NUS INVESTMENT SOCIETY

Colgate Palmolive (NYSE: CL)

BUY: $78.26 (+12.6%)

Equity Research Department – Consumer Staples

17 April 2020

Analysts

Ling Yi Xiang - Lead Analyst
lingyixiang@u.nus.edu

Koh Kai Rui
kairuikoh@u.nus.edu

Lee See Yuan
leeseeyuan@u.nus.edu

Basic Information

Last Closed Price	US$69.49
12M Target Price	US$78.26
+/- Potential	+12.6%
Bloomberg Ticker	CL: NYSE
GICS Sector	Consumer Staples
GICS Sub-Industry	Personal Products

1Y Price (NYSE:CL) v Relative Index (DJ30)

Company Description

Colgate-Palmolive Company is an American multinational consumer products company. It operates through the following segments: Oral, Personal, Home Care, and Pet Nutrition.

Key Financials as of 22 May 20

Market Cap	60.2B
Basic Shares O/S	856.5M
Free Float	796.8M
52-Wk High-Low	US$77.41- US$58.49
Fiscal Year End	31-Dec-2019

(US$ M)	FY18A	FY19A	FY20E	FY21E
Revenue	15,544	15,693	15,998	16,321
Gr Rate (%)	*0.6*	*1.0*	*1.9*	*2.0*
EBITDA	4,118	3,837	4,243	4,452
Margin (%)	*26.5*	*24.5*	*26.5*	*27.3*
ROE *(%)*	1,218.3	424.2	235.2	175.0
ROA *(%)*	19.7	15.7	14.5	13.8
EV/EBITDA	4,205	4,182	4,342	4,559

Key Executives

Noel Wallace (CEO)

Noel Wallace joined Colgate in 1987, progressed through many senior managerial roles around the world.

Henning Jakobsen (CFO)

Jakobsen served as VP and Corporate Controller since 1989 with business and finance expertise.

We are initiating coverage of Colgate-Palmolive Company ("Colgate") with a BUY rating and a US$78.26 12M price target.

Q1FY20 Earnings Highlights

- 5.5% growth in sales as compared to Q1FY19, largely driven by an increase in sales from all segments and geographies except APAC.
- EBIT Margins maintained similar as increased spending in advertisements and raw materials offset revenue growth.
- Net Income grew by 3% contributed by lower interest payments.

Investment Thesis

- Product innovation to enable market share growth in new segments such as sustainable products to capture incremental market share amidst competition. Well positioned as a market leader to tap on growing Oral Healthcare market segments.
- Implementation of the Global Growth and Efficiency Program is expected to improve margins by reducing raw material and manufacturing costs which are the two highest expenses for Colgate. This has boosted gross margins from 55% to 60% since initiation and we foresee further improvements moving forward.
- New management focuses on acquisitions and investment into sustainable products to boost a strong brand portfolio. Colgate's focus on growth through acquisitions to improve their non-Oral Care business creates an aggressive expansion strategy such as Filorga's US$1.7b acquisition projected to boost revenues by 2%. as compared to a less than 1% growth historically.

Catalysts

- Rollout of Colgate Optic White toothpaste, which is the most effective whitening toothpaste on the market. This improves growth in the Oral Care segment and boosts declining margins.
- Synergies of acquisitions such as Filorga and Hello Oral will likely boost earnings in the upcoming quarters due to full year recognition of earnings.

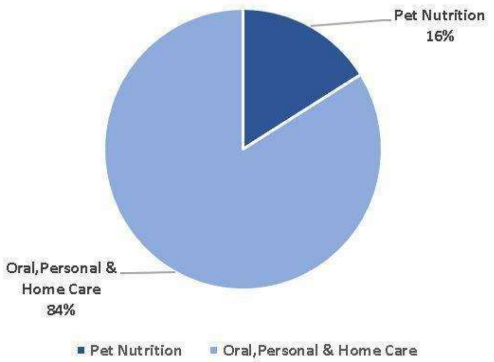
Valuations

Our 12-month Target Price is US$78.26. Valuation was conducted using a DCF model using the Gordon Growth Method, and a relative valuation method consisting of NTM P/E and NTM EV/EBITDA. The Target Price was obtained through equal weights of the 75th percentile price of the three valuation methodologies, representing Colgate's market leader position in the Oral and Personal Care market, as well as growth in their Pet Nutrition segment, giving them an edge over their peers.

Investment Risks

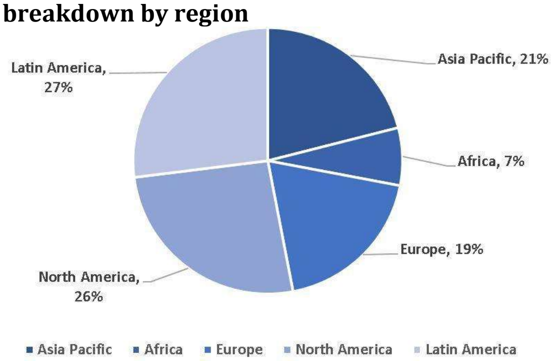
- **Foreign Exchange Risks.** Colgate is exposed to currency fluctuations with respect to the greenback which affects their bottom line. However, Colgate hedges its FX risks through currency contracts through forwards and swaps.
- **Expansion Risk.** Entry into a crowded market proves challenging as Colgate looks to expand into the eCommerce space and the Pet Nutrition segment. Colgate's ability to innovate has been the key growth factor historically as seen from their Q1 FY20 results despite strong competition from large players.
- **Business Risk.** Management's focus on expansion plans through new product lines and acquisitions. However, synergies for new product lines might not be achieved. In addition, the Coronavirus pandemic has affected disposable income of consumers due to global lockdowns and poor economic outlook which affects Colgate's demand.

Figure 1. Breakdown of revenue by segment



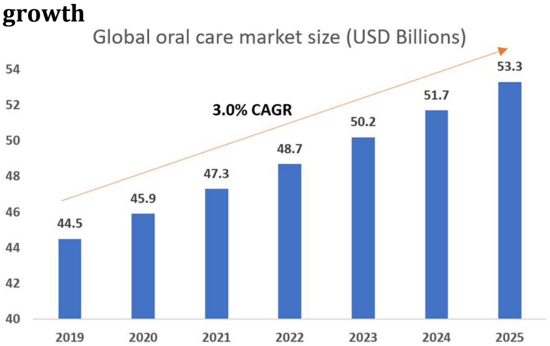
Source: Capital IQ

Figure 2. Oral, Personal & Home Care sales breakdown by region



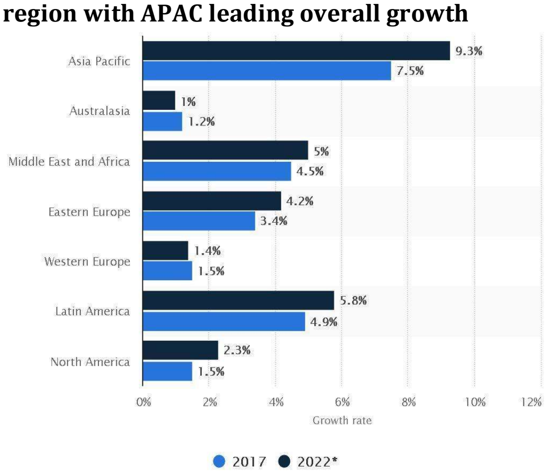
Source: Capital IQ

Figure 3. Growing Global Oral Care market growth



Source: Statista

Figure 4. Worldwide pet care market growth by region with APAC leading overall growth



Source: Statista

Company Overview

Colgate-Palmolive was founded in 1806 by William Colgate, and predominantly sold starch, soap and candles. Colgate currently operates as a consumer products company worldwide. The company operates through the following segments, Oral, Personal, Home Care, and Pet Nutrition.

Colgate is the leader in Oral Care with global leadership in the toothpastes and manual toothbrushes categories. It offers Oral Care products, including toothpastes, toothbrushes, and mouthwashes, as well as pharmaceutical products for dentists and other oral health professionals; and Personal Care products, such as soaps and skin health products. Under their Oral, Personal and Home Care segment, Colgate operates in over 200 countries and territories with Oral, Personal and Home Care comprising 84% of net sales in 2019 and Asia Pacific being the largest contributor for growth in the segment.

Pet Nutrition products produced by Colgate are marketed over 80 different countries and territories worldwide under the Hill's Pet Nutrition segment. It is used for everyday nutritional needs and a range of therapeutic products to manage various medical conditions. It has several principal trademarks such as Colgate, Palmolive and Elmex.

The company markets and sells its Oral, Personal, and Home Care products to various traditional and eCommerce retailers, wholesalers, and distributors; and Pet Nutrition products for dogs and cats through pet supply retailers, veterinarians, and e-commerce retailers.

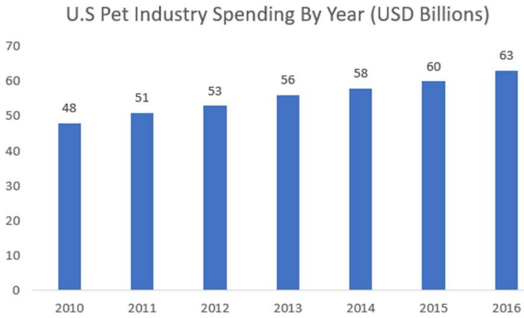
1Q20 Earnings Review

- Total revenue grew 5.5 % to US$4.1 billion in 1Q20 compared to 1Q19. Revenue from the Oral, Personal and Home care grew by 3%, with volume growth of 5.5% and an increase in net selling price of 1.5%, offset by negative foreign exchange of 4.0%.
- Revenue increased by 20.0% for the Pet Nutrition segment, driven by volume growth of 17.0% and selling price increase of 4.0% and offset by negative foreign exchange of 1% as compared to 1Q19.
- Under Oral, Personal and Home Care, Europe experienced the greatest increase in revenues at 12% increase, helping to offset the decline in revenues in regions such as Latin America and Asia Pacific.
- Gross margins remained relatively high at 60.3%, with EBITDA margin at 26.1% increasing from 26.0% in the previous year for the same quarter due to lower logistic costs and operating leverage. Net income margins increased by 3.1% to 17.5% in 1Q20 due to lower interest expense after payment of Filorga's acquisition and higher income from increased revenue growth.

COVID-19 Commentary

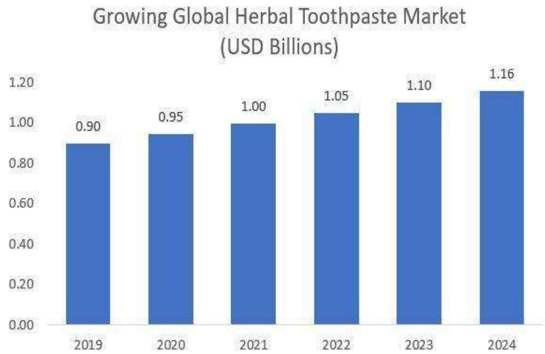
As most Colgate's product lines are staples, and in strictest sense, demand will still be present despite reduced disposable income and consumer confidence. In fact, we expect there to be a surge in demand for sanitary and healthcare products like hand sanitizers and hand soaps which are essential items to maintain proper hygiene which takes up approximately 20% of total revenues as seen from the growth in net sales for 1Q20 at 5.5% and organic sales growth increased by 7.5%. For example, we will expect higher demand for Colgate's Japanese Cherry Blossom hand sanitisers that are currently selling retail stores. In addition, we have seen consumers continue to stock up on essential sanitary products as seen from positive organic sales growth in Colgate's geographical reach such as 9% increase in net sales in North America and 12% increase in net sales in Europe.

