Colgate-Palmolive (CL) Earnings Report: Q1 2016 Conference Call Transcript

The following Colgate-Palmolive conference call took place on April 28, 2016, 11:00 AM ET. This is a transcript of that earnings call:

Company Participants

- Bina Thompson; Colgate-Palmolive Company ; Investor Relations
- Ian Cook; Colgate-Palmolive Company ; Chairman, President and CEO

Other Participants

- Jason English; Goldman Sachs; Analyst
- Wendy Nicholson; Citi; Analyst
- Steve Powers; UBS; Analyst
- Olivia Tong; BoA Merrill Lynch; Analyst
- Ali Dibadj; Bernstein; Analyst
- Bill Chappell; SunTrust; Analyst
- Dara Mohsenian; Morgan Stanley; Analyst
- Javier Escalante; Consumer Edge Research; Analyst
- Bill Schmitz; Deutsche Bank; Analyst
- John O'Shea; JPMorgan; Analyst
- Caroline Levy; CLSA; Analyst
- Aaron Lasch; MorningStar; Analyst
- Mark Astrachan; Stifel; Analyst

MANAGEMENT DISCUSSION SECTION

Operator:

Welcome to today's Colgate-Palmolive Company first-quarter 2016 earnings conference call.

This call is being recorded and is being simulcast live at www.colgatepalmolive.com.

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 the most recent form 10-K and subsequent SEC filings -- all available on Colgate's website, for a discussion of 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 corresponding GAAP measures is included in the earnings Press Release and is available on Colgate's website.

Now for opening remarks, remarks, I would now like to turn the call over to Senior Vice President of Investor Relations, Bina Thompson. Please go ahead, Bina.

Bina Thompson (Investor Relations):

Thank you, Operator. Good morning. Welcome to our first-quarter 2016 earnings release conference call.
With me this morning are Ian Cook, Chairman, President, and CEO; Dennis Hickey, CFO; Victoria Dolan, Corporate Controller; and Elaine Paik, Treasurer.

We’re delighted with our strong start to the year. Organic sales growth is well within our targeted range of 4% – 7%. Our gross profit margin we’ve a long-standing goal of 60%. Advertising as a percent of sales is that a solid 10.6%, even with the year ago quarter, but up 230 basis points from the fourth quarter of 2015, behind strong, new product activity.

Currency headwinds continued in the quarter, and we were able to take pricing to partially offset those headwinds and still deliver volume growth. And as you will hear as I go to the divisions, our market shares are strong and growing.

We’re well into our Global Growth and Efficiency Program, savings are projected to be within our announced ranges, and our funding the growth initiatives have delivered another solid 130 basis points benefit on a gross margin line in the quarter.

Current estimates show the benefit from the funding the growth initiatives increasing as we go through the year. Our balance sheet a solid, working capital is down from the prior year, we announced the dividend increase effective this quarter and our share buyback program continues.

So let’s turn to the divisions starting with North America. This division reported solid results. Innovation helped to fuel growth and our market shares were up or stable in eight of 11 categories.

Our new products were well supported with tactical integrated marketing campaigns with activation in store as well as in traditional media and digital. In toothpaste, as mentioned, we’ve achieved market leadership on the year-to-date basis, up 50 basis points to almost 36% of the market.

Now you may recall that we launched Colgate Total Daily Repair toothpaste in the third quarter of 2015. This quarter we launched a companion mouthwash which allowed us to offer a regimented approach and was supported by shelf displays in-store. As a result, Colgate Total toothpaste achieved its highest first-quarter shares in 2013.

We continue to expand our line of Colgate Optic White whitening toothpaste with the launch of High-Impact White. Price in uber-premium price points, this innovation offers four shades visibly whiter teeth by brushing twice daily for six weeks.

Part of our integrated marketing campaign associated with the launch was sponsorship of the 2016 country music awards, with displays in the presenter holding room as well as the Colgate Optic White hair and makeup room. The Colgate Optic White line, now with six variants, all premium quarter uber premium price holds a record 6% market share year-to-date.

Also in the first quarter, we launched Colgate Enamel Health Mineral Repair toothpaste, which helps repair weakened enamel with vital minerals. The launch was supported by a smile with strength campaign, one of the strongest testing campaigns ever for the enamel health range. And in addition, we provided strong support to the dental professionals with sampling, print ads in dental journals, conventions, education and detailing.

We continue to widen our lead in the manual toothbrush category, a significant contributor has been our line of Colgate 360 Degree toothbrushes. The most recent introduction was Colgate 360 Degree Enamel Health Whitening toothbrush, a differentiated and incremental innovation, which brought the 360 franchise share to a record 23% year-to-date.

Our body wash shares are up 50 basis points year-to-date to 9.5%. Contributing to this success is our new line of Softsoap Luminous Oils body wash, formulated to leave your skin feeling soft after showering. And
in early reads it is exceeding our performance expectations.

