

COLGATE-PALMOLIVE COMPANY

(NYSE: CL)



Portland
Investment Counsel[®]
Buy. Hold. And Prosper.™

(as at May 31, 2020)

Business Description:

Colgate-Palmolive Company, together with its subsidiaries, manufactures and sells consumer products worldwide. The company operates through two segments: Oral, Personal and Home Care; and Pet Nutrition. The Oral, Personal and Home Care segment products include toothpaste, toothbrushes, mouthwash, bar and liquid hand soaps, shower gels, shampoos, conditioners, deodorants and antiperspirants, skin health products, dishwashing detergents, fabric conditioners, household cleaners and other similar items. The Pet Nutrition segment offers pet nutrition products for everyday nutritional needs and a range of therapeutic products to manage disease conditions in dogs and cats.

Investment Thesis:

- **Colgate-Palmolive has strong global brand recognition.** Colgate-Palmolive has widely recognized brands and products such as Colgate toothpaste. The brand holds the #1 toothpaste market share and is most recommended by dental professionals worldwide.
- **The company has demonstrated excellent organic growth.** The company has seen increased organic growth through both price and volume in existing markets. This organic growth has been replicated within the pet nutrition markets as well. As much of the Colgate-Palmolive products are seen as essentials, organic growth can be expected to continue.
- **Strong penetration of new channels and developing markets.** E-commerce sales has seen tremendous growth throughout the past five years, leveraging platforms such as Amazon and PetSmart's online sales channel. In addition, the company has made significant penetration in Latin America, the Middle East, and Asia-Pacific, allowing for growth in emerging markets.

Industry Drivers/Trends: Consumer Packaged Goods

- Businesses are growing more and more conscious of the need to drastically cut down the amount of non-biodegradable waste put into landfills, and plastic bottles, cloths and hygiene equipment are going to be some of the predominant targets of these campaigns.
- A driver of growth is the changing demographic, specifically strong millennial growth. Companies will look to capture on this growth through consumer products that have been staples their entire lives.

- A large portion of sales within the industry are shifting towards online direct-to-consumer platforms. With the growth of e-commerce, companies must embrace this shift and grow their online presence to match consumer demands.

Competitive Advantages:

- Large global portfolio of brands
- Economies of scale leading to lower total operating costs
- The largest household penetration of all global brands

Competitors:

- Kimberly-Clark Corporation, The Clorox Company, Beiersdorf AG, Unilever PLC, Procter & Gamble Company

Customers:

- Retailers, distributors, wholesalers, end consumers, enterprises & businesses

Barriers to Entry:

- **Branded Portfolio:** Existing brands have a distinct advantage as branded products are sold and recognized worldwide. A new entrant would not be able gain enough market share from brand-loyal consumers to compete and survive.
- **Large Start-Up Costs:** Existing buildings and plant machinery make up a large part of an incumbent's assets. Financial costs that large are a sure barrier to a start-up company attempting to enter the consumer-packaged goods industry.
- **Economies of Scale:** Large companies in this space have an operating advantage as they have been able to operate at a large volume for a prolonged period. This operating cost advantage will discourage new entrants.

Officers and Directors:

Ian Cook, Executive Chairman; **Noel Wallace**, President & Chief Executive Officer; **Henning Jakobsen**, Chief Financial Officer; **Jennifer M. Daniels**, Chief Legal Officer & Secretary; **Prabha Parameswaran**, Group President, Global Innovation Group & Africa-Eurasia; **Panagiotis Tsourapas**, Group President, Latin America & Asia Pacific.

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Financial Summary:

Income Statement (USD millions, years ended December 31st)

	2015	2016	2017	2018	2019
Revenue	16,034.0	15,195.0	15,454.0	15,544.0	15,693.0
COGS	(6,635.0)	(6,072.0)	(6,174.0)	(6,313.0)	(6,368.0)
Gross Profit	9,399.0	9,123.0	9,280.0	9,231.0	9,325.0
Profit before Tax	2,763.0	3,738.0	3,487.0	3,464.0	3,301.0
Net Profit	1,384.0	2,441.0	2,024.0	2,400.0	2,367.0
EPS (Diluted)	1.52	2.72	2.28	2.75	2.75
Dividends per Share	1.50	1.55	1.59	1.66	1.71

Balance Sheet

Total Assets	11,935.0	12,123.0	12,676.0	12,161.0	15,034.0
Long-Term Debt	6,246.0	6,520.0	6,566.0	6,354.0	7,333.0
Total Equity	(299.0)	(243.0)	(60.0)	(102.0)	117.0

Statement of Cash Flow

Cash Flows from Operations	2,949.0	3,141.0	3,054.0	3,056.0	3,133.0
Cash Flows from Investing	(685.0)	(499.0)	(471.0)	(1,170.0)	(2,099.0)
Cash Flows from Financing	(2,276.0)	(2,233.0)	(2,450.0)	(2,679.0)	(870.0)

Key Ratios and Figures (%)

Gross Margins	58.6%	60.0%	60.0%	59.4%	59.4%
Advertising as % of Sales	9.3%	9.4%	10.2%	10.2%	11.0%

Source: Colgate-Palmolive 2019 Annual Report; Wall Street Journal



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