Prepared Management Remarks
Second Quarter 2022
July 29, 2022

Please review the following prepared management remarks in conjunction with our second quarter 2022 earnings press release, earnings release slide presentation, 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 8:00 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 29, 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 delivered very strong topline results in the second quarter of 2022, with net sales growth of 5.5% (reflecting the negative impact of foreign exchange) and organic sales growth of 9.0% in the quarter. Our focus on revenue growth management allowed us to deliver 8.5% pricing growth. Despite this level of pricing and a nearly 100 basis point negative volume impact from our Eurasia business, we still delivered 0.5% volume growth in the quarter, with Hill's, North America, and Asia-Pacific all driving both positive volume and pricing.

This was our 14th consecutive quarter with organic sales growth either within or above our long-term target range of 3-5%, and it was our highest quarterly organic sales growth result since Q4 2008. This performance gives us the confidence to raise our organic sales growth guidance for 2022 to 5-7% from 4-6% previously.

Our strategy of delivering breakthrough and transformational innovation, investing in our brands, and building our digital and eCommerce capabilities is driving sales and improved market share performance across the company. We delivered organic sales growth in every division, including high-single-digit organic sales growth in both emerging and developed markets. We drove organic sales growth in all four of our categories, including double-digit organic sales growth for both oral care and pet nutrition.

On our first quarter call we discussed how we gained momentum through the quarter as we implemented our pricing actions. This was borne out in the second quarter, as organic sales growth improved sequentially by 500 basis points from Q1, with an acceleration in organic sales growth in all four categories and every division except Africa/Eurasia, where the war in Ukraine had a significant impact on volume in our Eurasia hub.

Crucially, our strategic efforts over the past three years have also strengthened our brand health, enabling us to drive positive pricing growth in every division and in all four of our categories. We believe this improved brand strength will enable us to gain market share while still sustaining the pricing necessary to regain lost gross margins over time. Importantly, our year-to-date global value market share for toothpaste and manual toothbrushes is up year-over-year.

Our innovation calendar remains robust. We are focusing on our core businesses by relaunching brands like Hill's Prescription Diet, Suavitel, and Sanex with new formulas, packaging, and marketing campaigns, both to engage consumers and drive mix.

We are also innovating in faster growth segments like whitening, with Optic White Pro Series and Colgate Visible White, and at Hill's with Prescription Diet Derm Complete, all of which leverage our scientific expertise and professional heritage.

Our focus on faster growth channels continues to drive growth, with eCommerce up 150 basis points as a percentage of sales in the quarter.

Our ability to implement high-single-digit pricing with a level of price elasticity either in-line with or more favorable than our expectations gives us confidence that our brands are well positioned to deliver 3-5% organic sales growth in-line with our long-term targets over time and deliver solid profitable growth.

In aggregate, raw materials prices moved higher over the course of the second quarter, consistent with our commentary on the first quarter call that we expected higher prices over the balance of the year. Natural gas, which we use to power many of our facilities, has also risen dramatically in the past several months. While some raw materials and logistics prices have seen modest pull backs at this point, which is encouraging, we still expect significant inflation over the balance of the year.

Looking forward, we expect continued heightened uncertainty from foreign exchange, higher raw and packaging materials and logistics costs, COVID-19, and geo-political and economic headwinds. Despite these uncertainties, we continue to believe we have the right people, the right brands, and the right strategies to emerge from these volatile times in an even greater position of strength.

We continue to be laser focused on taking the steps necessary to offset these uncertainties and headwinds. We are implementing additional revenue growth management actions and are looking for additional areas for productivity savings. As we said after the first quarter, all of our efforts need to be balanced with an eye towards future profitable growth.

Second Quarter Overview

Net sales were a record $4.5 billion in the second quarter, representing 5.5% growth year-over-year, driven by 9.0% organic sales growth and a negative currency impact of 3.5%. The organic sales growth was driven by our two biggest categories, oral care and pet nutrition, which both grew double-digits, while our personal care and home care categories grew organic sales within our 3-5% long-term growth target range.

