Prepared Management Remarks
Third Quarter 2023
October 27, 2023

Please review the following prepared management remarks in conjunction with our third quarter 2023 earnings press release, our third quarter 2023 earnings presentation, our third 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 third quarter earnings press release.

We also invite you to listen to our live 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 8:30 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 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 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 third 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 strategies continued to deliver in the third quarter, as strong net and organic sales growth and our focus on productivity drove robust top and bottom line results. For the second quarter in a row, we delivered double-digit Base Business operating profit growth along with a 20% or greater increase in advertising spending. We also delivered year-over-year and sequential improvement in global toothpaste market share, double-digit Base Business EPS growth and free cash flow growth.

Our stronger than expected performance in the third quarter and year to date gives us the confidence to increase our organic sales growth guidance for the year as well as our Base Business EPS guidance.

Our results this year are an outcome of focused execution on the three priorities we laid out at the beginning of this year:

- Driving continued organic sales growth against tougher comparisons
- Executing on Revenue Growth Management and productivity to increase margins while funding investment
- Improving our cash flow performance

Organic Sales Growth

We delivered 9.0% organic sales growth in the third quarter, lapping a 7.0% comparison, and organic sales are now also up 9.0% year to date, versus a 6.5% comparison. In Q3 organic sales grew high-single digits in developed markets and low-double digits in emerging markets. All four of our categories grew organic sales at mid-single digits or higher; oral care organic sales were up high-single digits, with flat volume, and pet nutrition organic sales were up double digits, with 3% volume growth. We grew organic sales in five of our six divisions, with Asia-Pacific down due to a decline at our H&H joint venture in China.

We have delivered this growth through building and scaling our capabilities in innovation, Revenue Growth Management driven by data and analytics, digital marketing, world class retail execution and increased brand support.

Our volume performance improved sequentially from the second quarter, despite continued strong pricing, benefiting from increased advertising, impactful innovation and easier comparisons. We believe we have the plans in place to deliver long-term balanced organic sales growth, in all divisions and categories, with both volume and pricing growth.

Margins and Investment

Our gross margin increased sequentially and year over year in the third quarter, and is now also up on a year to date basis. Our Revenue Growth Management strategy continues to deliver strong pricing through a combination of list price increases, more effective promotion and innovation to drive positive mix and profitability. We are delivering record results from our funding-the-growth initiatives that are ahead of our plans and we are executing on our 2022 Global Productivity Initiative to drive additional savings through our P&L. Combined with lower logistics costs and a focus on controlling overhead spending, our operating margin has inflected positively and we expect continued operating margin expansion going forward.

We are expanding our margins while still funding a significant increase in brand support. Our advertising spending was up 23% in the quarter and we expect it to be up in the high teens for the year. Our media investment is up by an even greater percentage as we drive efficiencies in our overall pool of advertising dollars.

Cash Flow

We entered 2023 with a laser focus on driving improved cash flow performance. Our operating cash flow is up 39% year to date through the third quarter. Our net income adjusted for non-cash charges is up year over year, driven by our return to Base Business EPS growth. Our working capital is favorable, driven by improvement in inventories and payables.

Our free cash flow is up 49% year to date even as we increased capital expenditures as we invest for growth, through new capacity, productivity and sustainability.

And we are using this increased cash flow to return cash to shareholders through dividends and share repurchase but also to drive net income growth through debt paydown as interest rates rise.

Third Quarter Overview

Net sales were $4.9 billion in the third quarter, representing 10.5% growth year over year. Our organic sales growth was 9.0%, with mid-single digit or better growth across all categories.

As expected, pricing growth of 9.5% slowed versus the first half of the year, but accelerated on a two-year stack basis.

