Prepared Management Remarks
Fourth Quarter and Full Year 2022
January 27, 2023

Please review the following prepared management remarks in conjunction with our fourth quarter and full year 2022 earnings press release, our fourth quarter and full year 2022 earnings release slide presentation 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 8 and 9 of the fourth quarter and full year 2022 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 SVP, M&A, which will begin today at 8:30 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 January 27, 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 2021 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 8 and 9 of the 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

We are pleased with the progress we made in 2022, despite another year of significant macroeconomic, geopolitical and business challenges. We delivered solid net sales growth despite significant foreign exchange headwinds. We delivered another year of strong organic sales growth ahead of our long-term target range of 3-5%. In response to unprecedented raw material cost increases we took bold pricing initiatives across all of our businesses. We returned to global value market share growth in toothpaste and manual toothbrushes. And, we delivered strong productivity growth, laying the groundwork for margin expansion going forward, while still building the capabilities we need to win in the future.

We have exited 2022 with strong net and organic sales growth momentum and a view on an improving raw materials, logistics and foreign exchange environment. While the macroeconomic environment remains very uncertain, we expect another year of solid net and organic sales growth in 2023 and a return to EPS growth as our investments in innovation and advertising and our efforts on productivity deliver strong returns and help us offset a drag from net interest expense and tax.

We continued to deliver very strong net and organic sales growth in the fourth quarter of 2022, with net sales growth of 5.0%, driven by organic sales growth of 8.5% in the quarter. The volume from our acquisitions of pet food businesses added 1.5% to net sales, while foreign exchange was a significant 5.0% headwind.

This was our 16th consecutive quarter with organic sales growth either within or above our long-term target range of 3-5%, representing four full years of consistent organic sales growth. We delivered organic sales growth in every division, with high-single-digit organic sales growth in both developed and emerging markets.

We delivered organic sales growth in all four of our categories, including double-digit organic sales growth in pet nutrition and high-single-digit organic sales growth in oral care.

The scaling of our revenue growth management capabilities across the organization enabled us to deliver 12.5% pricing growth in the quarter, which was slightly ahead of our Q3 result of 11.5%.

Our volume performance also improved in the quarter, as volume was down 2.5% in Q4 on a reported basis versus a 4.5% decline in Q3. Excluding the benefit from our acquisitions of pet food businesses, our volume was down 4.0%. Volume performance benefited sequentially from improvement in our pet nutrition supply chain and improved volume performance in Latin America.

For the full year, we delivered record net sales of $18.0 billion, delivering growth of 3.0%. Organic sales grew 7.0%, equal to our 2020 organic sales growth, which benefited from increased consumption in certain COVID-19 impacted categories. Our acquisitions of pet food businesses added 0.5% to full-year 2022 net sales. Foreign exchange was a negative 4.5% impact to net sales for the year.

We have discussed the increased level of premium innovation in our whitening business over the past several years both through our hydrogen peroxide and MPS toothpaste technologies. These efforts are driving our share growth in the whitening toothpaste segment for the Colgate brand. In 2019, the Colgate brand had a 26% value share of the global whitening category, while on a YTD basis through November 2022, the Colgate brand's share of the whitening category rose to over 30%, contributing to our improved market share performance in the toothpaste category.

For Hill's, Prescription Diet Derm Complete continued to drive strong growth. This breakthrough innovation is clinically shown to address both environmental and food sensitivities in dogs and is growing market share in the U.S. veterinary clinic market. Hill's also recently announced the launch of Prescription Diet ONC Care in the U.S. This groundbreaking new formulation is designed to encourage eating and provide high-quality nutrition for cats and dogs with cancer.

In our personal care and home care businesses, we are delivering both science-based and sustainability-based innovation. Building on the strength of our Protex soap franchise in Latin America, we recently launched Protex Pro with advanced technology that moisturizes, hydrates and reinforces skin's defenses. For EltaMD, the #1 dermatologist recommended professional sunscreen in the United States, we launched our first ever EltaMD UV Stick, a 100% mineral sunscreen stick with antioxidant protection that is easy to apply and ideal for on-the-go and reapplication.