For men, we launched Irish Spring Signature for Men clean and scrub exfoliating body wash. Crafted with authentic haute extract as well as the classic Irish Spring sent in a convenient pump.

Turning then to Europe South Pacific, results were solid in this division as well. A very full innovation grid field volume and market share growth.

Market shares increased year-to-date in toothpaste, toothbrushes, body wash, bar soap, deodorants, and fabric conditioners. Our toothbrush year across Europe increased 40 basis points, increasing our market leading position. Similarly, in manual toothbrush is, we extended our number one position by 170 basis points year-to-date and in fabric conditioner by 150 basis points year-to-date.

In toothpaste, our first-quarter launch of Colgate Total Deep Clean has helped drive share. To build on the success of the Colgate Total line, we also launched Colgate Total Proof with color change technology, so you can see it working.

In the sensitivity segment we’re launching Colgate Sensitive Pro Release extra strength toothpaste, which stopped sensitivity pain instantly, by repairing the open channels to sensitive tooth nerves and strengthens the protective layer while strengthening the teeth. And under the L Max brand we’re launching Telmex prevent and repair toothpaste which repair sensitive areas of teeth to prevent further sensitivity.

Now we told you last quarter about the launch of Colgate Extra White toothbrush plus built-in Whitening Pen. This launches off to a very strong start. In the second month of launch we will almost to 20% share in France and almost 15% in Belgium.

For this quarter, we’re taking the defined plus chemistry for me into the sensitive segment with the launch of Colgate Sensitive Pro release toothbrush plus built-in sensitivity pen. This invites instant and long-lasting sensitivity relief with the targeted application. Simply brush, treat and go.

As with oral care of personal care new product pipeline has been full and has helped increase our share in body wash, soap and deodorant. We told you last quarter about a very exciting premium price line, Palmolive Skin Garden. This regimented approach offering of body wash, down from, liquid hand soap and bar soap has met with good, early success.

Our Sanex innovations, Sanex Advanced shower oils and body balms are also driving results. In France for example are Sanex body wash share is that 10.6% year-to-date, up almost two full points from the year ago period and the leading brand in the market.

To keep that momentum this quarter, we’re launching Sanex salt freshness underarm protection, filling an important portfolio gap. Freshness is among the top consumer expectations in the category, and is highly incremental to our portfolio, with the unique formula that slowly releases pleasant fragrances.

And in fabric conditioner, we’re very excited about our new line of clean complete care, which we expect to further drive our leading share position. At a super premium price this new product employs innovative technology to deliver three sought-after benefits: irresistible softness, feeling and color protection. The bottle design has outstanding on shop impact and we expect the launch to receive unprecedented support in this category.

Turning then to Latin America. Business and Latin America remains strong, despite macro economic challenges in some of our larger markets. Market shares increased year-over-year in toothpaste, manual toothbrushes, mouthwash, shampoo, bar soap and liquid cleaners.
Our regional toothpaste share increased 120 basis points to almost 76% year-to-date. In Brazil, our share climbed 160 basis points to 73.3% year-to-date, driven by our base possesses such as anti-cavity in Colgate Triple Action, as well as our premium price sensitivity business.

Our regional manual toothbrush share was up 50 basis points, to 41.5% year-to-date. Original Mouthwash share increased 50 basis points as well, to 31.2% year-to-date. Brazil, Argentina and Chile all performed well in mouthwash. 150 basis points to 34.5%, due to the very successful launch of Plax iced Infiniti.

In bar soaps where our year-to-date share is over 29%, Protex and Palmolive continue to be the number one and two brands across Latin America. Year-to-date we’ve reached record shares in Mexico, Colombia and Guatemala.

In Mexico innovations such as Palmolive almond and omega-3 oils supported by impactful shopper marketing programs continues to drive demand. And we’re excited about the upcoming innovation grid for this quarter in oral care we’ll be launching a complete regimen behind Colgate Sensitive Pro-Aleveo toothpaste, manual toothbrush and mouthwash. And we will offer new improved graphics across the line.

In the kid segment we’re launching Colgate smiles minions toothpaste. Toothbrushes and Mouthwash for the characters kids love. The introduction was timed with the release of the minions will be across the region.

And to continue the momentum in fabric conditioner, we’re launching Suavitel superior care. Consumers in this region felt that they are constantly washing, making them look worn out too quickly.

But this new product conditions each individual fiber to reduce wear out and extend the life of one’s close. It will be available in our traditional fragrance as well as a new, unique and sweet vanilla one.

Turning then to Asia. Business is solid in this region. While overall leadership regional shares in toothpaste and manual toothbrush’s have started the year a bit soft, select countries showed good results, to pay shares increased in Hong Kong, Taiwan, Philippines and Pakistan.