Volume was up 0.5% in the quarter, with growth in Latin America, Africa/Eurasia and at Hill's. Excluding the contribution of the acquired pet food businesses, volume was down 0.5%, a 250 basis point sequential improvement versus Q2. Our H&H joint venture in China had a negative impact on organic volume. Excluding the decline at H&H, organic volume would have been up 0.5%. Elasticities continue to be generally in line with our expectations and, as pricing growth lessens over the next several quarters, we would expect to return to volume growth.

On a GAAP basis, our gross margin improved by 130 basis points year over year, while on a Base Business basis our gross margin was 140 basis points higher than Q3 last year. Excluding the impact of the acquired private label volume from our acquisitions of pet food businesses, our Base Business gross margin would have been up 190 basis points. In addition, some companies include logistics in COGS. We record logistics in SG&A. If we also included the benefit from the year-over-year decline in logistics costs as a percentage of sales in the calculation of gross margin, our gross margin would have been up an additional 130 basis points.

For the quarter, pricing was a 360 basis point benefit to gross margin, while raw and packaging materials had a 460 basis point negative impact. Our funding-the-growth initiatives delivered a 290 basis point benefit to gross margin. The acquired volume from our acquisitions of pet food businesses had a 50 basis point negative impact, in line with our expectations.

Base Business SG&A was up 40 basis points on a percent to sales basis, driven by a 23% increase in advertising. We continue to invest across our businesses to drive market share, brand health and increased household penetration to drive volume growth.

Overheads on a percent to sales basis were down nicely year over year, driven by a continued reduction in logistics costs, operating leverage and 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 $0.86, with EPS growth of 16%.

Divisional Summaries

North America

North America delivered net sales growth of 3.5% in the third quarter, with organic sales growth of 3.5%, driven by strength in toothpaste which grew organic sales high-single digits with a combination of both volume and pricing growth. Volume performance for the division improved sequentially due to strength in unmeasured channels and some initial improvements in promotional trends.

We expect volume trends to improve again in the fourth quarter, while still maintaining pricing growth, as we further optimize our promotional cadence.

Advertising was up 25% in the quarter to support brand health and innovation. Even with this increased level of investment, North America operating profit grew 17% year over year through the continued benefits of our RGM strategies, our funding-the-growth initiatives and favorable logistics costs.

Europe

Europe saw net sales grow 14.5%, with 7.0% organic sales growth and a 7.5% benefit from foreign exchange. The organic sales growth was broad based in the quarter, with particular strength in Germany, the UK/ Ireland, the Nordic region, the Netherlands and France.

Oral care delivered double-digit organic sales growth, led by toothpaste. We reached all-time highs in toothpaste market share on a year-to-date basis in Europe with strength in the therapeutic segment, driven by elmex, and in whitening, led by innovation on Colgate Max White.

Personal care organic sales grew mid-single digits behind product relaunches on both Sanex and Palmolive.

Latin America

Latin America, our largest division in terms of revenue and profits, delivered another excellent quarter with 20.0% net sales growth and 15.0% organic sales growth. Foreign exchange was favorable by 5.0% in the quarter.

The organic sales growth in Latin America was very balanced, with pricing +9.5% while volume growth of +5.5% was a 500 basis point sequential improvement from the second quarter. Latin America delivered volume growth in all three categories, with high-single-digit oral care volume growth. Mexico delivered mid-single digit volume growth, while Brazil volume grew high-single digits.

In toothpaste, elmex continues to gain share in the pharmacy channel and our latest charcoal variant is driving incremental share gains for Colgate Total. We are using core relaunches as a key piece of our Revenue Growth Management strategy in Latin America. In bar soaps, we expanded distribution of Protex Oats+Prebiotics, the latest innovation in the Protex franchise, and launched new Palmolive Naturals Banana and Avocado with increased marketing support across channels.

Asia Pacific
Asia Pacific net sales decreased by 4.0% in the quarter, with a -1.5% decline in organic sales growth and a -2.5% impact from foreign exchange. While pricing was up 5.5%, volume in Asia Pacific declined due to the continued impact of wholesale inventory reductions at our H&H joint venture in China following our second quarter price increase. Volume trends at H&H improved in September and we expect further improvement in the fourth quarter. Colgate China and India continued to deliver solid organic sales growth in the quarter.