Figure 5. US pet industry annual expenditure



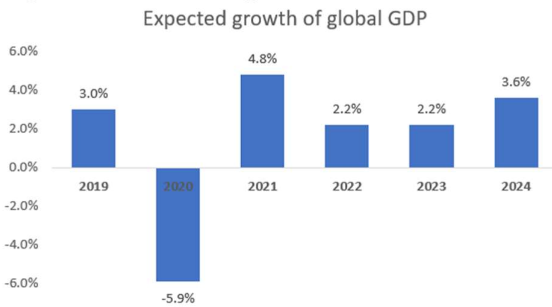
Source: American Pet Products Association

Figure 6. Global herbal toothpaste market



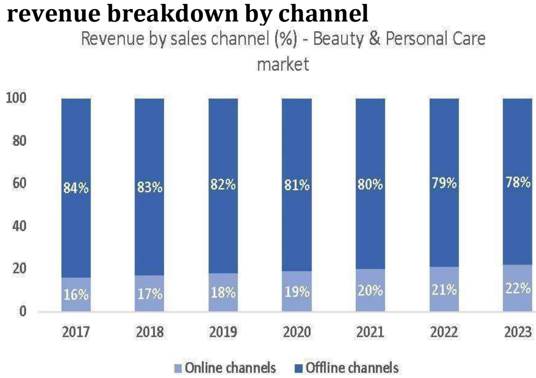
Source: Market Research Future

Figure 7. Global GDP growth estimates



Source: US Congress Outlook

Figure 8. Beauty & Personal Care market revenue breakdown by channel



Source: Statista

Hence, we believe the coronavirus outbreak has helped increase demand for Personal Care products due to greater emphasis on hygiene. In turn, this could cause greater demand for hygiene products especially in the next few quarters as countries maintain high hygiene standards to fully curb the Coronavirus, serving as a tailwind for growth.

Industry Outlook

Global Oral Care market is poised to grow consistently with rising demand for herbal toothpastes.

Global Oral Care is forecasted to hit US$53.3 billion by 2025 at a CAGR of 3% over the next 5 years. The Oral Care market has been highly competitive but only consists of a few major players such as Procter and Gamble, Unilever, GlaxoSmithKline and Colgate. Amongst the range of products under Oral Care, toothpaste is expected to hold the maximum market share as Colgate commands a strong brand name within the Oral Care market. According to Businesswire, there is an increasing dental problem among children and adults mainly due to poor eating habits. Poor eating habits arise due to changing lifestyle and improper diet, which introduces sugar-rich diets amongst many other things. For example, there has been consistent growth in the world's per capita consumption of sugar. In 2013, annual per capita consumption was only 18.6kg, as compared to current levels of 22.6kg. According to valuates reports, the global dental market size is expected to reach US$40.5 billion by 2025 with a CAGR of 5.7% as total dentist visits is expected to climb steadily from 294 million in 2017 to 319 million through 2025.

According to a survey conducted by JPR Solutions, it states that there is generally an increasing awareness of herbal oral products in the United States. This has led to a rise in demand for herbal Oral Health products as consumer preference is shifting from chemical-based products to natural and herbal Oral Care products. Herbal toothpaste comprises a formulation of well constituted herbs that ensure anti-bacterial and gum tightening properties and provide complete dental care. It contains natural taste of ingredients namely era, soda, myrrh and eucalyptus oil which are raw materials that are highly sought after due to its associated health benefits. Global herbal toothpaste market size is expected to grow at a CAGR of 5.22% from 2019-2024 to US$1.16 billion.

Increasing demand for high quality pet nutritional products.

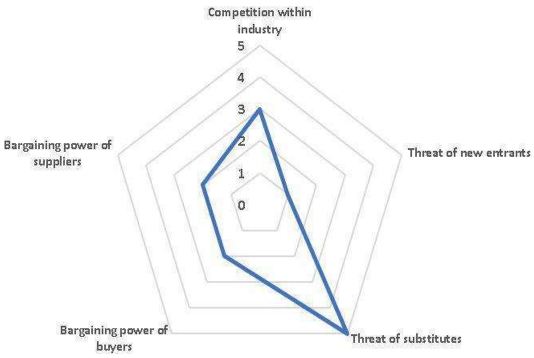
The global Pet Care market is expected to grow at a CAGR of 4.9% over the next 5 years to reach US$202.6 billion by 2025. In addition, per capita pet spending (especially in the US) has been rising since 1994 as consumers are generally more willing to spend more money on nutritional pet items to keep their pets healthy. This has been proven by a survey done by American Pet Products Association from a survey of 22,202 pet owners, driven by the trend of humanization of pets for the industry. For example, in 2016, only 27% of consumers purchased supplements for their pets as compared to 43% in 2019.

55-60% of households in America alone own at least one companion animal which comprises mostly dogs and cats. Argentina and Mexico have approximately 82% and 81% pet ownership respectively, which are the highest on the planet. Every year, an estimated 1.5m pets are adopted and sheltered which may lead to the continued growth and demand for Pet Care items.

Trend of premiumization will have a positive impact on skin care products

Most countries have experienced significant expansion leading to a rise in disposable income. With greater spending power, consumers are generally willing to spend more on premium brands that are deemed to be of higher quality, thus yielding higher satisfaction. This

Figure 9. Porter's 5 Forces

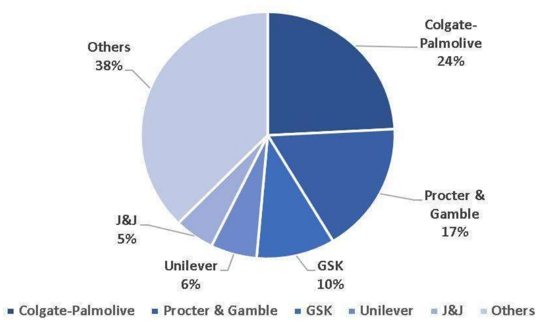


Source: NUS Investment Society estimates

Figure 10. Wide range of Oral Care brands

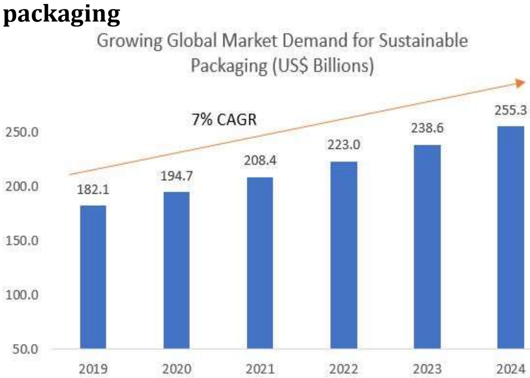
Source: Google image

Figure 11. Oral Care market share



Source: Bloomberg

Figure 12. Growing demand for sustainable packaging



Source: Pulpwork

is the phenomenon behind the trend of premiumization - growth in personal wealth, and we expect a similar progression for Colgate's newly acquired skincare brand, Filorga which is positioned as a premium brand in the skincare industry.

Filorga's largest markets are France, Italy, Spain and Greater China. Colgate has plans to expand it further into the Asia Pacific region to capture the tailwinds of premiumization in the emerging markets. As Filorga markets itself as a unique and premium brand from Europe, affluent consumers in the emerging markets will be attracted to purchasing these products.

Porter's Five Forces

Competition within industry – Moderate

There are a few major players in the Personal Care industry such as Procter & Gamble and Kimberly Clark but a wide variety of products from facial products to Oral Care. Switching costs are low as it does not cost anything for a consumer to purchase one brand over another. That said, Colgate does have a high brand penetration rate within households, stabilizing between 60-65% in recent years. This is nearly twice as high as its competitor brands and this allows the company to build a loyal customer base that is more likely to continue purchasing their products.

Threat of new entrants – Low

Capital expenditure and research and development costs are high due to the need for factories for production of goods, as well as continued innovation of new products. However, Colgate's economies of scale grants them a cost advantage. According to Kantar Worldpanel, Colgate is the only brand in the world purchased by more than half of all households, further strengthening brand equity. This makes it difficult for potential new entrants to enter the industry.

Threat of substitutes – High

Trademarks are of material importance to its business, and the company makes use of trademark protection globally for its products. However, there are a wide array of similar products such as toothpaste, body wash and detergents from many other brands that consumers can easily switch to, given they serve the same purpose.

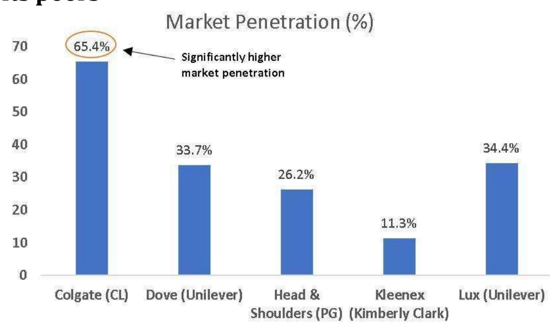
Bargaining power of buyers – Low

Due to the oligopolistic nature of the industry, buyers only have a few firms to choose from. These Personal Care products are also essential for day to day living and are purchased on a frequent basis which results in consumers being less price sensitive. Colgate also sells its goods to a diverse range of retailers who have little influence on prices.

Bargaining power of suppliers – Low

Most raw and packaging materials are purchased from other companies and are available from several sources. No single raw or packaging material represents, and no single supplier provides, a significant portion of the company's total material requirements. This diverse supply chain ensures that Colgate would not be significantly affected in the event of a rise in price of raw materials from any of its suppliers. Suppliers are therefore not in a position of bargaining power.

Figure 13. Colgate's market penetration against its peers



Source: Kantar Worldpanel

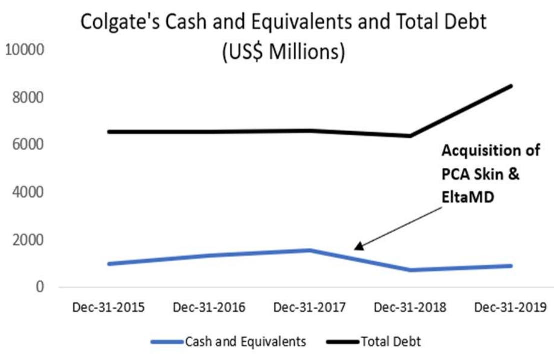
Figure 14. Colgate Zero products

Source: Google Image

Figure 15. Global Growth & Efficiency Program objectives

Source: Google Image

Figure 16. Colgate's cash & cash equivalents



Source: NUS Investment Society

Investment Thesis

1.Innovations to expand and maintain market leadership amidst the constantly growing oral healthcare market segments. Versatile management in place to navigate and capitalize on rapidly evolving market trends

Colgate is currently the market leader with 42% of total toothpaste sales, and 32% of manual toothbrush sales globally with their market share falling by approximately 1% annually for both toothpaste and toothbrush segments from 2015 due to competition from peers. However, with new and dynamic acquisition strategy and product revitalization, we expect market share decline to reverse and enter positive territory.

