Prepared Management Remarks
Third Quarter 2022
October 28, 2022

Please review the following prepared management remarks in conjunction with our third quarter 2022 earnings press release, our third quarter 2022 earnings release slide presentation, our third quarter 2022 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.

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, 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 October 28, 2022. 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 continued to deliver very strong organic sales growth in the third quarter of 2022, with net sales growth of 1.0% (reflecting a 6.0% negative impact from foreign exchange) and organic sales growth of 7.0% in the quarter.

This was our 15th consecutive quarter with organic sales growth either within or above our long-term target range of 3-5%. We delivered organic sales growth in every division, with high-single-digit growth in emerging markets and mid-single-digit growth in developed markets.

We delivered organic sales growth in all four of our categories, including high-single-digit growth in oral care, personal care, and pet nutrition. As Noel discussed at the Barclays conference in September, we believe our exposure to categories with high levels of everyday usage and low private label market shares leaves us well positioned in the current macroeconomic environment.

This performance gives us the confidence to raise our organic sales growth guidance range for 2022 to 6-7% from 5-7% previously. Our net sales guidance, which includes the impact of foreign exchange and the impact from the acquisition of the operations of three manufacturing facilities from Red Collar Pet Foods, is now in the middle of our 1-4% range given the increased negative impact from foreign exchange.

Our focus on revenue growth management allowed us to deliver 11.5% pricing growth, which was partially offset by a volume decline of 4.5%.

While price elasticities were broadly in line with our expectations, retail inventory adjustments during the quarter, particularly in North America, negatively impacted total company volume by approximately 1.0%. Additionally, the year-over-year volume decline in our Eurasia business, which we believe is predominantly due to the impact of the war in Ukraine, had a -0.5% impact on total company volume in the quarter.

Capacity limitations and raw materials availability negatively impacted volume for Hill's earlier in the quarter, especially outside the United States. We have taken several measures to ease the impact of these capacity constraints and this was evident in how Hill's finished the quarter, with organic sales growth in the double digits in September, driven by an improvement in volume trends and continued strong pricing growth.

We expect total company volume performance to improve sequentially in Q4 given less impact from these issues.

As Noel discussed at the Barclays conference in September, science-based innovation is a key driver of our growth strategy. This focus on innovation is highlighted by the work we are doing in whitening. This is led by Optic White Pro Series in the U.S., which is our first 5% hydrogen peroxide toothpaste, and which is driving the Optic White franchise to all-time highs in market share.

In many markets outside of the U.S., where the regulatory environment limits our usage of hydrogen peroxide, we are using our breakthrough proprietary MPS whitening technology to deliver meaningful whitening benefits, without hydrogen peroxide, on products like Colgate OpticWhite O2 in Asia Pacific, and Colgate Max White Ultra, which is off to a strong start in several European markets. We plan to continue rolling this new technology out across multiple geographies.

For Hill's, we have used the capabilities of our Hill's Pet Nutrition Center, cutting edge wearable technology, and our expertise in clinical research to develop Hill's Prescription Diet Derm Complete. This is pet food clinically shown to address both environmental and food sensitivities in dogs.

In our personal care and home care businesses, we are delivering both science-based and sustainability-based innovation. 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 South Africa, we have launched a new concentrated formula with our market leading fabric softener business. This will help drive category premiumization, higher gross margins, and improve the environmental footprint of this business.

This strong premium innovation calendar is a key part of our revenue growth management strategy that drove pricing growth of 11.5% in the quarter, with mid-single-digit or better pricing in every division. We are leveraging our market-by-market knowledge of our products, our customers, and our consumers, and then combining this with data and analytics capabilities to develop plans that drive higher ROI from our pricing actions and work to manage the impact of volume elasticity.

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

E-commerce delivered growth in the quarter, representing 13.5% of net sales, although sales lagged consumption growth due to retail inventory reductions, primarily in the North America division and at Hill's.

In aggregate, raw materials prices moved slightly lower over the course of the third quarter, which was consistent with the expectations we outlined on our second quarter conference call.

Our full year raw materials inflation expectation is still for $1.3 billion in additional costs year over year. We have seen some favorable moves in logistics costs in the third quarter, particularly in the United States.

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

Despite the significant pricing this quarter, we will continue to implement additional revenue growth management actions and to address opportunities to drive productivity up and down the P&L.