Our manual toothbrush share in India is up 220 basis points to a market leading 45.7% year-to-date, due in part to innovation in the bristle segment. Innovation launched late in the first quarter and coming in the second quarter should help drive results going forward.

In India, we just launched Colgate Pain Out. Tooth pain is one of the most common dental problems for Indian consumers, and heretofore there was no targeted solution for the pain, which can come with no warning.

Colgate Pain Out is it targeted spot-based application gel that provides express release from tooth pain. It’s been launched and pharmacies across the country and has met with very good early success while helping to build Colgate’s therapeutic equity in the pharmacy channel.

The natural segment in India has been growing rapidly, and to capitalize on this, we’re revitalizing our Colgate active salt toothpaste bundle. This comes in three variants, original, with lemon and Salt Neem. And also the segment we’re launching Colgate sensitive probe toothpaste, which provides long-lasting results and sensitivity with the natural essence of clove.

For children in India ages two to five where introducing a line of toothpaste which are mild, and safe, and have flavors kids love: strawberry and bubble fruit. In China, we’re relaunching with new graphics and packaging across the toothpaste product portfolio.

Colgate 360-Degree, which reduces bacteria for up to 360-degree healthier mouth, Colgate Max Fresh with a three times freshness shock wave, and Colgate Power White with a wide range of flavor offerings.
dazzling mint, lemon mineral salt, bamboo charcoal mint and jasmine white tea.

In the toothbrush category in India, which just introduced the Colgate A 1 toothbrush. As you know in this country of over 1.3 billion people, we have a large opportunity to increase penetration and consumption in the lower income segment.

These consumers believe that a toothbrush with a broad yet compact head and danced bristles not only cleans effectively, but is also durable and longer-lasting. Colgate A 1 meets this need and is priced at an affordable value price point. So this should help us continue to grow our lead in the manual toothbrush market share.

Turning then to Africa/Eurasia. Organic sales growth in this region was strong. Given the 17% currency headwinds, the growth came largely from price as we needed to take significant pricing in certain markets.

However, in certain markets such as Russia, we achieved both pricing and volume growth. Innovation has been instrumental in driving our results and there is more to come.

In the toothpaste whitening category, we’re launching Colgate Optic White lasting white. It’s clinically proven white seal technology makes teeth one shade whiter in one week while preventing stains and spills out even tough stains from food and drink.

Across Africa we’re introducing a second tier of pricing for the premium Colgate Optic White line with impactful ice packaging. In the manual toothbrush category we’re launching Colgate Slim Soft Sensitive Gum Care. Developed for the consumer with sensitivity, the brush has ultrasonic bristles and small tufts holes that provide a gentle mouth feel and an also compacted the easily navigate in the mouth.

And in that year and category Russia where we have a solid business, we just launched Lady Speed Stick bio protection in March. This line protectively protects against sweat and odor while also caring for your skin health.

The product contains a bio controlled complex clinically proven to provide protection where keeping skin healthy without irritation. And as you expect, it is being supported by in-store shopper support, which should drive good results.

Finally, turning to Hills, Hills continues to deliver well-balanced, mid-single-digit organic sales growth. Business is good domestically and overseas, both in the therapeutic and wellness categories.

In the Hill’s Prescription Diet line, metabolic plus continues to perform well. First launched a year ago, it is now sold in 42 countries. The offering of a complete range of dry food and stews has been supported by extensive sampling and in the clinic seminars and recommendation tools. And as a result, sales of this product in the first quarter were almost 30% ahead of our expectations.

Hill’s Science Diet perfect weight is also meeting with success. In the first quarter, we added perfect weight wet units to form to the existing driveline. As you may recall come this innovation is breakthrough nutrition formulated to help dogs achieve and maintain a healthy weight.

Another first-quarter introduction was Science Diet Healthy Cuisine, which offers new technology in our wellness line to deliver superior looking, tasty wet suit. This innovation is consistent with the trend of the humanization in pet food, and the launch was supported by endcap placement in some of the pet superstores, at shelf signage, on pack stickers, sampling in-store and online support and digital media.

Launching this quarter are Hills Prescription Diet Mobility Treats, great tasting treats that support veterinarian nutritional recommendations and Management of dogs with mobility issues. These are baked
treats such as a pet parent would make at home and form a part of an effective nutritional regimen for dogs eating our Hill's Prescription Diet metabolic or prescription diet therapeutic pet feud.

So in summary, we’re delighted with our strong start to the are building on momentum with which we exited 2015. And as you’ve heard delivered robust organic sales growth, good growth profit margin growth, and solid advertising support behind a full range of new products across categories. Our consistent strategies, which you all know well, have yet again put us in good stead.

Colgate people around the world, as always, are working hard to deliver encouraging results. So we look forward to sharing our progress with you as we go to the balance of the year.