Our innovation efforts in the whitening space continued through the third quarter with the expansion of our Optic White Flexlight LED device in Asia Pacific along with continued support for the Optic White Express pen and Colgate White O2 toothpaste. In the freshness category, we are excited about the relaunch of Colgate MaxFresh toothpaste in India with a new technology that provides 10X longer lasting cooling compared to regular fluoride toothpaste. In home care, our new Softlan Botanicals fabric conditioner, made from >95% natural origin ingredients, delivers 15 weeks of freshness to your clothes.

Africa/Eurasia
Africa/Eurasia delivered solid results in the context of extreme macroeconomic and foreign exchange volatility. The division delivered well-balanced organic sales growth, with volume growth of 4.0% and pricing growth of 11.5%. Net sales declined by 7.5%, driven by a -23.0% impact from foreign exchange, versus only a -16.0% impact in Q2 and a -8.5% impact in the first quarter. We expect continued significant top and bottom line impacts from foreign exchange in the next several quarters.

The division delivered double-digit organic sales growth in all three categories, with toothpaste organic sales growth in the high teens. This growth drove continued strength in market share, with toothpaste value share up or flat year to date in 10 of 11 countries measured, including record high market share for our Nigeria joint venture.

Hill's Pet Nutrition
Hill's delivered another double-digit net and organic sales growth quarter, with both volume and pricing growth in the quarter, despite a more challenging category environment. Net sales grew 21.5% through strong organic sales growth, a 6.0% volume benefit from our recently acquired pet food businesses and a +0.5% impact from foreign exchange. Organic sales grew 15.0% in the quarter, with pricing growth of 12.0% and organic volume growth of 3.0%. Hill's delivered organic volume growth in every hub, with positive volume in the U.S., Latin America, Japan and Asia, all of which saw volume declines in the second quarter.

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.

Guidance

Due to our strong performance in Q3, we are raising the low end of our net sales guidance range and raising our organic sales and Base Business EPS guidance for the full year.

We now expect net sales growth of 6-8% for 2023, ahead of our previous expectation of 5-8%, due to higher expectations for organic sales growth and a slightly more negative view on foreign exchange. Our net sales growth guidance continues to reflect a roughly 100 basis point benefit from the acquired pet food businesses and a low-single-digit negative impact from foreign exchange. We now expect organic sales growth of 7-8%, versus our previous expectation of 5-7%. This guidance includes the negative impact of lower private label volumes in the fourth quarter for our dry pet food acquisition as we lap the closing of the transaction.

Foreign exchange is still expected to be a low-single-digit headwind for the year, but the outlook is more unfavorable than when we reported the second quarter. We have seen significant weakness in many currencies versus the U.S. dollar over the past three months, particularly in the Africa/Eurasia division. We expect this impact to carry over into 2024.

We continue to expect gross margin to be up for the year. We still expect raw and packaging materials to increase by several hundred million dollars in 2023, primarily driven by agricultural costs at Hill's and specialty chemicals which are still inflationary. While some prices have eased in the quarter, we now expect a greater impact from transactional exchange given the strength of the dollar.

Advertising is expected to be up on both a dollar basis and on a percent to sales basis as we look to drive brand health and market share and deliver strong balanced organic sales growth.

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

We still expect interest expense to be a headwind to earnings growth for the year.

Our tax rate is now expected to be between 28.5% and 29.5% on a GAAP basis versus 29-30% previously. On a Base Business basis we now expect our tax rate to be between 23.5% and 24.0%, versus our previous expectation of 24-25%.

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

The third quarter showed the continued strength of our business through broad-based sales growth, investment behind our brands, capabilities and our people, and focus on driving profit and cash flow growth. We expect to continue delivering strong performance as we finish 2023 and look towards 2024.