In Latin America, we relaunched our Suavitel fabric conditioner with a technology that delivers not only a longer lasting fragrance, but also helps to eliminate humidity odors.

This focus on premium innovation is a key component of our revenue growth management strategy, which enabled us to deliver another quarter of double-digit pricing. A great example of this comes from China, where we delivered solid organic sales growth in the quarter. China is the most highly developed e-commerce market for oral care, which means that e-commerce innovation can drive the price per ounce for the total business. Our China for China innovation strategy helped drive a nearly 20% increase in our retail average selling price on the Colgate brand in 2022, while the retail average selling price for our Hawley and Hazel joint venture grew low double-digits. This is driving e-commerce organic sales and market share growth in a very difficult Chinese market. You'll hear more about how we've turned around our oral care portfolio in China when we present at CAGNY in February.

Our investments in innovation, higher ROI digital marketing, and RGM are also driving improvements in market share, as we accelerated our year-to-date value market share growth on a global basis in both toothpaste and toothbrushes.

Despite some continued downward pressure on e-commerce inventories in the quarter, we delivered another strong year of e-commerce growth, with e-commerce as a percentage of net sales up another 100 basis points for the year.

Looking forward, we expect continued foreign exchange pressure and heightened uncertainty from a number of factors, including raw and packaging materials and logistics costs, and geopolitical and economic headwinds. We are confident we can continue to manage through these headwinds and remain committed to our strategy of investing in science-led, core and premium innovation and marketing to deliver broad-based sustainable growth, which we believe will see us through this volatile period.

We are pleased with the progress we have made on the integration of our newly acquired pet food businesses. The private label volume associated with these plants had a 1.5% positive impact on volume growth for the quarter and a negative 90 basis point impact on gross margin in the quarter, both in line with our expectations.

More importantly, we were able to transition additional Hill's volume to these plants, allowing us to meet greater customer and consumer demand while beginning to lower the capacity utilization at our existing plants. We will continue to transition more Hill's volume to these facilities in the next several quarters, which will lower both the topline and gross margin impact from the acquisitions, while helping to increase volume growth at Hill's. We are also excited about our new Hill's wet pet food facility that will begin shipping in the second half of the year.

Between the acquisition capital and capital expenditure, we are investing over $1.5 billion to fund capacity expansion to sustain the growth behind our Hill's Science Diet and Hill's Prescription Diet brands.

Fourth Quarter Overview

Net sales were $4.6 billion in the fourth quarter, our highest quarterly sales result ever, representing 5.0% growth year-over-year. Organic sales growth was 8.5%, as pet nutrition returned to double-digit organic sales growth and oral care delivered another quarter of high-single-digit organic sales growth. Home care grew organic sales mid-single digits and personal care grew organic sales low-single digits in the quarter.

We delivered another quarter of double-digit pricing growth, with pricing of 12.5%, putting our two-year stack on pricing at 15.5%, up from 14.5% in the third quarter.

Volume was down 2.5% due to the impact of pricing elasticities, continued softness in the skin health business in China, retail inventory reductions, and the impact of the war in Ukraine on our Eurasia business, partially offset by the acquired pet food volume. We continue to see elasticities generally in-line with our expectations. Excluding the benefit from our acquisitions of pet food businesses, volumes were down 4.0% in the quarter.

Our gross margin in the quarter was down 250 basis points year-over-year, including a negative 90 basis point impact from our acquisitions of pet food businesses. Gross margin performance was below our expectations in the quarter due to higher manufacturing variances and start-up costs at Hill's, larger cost increases for agricultural and other raw materials, natural gas and negative mix from lower sales in our skin health business. We remain confident in our ability to grow gross margin in 2023 given our pricing and productivity plans.

For the quarter, pricing was a 490 basis point benefit to gross margin, while raw materials had a 920 basis point negative impact. Funding the growth delivered a 270 basis point benefit to gross margin while, as mentioned above, the acquired volume from our acquisitions of pet food businesses had a 90 basis point negative impact.