And Operator, that's the end of my prepared remarks. I'd like to turn it over to you to start the Q&amp;A session.

QUESTIONS &amp; ANSWERS

Operator:

(Operator Instructions)

Jason English.

Jason English (Analyst - Goldman Sachs):

Thanks for letting me kick it off. Congratulations on the solid start. The volume numbers were obviously very impressive. Good to see the snap back. Also good to see the gross margin aggression.

On that front, just a quick question for clarification, to make sure we understand how the model is moving forward. Going through the queue, it looks like the biggest swing factor in the margin progression came at the clubbed line the group line of cost inflation, FX and now you've obviously added Venezuela deconsolidation.

From four to 20-point drag to around a 130 basis point drag. Can you elaborate on the puts and takes that caused that 290 basis point swing? And ideally, although I'm not sure you're going to answer it, if you could break at the impact of the Venezuela deconsolidation?

Ian Cook (Chairman, President and CEO):

Okay, Jason, great. And you're right, I'm not going to break out Venezuela. I frankly would start by reiterating what Bina said that we're pleased, as you amplified, Jason, with the start to the year. We think it does reflect constancy of strategy and constancy of execution.

And pleasingly, the first quarter arrived pretty much as I think we had described to you when we were last on the call, which is to say that our top line would grow between 4% and 7% organically, excluding Venezuela, and 5% was entirely consistent with the fourth quarter. We said that we expected our gross margin to expand between 75 and 125 basis points, and we're very pleased with the 110 and with the increased advertising behind the innovation and all of that flowing through to the bottom line.

I guess my comment on the gross profit would be if you look at the shape of our business, gross profit improved across all of our divisions with the exception of Hills for a known commodity issue, so it is not limited to Latin America. And across Latin America, we took pretty significant pricing on the back of significant pricing all 2015 to offset further transaction impact, obviously again without Venezuela.

And we were pleased in Latin America as we suggested might be the case that the volume negative that we saw in the fourth quarter rebounded I think confirming the fact that although there is always a lead
lag, we have good, consumer loyalty and adoption, even at higher price points. So the way I would frame gross margin is, we started at the end of the first quarters saying that our gross margin would expand 75 to 125 basis points for a host of reasons, part of which was Venezuela, but our funding the growth was an important piece of it as well.

And, again, 110 is pleasing. And as we look forward, I guess we would say we expect our gross margin to continue to improve from the first quarter level over the balance of the year and would now say that for the full year, we expect our gross margin to come in towards the high end of our 75 to 125 basis point range, maybe even slightly ahead of that, depending on where transaction headwinds go.

We said the last time that we thought gross margin expansion after the plateau of the last two to three years, was an important part of 2016, and clearly that focus remains in the Company. And let me just conclude by saying, and perhaps giving you the gross profit roll forward year on year, so if you go back to the first quarter of 2015, we had a gross profit margin of 58.9%.

We picked up 70 basis points of pricing between restructuring and funding the growth, 140 basis points. And as you know, that tends to build across the year. Material prices as you say, 130 basis points at negative, which is partly underlying commodity prices and does conclude a little bit of Venezuela.

All other 30 basis points, and so the current year gross profit at 60. But I think the important point to make is, growth between 4% and 7%, excluding Venezuela, starting well at 5% and gross profit starting well at 110 basis points and now saying that we expect to be at the high end of the 75 to 125 range, maybe a little bit more.

Operator:
Wendy Nicholson.

Wendy Nicholson (Analyst - Citi):
Hi. That all sounds fantastic, and I don’t mean to pick on may be two tougher markets, but I'm just curious with regard to each of China and India. I know you called those out as strong volume growth markets, but it also looks like market share trends in those two countries are a little bit more challenged.

So can you talk about what is going on there? Who you're maybe losing share to and what your plans are to try to restore your market share momentum? Thanks.

Ian Cook (Chairman, President and CEO):
Thanks, Wendy. I think as Bina said, market share up nicely in Brazil, interestingly market share up nicely in Russia and in fact a group of us were just in Asia, including India and China, a few weeks ago. And our share start to the year is a little bit softer in history in both cases.

I guess -- I know we all focus on weekly shares, but I guess just putting both in a slightly longer-term context, if you take China over the last eight years, our share has increased from about 30% to 33% when our principal multinational competitor has declined from 24% to about 12%. And in India, if you take the same time period, our market share has increased from about 48% to the near 54% that we started the year with. And similarly, our principal multinational competitor is down from 20% -- 29% to 21%.

So we continue to feel very good about the progress over time we are making. In both cases, let’s start with India, in both cases, the short-term share impact comes from local competitors with heightened promotional activity. That is also the case in China. In both cases we went through the innovation and go to market plans that are already being adopted in India and China to take corrective action against that short-term slowdown, and we feel good about making progress over the balance of the year.
Operator:

Steve Powers.