As we said on both the first and second quarter calls, all of our efforts need to be balanced with an eye towards future profitable growth. In keeping with this strategy, on September 30th we closed the acquisition of the operations of three dry pet food facilities from Red Collar Pet Foods. As mentioned previously, capacity constraints at Hill's had an impact on our volumes in the quarter. We expect that the additional capacity from this acquisition should allow us to run our existing facilities at optimal capacity utilization while raising the overall capacity of our Hill's supply chain. This should allow us to accelerate geographic expansion and expand our offerings of wellness and therapeutic diets.

As we transition into this capacity over the next few years, we will continue to produce for Red Collar. This arrangement will result in an initial step down in margins, with a roughly 100 basis point impact on the Company-wide gross margin line on a run rate basis in the first 12 months. As we accelerate growth at Hill's and transition out of supplying Red Collar, we will drive improved gross margin performance given the significant margin differential between the volume produced for Red Collar and Hill's gross margins.

We believe this acquisition can help unlock Hill's growth potential more quickly, and at a lower cost, than building additional capacity ourselves, and is an example of how we can use our balance sheet to drive profitable growth. We will also continue to invest in capital expenditures to drive growth for Hill's, particularly in wet pet food, where the brand is under-indexed from a market share standpoint.

Third Quarter Overview

Net sales were $4.5 billion in the second quarter, representing 1.0% growth year-over-year, driven by 7.0% organic sales growth and a negative currency impact of 6.0%. The organic sales growth was driven by high-single-digit growth for oral care, pet nutrition, and personal care, while home care also grew organic sales in the quarter.

We delivered pricing growth of 11.5% in the quarter, putting our two-year stack on pricing at 14.5% up from 11.0% in the second quarter.

Volume was down 4.5%, due to the impact of pricing elasticities, supply constraints at Hill's, retail inventory reductions and the impact of the war in Ukraine on our Eurasia business. There is no change to our current assumptions surrounding volume elasticity, although we continue to watch this very closely.

Our gross margin in the quarter was down 220 basis points year-over-year but up 20 basis points sequentially, on both a GAAP and Base Business basis. Pricing was a 440 basis point benefit to gross margin, while raw materials were a 920 basis point headwind. Productivity was favorable by 260 basis points.

Our SG&A was down 40 basis points on a percent-to-sales basis. Advertising was down on a dollar basis as we made some adjustments due to the macro environment in Europe and Hill's supply chain constraints. Advertising spend was up on a constant dollar basis overall. Overheads ex logistics were down on a percent-to-sales basis, despite the impact of foreign exchange on net sales, due to strong productivity efforts including the initial savings from our 2022 Global Productivity Initiative.

For the third quarter, on both a GAAP and Base Business basis, we delivered earnings per share of $0.74. This includes a $0.05 negative impact from foreign exchange translation.

Our free cash flow was down year-over-year in Q3 due to higher inventories related to increased raw and packaging material costs and higher levels of safety stock, lower net income, and higher capital expenditures, primarily to build additional capacity for growth, particularly for Hill's.

Year-to-date we have returned almost $2.1 billion to shareholders through share repurchases and dividends.

Divisional Summaries

North America

North America delivered net sales growth of 3.0% in the second quarter, as our premium innovation, revenue growth management strategies, and increased marketing spend behind higher ROI opportunities helped drive organic sales growth across our oral, personal, and home care categories. Volume growth was impacted by inventory reductions by our retail partners. This was most notable in the e-commerce channel, but was also apparent in brick and mortar accounts where we believe retail inventories are now below historical levels due to the uncertain economic environment.

We believe our takeaway growth was ahead of shipments in the quarter given the results we are seeing in both tracked and untracked channels.

Europe
Europe saw net sales decline 12.0%, as a 14.5% foreign exchange headwind more than offset 2.5% organic sales growth in the quarter. We continued to execute our revenue growth management strategies despite a difficult retail and consumer environment.

Our market share performance in toothpaste continues to improve year-over-year, driven by gains in the whitening and sensitivity segments and by all three of our core brands: Colgate, elmex, and meridol.

Latin America
Latin America delivered another very strong quarter, with double-digit organic sales growth driven by oral care and personal care. Net sales were up 7.0%, as 20.0% pricing growth was partially offset by an 8.5% volume decline and -4.5% from foreign exchange.

Despite the high level of pricing in the market, our premiumization strategy on toothpaste is paying dividends. We see continued strong performance behind our whitening, gum, and sensitivity offerings in the market. However, as Noel discussed at the Barclays conference, we are focused across all price tiers, and our Sorriso relaunch in Brazil has allowed us to take price and gain share with a compelling value proposition based on traditional Brazilian flavors and ingredients.

