



**Prepared Management Remarks**  
**First Quarter 2023**  
**April 28, 2023**

Please review the following prepared management remarks in conjunction with our first quarter 2023 earnings press release, our first quarter 2023 earnings release slide presentation, our first 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](http://www.colgatepalmolive.com/investors) and in Table 6 of the first 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 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](http://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](http://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 April 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 Table 6 of the first 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**

We are encouraged by our strong start to the year, which we believe demonstrates the progress we have made in our growth strategy. Our robust net and organic sales growth, combined with

sequential improvement in gross margin, increased advertising spending, and growth in operating profit (on both a GAAP and Base Business basis) and free cash flow, leave us well positioned to deliver through the balance of the year. Because of this, we are raising our net sales and organic sales guidance for the year and raising the lower end of our Base Business earnings-per-share guidance range, while remaining committed to reinvesting behind our brands. This investment is crucial to long-term profitable growth, in 2023 and beyond, through a return to balanced growth, with improved volume performance, increased household penetration and sustainable pricing.

We delivered very strong sales performance in the first quarter, with net sales growth of 8.5%, driven by 10.0% organic sales growth. The volume from our acquisitions of pet food businesses added 2.0% to net sales, while foreign exchange was a 3.5% headwind.

This growth was broad based, as we delivered mid-single-digit or better organic sales growth in every division, with high-single-digit organic sales growth in developed markets and double-digit organic sales growth in emerging markets.

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

Our revenue growth management capabilities, which we talked about at CAGNY, helped to drive a 12.0% increase in pricing, and we continue to take pricing across our markets to help offset higher raw and packaging materials costs as well as inflation in other areas like labor costs.

We also made progress on volume performance in the quarter, which improved sequentially versus the fourth quarter. Volume trends improved sequentially in five of our six divisions, with the only exception being North America, where performance would have improved sequentially absent the impact of the Fabuloso recall.

And as mentioned above, we have robust plans in place to return to more balanced growth, with both volume and pricing.

We continue to execute against our growth strategy by launching science-led, core and premium innovation. In the U.S., we launched Colgate Total Plaque Pro Release toothpaste, which dissolves and lifts away gum harming plaque with daily brushing. Our Protex Pro Hydration body wash and bar soap, recently launched in Latin America, hydrates, moisturizes and reinforces your skin's defenses.

Soupline is the #1 fabric conditioner brand in France, and we have just relaunched our Soupline fabric conditioners with new 3D technology that delivers 30 days of continuous freshness.

During the first quarter, Hill's had the official launch for Hill's Prescription Diet ONC care, which encourages eating and provides high quality nutrition for dogs and cats with cancer. We believe this product is a true breakthrough and can play an important role in Hill's mission to help enrich and lengthen the special relationships between people and their pets.

And to raise awareness of our innovation plans, as well as to support our pricing actions and drive brand health, we will fund marketing investment for our brands. In our CAGNY presentation, we demonstrated how we have combined premium science-led innovation with higher levels of advertising, more targeted digital content and more persuasive advertising copy to drive growth and market share in China, probably the most competitive toothpaste market in the world. We believe this is a winning formula across our categories and markets globally.

To fund this increased marketing spending, we will drive gross margin improvement over the balance of the year. We are executing on our pricing plans, and are pleased with the progress we made on pricing in the first quarter, but we do expect pricing growth to decelerate over the balance of the year as we lap greater pricing growth in the year ago quarters.

It is important to note that, while some raw and packaging material prices have moved down, we still expect these costs to be up for the year, driven primarily by agricultural products related to Hill's and specialty chemicals. The rise in inflation generally is also putting upward pressure on wages and other costs, both for us and our suppliers, and we will need to continue to work to offset these higher costs.

We remain committed to delivering on productivity, with both funding the growth and our 2022 Global Productivity Initiative driving strong savings performance in the quarter, to help offset some of these cost increases.

Looking forward, while we are pleased with how we started the year, we still expect continued foreign exchange pressure and heightened uncertainty from a number of factors, including higher costs, higher interest rates and geopolitical and economic headwinds.