Volume was up 0.5%, as growth in North America, Asia-Pacific, and Hill's was mostly offset by declines in other divisions due to our pricing actions in those markets and the war in Ukraine. Consistent with our view on the first quarter call, we believe elasticities related to pricing are either in line with, or better than, historical norms. As we mentioned at investor events throughout the quarter, we believe that many of the negative volume headwinds related to COVID-19 factory closures and supply chain disruptions in the U.S. abated over the course of Q1 and Q2.

We delivered meaningful pricing growth of 8.5% in the quarter, putting our two-year stack on pricing at 11%, up from 10% in Q1, driven by sequential improvement in developed markets, including the U.S. and Europe, and continued strength in emerging markets pricing.

Our gross margin was down 300 basis points in the quarter, on both a GAAP and Base Business basis. Pricing was a 310 basis point benefit to gross margin, while raw materials were an 800 basis point headwind. Productivity was favorable by 190 basis points.

On a GAAP basis, our SG&A was up 20 basis points on a percent-to-sales basis, driven by a 100 basis point increase in our logistics to sales ratio, due to rate increases driven by tight capacity across the logistics industry as well as fuel price increases. Our overheads to sales ratio, ex-logistics, was down 50 basis points, driven by strong cost containment, productivity, and sales leverage.

While our advertising spend was up year-over-year on a dollar basis, our advertising-to-sales ratio was down 40 basis points year-over-year, due to the timing of spending, higher than expected organic sales growth, reduced advertising spending in Eurasia, and foreign exchange. We expect advertising to be up on a dollar basis, but roughly flat on a percent-to-sales basis for the full year.

For the second quarter, on both a GAAP and Base Business basis, we delivered earnings per share of $0.72. This includes a mid-single-digit percentage negative impact from foreign exchange.

Our free cash flow was down year-over-year in Q2 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 $1.6 billion to shareholders through share repurchases and dividends.

<u>Divisional Summaries</u>

North America

North America delivered net sales growth of 6.0% in the second quarter, as our robust innovation plan, comprehensive revenue growth management initiatives, and increased advertising spend helped drive strong organic sales growth. Oral care delivered double-digit organic sales growth for the quarter, and we continue to be encouraged by the performance of Colgate Optic White

Pro Series, which is a step forward in technological development and is driving both market share for Colgate and category growth.

As we discussed on the first quarter call, we believe that supply chain pressures in North America have largely abated, and this is reflected in our on-shelf availability, which is roughly in-line with historical levels. This should continue to help our sales and market share performance as we go through the year.

Europe

Europe saw net sales decline 10%, as a 10.5% foreign exchange headwind more than offset modest organic sales growth in the quarter. As expected, our pricing improved sequentially in the quarter, and our 3.5% pricing increase was the highest for the European division in almost 30 years. The retail and consumer environment in Europe remains challenging, although we are encouraged with the results of our revenue growth management efforts.

We have significant product relaunches planned for our businesses across Europe which we expect will drive value for our retail partners and consumers, particularly in personal and home care. In home care, we have relaunched our Ajax glass, spray, and bucket dilutable cleaners, making Ajax the largest hard surface cleaner brand with the majority of its portfolio transitioned to plant-based/97%-99% naturally-derived formulations.

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

Latin America

Latin America delivered 12.5% net and organic sales growth. Pricing was up 12.5%, with flat volume and foreign exchange.

Organic sales growth was strong across oral, personal, and home care, with oral and personal care up double-digits and home care up high-single-digits.

A key strategy in Latin America is to innovate across price tiers in order to drive consumer demand and category growth during this period of high inflation. In oral care, our Sorriso relaunch in Brazil with new packaging, flavors, and advertising has driven improved share performance on the brand while raising our average selling price. While on the high end, with the Colgate brand we continue to innovate in whitening, leveraging consumer insights to generate faster growth and positive mix.