Steve Powers (Analyst - UBS):

Thanks, that morning. I want to pick up on advertising if I could which I think was up in Asia and Latin America but still down in your other segments and ran about flat as a percentage of sales overall in the quarter.

So in that context can you just update us on where you expect things to land for the full-year, the total Company level? Call out any key items we should be cognizant of as we think about the cadence an individual operating segments over the balance of 2016? Thank you.

Ian Cook (Chairman, President and CEO):

So yeah, we were actually quite pleased with the strong advertising level we had in the first quarter, as Bina said, of meaningfully on the second half of last year and in line with a strong first quarter of 2015. Obviously, behind a broad and deep array of innovation that we have coming to our markets around the world starting in the first quarter, but of course coming for the rest of the year as well.

Our current plan would see us increasing our advertising spend year on year, both absolutely and as a percentage to sales. That is what we said the last time we spoke and we remain in that position.

It would not be a Colgate earnings call if I weren’t to emphasize the point that we continue to balance this investment behind our brand health and the innovation we have with the very compelling and broad array of in-store activity that we are able to deploy. And so in fact our commercial investments continues to be up as well in the first quarter, which is to say the money that we are investing for in-store activity has increased and is on top of the increased ratio of spend untraditional advertising versus the fourth quarter of last year.

The other thing I would say in terms of efficiency of advertising, because we are seeing it becoming quite a meaningful component of how we go to market, a lot more -- and we spent quite a lot of time showcasing this in CAGNY for those of you that were there or have read the transcript -- a lot of our consumer engagement, particularly given the changing demographics in the world is now with digital advertising. Digital advertising is more efficient than the traditional print, television, radio, billboard type of advertising.

And interestingly, to the point in Asia, a significant part of the investment we make these days, indeed approaching the 2% in the case of China is direct engagement with the consumer through digital vehicles. I called that out simply because it is increasingly the way we engage with consumers, and it is a more effective and efficient way of doing so.

Operator:

(Operator Instructions)

Olivia Tong.

Olivia Tong (Analyst - BoA Merrill Lynch):

Thanks. Now that FX seems to be turning to how to think about incremental pricing in emerging markets? Do you stick to the original plan going into the year, do you keep trying to recover more because it’s obviously still down a lot year-over-year, or does this allow you to scale potentially back in terms of your original plans in some cases?
Ian Cook (Chairman, President and CEO):

You know, Olivia, I think a very good question. Coming into the year we were cognizant foreign-exchange would continue to be a headwind and of course it does continue to be a headwind that we would see a little bit of a shift back towards more volume driven growth and less pricing driven growth. Indeed, that is the way it has played out in the first quarter, and the first quarter has seen a fairly significant headwind for the average of the quarter in terms of foreign-exchange, although as you rightly say, easing as the quarter ended.

So, when you look at foreign-exchange per se, our current planning season lessening of the headwind as the year unfolds. Indeed, a lessening of the headwind sequentially quarter by quarter, which is a good thing. And we will continue to take the pricing that we need to take to offset any transaction impact. But yes, consistent with the comments we made at the beginning of the year, pricing will be less of a factor in 2016 than it was in 2015.

Operator:

Ali Dibadj.

Ali Dibadj (Analyst - Bernstein):

First, just a clarification on the share. So how much was actually the share down in China this quarter? It doesn't sound like that was probably the biggest driver of your roughly 140 basis points share decline year on year. And then secondly, how much of your kind of Company-wide organic sales growth came from any products sold into Venezuela?

I understand deconsolidation, but you said that you might still sales and product in that might be countered to get US dollars out. So is there any there?

I asked not just the top line, but also one EPS and clearly your dollar EPS cetaceans are little bit higher for the year which is good and I'm trying to understand the driver of that. Is that FX driven, is a fundamental driven or is that kind of $0.10 you had talked about last quarter of an impact from Venezuela, are you getting any relief there? Because you're actually now pleasingly able to sell products into Venezuela that you are before. Thanks.

Ian Cook (Chairman, President and CEO):

Again, I can't resist, thank you for the one question. The first to answer your two Venezuela questions is clearly as one can, the answer is zero in both cases. I'm not sure there is too much to add. To amplify on the EPS, the EPS flat guidance that we provided is entirely driven by the spot change in foreign-exchange.

So the answer to those two questions, Ali, I think are that simple. Share is a more complicated answer, and I will give you the data you request. But, a few things to say. First of all, obviously, we took out Venezuela year on year. Secondly, without dwelling on it, foreign exchange plays a role in the aggregation of share, and thirdly, our volume shares continue to perform quite nicely.

In terms of China, the short-term share impact, and we only have the first two months of the year, so it's a year-on-year comparison, is down a share point. One down to 33 approaching from 34 and in the case of India, it is less than that.