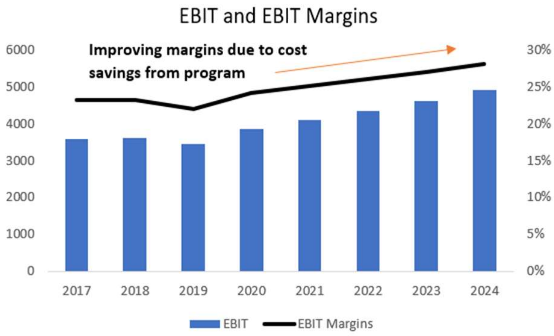
With market leadership, it has brought about sustainable organic growth in all markets. Based on the latest financial year, organic growth has grown at 4% and inorganic growth from the acquisition of Filorga has contributed to volume growth of 0.5%. In addition, organic growth has been the key driving factor for sales growth in the past years as Colgate has only recently started to look towards acquisitions to fuel growth under the new management's mandate. The company continues to maintain leadership through innovation into new spaces through natural and sustainable products to capture the markets. In addition to maintaining market leadership, Colgate excels in innovation and organic growth which has been their key differentiating factor in maintain market leadership over the competition. Furthermore, they can navigate changes in consumer preferences whilst maintaining pricing power.

Through innovation, new products such as Colgate Zero and Alcohol Free Mouthwash have been introduced to capture consumers who are moving towards more natural product options. Coupled with the fact that there is a rising trend in natural Oral Care products, Colgate is highly capable of leveraging their existing distribution channels and networks to capture this shift in the near future.

They are also looking to expand into 95% vegan toothpaste which have been registered with the international Vegan Trademark and sustainable packaging in the form of recyclable tubes and cardboard packaging - they are the first mover in this space as P&G are looking to release their own version by the end of 2022. The new products help to retain their market share to meet consumer demands for more purpose driven action from businesses and capture growth of the vegan market that has skyrocketed by 550% in the past five years. These new products help to provide a more mainstream and readily available toothpaste option for vegans as most mainstream brands uses animal testing and contain animal products. Plant based products have recently gained traction with a CAGR of 15% through 2019 to 2025. The percentage of vegans compared to the global population is report to be only at 1.2% as of 2019 and with the rapid growth rate of the community and traction in the plant-based meat industry, coupled with companies such as Impossible Foods and Beyond Meat educating people whilst generating awareness, this acts as a catalyst to accelerate the shift towards animal based free products. Such products that are found in toothpastes are animal based glycerine, calcium phosphate which was extracted from bone char or even bee derived products such as propolis which are common in natural toothpastes in the market. Although vegan toothpaste is still under clinical trials to test its effectiveness, we believe that with the shifting preference to natural toothpaste coupled with Colgate's strategic position, they will become the sustainable leaders in this segment.

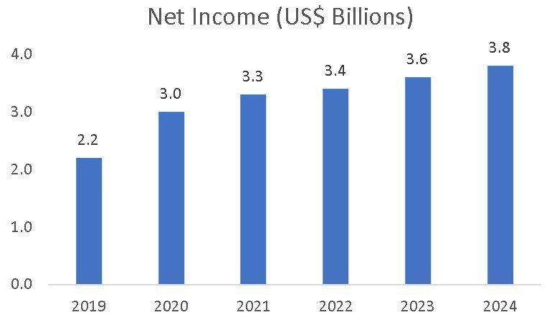
Overall, with Oral Care being a defensive product and Colgate having a high household penetration, we expect them to remain as the market leader as new product introductions and their existing strong brand name puts them at an advantageous position for new product

Figure 17. Colgate operating margin projections



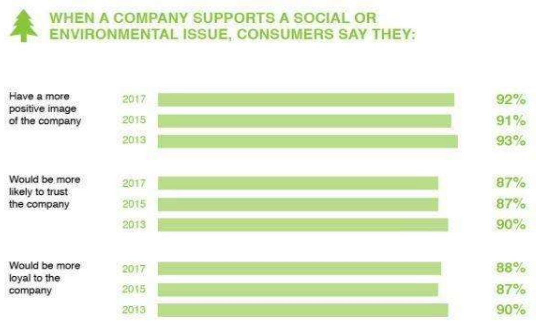
Source: NUS Investment Society estimates

Figure 18. Colgate net income projections



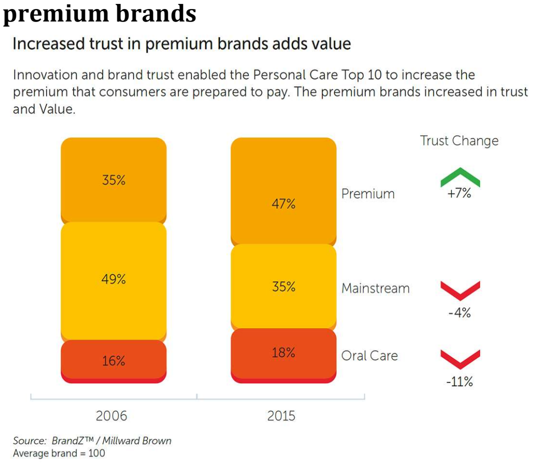
Source: NUS Investment society estimates

Figure 19. Consumer perception study on ESG issues



Source: Cone Communications 2017 Study

Figure 20. Consumer perception towards premium brands



Source: Millward Brown

rollouts. We believe that new products could resolve the issue of stagnating growth and in turn become a catalyst for growth as seen from a projected growth rate to 2% in revenues by 2021 as compared to historical growth of less than 1%.

2. Global Growth and Efficiency Program, a cost cutting initiative, decreases different business expenses to boost declining margins

Colgate implemented the Global Growth and Efficiency Program in 2012 which turned out to be a huge success as gross margins improved from 55% to 60% over the span of four years. The aim of this program was to reduce structural costs and streamline operations in order to achieve economies of scale to improve gross and operating margins.

However, increasing cost of raw materials in recent years have caused COGS to rise greater than revenue growth, resulting in gross margins declining marginally from 60.3% in FY16 to 59.5% in FY19 and operating margins falling from 26.2% in FY16 to 23% in FY19, weighing down on the company's bottom line. To address this issue, management has stated that they will extend the duration of this program to FY20. However, we believe that this program will positively impact the company's margins beyond this period, with gross margins and operating margins increasing by 5% & 6% respectively by FY24, to 64.4% & 28.7%.

New initiatives include the expansion of commercial hubs by clustering single country subsidiaries into more efficient regional hubs to drive smarter and more efficient decision making. Colgate's global supply chain and facilities were also upgraded in order to optimize manufacturing efficiencies and lower the cost and speed of introducing new innovations into the market. These initiatives are designed to reduce costs associated with direct materials, distribution and logistics, among other things, and encompass a wide range of projects, examples of which include raw material substitution, reduction of packaging materials, consolidating suppliers to leverage volumes and increasing manufacturing efficiency through SKU reductions and formulation simplification. We forecast that these measures would lower COGS as a percentage of revenue from 40% to around 36% by FY24.

Management expects this initiative to reduce Colgate's expenses in the long run, with cumulative after-tax savings from this program to be an estimated US$500-575 million, based on a projected net profit of US$2.8 to US$3.6 billion over the next 5 years. As such, this may increase Colgate's competitive advantage as they offset the rise in cost of raw materials such as resin and tallow which are expected to increase as reported by PlasticExchange and Farm Bureau Analysis respectively.

3. New management focuses on acquisitions and investments of sustainable products to boost a strong and diversified brand portfolio.

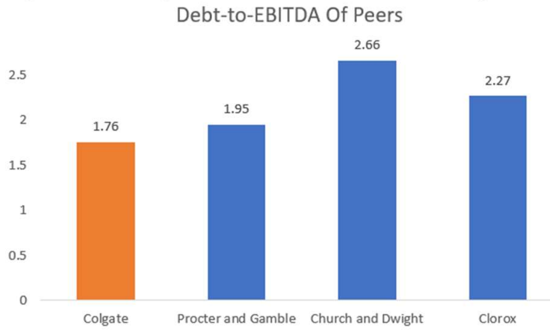
With a recent change in their management structure, Colgate's current strategy and belief is that the best way to sustain or grow in this competitive space is through constant acquisitions to improve their overall growth. As such, they mentioned that they will be adopting a more aggressive expansion strategy in the foreseeable future. As this is a new growth strategy, there is a limited track record to evaluate the performances of past acquisitions. However, we would expect the management, who understands Colgate's brands and its respective competitive environment to make strategic and rationale acquisition deals.

For example, Colgate acquired Hello Oral Brand, which focuses on eco-friendly and herbal toothpastes for cash consideration of

Figure 21. Colgate Optic White

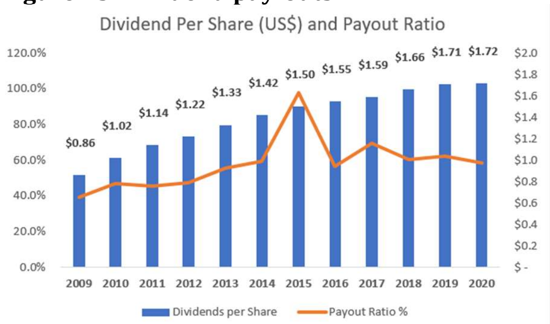
Source: Google Images

Figure 22. Colgate's Debt-to-EBITDA with peers



Source: Bloomberg

Figure 23. Dividend pay-outs



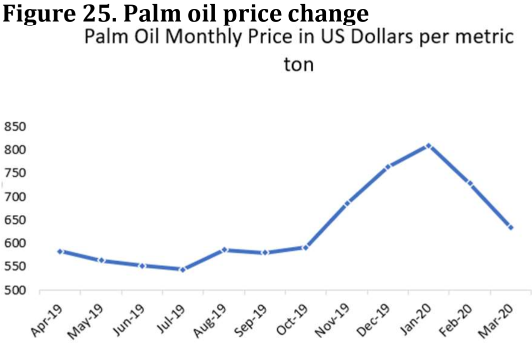
Source: Colgate FY19 Investor Presentation

Figure 24. DuPont equation

DuPont Analysis	2019A	2020E	2021E	2022E	2023E	2024E
ROE	389%	233%	180%	186%	187%	176%
Asset Turnover	1	0.9	0.9	0.9	0.9	0.9
Net Profit Margin	0.15	0.18	0.18	0.19	0.20	0.21
Financial Leverage	25.9	14.4	11.1	10.9	10.4	9.3

Source: NUS Investment Society estimates

Figure 25. Palm oil price change



Source: IndexMundi

US$351 million, which was financed with a combination of debt and cash. Hello Oral's acquisition was announced in early January 2020, and this acquisition is part of the Company's continued strategy to focus on the high growth segments within its Oral Care, Personal Care and Pet Nutrition businesses. Although no financial information was disclosed, we would expect some elements of cost, distribution and potential innovation synergies, which could continue to expand their toothpaste brand to meet consumer's preferences. As mentioned earlier, the global herbal toothpaste market is poised to grow at a CAGR of 5.22% over the next 5 years. Hello Oral is a 10-year-old maker of premium-priced vegan toothpastes which holds a reputable brand name and a strong distribution channel in supermarkets in the US such as Target. This could bode well with its customers at a time when 88% of consumers say they would be more loyal to a company that supports social and environmental issues. These moves may also increase the appeal of Colgate's brand and products to a wider range of consumers than in the past, thus improving brand equity.