We continue to see strong growth from our joint venture with Philips to sell electric toothbrushes under the combined Philips-Colgate brand in Brazil and Mexico, which is driving category growth and market share gains.

Asia Pacific
Asia Pacific net sales decreased 3.0% in the quarter, as 5.0% organic sales growth was more than offset by a negative 8.0% impact from foreign exchange.

Greater China continues to be the key growth driver in the division, with both our Hawley and Hazel joint venture and the Colgate China business delivering growth in the quarter. The brick and mortar retail environment in China remains challenging, both due to COVID-related lockdowns and the continued shift to e-commerce, where we are delivering significant market share gains year to date.

As with Europe, we are leveraging our MPS whitening technology across Asia. Colgate Visible White O2 is our most premium whitening launch ever in India and is delivering market share performance ahead of our expectations. It will continue to roll out to other countries in the division.

Africa/Eurasia
Africa/Eurasia net sales grew 11.0% in the quarter as 26.5% pricing growth was partially offset by a 9.0% headwind from foreign exchange and a volume decline of 6.5%. The volume decline was entirely due to the impact of the war in Ukraine, as volume was positive excluding the Eurasia hub. Growth was strong across all three categories, oral, personal, and home care, with particular strength in oral care. Toothpaste market shares are up or flat across all major markets in the division with the exception of Russia.

Hill's Pet Nutrition
Hill's delivered solid net sales and organic sales growth in the quarter, despite a very difficult comparison. Pricing grew 11% in the quarter while volume was down 3.5% and foreign exchange was a 4.5% headwind. Volume performance was hampered by supply chain constraints earlier in the quarter and reductions in retail inventories, primarily in the e-commerce channel in the United States.

Both the U.S. and Europe delivered double-digit organic sales growth in the quarter, with the supply chain difficulties primarily impacting the volume performance in our businesses in Asia. The supply chain difficulties are primarily related to limited flexibility in our supply chain given high levels of capacity utilization and some raw materials availability issues. Hill's exited the quarter with organic sales growth in the double digits, and we expect the capacity pressure to abate going forward given the flexibility provided by the Red Collar acquisition, lower retail inventory adjustments, and improved raw materials availability.

We shifted some Hill's advertising from the third quarter to the fourth quarter as we responded to the supply chain constraints discussed previously.

<u>Guidance</u>
We raised the lower end of our organic sales growth guidance for the year and now expect organic sales growth of 6-7%, versus 5-7% previously.

The foreign exchange environment continued to worsen over the course of the third quarter. While we still expect foreign exchange to be a mid-single-digit headwind to revenues, operating profit, and earnings growth for the year, we saw a $0.05 negative EPS impact from foreign exchange translation in the third quarter, and at current spot rates would expect a similar EPS impact from foreign exchange translation in the fourth quarter.

Net sales growth is now expected to be in the middle of our previous 1-4% range, with the impact of acquired revenue from the Red Collar transaction expected to partially offset the incremental assumption for foreign exchange translation.

Our expectations for raw and packaging material cost increases remain at $1.3 billion for the full year, which is an incremental $600 million versus our expectation at the beginning of the year. We are generally locked in for commodity costs in the fourth quarter, and any changes in spot prices will be reflected in our raw and packaging material forecasts for 2023, which we will discuss on the fourth quarter conference call.

Advertising is now expected to be roughly flat on a dollar basis, although still up versus year ago on a constant dollar basis.

Given our strong results year to date, 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 both a dollar basis and a percent-to-sales basis.

The impact of headwinds from logistics continues to lessen, although we still expect logistics costs to be up year over year in the fourth quarter.

We continue to take additional steps to mitigate the impact of these cost headwinds, including additional revenue growth management actions and accelerating our funding-the-growth efforts where possible.

Our tax rate is now expected to be between 23.5% and 24.0% for the full year, on both a GAAP and Base Business basis.

We still expect double-digit earnings-per-share growth on a GAAP basis. On a Base Business basis, due solely to the incremental impact of translational foreign exchange movement since our second quarter call, we now expect earnings per share to decline 7% to 8%.

For the fourth quarter, we expect the production of pet food for Red Collar to add roughly 200 basis points to net sales, have a roughly 100 basis point negative impact to our company-wide gross margin and be neutral to earnings per share.