This commentary, the remarks made during our first quarter 2017 earnings release conference call and our first quarter 2017 earnings press release furnished to the SEC are integrally related and are intended to be presented and understood together.

Colgate-Palmolive Company
First Quarter 2017
Earnings Release Prepared Remarks
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Today's conference call will include forward-looking statements. Actual results could differ materially from these statements. Please refer to the earnings press release and our most recent filings with the SEC, including our 2016 Annual Report on Form 10-K and subsequent SEC filings, all available on Colgate's website, for a discussion of the factors that could cause actual results to differ materially from these statements. This conference call will also include a discussion of non-GAAP financial measures, including those identified in Table 6 of the earnings press release. A full reconciliation with the corresponding GAAP financial measures is included in the earnings press release and is available on Colgate's website.

Good morning and welcome to our first quarter earnings release conference call. This is John Faucher, Senior Vice President for Investor Relations. Joining me this morning are Ian Cook, Chairman, President and CEO, Dennis Hickey, CFO, Victoria Dolan, Chief Transformation Officer and Corporate Controller, and Elaine Paik, Vice President and Treasurer.

This morning I will start off with some general commentary on the quarter. We'll then go into further detail on the divisional performance. I will finish up with some color on our outlook for the rest of 2017.

As Ian said in the press release, Q1 was challenging, and from an organic sales perspective, it fell short of our expectations. Overall, we saw a continuation of the sluggish market environment we highlighted on our 2016 year-end conference call. Several of the issues we highlighted on our call in January improved as expected, including the impact of the Indian demonetization. That said, we did see some additional headwinds this quarter, which I will detail as we go through the divisions.

Despite these headwinds, there were several positives in the quarter, particularly in terms of earnings growth, gross margin expansion, and operating cash flow growth.

Taking a brief run through the P&L. Our net sales were flat in the quarter, with organic sales up 0.5%. Our sales growth continues to be led by Latin America, which saw 9.0% net sales growth, and 7.5% organic sales growth in the quarter. Organic sales growth in emerging markets was 3.0%, while organic sales were down 2.5% in developed markets. Volume was down for the quarter, offset by positive pricing.

Our gross margin expansion continued in Q1, on top of strong expansion in 2016. Our gross profit margin expanded 50 basis points on a GAAP basis, and 70 basis points excluding charges from the 2012 Restructuring Program. We saw solid benefits from pricing and funding the growth.

Our advertising spend in the quarter increased 1% on a dollar basis, and was flat as a percentage of sales, against our strongest advertising quarter last year. Versus our full year 2016 advertising to sales ratio, our advertising to sales ratio in first quarter 2017 was up 120 basis points worldwide, with an increase across every single division. We still expect advertising spending to be up year over year on both a dollar basis and as a percent of sales for full year 2017. Given that Q1 was the high water mark for our advertising to sales ratio in 2016, the year-over-year increase in 2017 will be more weighted towards the balance of the year.

On a GAAP basis we delivered high single digit EPS growth. Excluding charges resulting from the 2012 Restructuring Program in both periods, our Diluted earnings per share in first quarter 2017 was $0.67, an increase of 6% versus first quarter 2016.

Cash flow performance was very strong in the quarter, driven primarily by our growth in net income, and continued improvement in our working capital performance, particularly on receivables and inventories. Over the course of the quarter, we reduced both our receivables and our inventories by more than 1 day versus Q1 2016. Our operating cash flow was up 13% year over year, while our free cash flow, which we define as operating cash flow less cap-ex, grew by 14%.

We returned $678 million to shareholders in the quarter, through share repurchases and dividends. This was almost a 20% increase versus Q1 2016.

Now moving to the divisions:

We'll start off with North America: As other consumer products companies have said, Q1 was a difficult quarter in North America. In particular, we experienced challenges in our hand dish business, and saw consumption weaken across the vast majority of our categories, particularly in the United States. Combined with inventory reductions in retail, this led to a 5% decline in net sales, and a 5.5% decline in organic sales. Volume was down 5% in the quarter, with pricing down 0.5%.

A restaging of our hand dish line led to some market share losses in the quarter. This restaging involves switching out SKUs, which temporarily limits our ability to promote the brands and has led to an increase in competitive activity and market share erosion.