For Colgate's case, we believe that the debt to equity ratio is not a good representation and have settled on the income approach of Debt/EBITDA.

Moving forward, we can expect Colgate to remain aggressive in their acquisition expansion, as they have a new management and a huge cash reserves of some US$880 million with high cash flow generation abilities. Although a huge cash balance does not signify a definitive growth for Colgate, we however, note that they will have the ability to acquire businesses with their cash holdings.

In 2015, Colgate went through a massive stock repurchase programme which resulted in their current low shareholder's equity value of some US$ 117m. Therefore, its Debt to Equity ratio of 13.6x is relatively high as compared to its peers. For example, Procter and Gamble's, Church and Dwight co, and Clorox Company have a Debt to Equity Ratio of 0.4x, 0.8x and 4.6x respectively. Consistent year on year positive performance shown in positive retained earnings account plus a conservative dividend policy has managed to offset further declines in shareholder equity due to the stock repurchase program. For example, the Debt to Equity ratio fell approximately 50% from 30x to current levels within 3 years. In addition, based on debt-to-EBITDA, it appears that Colgate has a lower leverage as compared to its peers. For example, Colgate has a debt-to-EBITDA of 1.76x, as compared to Procter and Gamble, Church and Dwight co, and Clorox Company of 1.95x, 2.66x and 2.27x respectively. Based on leverage ratios, Colgate appears to be in a healthy position compared to its peers and we believe that the debt to equity ratio is not an accurate representation of the company's financial position.

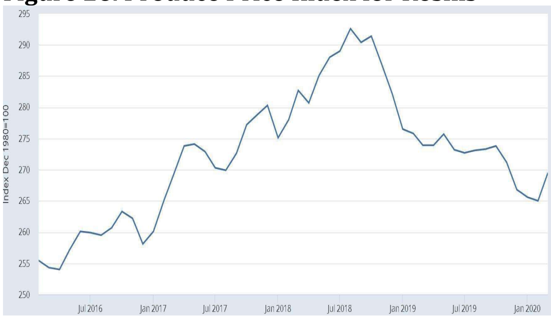
Moving forward, as Colgate's management has expressed interest to shift focus onto their pet nutrition segment, some potential targets could be American Nutrition Company or Nutro, companies that have presence in the pet segments which would further boost their competitive edge and top line growth in years to follow.

Catalysts

1. Shifting product mix and the launch of Colgate Optic White Renewal would deliver positive organic growth in the oral care segment.

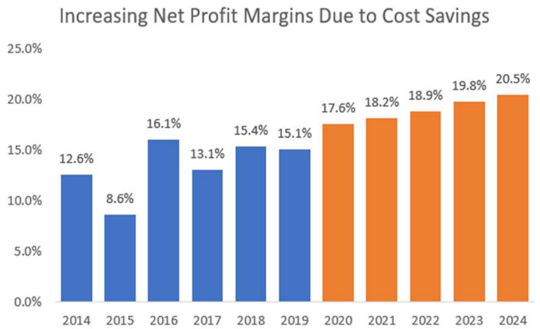
Colgate launched an all-new Optic White Renewal toothpaste in March 2020 at a $7 price point with the company's state-of-the art whitening technology. It contains a 3% hydrogen peroxide formula which is patented by Colgate to prevent competitors from replicating such product innovation. Colgate's Optic White toothpaste has clinical trials to prove the ability to see results in matters of days. Extensive marketing was carried out to generate demand for this

Figure 26. Produce Price Index for Resins



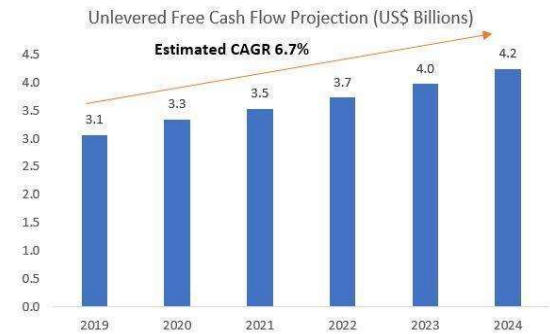
Source: Federal Reserve Bank of St Louis

Fig 27. Net profit margins stabilising



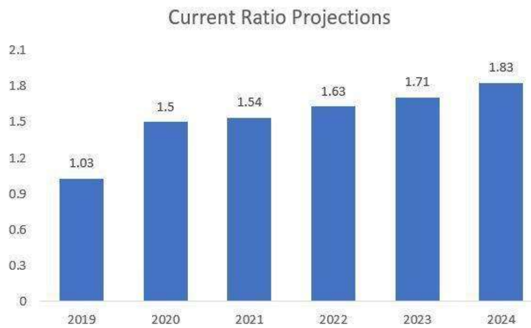
Source: NUS Investment Society estimates

Figure 28. Unlevered free cash flow



Source: NUS Investment Society estimate

Figure 29. Current ratio projections



Source: NUS Investment Society estimates

product. For example, Colgate partnered with musician Sheryl Crow to promote and boost the popularity of said product. Optic White has major contribution to the 50% growth in ecommerce according to management in the latest quarter. In addition, the launch has contributed to share gains for the franchise according to management earnings call transcript. This premium product is priced only about US$ 1-2 higher than its current toothpaste's product line and its marketing campaign has resulted in an 1116% increase in brand interest. Such a move to premium products also eases pressure on margins, which should further drive growth in the Oral Care segment.

Coupled with the fact that Colgate is able to satisfy the demands of shifting preference for natural Oral Care products due to its innovative product offerings, we expect the Oral Care segment, which has been a drag on the Oral, Personal and Health Care segment to revert from negative growth into positive growth of 1% in the upcoming quarters which should boost the stock price accordingly due to perceived confidence and growth in this segment.

2. Synergies of acquisition such as Filorga may actualise in upcoming quarters.

According to management, synergies from the acquisitions of Filorga back in July 2019 is expected to pay off in the upcoming quarters. In addition, they also expect Filorga to contribute top line growth of some 1-2% above the historical growth rate of 2% for the personal care segment. This acquisition provides Colgate entry into the fast-growing skin care market, especially in Asia. The brands under Filorga will be able to leverage Colgate's existing strong brand name and wide distribution channels. We anticipate positive and meaningful sales contributions from Filorga to Colgate's personal care business unit. Based on our estimates, it may boost top line growth to the personal skin care segment by 3.4% in FY20 as compared to a 1% contribution in FY2019.

Financial Analysis

Financial Ratios	2019A	2020E	2021E	2022E	2023E	2024E
Profitability						
Net Profit Margin	15.1%	17.6%	18.2%	18.9%	19.8%	20.5%
EBIT Margin	22.0%	23.3%	24.2%	25.2%	26.2%	27.9%
Return on Equity	424.2%	235.2%	175.0%	168.6%	163.6%	156.4%
Return On Assets	15.7%	14.5%	13.8%	13.6%	13.7%	14.4%
Liquidity						
Current Ratio	1	1.5	1.5	1.6	1.7	1.8
Quick Ratio	0.6	1	1.1	1.2	1.3	1.3
Solvency						
Debt Ratio	1	0.9	0.9	0.9	0.9	0.9
Long Term Debt/Equity	13.1	7.4	5.4	5.2	5	4.8
Times Interest Earned	18.5	19.3	19.3	19.4	19.7	19.9
Shareholder's Return						
Earnings Per Share	2.8	2.9	2.9	2.9	3.0	3.0
Dividends Per Share	1.9	1.8	1.8	1.8	1.9	1.9
Dividend Payout Ratio	0.7	0.6	0.6	0.6	0.6	0.6

Overview:

The table above shows Colgate's financial prospects over the next 5 years. Our assumptions show that Colgate's fundamentals will generally stabilize.

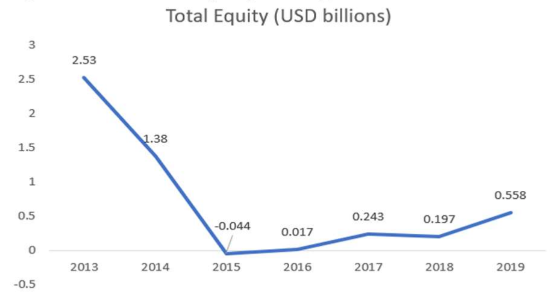
Dividend pay-out:

Colgate has been consistently distributing increasing dividend payments to shareholders yearly for the past 57 years. Over the last 10 years, Colgate has delivered 5.9% growth per year. On average, the dividend pay-out ratio over the last 5 years was approximately 60%. As such, we projected a similar pay-out over the next 5 years.

Net Profit Margins:

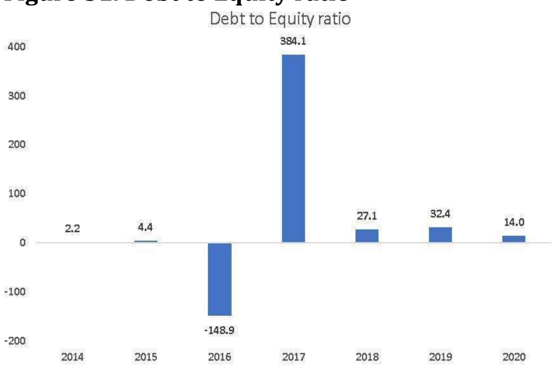
Net profit margins are projected to increase progressively due to cost-cutting efforts to approximately 20% by 2024. Colgate is

Figure 30. Total equity in capital structure



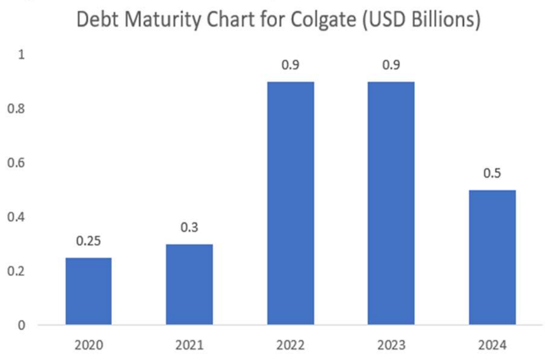
Source: Capital IQ

Figure 31. Debt to Equity ratio



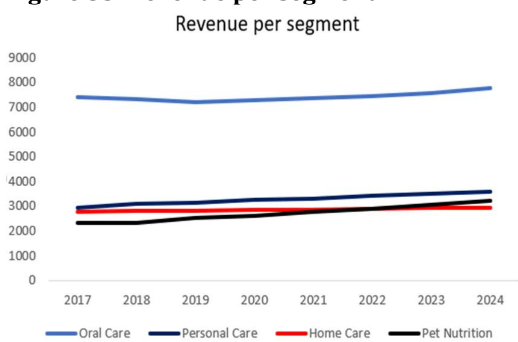
Source: Capital IQ

Figure 32. Debt Maturity Schedule



Source: Bloomberg

Figure 33. Revenue per segment



Source: NUS Investment Society Estimates

expected to have higher revenue growth from the sales of new products, but due to its Global Efficiency and Growth Program, we expect operating expenses such as corresponding production, distribution and development costs to not outpace revenue growth. Barring any volatility in terms of the costs of input, we would expect higher net profit contributions to every dollar brought in.

