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Colgate-Palmolive Co. Downgraded To 'A+' On Business Risk Reassessment; Outlook Stable

- We lowered our view of U.S.-based Colgate-Palmolive Co.'s (Colgate) business risk following its multiyear net share losses and profit underperformance relative to other high investment-grade rated consumer product issuers. This is notwithstanding Colgate's profit and share improvement over the last 12-24 months.
- Other considerations included the company's concentration in oral care and modest scale relative to other issuers with excellent business risk profiles.
- We lowered all of our ratings on the global consumer products and pet nutrition company, including the long-term and short-term issuer credit ratings, to 'A+' and 'A-1' from 'AA-' and 'A-1+', respectively.
- The stable outlook reflects our expectation that in 2024, Colgate will grow net sales in the low-single-digit percent area and moderately improve profitability, use substantially all free operating cash flow (FOCF) for shareholder payments, and reduce S&P Global Ratings-adjusted leverage to about 1.8x.

CHICAGO (S&P Global Ratings) April 19, 2024—S&P Global Ratings today took the rating actions listed above.

We lowered our view of Colgate's business risk profile, notwithstanding its recent material performance improvement.

Our 'A+' issuer credit rating on the company reflects our reassessment of the business risk, including the following:

- Over the last six years, Colgate's global toothpaste value market share declined 220 basis points (bps; net of a 170 bps improvement in 2022-2023). Similarly, its global manual toothbrush value market share declined 110 bps (net of 60 bps improvement in 2022-2023). While improving globally, its recent regional value market share performance has been mixed. Moreover, its global oral care volume market share continued to decline in 2022-2023, which we believe reflects tough competition and the cumulative impact of high inflation leading to consumer trade down.

In our opinion, Colgate's profit performance over the years has been generally below that of large, rated multinational issuers with excellent business risk profiles, including Procter & Gamble Co., Coca Cola Co., PepsiCo, Nestle S.A., and Unilever PLC. Colgate's profit underperformance stems mainly from tougher competition and, more recently, high commodity volatility (particularly agricultural inputs in pet nutrition) and supply chain disruptions, the latter of which has been resolved. Colgate's S&P Global Ratings-adjusted EBITDA margin (now approaching 25%) remains well below its peak 30% area from years ago, which had been the highest in the household personal care space and in our view was a positive offset to its small scale compared with the above rated peers.

Colgate continues to have a high reliance in the oral care sector, which accounted for 42% of consolidated net sales and we believe likely an even higher proportion of profitability. Moreover, the company's scale is well below that of rated issuers with excellent business risk profiles. Lastly, we believe Colgate has a handful of brands that generate more than a billion dollars at retail, compared with about 20 for P&G, 34 for Nestle, 14 for Unilever, and 15 for Mars. Nevertheless, our rating recognizes Colgate's clear leadership position in oral care, where its global share approaches the mid-30% area.

Colgate remains a leading competitor in generally attractive, low cyclicality categories.

The company is still a leader (number one or two share globally) in toothpaste and manual toothbrushes, liquid hand soap, mouthwash, bar soap, liquid fabric conditioners, and hand dishwashing. We expect Colgate to focus its ramped-up innovation and advertising efforts on its more attractive oral care, personal care, and pet nutrition businesses, augmented with potential bolt-on mergers and acquisitions (M&A). We expect Colgate will optimize investments in home care, where its pricing power is more limited.

Colgate benefits from its solid geographic diversity, with about 55% of sales from developed markets (including about 33% in North America) and 45% from developing markets. It nevertheless faces tough competition in oral care from P&G, Haleon, and regional brands and meaningful store brand competition in liquid hand soap and home care. Compared with oral care, the company has meaningfully lower share in personal care and pet nutrition, the latter centered around Hill's--a growing premium brand experiencing high, albeit moderating, agricultural input cost inflation.

We expect the company to strengthen its credit metrics, including reducing S&P Global Ratings-adjusted leverage to about 1.8x in 2024. Over the last two years, its credit metrics deteriorated primarily due to pet nutrition acquisitions and high share repurchase activity. The stable outlook reflects our expectation that in 2024, Colgate will grow net sales in the low-single-digit percent area and moderately improve profitability, use substantially all FOCF for shareholder payments, and reduce its S&P Global Ratings-adjusted leverage to about 1.8x.

We could lower our rating on Colgate if it sustains S&P Global Ratings-adjusted leverage above 2x, potentially due to:

- Financial policy becoming more aggressive than we expect, including by making large debt-financed acquisitions or share repurchases well above our base case;
- Profitability deteriorating, potentially due to escalating competition, a reacceleration of inflation including in agricultural inputs, or a meaningfully stronger U.S. dollar against other currencies.

We could raise the rating if Colgate:

- Adopts more conservative financial policies such that we expect adjusted leverage will be maintained below 1.5x and
- It reports solid performance.

The company would need to reduce its S&P Global Ratings-adjusted debt by $2.2 billion or grow its S&P Global Ratings-adjusted EBITDA by 30% to reach S&P Global Ratings-adjusted leverage below 1.5x.

Related Criteria

- **Criteria | Corporates | General: Sector-Specific Corporate Methodology**, April 4, 2024
- **Criteria | Corporates | General: Corporate Methodology**, Jan. 7, 2024
- **Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities**, Jan. 7, 2024
- **General Criteria: Environmental, Social, And Governance Principles In Credit Ratings**, Oct. 10, 2021
- **General Criteria: Group Rating Methodology**, July 1, 2019
- **Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments**, April 1, 2019

- **Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings**, March 28, 2018
- **General Criteria: Methodology For Linking Long-Term And Short-Term Ratings**, April 7, 2017
- **Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers**, Dec. 16, 2014
- **General Criteria: Methodology: Industry Risk**, Nov. 19, 2013
- **General Criteria: Country Risk Assessment Methodology And Assumptions**, Nov. 19, 2013
- **General Criteria: Principles Of Credit Ratings**, Feb. 16, 2011

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

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