We believe this transition, which is almost complete in the mass channel and will be complete in the food channel in the second quarter, positions the hand dish business well for future growth through increased shelf space and more effective consumer promotion. With the completion of the reset later this quarter, and new advertising already in the market, we think this business is well positioned to rebuild market share.

On the rest of our U.S. businesses, our market share performance has generally improved sequentially over the course of the first quarter, after a drop in late Q4. In particular, we have seen sequential improvement in our oral care share performance in the United States.

The sequential improvement in our toothpaste share performance has been aided by continued growth in our premium portfolio. Tom's of Maine continues to gain share. Our Q1 launch of Colgate Optic White Radiant in the U.S., which is being supported with a robust integrated marketing campaign including significant TV and digital advertising support, has also aided our share performance. We also launched Colgate Sensitive Pro-Relief Smart White in Canada, another premium offering. The toothpaste category in North America, and around the world, continues to premiumize, and we are seeing success with innovation at higher price points.

Year to date, our mouth rinse market shares are up year over year driven by the Q1 launch of Colgate Total Advanced Health Mouthwash. When a consumer shakes the bottle they combine the freshening and germ killing layers to reduce 24x more bacteria than ordinary, non-antibacterial mouthwashes.

Now we'll look at Latin America. Latin America continued to be a key driver of growth in our portfolio, both on an organic sales and a net sales basis. Our net sales growth of 9% was driven predominantly by pricing, as volume was flat, and foreign exchange provided a 2% tailwind. We continue to see growth in volume in Mexico, driven by strong share gains in toothpaste. Year to date, our Mexican market share in toothpaste is up more than 200 basis points to 82%. We have seen share growth across most of our toothpaste brands, led by Colgate Max Fresh, Colgate Triple Action Extra Whitening, and Colgate Anti Cavity. Mexico is also seeing strong share gains in mouth rinse and bar soap.

In Brazil, we maintained our leadership in the toothpaste category during the quarter with our year-to-date market share at 72.1%. Share performance is more mixed across the rest of Latin America, however we expect this to improve going forward. We have several new product launches scheduled for the second quarter, and we believe this additional activity, along with our increased advertising investment year over year should result in more consistent share gains.

Now we'll move to Europe. We are heartened by the sequential improvement in our volume and organic sales performance in Europe this quarter versus Q4 2016, which came despite some continued impact from our distribution issue in France.

Europe net sales were down 5% in the quarter, with organic sales down 0.5%, and a 4.5 percentage point impact from foreign exchange. This represents an acceleration of 300 basis points on an organic basis versus Q4, driven by improvement in volume trends, as volume was up 0.5% in the quarter versus negative 2% in Q4 2016. Net sales trends improved by 250 basis points sequentially, as the improvement in volume was offset by slightly greater negative impact from foreign exchange.

Encouragingly, for the quarter we saw sequential improvement in the U.K. and France, from Q4 2016. Our volume in the UK was up nicely, and we improved our pricing on our base toothpaste business.

In France, as expected, our business is still down year over year, but the rate of decline has lessened. As we discussed on our last call, we experienced the loss of some distribution in France. We began shipping again to that customer during Q1, and this should help improve our sales trends in France over the balance of the year.

We also recently launched the Colgate Naturals oral care line in France. This product sells at a notable premium to the rest of our portfolio, which allows us to generate positive mix. We will be launching the Colgate Natural Extracts line in other European markets later this year; other first half launches for the European division include Colgate Enamel Strength toothpaste, the Colgate 360 Advanced toothbrush line, and the re-stage of our Sanex Zero% line.

Asia Pacific

Net sales in Asia Pacific were down 3% year over year driven mostly by the negative impact of foreign exchange. On an organic basis, sales were down 1%, a modest improvement versus Q4. For the quarter, volume was down 1%, and pricing was flat.

The primary challenge in this region was weakness in our China business, where we saw significantly greater than expected retailer destocking due to the continued category shift from brick and mortar retail to e-commerce.

While brick and mortar market shares in China were down year over year, we continue to see significant share gains on-line in China. This quarter we achieved e-commerce share leadership in China behind the Colgate and Darlie brands.

