



Stock Story: Colgate-Palmolive

Outshining the competition

It is not an easy feat to be crowned the world's most chosen personal care brand. This brand is found in more than 50% of all global households. It demands a diligent management team, a deep understanding of the consumer and consistent investment in new products and branding.

Colgate-Palmolive has been an excellent steward of its eponymous brand, Colgate, since its humble beginnings in the early 1800s. Since then, the company has transformed the brand from a basic dental powder in a glass jar into a global brand with operations spanning more than 200 countries. Grounded in differentiated R&D and science, Colgate now has a vast assortment of oral care products to make sure you have the Instagram-perfect smile. In the global toothpaste category, which has exhibited consistent ~5% growth between 2009 and 2023, Colgate holds a 20% market share and is 2.5x larger than the next competitor. Colgate's dominance is even more profound in certain markets such as Australia and Mexico where it controls a staggering ~53% and ~77% share respectively. Representing ~50% of its \$19.5b global revenue base, this highly scaled, profitable brand is the cornerstone of Colgate-Palmolive's economic moat. Toothpaste's habitual use under various economic environments also drives revenue and earnings predictability and, as a result, Colgate-Palmolive performs an important defensive role in Magellan's portfolio construction process.

As toothpaste is a 'must stock' item with immense scale, Colgate has favourable bargaining power within a consolidating retail environment. Colgate-Palmolive's leading personal and home care brands, such as Palmolive and Ajax that together represent ~30% of revenue, add further scale and bargaining power with grocery customers. Colgate's competitive moat is also protected by its differentiated R&D and large network of dentist endorsements. As a result, it faces a lower competitive threat from start-up and grocery-owned brands in developed markets. Meanwhile, in developing markets Colgate's popularity and

consumer loyalty have been underpinned by its 'Bright Smiles, Bright Futures' educational program, which has engaged with more than 1.7b disadvantaged children since its launch in 1991.

Under the umbrella of Colgate-Palmolive lies another surprising asset, Hill's Pet Nutrition, which accounts for the remaining ~20% of company revenue. On the surface this may seem like an unusual pairing; however, this brand is closely aligned with Colgate-Palmolive's philosophy of scientific innovation and professional endorsement. For example, Hill's Pet Nutrition products are sold exclusively via veterinarians, certain ecommerce retailers and specialty pet retailers such as Petbarn rather than via a mass grocery retailer where its premium offering is difficult to showcase. Accounting for only a minor share of the global pet food market, Hill's still has a long runway to expand its business against a growing pet population. Hill's is also favourably exposed to an ageing pet population via its specialised therapeutic product line, Prescription Diet, which offers pet parents best-in-class nutrition-based solutions for health conditions such as dermatitis, kidney disease and cancer.

As mentioned, the winning recipe for a high-quality, growing consumer brand is diligent management, a strong consumer understanding and a consistent investment approach. A great reminder of this concept was Colgate-Palmolive's subpar execution between 2015 and 2019 when the company had an unhealthy focus on short-term profitability and compromised investments in advertising and product innovation. Pleasingly, the current management team have identified these issues and increased advertising investments by 50% or \$1b since 2018. As revenue growth has reaccelerated, management gained additional flexibility to deploy even more investment funds and stimulate further growth. The company is on track to increase advertising by 15% this year alone. The fruits of these investments have driven positive business and share price performance.


Alongside these advertising adjustments, management instilled a longer-term innovation approach across the organisation. Management quickly discontinued plans for yet another toothpaste flavour that may add little growth and instead focused on developing new products that would revolutionise the category and create a new step in a consumer's oral care regime. Supported by its vast knowledge of the consumer, the company identified a growing beauty trend and a consumer desire for more advanced teeth-whitening products. Colgate-Palmolive's R&D teams quickly innovated on whitening formulations and product packaging, and subsequently broadened the product portfolio from merely toothpaste to cost-effective, DIY whitening pens. Pleasingly, these efforts have grown market share, reignited the company's growth flywheel and generated high-margin profits.

However, the hard work does not stop here. Every day, consumers are enticed by new brands and products, and Colgate-Palmolive must stay close to their consumers and their changing needs. We have confidence that Colgate-Palmolive's network of dentists and veterinarians, close retail partnerships, cumulative consumer insights and material reinvestment capacity place it in a strong position to navigate these changes and to grow cash flows for shareholders.

Lucina Martin, Investment Analyst

Sources: Company filings, Euromonitor.

 info@magellangroup.com.au

 +61 2 9235 4888

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