Our SG&A performance came in better than expected in the quarter as operating leverage, lower logistics costs, expense discipline and productivity drove a 100 basis point reduction in our SG&A ratio. Advertising spend was down 20 basis points on a percent-to-sales basis, but flat excluding the impact of our acquisitions of pet food businesses. Advertising spending was up 3% versus Q4 2021, and up high-single-digits on a currency neutral basis, with a particular focus on Latin America, North America and Hill's.

Logistics was down as a percentage of sales for the first time in 12 quarters, as we benefited from lower rates, the impact of COVID-related shut downs in our plants in the year ago period, operating leverage and productivity.

Overheads, excluding logistics, were up on a dollar basis, but down 50 basis points as a percentage of sales due to our 2022 Global Productivity Initiative, operating leverage and strong cost containment.

For the fourth quarter, on a GAAP basis we delivered earnings per share of $0.01. This includes a $0.74 negative impact from goodwill and intangible assets impairment charges related to the Filorga skin health business primarily due to the continued impact of the COVID-19 pandemic, particularly in China, which negatively impacted consumption in the duty-free, travel retail and pharmacy channels, and the impact of significantly higher interest rates.

On a base business basis we delivered earnings per share of $0.77, which was down 2.5% year-over-year, despite a negative $0.04 impact from translational foreign exchange.

For the full year, our free cash flow was down year-over-year due to lower cash profits, higher inventories related to increased raw and packaging material costs and higher levels of safety stock, higher accounts receivable and higher capital expenditures, primarily to build additional capacity for growth, particularly for Hill's.

For the full year we returned $2.9 billion to shareholders through share repurchases and dividends.

Divisional Summaries

North America

North America delivered net sales growth of 4.0% in the fourth quarter, with organic sales growth of 4.5%, driven by double-digit growth on toothpaste, manual toothbrushes, professional whitening, bar soaps and liquid cleaners. Volume growth was impacted by inventory reductions by our retail partners, particularly in e-commerce for our skin health business. Our volume performance was also impacted by a strategic shift of marketing spending as we worked to optimize our spending on coupons to fund higher return advertising spending. As we cycled higher levels of couponing in the year ago period, this negatively impacted our volumes, but we expect this impact to lessen in 2023 as we cycle lower couponing levels. We grew toothpaste value share for both the fourth quarter and the year despite this pull back in couponing.

Europe

Europe saw net sales decline 10.5%, as an 11.5% foreign exchange headwind more than offset 1.0% organic sales growth in the quarter. Mid to high-single digit organic sales growth in oral care and home care was mostly offset by weakness in personal care. Our personal care performance was impacted by a decline in Filorga, primarily due to the continued impact of the COVID-19 pandemic, particularly in China, which negatively impacted consumption in the duty-free, travel retail and pharmacy channels, and by the continued decline in the liquid hand soap category in Europe.

Our market share performance in toothpaste continues to improve year-over-year, driven by gains in the whitening and sensitivity segments.

Latin America
Latin America finished the year positively, with double-digit net and organic sales growth in the quarter, driven by oral care and personal care. Volume performance improved sequentially in the quarter for oral care, driven by manual toothbrushes as we lapped last year's supply constraints, and home care, particularly hand dish and liquid cleaners.

We continue to benefit from innovation on our core businesses across all of our categories in Latin America, including the Sorriso relaunch, which is driving improved market share performance at lower price points in Brazil, the relaunch of Colgate Sensitive Pro Relief Immediate with a gum health benefit, our Suavitel base business relaunch and continued innovation on Protex following our Charcoal and Pro Hidrata launches in 2022.

Asia Pacific
Asia Pacific net sales decreased 4.0% in the quarter, as 6.0% organic sales growth was more than offset by a negative 10.0% impact from foreign exchange.

Growth in Greater China was driven by the Colgate brand and our Hawley and Hazel joint venture, including our e-commerce-based innovation. We grew e-commerce value market share by 280 basis points for the year. We are seeing increased mobility in China, particularly around the Chinese New Year celebration, but we believe it is still too early to assess the impact of this improved mobility on brick and mortar retail and overall market growth rates.