Going forward, we also expect a benefit in China from the national launch of our Colgate Naturals oral care line, which Ian talked about at CAGNY. We conducted a test launch of this product in one retailer to validate the brand positioning and size of the opportunity. Based on the positive response to this test, we believe we have a premium concept that works and that we can roll out throughout China.

Our Indian subsidiary has seen signs of recovery from the impact of the liquidity crunch in Q4. Urban consumption is back to normal; rural consumption is still reflecting some lag effect, as the wholesale channel has not completely bounced back.

The Philippines also posted volume growth in Q1. Our toothpaste market share is up to 63% year to date, +110 basis points, driven by market share gains on Colgate Triple Action and Colgate Sensitive.

Along with the Colgate Naturals launch in China, Asia Pacific should benefit from the continued roll-out of Colgate Total Pro Breath Health toothpaste and Colgate Slim Soft Advanced toothbrush.

Africa/Eurasia

The Africa/Eurasia division showed notable improvement in Q1. Our year-over-year growth in net sales, organic sales, and operating profit all accelerated sequentially from Q4 2016, despite the continued impact from the distributor changes in our sub-Saharan African business. The sequential improvement in volume performance was driven by South Africa and the North Africa/Middle East region.

We are encouraged by the results from our new price tiering strategy on our base toothpaste brands in South Africa, which allows us to maintain household penetration, drive revenue growth, and generate additional funds for advertising, all while driving margin expansion. Our advertising spending in Africa/Eurasia nearly doubled year over year in the quarter on a dollar basis.

A notable oral care new product in the Africa/Eurasia division for first half 2017 is Colgate Total Pro Visible Action toothpaste, which is being launched across most of the division. On the personal care side we have launched Palmolive Luminous Oils shower gel. Both products will benefit from significant advertising support.

And finally Hill's. Hill's delivered 0.5% net sales growth for the quarter, driven by favorable foreign exchange. On an organic basis, sales were flat year over year, as a decline in volumes was offset by favorable pricing.

Volume in the U.S. was down, driven by continued weakness in the U.S. pet specialty channel. We are making progress in regaining shelf space and promotional activity in pet specialty and continue to expect improved performance as we further align our strategic priorities with our top accounts in this channel. Our e-commerce growth continues to outpace the category, as our e-commerce business nearly doubled year over year in the first quarter. Also, our Prescription Diet business in the U.S. is growing nicely, driven by strength in the vet channel.

Outside the United States, we saw organic growth in Europe driven by our on-line business, and consumption is up across almost all of our European markets. Our emerging markets business saw strong growth in both net and organic sales in the quarter.

Hill's should continue to benefit from the recent U.S. launch of Hill's Science Diet Youthful Vitality, which is specially formulated for dogs aged 7 years and older to help fight the effects of aging.

Now we'll turn to our outlook for 2017. As stated in our press release, we maintained our guidance of flat EPS on a GAAP basis and low-single-digit EPS growth on a non-GAAP basis. However, given the organic sales weakness in Q1, we now expect organic sales growth will be modestly below our historical target of 4-7%. Based on current spot rates, we expect net sales to be up low single-digits for the year, with a slight negative impact from foreign exchange.

We still expect gross margin expansion at the high end of our 75-125 basis points long-term guidance range. We will continue our intense focus on productivity. We have a strong pipeline of funding the growth cost savings programs for 2017. Furthermore, in the last year of our Global Growth and Efficiency Program, we continue to identify incremental opportunities to drive costs out of the organization.

Our new organic sales outlook is based on an assumption that our category trends in the U.S. will improve versus Q1, but that growth will remain below the rates we saw in 2016. We expect sequential improvement in organic sales as we proceed through the year.

There are several reasons why organic sales should improve as we go through the year.

- Our category growth rates in the U.S. have improved since the fall-off in February.
- We believe the performance of our U.S. hand dish business will improve as we finish the transition to our new SKUs.
- As we mentioned in the divisional sections, many of the headwinds that we saw in Q4 have lessened in Q1 and should be even less of an impact going forward.

- Our benefit from new products should accelerate as we deliver a broad array of innovation throughout the year.
- The benefit from our additional sustained advertising investment.

Finally, I have one housekeeping announcement. Due to scheduling conflicts, we will be issuing our Q2 earnings release and hosting our conference call earlier than normal this year. Our Q2 earnings release and conference call will be on July 21st.