Operator:

Bill Chappell.
Bill Chappell (Analyst - SunTrust):

Thanks, good morning. Ian, we've at least alluded to 60% gross margin for a decade now and just kind of as you look at him I know you are given guidance, but is there a natural ceiling you see to gross margin of the next few years?

I mean are we get into the point where it can only get 65% -ish as you go? How do you look at the as we go throughout the next ten years?

Ian Cook (Chairman, President and CEO):

It's kind of like market share, bill, I guess. 105 we probably would have to, we probably would have to stop. But I'm glad you asked the question because it is a milestone, as we said in the release. Unfortunately, the severe foreign-exchange transaction headwinds have prevented us realizing that ambition over the last several years.

So again, we feel very good about the 60 to repeat what I said a little bit earlier, with ink we will be at the high end of the 75 to 125 range for this year, maybe a bit beyond. And you're absolutely right, our next goal is 65. And I suggest we revisit the conversation when we get to 65.

It is interesting, as you begin to reorganize us the way we are, and aggregate so much of what we do for people who are very focused, it tends to reveal more opportunities in areas that perhaps haven't been as fully exploited for efficiency than we have before. So, we retain the ambition to 65, and I'm sure when we get to 65 we will have more ambition.

Operator:

Dara Mohsenian.

Dara Mohsenian (Analyst - Morgan Stanley):

Good morning. So your pricing results in North America and Europe were down 2% and 3% year-over-year, respectively. So I was just hoping you could review what's driving the pricing pressure in the developed markets, the competitive environment you're seeing in developed markets, and also may be some emerging markets, tear?

You talked about India and China, but beyond those markets, what you're seeing from a competitive standpoint with the pricing has been much stronger? Thanks.

Ian Cook (Chairman, President and CEO):

Europe is not new news, Dara, and is consistent with prior year, frankly slightly better than prior year. We have talked, let's start with the consumer we talked about that category environment in that geographies around the world where the growth of categories, I'm now talking our categories as somewhat muted in the 0% to 2% range.

In the US, we're now sort of in the 2% to 3% range, edging toward of the 3%, and despite all of the headlines, quite broadly across the emerging markets, still running at mid-single digits on a local currency basis. So, the marketplace promotional intensity, not trading to any particular competitor, is as it has been.

In Europe there's really nothing new there. We continue to operate very well and that environment, as Bina mentioned, with our market share progress. And, I think that's very healthy. So, that's the way I'd answer that.
North America, there is always a component in North America. When you remember that the couponing for the trial of new products is covered in the trade spending. That is a factor in North America. And so as we have heightened innovation activity, you will see more of the trial generating couponing which translates through into price.

In both cases, as the year unfolds, we are expecting that negative pricing to ameliorate somewhat. Pleasingly, of course, gross margin in both the case of North America and Europe we’re up for the quarter and we expect them to be up for the year as well. So, as we think about our marketing mix and where we make our investments, you look at the share, you look at the gross margin progress, you look at the top line progress. We think we are managing that balance in a responsible way.

Operator:

Javier Escalante.

Javier Escalante (Analyst - Consumer Edge Research):

Hi, good morning everyone, Bina and Ian. On the volume rebound, particularly in Latin America, if you can help us understand more about how much is sticker shock over the price increases, or there was any either market improvement, or any changing inventory restocking or restocking that could have explained the rebalancing volume? Thank you.

Ian Cook (Chairman, President and CEO):

Thanks, Javier, very good question. The answer is on the inventory side, if you go back to the inventory events in China and Brazil sometime back, I think we were one of the first companies to come forward and describe what was going on in the marketplace.

We have a very tight control on the distributors and the wholesalers that we use in these markets to bring inventory to the consumer. So, there is in these numbers no destocking refilling of inventory. These are volume numbers in Latin America, and we feel good about that.

We do think, and this is what we tried to intimate on the fourth quarter, when people were a little bit concerned and probing on the negative volume in Latin America, that there would be a little bit of a lag given the pricing we took in the fourth quarter, for volume to bounce back.

But, I think we were quite clear that we did expect 2016 to be a year where our organic would say more to the volume than to the pricing. So, that’s what I think we are seeing in Latin America and I think the market share story makes it some case in terms of the consumer consumption of our products.

Operator:

Bill Schmitz.

Bill Schmitz (Analyst - Deutsche Bank):

I’m going to try to sneak in two if I can. The first questions you think the worst is over in emerging markets? I know you’re pretty cautious and Brazil I think CAGNY change. And then my other question is can you talk about the competitive dynamics and impact in the US?

It seems like a lot of multinationals now are buying some of these wholesome, natural competitor’s and we keep hearing rumbles about increased distribution there and new product launches and things like that. Any particular $000 million like to share? I appreciate it.