We are also innovating across price tiers on the Protex line in Latin America, with Protex Charcoal at a base price point and Protex Pro at a premium price point, both driving incremental sales.

Asia Pacific
Asia Pacific net sales increased 3.5% in the quarter, as 9.0% organic sales growth was partially offset by a negative 5.5% impact from foreign exchange. The organic sales growth was driven by double-digit growth in our Hawley and Hazel joint venture, the Colgate China business, and Australia.

As we discussed on the Q1 call, our marketing efforts in China, including our Hawley and Hazel relaunch and our eCommerce led strategy for Colgate China, are delivering versus our growth targets despite the incremental negative impact from COVID-19-driven lockdowns across China. China eCommerce category growth for toothpaste is in the double-digits year to date, and we have gained almost 600 basis points of market share in this rapidly growing channel.

Double-digit organic sales growth in home care in the division was driven primarily by fabric softeners, particularly behind innovation in our South Pacific region, such as Cuddly Pure & Clear providing plant-based softness.

Africa/Eurasia
Africa/Eurasia net sales declined 3.5% in the quarter as strong pricing growth of 22% was more than offset by a negative foreign exchange impact of 8.5% and a 17% decline in volume, driven predominantly by the impact of the war in Ukraine on our Eurasia business. The 5.0% organic sales growth was on top of double-digit growth in the year ago quarter with particular strength from our latest Protex and Optic White innovations: Protex Plus Moisture Lock bar soaps and Colgate Optic White for Coffee, Tea and Tobacco Users.

We believe the supply chain disruptions from the second half of 2021 have generally abated, and this has led to broad-based market share gains across most categories, with the exception of Eurasia.

Hill's Pet Nutrition
Hill's delivered another excellent quarter, with net sales growth of 14.5% and organic sales growth of 18.0%, driven by positive pricing and volume. Growth was led by the U.S, but Hill's also delivered strong growth around the world, especially in Europe and Australia/New Zealand, leveraging our brand-building capabilities and scaling our innovation through our global supply chain.

Hill's continues to lead our digital transformation through their focus on high return digital advertising, their strength in eCommerce, and the build out of data and analytics capabilities.

Hill's Science Diet Perfect Digestion, with breakthrough nutrition that supports ultimate digestive well-being and a healthy microbiome, continues to drive strong growth, leveraging our enterprise-wide focus on the microbiome.

Guidance

We increased our organic sales growth guidance for the year to 5-7%, from 4-6%. We expect continued strong levels of innovation and pricing across all categories.

Using current spot rates, which have worsened over the past three months, we now expect foreign exchange to be a mid-single-digit headwind to revenues, operating profit, and earnings growth for the year, versus a low-single-digit impact previously.

Net sales growth is still expected to be at the higher end of our previous 1-4% range.

Our expectations for raw and packaging material costs have increased slightly, from $1.2 billion to $1.3 billion for the full year. As we discussed on the first quarter call, we expected commodity prices to continue to increase through the year. The second quarter saw greater than expected acceleration in commodity prices, although certain raw materials, palm oil for example, have declined sequentially more recently. Over the balance of the year, we anticipate some softening of commodity prices on a sequential basis, but raw materials will continue to be a significant headwind to gross margin on a year-over-year basis. The recent strength in the dollar also is adding some modest incremental transactional foreign exchange impact to our cost outlook.

Advertising is still expected to be up on a dollar basis but roughly flat on a percent-to-sales 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.

Logistics is still expected to be a significant headwind to the year, but consistent with our commentary on the first quarter call, we expect less of a year-over-year headwind for the balance of the year given some declines in spot prices.

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

Our tax rate is still expected to be 24% 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, we still expect earnings per share to decline mid-single-digits. The increase in our organic sales growth guidance is more than offset by the greater negative impact from foreign exchange and a slightly higher raw and packaging materials inflation expectation on an absolute dollar basis.