Costs Analysis:

The cost drivers of Colgate are mainly Cost of Goods Sold (COGS) and Selling, General & Administrative expenses (SG&A). Over the past three years, COGS and SG&A take up on average 40% and 33% of revenue respectively. The biggest cost component within COGS is raw materials. Colgate requires a range of raw materials, such as resins, tropical oils and pulps. However, they are curated from different suppliers and therefore there is minimal price gouging from suppliers. Under SG&A, it takes up approximately 33% of revenue, which could be attributed to high distribution costs into various store fronts across regions which may increase the overall costs alongside growth. Over the last three years, SG&A expenses growth has always been slightly higher than Colgate's revenue growth as Colgate incurred higher distribution expenses and high initial investments to push out Colgate's products to the targeted and mass market. However, we project gradually declining expenses as a percentage of revenue over the years attributed to their cost savings initiative which would help lower distribution and raw material costs.

Return on Equity:

Return on equity (ROE) is projected to decline significantly as we expect cost-savings and new products launch to pay off which will result in an increase in retained earnings and hence equity value. As of now, total equity under Colgate's account is some US$117millon. This is extremely low as compared to other measures such as Total Assets or Total Liability of US$1.5b and US$1.4b respectively. As such, this may artificially boost its reported ROE. Therefore, with accumulation of profits and retained earnings, we expect ROE to remain positive albeit declining due to the low-base effect

Total shareholder's equity was approximately US$1.4b in 2014 but it declined to US$44m in 2015. This was due to the fact that the board of directors implemented a new share repurchase programme of US$5b at an average price of US$68.18. Hence, treasury stocks in holdings increased by approximately US$1.3b which significantly reduced the total equity in 2015. As such, the programme resulted in Colgate having a negative shareholder's equity. However, much of the negativity can be attributed to the large amount of treasury shares that Colgate holds, which may be a good sign for present or future equity holders as they now have a bigger share of the pie as there are less shares outstanding in the market. In addition, total equity has been rising in recent years due to the accumulation of retained earnings.

In our opinion, this would contribute to Colgate's decreased reliance on debt to finance the expansion of its business activities. We would expect greater dependence on cash flow generated from its normal business activities. The company has strong cash flow generation capabilities which explains the large cash position in its account.

Cash Flow:

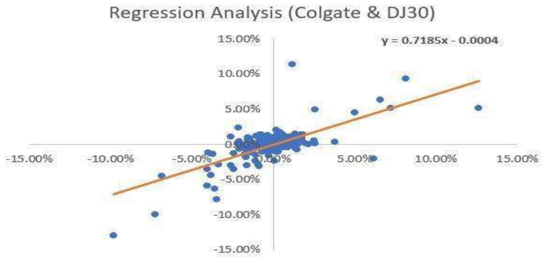
Colgate is projected to generate strong and consistent operating cash flow from the various segments of its business. Despite the widespread outbreak of COVID-19 around the world, we expect consumers to consistently purchase essential items such as household products and pet items during this period.

Figure 34. Cost of Equity

COST OF EQUITY		
Risk free rate	1	**0.7%**
US 10 Year Treasury Yield		0.7%
Market risk premium	2	**10.3%**
Weighted average country risk premium		2.3%
North America ERP		0.0%
Latin America ERP		3.8%
APAC ERP		1.2%
Africa ERP		5.3%
Europe ERP		3.5%
Cost of equity		**8.0%**

Source: Bloomberg

Figure 35. Beta regression between Colgate and DJ30



Source: NUS Investment Society Estimates

Figure 36. Capitalisation structure

	Weight	Cost	W*C
Equity	87.50%	8.10%	7.10%
Debt	12.50%	1.90%	0.20%
WACC			**7.30%**

Source: NUS Investment Society estimates

Figure 37. Sensitivity tables (Exit multiple)

EQUITY VALUE PER SHARE

		TERMINAL MULTIPLE				
		14.0x	14.5x	15.0x	15.5x	16.0x
WACC	6.3%	76.25	77.32	78.39	79.46	80.53
	6.8%	74.44	75.48	76.53	77.58	78.62
	7.3%	72.67	73.70	74.72	75.74	76.76
	7.8%	70.96	71.96	72.96	73.95	74.95
	8.3%	69.29	70.26	71.24	72.22	73.19

Source: NUS Investment Society Estimates

Figure 38. Sensitivity tables (Terminal growth)

EQUITY VALUE PER SHARE

		PERPETUAL GROWTH RATE				
		1.4%	1.9%	2.4%	2.9%	3.4%
WACC	6.3%	83.73	92.22	102.87	116.66	135.21
	6.8%	75.00	81.75	90.03	100.44	113.91
	7.3%	67.75	73.22	79.82	87.91	98.08
	7.8%	61.63	66.14	71.49	77.94	85.84
	8.3%	56.40	60.17	64.58	69.81	76.11

Source: NUS Investment Society Estimates

Figure 39. 2020 GDP growth (Projection)

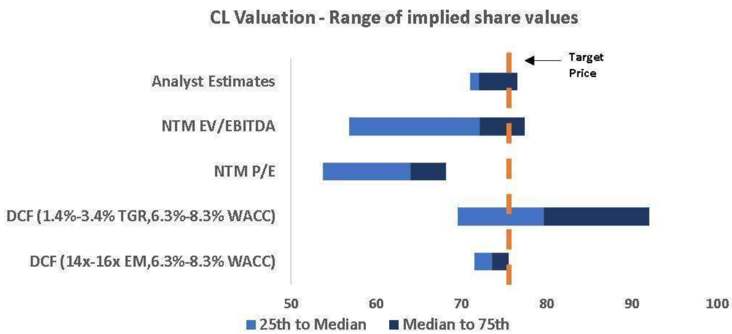
Market risk premium	2	**10.3%**
Weighted average country risk premium		2.3%
North America ERP		0.0%
Latin America ERP		3.8%
APAC ERP		1.2%
Africa ERP		5.3%
Europe ERP		3.5%

Source: Damodaran Country Risk Premium

The growth in operating cash flow is mainly attributed to the expected rise in sales and thus net income. Colgate also has an average free cash flow conversion of 60% over the past 3 years, which is forecasted to increase gradually to 72% over the next 5 years. This further highlights the company's strong cash flow generation capabilities. For the cash flow used in financing activities, the main contributors are dividends payments as well as the repayment and refinancing of the bonds that are maturing in the upcoming years. By means of comparing cash flow from operations to net income, Colgate is projected to maintain at current levels of approximately 72%-74%.

Valuation

Valuation Price Target: US$78.26



A Discounted Cash Flow analysis was used to estimate the intrinsic value of Colgate's share price. The model was forecasted over 5 years considering the company's expansion plans into different geographies, segments as well as continued success in their roll out of new products.

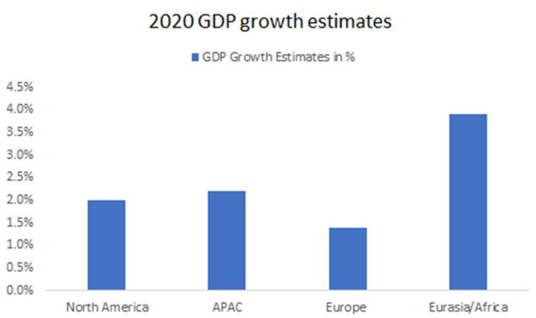
Revenue Growth

Revenue growth for Colgate is mainly driven by continued positive reception towards the company's new products in the future and existing Oral Care segment products. This would be further enhanced by their acquisition spree through expanding and improving their existing product lines. Plans for expansion into different geographies together with new product lines are expected to further boost Colgate's revenues Oral Care segment, therefore, we expect an overall steady growth rate of 1-3% from 2020 to 2024. Revenue growth was forecasted by analysing each segments' potential growth rate and we used a weighted average rate amongst those 4 segments to arrive at our final growth rate.

Between FY18 and FY19, Oral Care segment sales decreased by 1% due to the competitive nature of the Oral Care segment where they lost global market share in terms of mouthwash and manual toothbrushes despite organic growth in toothpaste sales. However, we believe that the trend will reverse as Colgate will see through new acquisitions and new product lines as a result of innovation. As a market leader, we expect consistent growth throughout the Oral Care segment as toothpastes continue to experience organic growth with new products such as the charcoal Colgate brand. Oral Care is expected to grow to 1-2% growth rate through new product lines but organic growth is looked to be offset by the trend toward electronic toothbrushes. In addition, the recent acquisition of Hello Products, which is one of the fastest growing premium Oral Care brands in the US with a strong appeal among younger consumers, looks to contribute to innovation and synergies to help boost this core segment of Colgate's business.

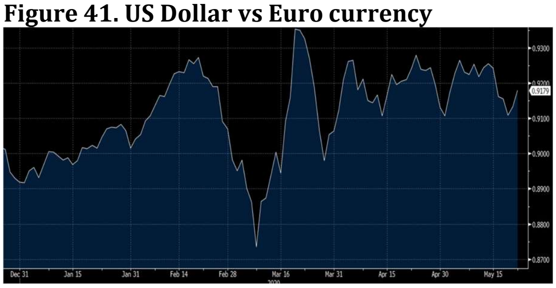
Home Care saw a growth of approximately 1% between FY18 and FY19. This segment has experienced a strong growth rate ever since it introduced new products such as Suavitel and Soupline in the European regions which has become leading Home Care products in the region. The company is in a stage where they are focused on

Figure 40. 2020 Projected GDP growth



Source: IMF

Figure 41. US Dollar vs Euro currency



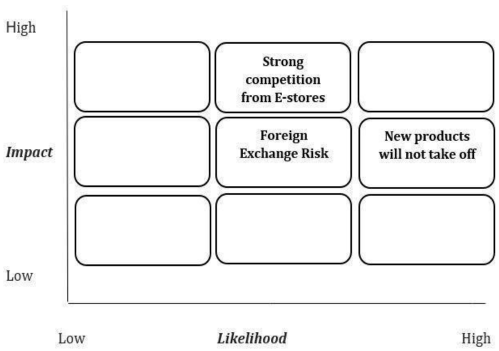
Source: Trading View

Figure 42. Blended Price Target Derivation

Valuation Method	75th Percentile PT
DCF (14x-16x EM,6.3%-8.3% WACC)	US$75.55
DCF (1.4%-3.4% TGR,6.3%-8.3% WACC)	US$91.95
NTM P/E	US$68.16
NTM EV/EBITDA	US$77.38
Blended PT	**US$78.26**

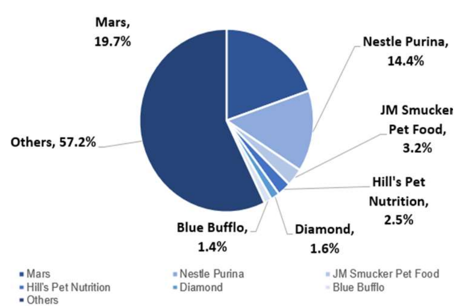
Source: NUS Investment Society Estimates

Figure 43. Investment risk matrix



Source: NUS Investment Society Estimates

Figure 44. Pet food industry market share split



Source: Pet Food Industry

product development and new market focus through fabric softeners and liquid cleaners. Hence, we expect the company to have a higher growth rate of 0.8% throughout 2020–2024.