### **First Quarter Overview**

Net sales were \$4.8 billion in the first quarter, representing 8.5% growth year over year. Organic sales growth was 10.0%, as both pet nutrition and oral care delivered double-digit organic sales growth, while personal care grew organic sales high-single digits and home care grew organic sales low-single digits due to the impact of the Fabuloso recall.

We delivered another quarter of double-digit pricing growth, with pricing up 12.0%, putting our two-year stack on pricing at 17.5%, up from 15.5% in the fourth quarter.

Volume was flat in the quarter, as the contribution of the acquired pet food businesses and growth in pet nutrition and toothpaste were offset by the elasticities associated with pricing, which generally came in favorable versus expectations, and the impact of the Fabuloso recall. Excluding the benefit from our acquisitions of pet food businesses, volume was down 2.0% in the quarter.

Our gross margin in the quarter was down 160 basis points year over year, including a negative 90 basis point impact from our acquisitions of pet food businesses. Our gross margin improved sequentially by 130 basis points in the quarter, and we expect continued sequential improvement through the remainder of the year, despite our continued outlook for higher raw material and packaging costs and other inflationary items like labor costs.

For the quarter, pricing was a 450 basis point benefit to gross margin, while raw materials had a 770 basis point negative impact. Funding the growth delivered a 250 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.

SG&A was down 40 basis points on a percent to sales basis, despite a double-digit increase in advertising. We invested across our divisions and categories, while Hill's saw the largest increase in advertising on both a dollar and a percentage growth basis as we look to take advantage of our increased capacity. Overheads on a percent to sales basis were down year over year driven by lower logistics costs.

For the first quarter, on a GAAP basis we delivered earnings per share of \$0.45. This includes a \$0.25 negative impact from a charge related to an ERISA litigation matter, a \$0.02 negative impact from the recall of Fabuloso multi-purpose cleaners in the United States and Canada, and a \$0.01 charge for our 2022 Global Productivity Initiative.

On a Base Business basis, we delivered earnings per share of \$0.73, which was down 1.0% year over year, as growth in operating profit was primarily offset by higher interest expense.

We delivered strong cash flow performance in the quarter, with operating cash flow up 90% and free cash flow more than doubling year over year.

## **Divisional Summaries**

### **North America**

North America delivered net sales growth of 3.5% in the first quarter, with organic sales growth of 4.0%, driven by strength in toothpaste, liquid hand soap, hand dish and fabric conditioners; this strength was offset by the impact of the Fabuloso recall, elasticities related to pricing and softness in manual toothbrush volumes, where we lapped significant market share gains in the year ago period.

We executed on our pricing plans in the first quarter and invested heavily in marketing support, with advertising spending up double digits. As mentioned above, we launched our latest core innovation on Colgate Total in the first quarter, Colgate Total Plaque Pro Release toothpaste, as well as our new hello mouthwash concentrates. Late in the first quarter, we also launched our new Softsoap Therapy liquid hand soap collection in two variants: Warming Honey & Brown Sugar Scent and Cooling Eucalyptus & Sea Salt.

### **Europe**

Europe saw net sales decline 0.5% (a 10 percentage point improvement from the fourth quarter net sales decline), as a 5.0% foreign exchange headwind more than offset 4.5% organic sales growth. Europe delivered high-single-digit organic sales growth in oral care and mid-single-digit organic sales growth in home care in the quarter. Pricing in Europe was 8.0% in the first quarter, while volume declined 3.5%, impacted by Filorga, but with price elasticities generally favorable versus expectations.

Along with a core restage of our meridol premium oral care line, Europe also relaunched Palmolive Aroma Essence shower gels and launched Soupline Hearts unit dose fabric conditioner.

