540 basis point negative impact. Our funding-the-growth initiatives delivered a 240 basis point benefit to gross margin. The acquired volume from our acquisitions of pet food businesses had a 70 basis point negative impact, in line with our expectations.

Base Business SG&A was down 30 basis points on a percent to sales basis, even with a 20% increase in advertising. We believe this additional investment will drive brand health and support our innovation and pricing efforts. On a percent to sales basis, the biggest increases came on the North America, Europe and Hill's businesses to support our plans to reaccelerate volume growth.

Overheads on a percent to sales basis were down significantly year over year, driven by lower logistics costs, operating leverage and savings from our 2022 Global Productivity Initiative.

For the second quarter, on a GAAP basis we delivered earnings per share of $0.60. This includes a $0.15 negative impact from a foreign tax matter and a $0.02 charge for our 2022 Global Productivity Initiative.

On a Base Business basis, we delivered earnings per share of $0.77, which was up 7% year over year, as growth in operating profit was partially offset by higher interest and tax expense.

We delivered strong cash flow performance in the quarter, and for the first half, with operating cash flow up 59% and free cash flow up 81% for the first half of the year.

Divisional Summaries

North America

North America delivered net sales growth of 1.5% in the second quarter, with organic sales growth of 2.0%, driven by strength in surface cleaners and skin health. Oral care organic sales were down slightly due to volume declines as we lapped double-digit volume growth in the year ago period on both toothpaste and manual toothbrushes.

Our volume performance in the second quarter was negatively impacted by our shift of support dollars away from trade promotion and into advertising spending. This had an impact on our volume performance, particularly in light of the difficult comparisons mentioned previously.

This shift in support helped us drive gross margin improvement, which allowed us to raise advertising by more than 20% in the quarter while still delivering significant operating profit growth. Over the balance of the year we will work to fine tune our strategy to restore more balanced organic sales growth.

Europe

Europe saw net sales grow 6.0%, with 5.5% organic sales growth and a slight benefit from foreign exchange. Europe again delivered high-single-digit organic sales growth in oral care. Toothpaste growth was particularly strong and is driving market share improvement across the division, as we highlighted at an investor conference in June. On a year-to-date basis toothpaste market share for the European division is up 80 bps, reaching a record high. elmex continues to gain market share in the sensitivity segment through increased brand support, the elmex Complete Care launch and our professional efforts.

Colgate toothpaste market share gains are coming primarily on whitening, where we have rolled out Colgate Max White Purple Reveal, which uses optic color-correcting technology that temporarily corrects yellow tones from the very first brush. We continue to be very excited about our Soupline Hearts unit-dose fabric conditioner launch in France, which offers consumers greater convenience and an improved sustainability profile. Each pre-dosed heart delivers an irresistible softness and fragrance, making your clothes feel fluffy and pleasant to wear.

Latin America

Latin America delivered an excellent quarter with 15.5% net sales growth and 16.0% organic sales growth. Encouragingly, the Latin America division saw a return to volume growth, with volume up 0.5%, a more than 700 bps sequential improvement versus the first quarter on a two-year stack basis. We were particularly pleased with the improvement in volume performance in Mexico and Brazil, our two largest markets in the division. Pricing remained strong, up 15.5%. Foreign exchange was a slight headwind in the quarter.

We are using core relaunches as a key piece of our revenue growth management strategy in Latin America. We are excited about the relaunch of Protex Oats antibacterial soap, the largest variant in the Protex franchise. The new Protex Oats + Prebiotics formula is enriched with oats and prebiotic to gently cleanse and remove impurities. Recent launches in the Speed Stick franchise include new Speed Stick Sensitive for men and Lady Speed Stick Derma Hair Minimizer, a science-led breakthrough formula that slows underarm hair regrowth. In toothpaste, we continue to build the whitening segment in Latin America with Colgate Luminous White Glow toothpaste and are strengthening our presence in the sensitivity segment with the launch of Colgate Sensitive Pro Relief Xtreme, which fights sensitivity even under hot and cold stimuli, the leading causes of dentin hypersensitivity.

Asia Pacific
Asia Pacific net sales decreased by 4.5% in the quarter, as 1.0% organic sales growth was more than offset by a significant -5.5% impact from foreign exchange. Volume in Asia Pacific decreased by 4.5% primarily due to the impact of wholesale inventory reductions and price elasticity at our H&H joint venture in China, which took meaningful pricing in the quarter. Colgate China delivered solid growth in the quarter driven by the innovation and marketing efforts we discussed at the CAGNY conference.