We delivered low-single-digit organic sales growth in India for the quarter due to continued category softness in rural India. We would expect improvement in organic sales and volume performance in 2023 behind increased advertising, growth in premium whitening, the core relaunch of our Anti-Cavity business and improved rural demand.

Africa/Eurasia
Africa/Eurasia delivered another strong quarter to finish off a very strong year despite tremendous geopolitical and macroeconomic headwinds. Net sales grew 9.0% in the quarter with organic sales growth of 16.5%. Pricing growth of 23.5% was partially offset by a 7.0% volume decline, predominantly due to the impact of the war in Ukraine, as volume performance elsewhere in the division continued to be encouraging in the context of the pricing result.

Oral, personal and home care all delivered double-digit organic sales growth in the quarter with oral care and home care both up high teens.

Hill's Pet Nutrition
Hill's returned to double-digit net and organic sales growth in the quarter, finishing up their third straight year of double-digit organic sales growth. Net sales grew 20.0%, with pricing up 13.5%, organic volume up 0.5%, a negative 3.5% impact from foreign exchange and a 9.5% benefit from the acquisitions of pet food businesses.

U.S. organic sales growth accelerated, and organic volume grew year-over-year, benefitting from the additional capacity we acquired. As discussed on the third quarter call, we did shift some advertising from Q3 to Q4 given the supply constraints we were facing, and advertising spending was up year-over-year on a dollar basis. We plan to continue to increase advertising investment for Hill's to take advantage of our incremental capacity, both from our acquired assets as well as from our new wet pet food facility in Tonganoxie, Kansas, which we expect to come on line in the second half of 2023.

Guidance
Turning to our initial guidance for 2023.

We expect net sales growth of 2-5%. We expect organic sales growth within our targeted 3-5% range, although we expect to be towards the high end of that range. Our net sales growth guidance also reflects a low-single-digit negative impact from foreign exchange and a roughly100 basis point benefit from the acquired pet food volume.

We expect raw and packaging material costs to increase in 2023 by several hundred million dollars, predominantly in the first half of the year, driven by agriculture costs, which is far below the roughly $1.3 billion impact we saw in 2022. This is based on our cost projections, which may differ from spot prices. Given the carryover pricing from 2022, the incremental pricing we are taking in 2023, and an expected strong year for our funding the growth initiatives, we are guiding to gross margin expansion for the year, despite the negative impact to gross margin from our acquisitions of pet food businesses and foreign exchange.

On both a net sales and gross margin basis, we expect the year-over-year impact from our acquisitions of pet food businesses to modestly lessen sequentially quarter by quarter from the 1.5% impact on net sales and the 90 basis point impact on gross margin in Q4 2022 until we anniversary the acquisition that closed on September 30, 2022.

Advertising is expected to be up on both a dollar basis and on a percentage to sales basis, including the impact from acquired pet food volume.

Given the improvement we saw through 2022, and the incremental impact of our 2022 Global Productivity Initiative on the back half of the year, our overheads, excluding logistics, are expected to be down on a percent-to-sales basis.

We expect logistics costs to be roughly flat year-over-year on a dollar basis, but to decline on a percent-to-sales basis.

Given the outlook for further interest rate increases from the Federal Reserve and a full year of the additional debt from our acquisitions of pet food businesses, we expect a significant increase in interest expense in 2023.

Our tax rate is now expected to be between 24.0% and 25.0% for the full year, on both a GAAP and Base Business basis.

We expect double-digit earnings-per-share growth on a GAAP basis. On a Base Business basis, we expect low to mid-single-digit earnings-per-share growth.

The bottom end of our EPS range incorporates a more uncertain global macroeconomic environment, a significant economic slowdown and downward pressure on consumer spending globally. It also assumes further broad-based weakness in consumption in China.

We are focused on leveraging the progress we made in 2022 on organic sales growth, market shares and productivity to deliver sales and earnings per share growth and shareholder value in 2023 and beyond.