The Personal Care segment experienced a 1% growth between FY18 and FY19 due to a fall in sales in the hand soap category offset by organic sales growth in skin health, body wash, bar soap and shampoo categories. The company has been able to experience organic growth through skin health, body wash and body soap categories to maintain positive growth. We project a higher growth rate of 2.2% CAGR throughout the 5-year period due to the recent acquisition of Filorga and the expected expansion into travel retail for this segment so as to leverage on Filorga's expertise. As Colgate is looking to expand their Personal Care segment into premium beauty products and higher margin businesses, Filorga expertise fits into Colgate's goals as they have had successes in travel retail in China and South Korean duty free and being ranked top 10 in The Shilia and Lotte Duty Free. In addition, with new products expected to be launched to maintain competitiveness in the industry, it would also contribute to a higher growth rate in the forecasted period.

As for the Pet Nutrition segment, it has historically contributed to around 15% of the company's revenue and has been the fastest growing segment at 7.7% between FY18 to FY19. As Colgate looks to the Pet Nutrition segment to be a key driver in revenue growth, we believe that through innovation in terms of existing products and new recipes to be launched worldwide would be positively received, thus, allowing the segment to be projected to grow at above 4% growth rate from 2021 and 2024, with a slight increase in 2020 due to the Coronavirus pandemic which is contributed by increased sales due to lockdown on a global scale. This is seen through data from Nielsen which reflected a 6.4% increase in average year on year dollar growth in March as compared to the 2 to 2.5% growth rate in January and February. Due to these revenue drivers, we project strong and sustained growth in revenue over the forecast period.

Dividend Yield

Colgate boasts a dividend yield of 2.55%, which is above the average yield of its peers at 2.21%. In addition, Colgate boasts an average quarterly dividend yield of 2.35% for the past 10 years, which represents a premium of 17bps over the average yield of 10-year US Treasury Bonds over the past 10 years. Coupled with the fact that Colgate is a dividend aristocrat, this provides an attractive entry point for investors.

Weighted Average Cost of Capital (WACC)

CAPM was used to estimate both Cost of Equity and Cost of Debt. Risk free rate of 0.67% used which is in line with current yields on the 10-year Treasury. Beta was regressed between the price changes of Colgate and Dow Jones which yields a value of approximately 0.72. Market risk premium at 6.42% was used which brings our Cost of equity to 8.11%. Cost of debt was calculated using the risk-free rate plus the credit default spread of Colgate's bonds at an AA- rating, giving a value of 1.9%. With its current capitalisation structure, the weighted average cost of capital is calculated to be 7.3%.

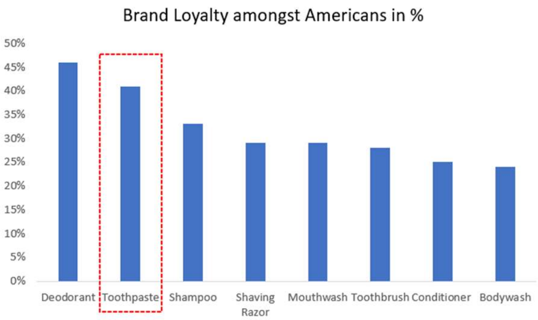
Terminal Growth

In our DCF model, we used a terminal growth rate of 2.4%. We used a weighted average 2020 expected GDP growth rate projected before the onset of the Coronavirus for the different countries that Colgate operates in, weighting the percentage of their revenues relative to total revenue generated.

Relative Valuation

We conducted an RV, along with our primary DCF valuations by using a football field. We benchmarked Colgate to large-cap industry peers

Figure 45. Consumer loyalty across consumer staple products



Source: Morning Consult and Onbuy.com

in similar businesses, with revenue segments coming mainly from personal and home care products. We shortlisted 5 other companies operating in similar geographical regions for our analysis, namely Procter and Gamble, Kimberly Clarke, Church and Dwight, Estee Lauder and Clorox. Our primary comparable metrics were NTM P/E, NTM EV/EBITDA along with analyst estimates from Bloomberg as a sanity check. Our Target Price of US$78.26 was validated as it lies within the upper end of the 50th-75th percentile range of both the DCF and EV/EBITDA price ranges, representing a premium that we used to value the stock given Colgate's market dominance as seen from its latest quarter results where their leadership in toothpaste market share stands at 40.5% and manual toothbrushes at 32.1% together with their brand equity.

Our PT of US$78.26 implies 17.2x 2021 EV/EBITDA and 22.4x 2021 P/E, which represents a 12.6% upside and reaffirms our BUY recommendation.

Investment Risks

Foreign Exchange Risk

Exposure to currency fluctuations due to global foothold: Colgate may be subjected to market risk from foreign currency exchange rate fluctuations as they sell manufactured products to more than 150 countries whose profits are translated back into USD. Due to the relatively strong USD in 2019, European segment and Asian segments were negatively impacted by -5% and -1.8% respectively in terms of foreign exchange transaction costs, affecting their bottom line.

Colgate has been actively using strategies to mitigate foreign exchange risk through foreign currency contracts such as forwards and swaps and options contracts. In addition, foreign and local currency deposits and local currency borrowings are used to hedge foreign currency purchases.

Expansion Risk

Strong competition in eCommerce and pet food business: Ecommerce in the Personal Care segment has been growing at above 15% over the past 2 years and is expected to continue to grow at a higher rate throughout 2020 to 2022. As brands look to leverage on the ease and preferences towards eCommerce, Colgate is starting to explore eCommerce as organic sales from eCommerce grew 30% in 2019 as compared to one of Colgate's biggest competitors Procter and Gamble at 25% growth. However, with eCommerce as a new avenue for sales, it sets up a competitive landscape for Colgate which might affect their sales through eCommerce retailers. The ease of access provides consumers more opportunities and options for consumers and with Colgate currently in the midst of leveraging on eCommerce, it provides opportunities for their competitors to increase their market share in the Personal Care segment. The Pet Food industry has high competition and is dominated by players such as Mars, Nestle, Big Heart and Colgate. Strong competition would create more efforts for marketing and research to allow Colgate to stand out as a market leader. With the Pet Food segment experiencing the most robust growth for Colgate over the past few years, upside for the company is highly dependent on the continued high growth for pet food. Colgate excels in innovation and organic growth which they have been doing over the past few years as acquisitions were not a main growth strategy under the previous management. Thus, we believe in Colgate's ability to grow as they develop unique comparative advantages in pet food and the eCommerce business, supporting the potential upside for the business.

Business Risk

Inability to achieve growth expectations from new Oral Care products:
Colgate is looking to become a leader in sustainability in the consumer products space. New products such as Colgate Zero are looking to hit the shelf due to Colgate's strong emphasis on sustainability and targeting health-conscious consumers. A recent study shows that 65% of the consumers are loyal to a brand in personal care due to quality and experience rather than 22% who value environmental concerns. However, Colgate can use their leadership in sustainability to be a first mover in the space and ride on the up and coming trend.

Reduced demand for Colgate's products amidst rising costs.
With the onset of the Coronavirus, it has affected consumers' disposable income due to global lockdowns and poor economic outlook. This leads to a fall in demand for higher end Colgate products as consumers look to purchase essential items that are cheap. We can also expect increased costs due to supply chain complications. However, with Colgate products being defensive in terms of them mostly being essential items, Colgate's top line numbers will look to be resilient to the virus.

Disclaimer

Appendix:
Income Statement

INCOME STATEMENT							
Net revenue	15,454	15,544	15,693	16,045	16,396	16,768	17,227
Cost of goods sold	(6,174)	(6,313)	(6,368)	(6,350)	(6,325)	(6,301)	(6,301)
Gross profit	**9,280**	**9,231**	**9,325**	**9,695**	**10,070**	**10,467**	**10,926**
Selling, general and administrative expenses	(5,400)	(5,389)	**(5,575)**	**(5,700)**	**(5,825)**	**(5,957)**	**(6,120)**
Other income (expense), net	(173)	(148)	**(196)**	**(159)**	**(166)**	**(168)**	**(174)**
Income from operations	**3,707**	**3,694**	**3,554**	**3,835**	**4,079**	**4,342**	**4,632**
Non-service related post retirement costs	(118)	(87)	(108)	(101)	(108)	(108)	(112)
Income before income tax expense	**3,589**	**3,607**	**3,446**	**3,734**	**3,971**	**4,233**	**4,519**
Interest Income net	51	50	47	47	47	47	47
Interest expense Net	(153)	(193)	(192)	(170)	(185)	(206)	(210)
Income tax expense	(1,313)	(906)	(774)	(774)	(839)	(892)	(951)
Non Controlling Interest	-	(158)	(160)				
Net income	**2,174**	**2,400**	**2,367**	**2,837**	**2,995**	**3,183**	**3,405**

Balance Sheet

Assets								
Current assets								
Cash and cash equivalents	1,549	736	906	2,078	3,183	4,611	5,341	6,311
Accounts receivable	1,480	1,400	1,440	1,507	1,538	1,569	1,608	1,652
Inventories	1,221	1,250	1,400	1,247	1,240	1,232	1,229	1,229
Other current assets	389	407	433	411	419	428	438	450
Non-current assets								
Property and equipment, net	4,072	3,881	4,252	4,129	4,066	3,999	3,931	3,861
Long Term Investments	42	46	54	54	54	54	54	54
Goodwill	2,218	2,530	3,508	3,508	3,508	3,508	3,508	3,508
Other Intangibles	1,341	1,637	2,667	2,592	2,517	2,442	2,367	2,292
Deferred income tax assets	188	152	177	176	173	180	184	188
Other non-current assets	176	122	197	154	147	157	160	163
Total assets	**12,676**	**12,161**	**15,034**	**15,855**	**16,844**	**18,179**	**18,821**	**19,707**
Liabilities and equity								
Accounts payable	1,212	1,222	1,237	1,216	1,209	1,202	1,199	1,198
Accrued expenses	1,630	1,539	1,671	1,584	1,616	1,649	1,690	1,736
Short Term Borrowings	11	12	260	17	9	3	-	-
Current Portion of Long Term Debt	-	1	254	1,089	851	900	900	500
Current Portion of Leases	-	-	145	148	151	154	158	162
Current Income Tax Payable	354	411	370	377	385	393	402	413
Other current liabilities	201	156	101	103	105	107	110	113
Long Term Debt	6,573	6,362	7,313	7,071	7,667	8,498	8,661	9,324
Long Term Leases	-	-	511	511	511	511	511	511
Pension and Other Post Retirement Benefits	1,724	1,600	1,728	1,726	1,746	1,804	1,839	1,888
Deferred income tax liabilities	204	235	507	323	368	417	386	410
Other non-current liabilities	524	426	379	456	435	440	464	469
Total liabilities	**12,433**	**11,964**	**14,476**	**14,621**	**15,054**	**16,076**	**16,320**	**16,726**
Common stock and APIC	1,466	1,466	1,466	1,493	1,497	1,505	1,519	1,528
Additional Paid in Capital	1,984	2,204	2,488	2,488	2,488	2,488	2,488	2,488
Retained earnings	20,531	21,615	22,501	23,586	24,728	25,924	27,200	28,562
Treasury Stock	(20,181)	-21,196	(22,063)	(22,499)	(23,089)	(23,980)	(24,871)	(25,762)
Accumulated other comprenhensive losses	(3,860)	(4,191)	(4,275)	(4,275)	(4,275)	(4,275)	(4,275)	(4,275)
Minority Interest	303	299	441	441	441	441	441	441
Total equity	**243**	**197**	**558**	**1,234**	**1,790**	**2,103**	**2,501**	**2,982**