Ian Cook (Chairman, President and CEO):
Have you got a cold?

**Bill Schmitz** (Analyst - Deutsche Bank):

I do have a little bit of a cold, thanks for asking.

**Ian Cook** (Chairman, President and CEO):

Listen, to say do you think the worst is over on emerging markets, is the classic famous last words statement. So I guess what I would say by way of answer is what we continue to see in our categories is mid-single digits growth.

I have to say, having just returned from Latin America and India and China, the consumer that you see on the ground, the behavior that you see on the ground is really quite vibrant in India and in China is not doom and gloom, some concerns, but not the headlines that we read every day. Conversely, in Russia and Brazil, the consumer sentiment as we have said before, is more negative.

So, I think the way we are thinking about it is more in terms of the consumers' consumption behavior as we measure it in those markets, and that seems to suggest that we will be going forward with categories growing in general terms, mid-single digits on a local currency basis. Pet food, we like the market. We have always been premium.

With prescription, obviously, we get the benefit of reversing a disease condition with a clinically proven product with the vets recommendation. And as you know, the emotional attachment had owners have with their pets is quite extraordinary. If one comes back in life one might want to be a pets.

And I think the offerings that we have as a Company position us well in the US marketplace. And as Bina said our business is healthy internationally, and it is also very healthy in the US. And I think our point of competition as we have tried to repeat as time passes is we now have an innovation stream on this business that we think is relevant to the consumer and firmer pricing point of view is seen as value.

**Bill Schmitz** (Analyst - Deutsche Bank):

Great. Thank you.

**Operator:**

John O'Shea.

**John O'Shea** (Analyst - JPMorgan):

Thanks. I just want to follow up on Bill's question a little bit more but looking at sort of M&A strategy more broadly. You're coming out of a couple of years with a lot of macro economic volatility, FX, we were back to the gross margin going up again.

Does this give you a little bit more confidence in the underlying business which maybe could allow you to take a greater look at your portfolio either in terms of cleaning up some assets or potentially looking to buy if there is anything that is an overly expensive at this point? Thanks.

**Ian Cook** (Chairman, President and CEO):

Thanks, John. First of all without sounding Pollyanna, I'm not sure we have lost confidence in the underlying business. Obviously, the moves we're seeing on foreign-exchange from a dollar point if you are more favorable. But I think I would also say from an eminently point of view our view also has never changed.
We are very strategic in this space as you know. We have interest in oral, pet, and personal. We have obviously a great deal of knowledge about assets that might be available around the world and to the extent that they would go to auction are might be preemptively available, we would certainly pursue that if we thought it would strengthen our Company or strengthen our category or strengthen a particular geography.

And although it's not a very visible part of what we do, we do dedicate time and resources to that space. More than that, I really can't say. In terms of divestment, the only thing I would really say the last big thing we did of course was the development of our Australasian business which now leaves us with virtually no laundry detergent and that's probably the last scale divestment we have done and probably would be doing.

**John O'Shea (Analyst - JPMorgan):**

Okay.

**Operator:**

Caroline Levy.

**Caroline Levy (Analyst - CLSA):**

Good morning, thanks a lot. I know China is not an enormous market relative to everything else to do, but I did want to go back to that. Just ask about we’re definitely picking up increased promotional activity from local competitors. Also, it sounds like maybe their innovation capability is improving.

Ian, could you talk about whether being such a big online market, I know it's not a big percentage of your sales now, but in many of the categories online is growing like crazy, is this making a pressing environment that's more difficult? Is it leading to more local competition gaining share? And did you actually share on the Dalie brand or is that all on the Colgate brand?

**Ian Cook (Chairman, President and CEO):**

It was a little bit of both in terms of the share loss. It has nothing to do with digital although I will come back to digital. It is the plethora of local brands which tends to be more brick and mortar activity with promoters in-store who essentially rugby tackle you when you walk into the store in order to persuade you. I would say is not particularly innovation driven for the plethora of local brands.

There is one local competitor that does a good job at a premium price point. We've made the point before that we have innovation and R&D capability on the ground.

We have just moved to the marketplace with a new natural line which is very tailored to the Chinese consumer. We have advertising that is very different to the advertising that we use around the world in terms of engaging with the Chinese consumer.

Now coming back to the Internet, we see this as an enormous opportunity in China. You're right, it is a relatively low percentage of sales in the categories in which we do business. Our business has been booming over the last three years.

We've been growing market share that we spent a lot of time when we were in Asia, particularly in China, addressing this topic and we see Internet think of the $0.10 and the Alibaba's with the Internet as a very rich area for future growth in China for us but that is separate and apart from the sort of brick-and-mortar price promotion of the plethora of cheap be brands.

**Caroline Levy (Analyst - CLSA):**
Thank you.

Operator:

Aaron Lasch, MorningStar.