Our innovation efforts in the whitening space continued through the second quarter with the expansion of both our whitening pen and LED devices in Asia Pacific along with continued support for Colgate White O2 toothpaste. In the South Pacific region, our Fluffy fabric conditioner business has extended its leadership in the category behind core relaunches and premium innovation with Fluffy Scent Boosters which has achieved market share leadership in the fabric conditioner booster segment.

Africa/Eurasia
Africa/Eurasia delivered strong net and organic sales growth despite continued macroeconomic volatility. Volume growth improved sequentially to 10.5% while pricing was also up 10.0%. Foreign exchange worsened in the quarter, with every hub seeing a double-digit foreign exchange headwind in the quarter. Even with these headwinds, Africa/Eurasia delivered strong operating profit growth even with a significant increase in advertising on a percent to sales basis.

Toothpaste grew organic sales more than 20% in the quarter, which is driving strong market share performance across the division. On a year-to-date basis toothpaste value market share is up 70 basis points, with market share up or flat in all 11 countries measured.

Hill's Pet Nutrition
Hill's delivered another double-digit net and organic sales growth quarter despite a very difficult 18.0% organic sales growth comparison in the year ago period. Net sales grew 16.0% through strong organic sales growth, a 7.0% volume benefit from our recently acquired pet food businesses and a -1.5% impact from foreign exchange. Organic sales grew 10.5% in the quarter, as pricing growth of 13.5% more than offset an organic volume decline of 3.0%. In developed markets, strong volume growth in Europe was partially offset by a slight decline in the United States, which was lapping a high-single-digit comparison. Volume declines in emerging markets were due to a combination of shipment timing, difficult comparisons and go-to-market changes.

Hill's delivered sequential improvement in both gross margin and operating margin in the quarter despite continued raw and packaging material inflation and an increase in advertising as a percentage of sales well ahead of the total company increase.

We look to leverage this increase in advertising, along with the benefit from our capacity additions, to drive improved volume performance as we cycle easier comparisons in the second half of the year.

Guidance

We are raising our net sales and organic sales guidance for 2023. We also now expect our Base Business earnings per share to increase at the higher end of mid-single-digit growth.

We now expect net sales growth of 5-8% for 2023, ahead of our previous expectation of 3-6%, due to higher expectations for organic sales growth and a slightly less negative view on foreign exchange. We now expect organic sales growth of 5-7%, versus our previous expectation of 4-6%, given our results through the second quarter and the marketing and innovation plans we have in place for the balance of the year. Our net sales growth guidance continues to reflect a roughly 100 basis point benefit from the acquired pet food businesses. As mentioned above, our expectations on foreign exchange for the year are slightly less negative than before, as recent strength in several Latin American and European currencies is mostly offset by increased weakness in markets in Asia (including India and China) and Africa/Eurasia (including Turkey and South Africa).

There is no change to our expectations for raw and packaging material costs to increase by several hundred million dollars in 2023, primarily driven by agricultural costs at Hill's and specialty chemicals. While some commodity costs have continued to move favorably, the majority of our raw materials are still expected to be up for the year. We continue to expect gross margin to be up for the year despite the negative impact to gross margins from our acquired pet food businesses.

We will continue to invest in advertising to drive more balanced organic sales growth and to support our innovation and improve the health of our brands. Advertising is expected to be up on both a dollar basis and on a percent to sales basis.

We expect our SG&A ex-advertising to be down year over year on a percent to sales basis through lower logistics costs, operating leverage and the savings from our 2022 Global Productivity Initiative.

We still expect interest expense to be a headwind to earnings growth for the year, and our expectations have not changed since our first quarter earnings release.

Our tax rate is now expected to be between 29% and 30% on a GAAP basis versus 24-25% previously. On a Base Business basis we still expect our tax rate to be between 24-25%.

We expect double-digit earnings-per-share growth on a GAAP basis. On a Base Business basis, we now expect earnings per share growth at the high end of mid-single-digits.

The second quarter marked an important step in our return to profit growth with strength up and down the income statement despite higher raw and packaging material costs and headwinds from interest and tax rates. While there is still significant uncertainty in the operating environment, we believe we have the correct plans in place for the balance of the year to achieve our targets.