Cash Flow statement

Cash flows from operating activities								
Net income	2,174	2,400	2,367	2,862	2,977	3,151	3,360	3,577
Adjustments to reconcile net income to net cash provided by operating activities:								
Depreciation and amortization	475	511	391	387	364	389	393	410
Restructuring and Terminal Benefits Expense	91	(7)	(7)	-	-	-	-	-
Stock-based compensation expense	127	109	(7)	27	4	8	14	9
Gain on sale of land in Mexico	-	-	146	-	-	-	-	-
Charge for US Tax Reform	275	80	-	-	-	-	-	-
Deferred income taxes	108	27	17	(187)	48	41	(35)	20
Voluntary Benefit Plan Contributions	(81)	(67)	(113)	-	-	-	-	-
Changes in operating assets and liabilities:								
Receivables	(15)	(79)	(78)	(29)	(30)	(31)	(39)	(44)
Inventories	(8)	(58)	(3)	6	7	8	3	1
Other prepaid expenses and other current assets			4	(8)	(8)	(8)	(11)	(12)
Accounts payable	(96)	18	-	(6)	(7)	(8)	(3)	(1)
Accrued expenses			15	30	32	33	41	46
Current operating leases			145	3	3	3	4	4
Current income taxes payable			(41)	7	8	8	10	11
Other current liabilities	4	(36)	(55)	2	2	2	3	3
Net cash provided by operating activities	**3,054**	**2,898**	**2,780**	**3,094**	**3,398**	**3,596**	**3,740**	**4,025**
Cash flows from investing activities								
Purchase of property and equipment	(554)	(436)	(335)	(395)	(376)	(397)	(400)	(415)
Sale of property and non core product line	44	1	1	-	-	-	-	-
Purchases from sale of marketable securities	(347)	(169)	(184)	-	-	-	-	-
Proceeds from sale of marketable securities	391	156	131	-	-	-	-	-
Payment for acquistions	-	(728)	(1,711)	-	-	-	-	-
Other investing activities	-6	6	-1	-	-	-	-	-
Net cash used in investing activities	**(472)**	**(1,170)**	**(2,099)**	**(395)**	**(376)**	**(397)**	**(400)**	**(415)**
Cash flows from financing activities								
Principal Payment on Debt	(4,808)	(7,355)	(6,611)	(1,089)	(851)	(900)	(900)	(500)
Proceeds from Issuance of Debt	4,779	7,176	8,059	2,149	1,357	1,976	1,267	965
Dvidends Paid	(1,529)	(1,591)	(1,614)	(1,785)	(1,835)	(1,956)	(2,084)	(2,215)
Purchase of Treasury	(1,399)	(1,238)	(1,202)	(436)	(590)	(891)	(891)	(891)
Proceeds from exercisable stock options	507	329	498	-	-	-	-	-
Net cash used in financing activities	**(2,450)**	**(2,679)**	**(870)**	**(1,161)**	**(1,918)**	**(1,770)**	**(2,609)**	**(2,641)**
Effect of exchange rate changes on cash	87	(16)	(7)	-	-	-	-	-
Cash and cash equivalents, beginning of period		1,549	736	540	2,078	3,183	4,611	5,341
Increase (decrease) in cash and cash equivalents	219	(967)	(196)	1,538	1,104	1,428	731	969

Revenue projection:

REVENUE SUMMARY								
Revenue	**15,454**	**15,544**	**15,693**	**16,045**	**16,396**	**16,768**	**17,227**	**17,744**
Growth %		*1%*	*1%*	*2%*	*2%*	*2%*	*3%*	*3%*
Segmentation								
Oral Care	7,418	7,306	7,219	7,291	7,364	7,438	7,586	7,776
Growth %		*-2%*	*-1%*	*1%*	*1%*	*1%*	*2%*	*2%*
Personal Care	2,936	3,109	3,139	3,246	3,317	3,410	3,495	3,587
Growth %		*6%*	*1%*	*3%*	*2%*	*3%*	*2%*	*3%*
Home Care	2,782	2,798	2,825	2,846	2,871	2,895	2,919	2,943
Growth %		*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*
Pet Nutrition	2,318	2,332	2,511	2,662	2,844	3,026	3,227	3,438
Growth %		*1%*	*8%*	*6%*	*7%*	*6%*	*7%*	*7%*
Segmentation (% Contribution)								
Oral Care	48%	47%	46%	47%	47%	47%	47%	47%
Personal Care	19%	20%	20%	20%	20%	20%	20%	20%
Home Care	18%	18%	18%	18%	18%	18%	18%	18%
Pet Nutrition	15%	15%	16%	15%	16%	16%	16%	16%

e

GEOGRAPHICAL SUMMARY							
NORTH AMERICA SUMMARY							
Total Sales	3,338	3,424	3,511	3,600	3,692	3,786	3,882
% growth	3%	3%	3%	3%	3%	3%	3%
% of total revenue	31%	29%	30%	29%	30%	29%	29%
LATIN AMERICA SUMMARY							
Total Sales	3,642	3,606	3,570	3,534	3,499	3,464	3,429
% growth	-1%	-1%	-1%	-1%	-1%	-1%	-1%
% of total revenue	28%	27%	27%	27%	27%	27%	27%
EUROPE SUMMARY							
Total Sales	2,438	2,450	2,462	2,475	2,488	2,500	2,513
% growth	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
% of total revenue	25.5%	25.3%	25.4%	25.4%	25.4%	25.4%	25.4%
AFRICA SUMMARY							
Total Sales	956	981	981	981	981	981	981
% growth	2.5%	7.0%	4.8%	5.9%	5.3%	5.6%	5.5%
% of total revenue	17.9%	19.1%	18.5%	18.8%	18.7%	18.7%	18.7%
APAC SUMMARY							
Total Sales	2,748	2707	2,707	2,707	2,707	2,707	2,707
% growth	-1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
% of total revenue	28.4%	27.7%	28.1%	27.9%	28.0%	27.9%	27.9%

Financial projections

EXPENSES							
Revenue	15,454	15,544	15,693	16,045	16,396	16,768	17,227
Cost of Goods Sold	(6,174)	(6,313)	(6,368)	(6,350)	(6,325)	(6,301)	(6,301)
COGS margin	40%	41%	41%	40%	39%	38%	37%
Selling, general and administrative expenses	(5,400)	(5,389)	(5,575)	(5,700)	(5,825)	(5,957)	(6,120)
% of revenue	35%	35%	36%	36%	36%	36%	36%
Other Expenses	(173)	(148)	(196)	(159)	(166)	(168)	(174)
% of revenue	1%	1%	1%	1%	1%	1%	1%
Non Service Related Expenses	(118)	(87)	(108)	(101)	(108)	(108)	(112)
% of SGA	2%	2%	2%	2%	2%	2%	2%
Income tax expense	(1,313)	(906)	(774)	(839)	(892)	(951)	(1,015)
Income before income tax expense	3,589	3,607	3,446	3,734	3,971	4,233	4,519
Tax rate %	37%	25%	22%	22%	22%	22%	22%

WORKING CAPITAL							
Revenue	15,454	15,544	15,693	15,998	16,321	16,650	17,068
Cost of Goods Sold	(6,174)	(6,313)	(6,368)	(6,337)	(6,302)	(6,263)	(6,249)
CURRENT ASSETS							
Accounts receivable	1,480	1,400	1,478	1,507	1,538	1,569	1,608
Days sales outstanding	35.0	33.8	34.4	34.4	34.4	34.4	34.4
Inventories	1,221	1,250	1,253	1,247	1,240	1,232	1,229
Days inventory outstanding	72	71	71.8	71.8	71.8	71.8	71.8
Other current assets	389	407	403	411	419	428	438
% of revenue	3%	3%	3%	3%	3%	3%	3%
			0				
CURRENT LIABILITIES							
Accounts payable	1,212	1,222	1,222	1,216	1,209	1,202	1,199
Days payable outstanding	71.7	70.4	70.0	70.0	70.0	70.0	70.0
Accrued Expenses	1,630	1,539	1,554	1,584	1,616	1,649	1,690
% of revenue	11%	10%	10%	10%	10%	10%	10%
Current Operating Leases	-	-	145	148	151	154	158
% of revenue	0%	0%	1%	1%	1%	1%	1%
Current income taxes payable	354	411	370	377	385	393	402
% of revenue	2%	3%	2%	2%	2%	2%	2%
Other current liabilities	201	156	101	103	105	107	110
% of revenue	1%	1%	1%	1%	1%	1%	1%

ASSETS							
Deferred income tax assets	188	152	172	176	173	180	184
% of revenue	1%	1%	1%	1%	1%	1%	1%
Other non-current assets	176	122	151	154	147	157	160
% of revenue	1%	1%	1%	1%	1%	1%	1%
LIABILITIES							
Long Term Leases	-	-	511	511	511	511	511
% of net income	0%	0%	0%	0%	0%	0%	0%
Pension and Other Post-Retirement Benefits	1,724	1,600	1,728	1,726	1,746	1,804	1,839
% of SGA	32%	30%	32%	31%	31%	31%	31%
Deferred income tax liabilities	204	235	507	323	368	417	386
% of revenue	1.3%	1.5%	3.2%	2%	2%	3%	2%
Other non-current liabilities	524	426	379	456	435	440	464
% of revenue	3%	3%	2%	3%	3%	3%	3%
EQUITY							
Beginning common stock and APIC		1,466	1,466	1,466	1,493	1,497	1,505
New share issuance	-	-	-	-	-	-	-
Stock based compensation	91	(7) -	7	27	4	8	14
Proceeds from settlement of stock based compensation	(4,808)	(7,355)	(6,611)	-	-	-	-
Share buyback (common stock)		(1,015)	(867)	(436)	(590)	(891)	(891)
Ending common stock and APIC	**1,466**	**1,466**	**1,466**	**1,493**	**1,497**	**1,505**	**1,519**
Stock based compensation % of revenue	0.6%	0.0%	0.0%	0.2%	0.0%	0.0%	0.1%
Beginning retained earnings		20,531	21,615	22,510	23,586	24,728	25,924
Net income	2,174	2,400	2,367	2,862	2,977	3,151	3,360
Dividends paid	1,405	1,448	1,472	1,785	1,835	1,956	2,084
Diviend Payout Ratio	65%	60%	62%	62%	62%	62%	62%
Ending retained earnings	**20,531**	**21,615**	**22,510**	**23,586**	**24,728**	**25,924**	**27,200**
Accumulated other comprehensive loss	**(3,860)**	**(4,191)**	**(4,275)**	**(4,275)**	**(4,275)**	**(4,275)**	**(4,275)**
Beginning Equity		**243**	**197**	**558**	**1,234**	**1,790**	**2,103**
Change in equity		(46)	361	676	556	312	399
Ending equity	**243**	**197**	**558**	**1,234**	**1,790**	**2,103**	**2,501**

PPE & INTANGIBLE ASSET SUMMARY							
Property and equipment	**4,072**	**3,881**	**4,252**	**4,129**	**4,066**	**3,999**	**3,931**
Intangibles	**2,218**	**2,530**	**3,508**	**2,592**	**2,517**	**2,442**	**2,367**
Depreciation and amortization	**475**	**511**	**391**	**387**	**364**	**389**	**393**