### **Latin America**

Latin America delivered another strong quarter with 12.5% net sales growth. Organic sales growth was 14.5%, driven by 18.0% pricing. Volume declined -3.5%, a sequential improvement from a high-single-digit volume decline in the fourth quarter. Foreign exchange was a -2.0% headwind to net sales 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 our Suavitel relaunch, which provides longer lasting fragrance benefits and is specially formulated for high humidity markets. Along with Protex Pro Hydration, we launched Protex Pro Tattoo, the first antibacterial soap that protects both your skin and your tattoos. We are building the whitening segment in Latin America, and our latest launch

is Colgate Luminous White Glow toothpaste, our first toothpaste in Latin America with 3% hydrogen peroxide.

### **Asia Pacific**

Asia Pacific net sales increased by 1.5% in the quarter, as 8.5% organic sales growth was mostly offset by a significant -7.0% impact from foreign exchange.

Toothpaste delivered double-digit organic sales growth in the quarter, driven by pricing growth and strong volume performance in Greater China and South Pacific. Our Colgate China e-commerce business, which we talked about at CAGNY, reached double-digit market shares on a year-to-date basis. The brick and mortar business in China showed improved results in the quarter as store traffic increased as COVID restrictions were lifted.

India delivered mid-single-digit organic sales growth in the quarter, an acceleration versus recent trends, and we believe our plans for 2023 leave us well positioned to deliver improved performance for the year.

### **Africa/Eurasia**

Africa/Eurasia continued to deliver impressive results despite significant geopolitical and macroeconomic volatility. Net sales grew 8.0% in the quarter, as 16.5% organic sales growth was partially offset by a -8.5% impact from foreign exchange. Pricing grew 21.5% in the quarter, while volume declined 5.0%, predominantly driven by the impact of the war in Ukraine on our Eurasia business.

Organic sales growth was strong across all three categories, and we are particularly pleased with the performance of meridol, our gum health expert brand, which is driving market share gains in the pharmacy channel across the division.

### **Hill's Pet Nutrition**

Hill's delivered another double-digit net and organic sales growth quarter despite a difficult comparison. Net sales grew 21.5%, through strong organic sales growth, a 9.5% volume benefit from our recently acquired pet food businesses and a -2.0% impact from foreign exchange.

Organic sales grew 14.0% in the quarter, as organic volume growth accelerated to 2.5% benefitting from the capacity additions from our recently acquired pet food businesses; volume growth was led by the U.S., which delivered mid-single-digit volume growth.

Pricing grew 11.5% in the quarter as we looked to offset the continued pressure from higher raw and packaging material costs. Operating margin at Hill's remained under pressure in the quarter due to the impact of our acquired pet food businesses, the impact of significant cost increases on Hill's gross margin and a double-digit increase in advertising support. As we look to benefit from

our increased capacity, both our acquired facilities and our new wet food manufacturing facility in the U.S. that will open in the third quarter, we are investing to drive additional volume growth.

### **Guidance**

We are raising our net sales and organic sales guidance and raising the lower end of our Base Business earnings per share guidance range for 2023, as our results in the first quarter give us greater confidence in our expectations for the year. However, we would highlight that there is still significant uncertainty in the operating environment for the balance of the year in terms of foreign exchange, higher costs, interest rates and geopolitical and economic headwinds.

We now expect net sales growth of 3-6% for 2023, ahead of our previous expectations of 2-5%. We now expect organic sales growth of 4-6%, versus at the high end of our 3-5% targeted range previously. Our net sales growth guidance continues to reflect a low-single-digit negative impact from foreign exchange and a roughly 100 basis point benefit from the acquired pet food volume.

We still expect raw and packaging material costs to increase in 2023 by several hundred million dollars, primarily driven by agricultural costs at Hill's and specialty chemicals. While some commodity costs have moved 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 including the negative impact to gross margins from our acquired pet food volume.

As we focus on returning to balanced organic sales growth, we will invest in marketing to support our pricing, drive awareness of our innovation and increase brand health. 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.

While we had guided to an increase in interest expense, we now expect higher interest rates during the year, leading to a slightly greater than originally expected impact from net interest expense on EPS for the full year.

Our tax rate is still 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 now expect mid-single-digit earnings-per-share growth.

Our strategy to deliver broad-based, profitable growth is working. We are off to a strong start in 2023 and look to leverage this performance to drive EPS and cash flow growth through the balance of the year.