Aaron Lasch (Analyst - MorningStar):

Thank you for taking my question. I was hoping you could provide a little bit more detail regarding Brazil. Obviously your share gains in the quarter were quite pronounced. We've heard from a lot of other consumer products companies in competitive and macro landscape is extremely challenging and you were obviously able to withstand those challenges. So any additional details you can provide and how you've been operating and continue to operate so well and that market would be greatly appreciated. Thank you.

Ian Cook (Chairman, President and CEO):

Thanks, Aaron. Latin America is a very changeable economic arena in our world and you can go back to the 80s and have seen many companies be hurt by economic events and perhaps reduce focus on Latin America or even withdraw from Latin America. We, at that time, stayed and we learned how to operate in these volatile environments. Frankly, a lot of it starts with pricing, to make sure you have a margin that allows you to invest to grow a brand. I think if you come to Brazil, the position we have with 74% share in toothpaste, leadership share in toothbrushes and jockeying for leadership in mouth rinse, Colgate is an enormously well trusted brand in Brazil. And we bring significant innovation to the Brazilian marketplace. Interestingly, innovation that is not necessarily cheap, but which the consumer sees value in. We're also very disciplined in terms of our go to market to the question asked earlier, we make sure that we bring to the marketplace the volume of product that the consumer's purchasing so we don't create an inventory dislocation that you then have to unwind. So, a combination of all of that has seen the share growth and indeed quite pleasingly volume growth as well.

Aaron Lasch (Analyst - MorningStar):

Thank you.

Operator:

Lauren Lieberman.

Unidentified Participant:

Thanks. Good morning. Just talk a little bit actually about the competitive pricing environment, particularly in emerging markets? I was wondering if, as you're looking out over the next couple of quarters and recognizing there will still be some local inflation that yield the trying to price in spots as you can, do you sense your competitors are perhaps more price constrained? To the price to a higher peak of inflation so there will be sort of different dynamics and how you're approaching pricing in the next couple of quarters versus some of your competitors?

Ian Cook (Chairman, President and CEO):

I guess our experience on pricing in the categories where we lead pricing is that sometimes we see a lead lag between the competitor taking pricing, be they international or local, remembering a lot of the areas we are dollar germinated whether you are multinational or local you will get the eventually. But then what you see is over time the pricing in the marketplace move up. So I would say the general experience is you have to be a little bit patient, sometimes, but eventually the patience sees the market
rise. There are certainly, in those markets, no retailer resistance because they understand the concept of translation driven inflation very well. To the -- transaction inflation very well, to the extent the transaction is not as significant as it has been in 2015. As I said earlier, our expectation is that we will be taking lesser pricing this year than last but over half of the pricing we came in to 2016 with was roll over pricing, even excluding Venezuela. So, I would say that's the way to profile it. Interestingly, if you focus your innovation on bringing benefits, think of white mean as we have done you can actually charge a meaningful premium price in a category, lift the category and bring the consumer with you. And obviously, I think it is the duty of marketing companies to find those consumer needs that you can really deliver against at a price point where they see value.

Unidentified Participant:

Great. Thanks so much.

Operator:

Mark Astrachan.

Mark Astrachan (Analyst - Stifel):

Thanks and good morning, everybody. Two quick sort of related questions to one another and I think they pertain to Venezuela since we are hoping you will get some direction on that. How much or how should we think about the impact probably is the better way to phrase it, from Venezuela deconsolidation and gross margin? And then the other sort of related question from interest expense, net standpoint, is that biggest belt relative to last year the amount of cash you’re not accounting for in Venezuela anymore the interest been earned on that or is it somewhere else? Sort of the net is interest expense than first-quarter trends through the year more realistic than what the rate was last year question mark?

Ian Cook (Chairman, President and CEO):

So to take your first question, I think the way we should take about it is that our gross margin will expand this year at the upper end of our 75 to 125 basis points range. And, that is excluding Venezuela, as you well know. And indeed, it may be slightly higher than that level. As I think we demonstrated in the first quarter, our gross margin expansion is broader than Latin America. We expect that to be the case going forward. And that's the way we should and about it. We should also come back to the top line and repeat without Venezuela, we are still saying we expect our top line to increase in that 4% to 7% range excluding Venezuela and 5% was a good start. When you turn to interest income, and the recording of that, I guess what we're looking at here is that interest income will be down, but net net at the range of interest we will be paying, we will be in the $30 million to $35 million a quarter range, with is up on prior year. I take silence to remain we have reached a conclusion, Operator?

Operator:

That is correct.

Ian Cook (Chairman, President and CEO):

Okay well thanks for joining the call, thank you for your questions, thank you for your interest and thank you to all the Colgate people that make this happen. And we look forward to updating you on our second-quarter progress later in the year.

Operator:
This concludes today's call.

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