PPE SCHEDULE								
Depreciation Method	2							
Beginning property and equipment, net		4,072	3,881	4,252	4,196	4,129	4,066	3,999
CAPEX		554	436	335	395	376	397	400
Depreciation		(475)	(511)	(391)	(462)	(439)	(464)	(468)
Ending property and equipment, net		**4,072**	**3,881**	**4,196**	**4,129**	**4,066**	**3,999**	**3,931**

CAPEX SCHEDULE							
CAPEX							
CAPEX as % of Revenue		436	335	395	376	397	400
Total CAPEX		**3%**	**2%**	**2%**	**2%**	**2%**	**2%**
Depreciation		511	391	462	439	464	468
Depreciation as % of CAPEX		117%	117%	117%	117%	117%	117%

DEBT SCHEDULE									
Debt Repayments									
Due in 2020						1089			
Due in 2021							851		
Due in 2022								900	
Due in 2023									900
Due in 2024									
Total Long Term Debt					7,313	7,063	6,212	5,312	4,412
Weighted Interest Rate	Coupon	Value							
Bonds Due in 2020	2.95%	250							
Bonds Due in 2021	2.45%	300							
Bonds Due in 2022	2.39%	900							
Bonds Due in 2023	2.01%	900							
Bonds Due in 2024	3.25%	500							
Weighted Interest Rate	**2.48%**	2850							
Short Term Borrowingws						17	9	3	-
Capital Structure									
			96%	97%	94%	96%	96%	95%	95%
Total Debt/Capital			1.5x	1.5x	2.0x	1.7x	1.7x	1.8x	1.7x
Total Debt/EBITDA			96%	97%	87%	93%	92%	91%	92%
LT Debt/Capital									
Total Debt						7071	7667	8498	8661
Interest Expense						175	190	210	214

GOODWILL AND INTANGIBLE ASSETS								
Beginning goodwill	-		2,218	2,530	3,508	3,508	3,508	3,508
Ending goodwill		2,218	2,530	3,508	3,508	3,508	3,508	3,508
Beginning intangible assets			1,341	1,637	2,667	2,592	2,517	2,442
Amortization		35	59	62	75	75	75	75
Acquisitions		-	237	968	-	-	-	-
Ending intangible assets		1,341	1,637	2,667	2,592	2,517	2,442	2,367
Intangible assets		**1,341**	**1,637**	**2,667**	**2,592**	**2,517**	**2,442**	**2,367**

DCF

DCF OUTPUT - SOTP								
FCFF CALCULATION - ORAL CARE								
EBIT	1,723	1,695	1,585	1,812	1,908	2,021	2,159	2,296
Less: Taxes	*(630)*	*(426)*	*(356)*	*(407)*	*(452)*	*(478)*	*(510)*	*(541)*
EBIAT	1,092	1,269	1,229	1,405	1,456	1,543	1,649	1,755
Add: Depreciation and Amortization	*228*	*240*	*180*	*182*	*170*	*181*	*183*	*191*
Less: CAPEX	266	205	154	186	175	185	187	193
Less: Changes to Net Working Capital			*(6)*	*3*	*3*	*3*	*4*	*4*
Accounts Receivable			*(36)*	*(14)*	*(14)*	*(14)*	*(18)*	*(21)*
Inventory			(1)	3	3	4	1	0
Accounts Payable			-	*(3)*	*(3)*	*(4)*	*(1)*	*(0)*
Accrued expenses			*7*	*14*	*15*	*15*	*19*	*22*
Other Current Assets (inc. marketable securities)			2	(4)	(4)	(4)	(5)	(6)
Current Operating Leases			*67*	*1*	*1*	*1*	2	2
Current Income Tax Payable			(19)	3	4	4	5	5
Other Current Liabilities			(25)	1	1	1	1	1
Unlevered FCFF			**1,261**	**1,399**	**1,447**	**1,536**	**1,642**	**1,748**
% growth				*10.9%*	*3.5%*	*6.2%*	*6.9%*	*6.5%*
Discount factor			**1.0**	**1.1**	**1.2**	**1.2**	**1.3**	**1.4**
PV of Unlevered FCF				**1,304**	**1,257**	**1,244**	**1,239**	**1,229**

Terminal value method	Perpetual Growth
PV of terminal value	**24,912**
Implied EV	**31,185**
% of EV	*80%*
Terminal Multiple Approach	**32,503**
Terminal Growth Rate	**15.0x**
Terminal Growth Value	**37,308**
PV of terminal value	**26,230**
Perpetual Growth Approach	
Terminal Growth Rate	**2.4%**
Terminal Growth Value	*35,433*
PV of terminal value	**24,912**
Perpetual Growth Rate Calculation	
% of revenue (FY2020)	
North America	31%
APAC	18%
Europe	26%
Eurasia/Africa	26%
GDP growth rate estimates	
North America	2.0%
APAC	2.2%
Europe	1.4%
Eurasia/Africa	3.9%

FCFF CALCULATION - PERSONAL CARE								
EBIT	682	721	689	758	813	862	915	977
Less: Taxes	*(249)*	*(181)*	*(173)*	*(190)*	*(204)*	*(216)*	*(230)*	*(245)*
EBIAT	931	903	862	949	1,017	1,078	1,144	1,222
Add: Depreciation and Amortization	*90*	*102*	*78*	*76*	*72*	*77*	*78*	*81*
Less: CAPEX	105	87	67	78	75	79	79	82
Less: Changes to Net Working Capital			*(3)*	*1*	*1*	*1*	2	2
Accounts Receivable			*(16)*	*(6)*	*(6)*	*(6)*	*(8)*	*(9)*
Inventory			(1)	1	1	2	1	0
Accounts Payable			-	*(1)*	*(1)*	*(2)*	*(1)*	*(0)*
Accrued expenses			*3*	*6*	*6*	*6*	*8*	*9*
Other Current Assets (inc. marketable securities)			1	(2)	(2)	(2)	(2)	(2)
Current Operating Leases			*29*	*1*	*1*	*1*	*1*	*1*
Current Income Tax Payable			(8)	1	1	2	2	2
Other Current Liabilities			(11)	0	0	0	1	1
Unlevered FCFF			**876**	**946**	**1,014**	**1,075**	**1,141**	**1,219**
% growth				*8.0%*	*7.2%*	*6.1%*	*6.1%*	*6.9%*
Discount factor			**1.0**	**1.1**	**1.2**	**1.2**	**1.3**	**1.4**
PV of Unlevered FCF				**882**	**880**	**871**	**861**	**857**

TERMINAL VALUE

Terminal value method	Perpetual Growth
PV of terminal value	**17,374**
Implied EV	**21,725**
% of EV	*80%*
Terminal Multiple Approach	**15,510**
Terminal Growth Rate	**15.0x**
Terminal Growth Value	**15,871**
PV of terminal value	**11,159**
Perpetual Growth Approach	
Terminal Growth Rate	**2.4%**
Terminal Growth Value	*24,712*
PV of terminal value	**17,374**

FCFF CALCULATION - HOME CARE								
EBIT	646	649	620	694	736	781	831	886
Less: Taxes	(236)	(163)	(139)	(156)	(174)	(185)	(196)	(209)
EBIAT	410	486	481	538	561	597	635	677
Add: Depreciation and Amortization	86	92	70	70	66	70	71	74
Less: CAPEX	100	78	60	71	68	72	72	75
Less: Changes to Net Working Capital			(2)	1	1	1	1	2
Accounts Receivable			(14)	(5)	(5)	(6)	(7)	(8)
Inventory			(1)	1	1	1	0	0
Accounts Payable			-	(1)	(1)	(1)	(0)	(0)
Accrued expenses			3	5	6	6	7	8
Other Current Assets (inc. marketable securities)			1	(1)	(1)	(2)	(2)	(2)
Current Operating Leases			26	1	1	1	1	1
Current Income Tax Payable			(7)	1	1	1	2	2
Other Current Liabilities			(10)	0	0	0	0	1
Unlevered FCFF			**493**	**536**	**558**	**594**	**632**	**675**
% growth				8.6%	4.2%	6.4%	6.4%	6.7%
Discount factor			**1.0**	**1.1**	**1.2**	**1.2**	**1.3**	**1.4**
PV of Unlevered FCF				**499**	**485**	**481**	**477**	**474**

Terminal value method	**Perpetual Growth**
PV of terminal value	**9,612**
Implied EV	**12,028**
% of EV	*80%*
Terminal Multiple Approach	**12,536**
Terminal Growth Rate	**15.0x**
Terminal Growth Value	**14,394**
PV of terminal value	**10,120**
Terminal Growth Rate	**2.4%**
Terminal Growth Value	*13,671*
PV of terminal value	**9,612**

FCFF CALCULATION - PET NUTRITION								
EBIT	538	541	551	573	653	674	719	778
Less: Taxes	(197)	(136)	(124)	(119)	(138)	(142)	(151)	(163)
EBIAT	341	405	428	454	515	532	567	614
Add: Depreciation and Amortization	71	77	63	60	60	63	63	67
Less: CAPEX	83	65	54	61	62	64	64	68
Less: Changes to Net Working Capital			19	0	2	2	2	2
Accounts Receivable			(13)	(5)	(5)	(6)	(7)	(8)
Inventory			(0)	1	1	1	(0)	(0)
Accounts Payable			2	(2)	(1)	(1)	0	0
Accrued expenses			21	6	6	6	8	9
Other Current Assets (inc. marketable securities)			1	(1)	(1)	(2)	(2)	(2)
Current Operating Leases			23	0	1	1	1	1
Current Income Tax Payable			(7)	1	1	1	2	2
Other Current Liabilities			(9)	0	0	0	0	1
Unlevered FCFF			**417**	**452**	**512**	**529**	**564**	**612**
% growth				8.4%	13.1%	3.5%	6.6%	8.4%
Discount factor			**1.0**	**1.0**	**1.1**	**1.2**	**1.2**	**1.3**
PV of Unlevered FCF				**431**	**466**	**459**	**467**	**483**

TERMINAL VALUE

Terminal value method	**Perpetual Growth**
PV of terminal value	**19,431**
Implied EV	**21,737**
% of EV	*89%*
Terminal Multiple Approach	**12,304**
Terminal Growth Rate	**15.0x**
Terminal Growth Value	**12,669**
PV of terminal value	**9,998**
Perpetual Growth Approach	
Terminal Growth Rate	**2.4%**
Terminal Growth Value	*24,622*
PV of terminal value	**19,431**

WACC		**7.3%**
Outstanding debt		7,827
Market capitalization		60,507
Target equity weight		89%
Target debt weight		11.5%

COST OF EQUITY		
Risk free rate	**1**	**0.7%**
US 10 Year Treasury Yield		0.7%
Market risk premium	**2**	**10.3%**
Weighted average country risk premium		2.3%
North America ERP		0.0%
Latin America ERP		3.8%
APAC ERP		1.2%
Africa ERP		5.3%
Europe ERP		3.5%
Cost of equity		**8.0%**

COST OF DEBT	
Option	**Credit facility**
Debt and its Equivalents	7,827
Weighted Average Interest Rate	2.5%
Marginal tax	25.1%
Cost of debt	**2.5%**
Tax adjusted cost of debt	**1.9%**