Colgate-Palmolive Company CL [NYSE] | ★★★★

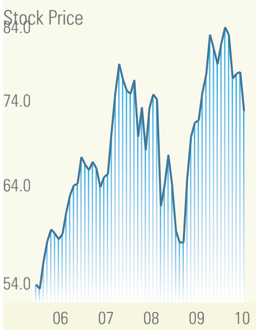
Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Stewardship	Morningstar Credit Rating	Industry
74.85 USD	92.00 USD	73.60 USD	115.00 USD	Low	Wide	B	AA	Personal Products

Deflation Badgers Colgate

by Lauren DeSanto
Chief Operating Officer, Equity Research
Analysts covering this company do not own its stock.

Pricing data through September 03, 2010.
Rating updated as of September 03, 2010.

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.



Analyst Note Jul. 29, 2010

Colgate-Palmolive warned last year that the devaluation of the Venezuelan bolivar would hurt the firm's performance. While management underestimated the hit to profitability, as second-quarter results illustrate, we continue to expect the firm to recover from the current volatile situation in Latin America. Key to Colgate's long-term success is its ability to develop products at every price point, and even though results in Venezuela are challenging, we do not believe they undercut this strategy. Our fair value estimate remains intact.

Total internal sales growth was 3.5% compared with the year-ago period, with volume up 3.0%, pricing up 0.5%, and foreign exchange a negative 1.5%. Latin America is Colgate's largest division by sales and operating profit, and while internal sales volume increased 8.0% during the quarter, negative foreign exchange reduced sales growth by 7.5% and operating profits declined 10.5%. This is the first decline in operating profit in Latin America in more than four years, and management is undoubtedly looking to stem this decline as quickly as possible in its stronghold region. Additionally, the Hill's pet food business delivered another quarter of volume declines, delaying any turnaround in the business. Despite these problems, the gross margin at Colgate held steady with the same period last year at 58.8%, and operating profits increased modestly, led by cost-saving initiatives in the firm's greater Asia/Africa region.

Possibly the most relevant issue facing Colgate and other consumer product firms is to what degree category growth is being driven by promotional spending. Developed market growth is increasingly reliant on at-the-shelf trade spending, with shoppers making more point of purchase decisions. At the same time, traditional media in the form of television advertising, for example, continues to drive growth in developing markets. We could foresee a scenario where Colgate must maintain high levels of commercial spending to remain competitive in its mature markets, while advertising spending must also stay at heightened levels to support emerging market growth. Such an environment would pressure profitability, particularly if competition becomes so heated that promotional efforts fail to drive the volume lift needed for operational leverage. Colgate has some of the most sophisticated promotional analysis tools in the industry and is adept at putting them to work. With tough comparison periods through the back half of the year, not all of the firm's problems will be in the rear view soon, but we believe Colgate will gain some distance.

Thesis Apr. 08, 2010

Colgate-Palmolive has long been one of the most focused consumer products companies on the planet, dominating the oral care category with a worldwide toothpaste market share of almost 45%. The firm's expertise extends beyond toothpaste, however, as it operates with some of the most sophisticated promotional tools in its industry. Capabilities in products and processes give Colgate a wide moat advantage and enviable returns on invested capital.

Colgate has a long track record of operating in markets around the world and has deftly navigated crises from massive currency devaluations to significant input cost inflation. Even counterfeit products haven't deterred the Colgate brand from becoming synonymous with toothpaste. Since consumers worldwide want safe, trusted, effective products when it comes to oral care, the firm has been able to build brand loyalty while keeping private label threats at bay. All of this experience, coupled with an extensive global footprint, has its benefits, and Colgate knows how to capitalize on its strengths.

Over the past several years the firm has been refining its core Colgate Business Planning (CBP) tool, which gives management the ability to measure the impact of promotional investments on volume and profits and reallocate advertising and promotional spending to better effect. As Colgate grows its business and tests new

Colgate-Palmolive Company CL [NYSE] | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Stewardship	Morningstar Credit Rating	Industry
74.85 USD	92.00 USD	73.60 USD	115.00 USD	Low	Wide	B	AA	Personal Products

Close Competitors	Currency(Mil)	Market Cap	TTM Sales	Oper Income	Net Income
Colgate-Palmolive Company	USD	36,377	15,722	3,543	2,181

Morningstar data as of September 03, 2010.

markets and promotions, the data and capability of this tool only improve. The company is using CBP-derived data to allocate more resources to in-store promotions and to refine the positioning of its oral care products. Being able to calibrate pricing and promotions, and their impact on sales volume (on a market-by-market basis), makes no small impact on profitability. Since the tool is integrated with the firm's SAP platform, we think Colgate holds an advantage in many of its markets as it can quickly process sales and consumer data and unearth trends.

How much CBP data influence new product development is less clear, however, since innovation at Colgate is more likely to take the form of incremental improvements rather than blockbuster new product introductions. Colgate 360 ActiFlex, a toothbrush with a flexible bridge to aid in brushing, or Colgate Wisp, a disposable mini toothbrush, are the type of new products we've grown accustomed to seeing from the company. Growth hasn't faltered by any means, but at some point keeping the top line truly healthy may require more than incremental innovation.

Valuation, Growth and Profitability

We are raising our fair value estimate for Colgate to $92 per share from $79 based on better-than-expected improvement in gross margins. This new fair value estimate implies forward fiscal-year price/earnings of 19 times, an enterprise value/EBITDA of 12 times, and a free cash flow yield of 4.8%. Colgate's top line was hammered in 2009 by a pullback in consumer spending and the negative impact of a stronger U.S. dollar. Despite these significant headwinds, lower oil and commodity costs helped the firm increase gross margins 250 basis points from the prior year. Colgate has also streamlined operations and targeted opportunities for cost savings through its Funding the Growth program and restructuring plan started in 2004. We expect the company's top line to recover over the next year, but it is Colgate's lower cost base, which we think is sustainable, that drives our increased fair value estimate. Management aims to put roughly half of the gross margin savings back into driving sales and allow the other half of the savings to fall to the bottom line. In 2009 these savings were magnified on the operating margin line as the company benefited from lower advertising and promotional spending costs. Over the long run we forecast revenue increases over the next 10 years to mirror the growth of the last 10 years, or about 4.5% annually. Colgate is adept at gauging the level of promotions needed to keep sales growth healthy, but we don't expect lower advertising rates to continue. As a result, while operating margins should tick up to 24% over the next few years, we think they will stay roughly 23.5% over the next 10 years. Through 2014 we expect return on invested capital to average 32%, compared with our 8.6% cost of capital, providing support for Colgate's wide moat.

Risk

Dominance in the oral-care category is a constant battle as Colgate vies for leadership with P&G. Local brands could prove to be more of a threat in overseas markets as the firm grapples with pricing strategies in the face of wide foreign currency swings. With such a narrowly focused product assortment, at some point Colgate could see diminishing returns as it reaches a ceiling on its market share potential.

Bulls Say

- Colgate has 200 years of experience selling toothpaste and oral-care products. It is the leading toothpaste brand, with worldwide market share of 45%. The firm holds a 30% worldwide market share in manual toothbrushes, where growth has been powered by its 360 Degree toothbrush.

- Building consumption over time comes quite naturally to Colgate, and partnerships with dentists, as well as work in developing markets, help the firm drive awareness about oral care and build market share of its core brands over time.
- Colgate strikes us as one of the most focused and efficient consumer product firms around. It was an early adopter of SAP software, and its promotional tool is also integrated with SAP.
- The firm is rolling out Colgate Sensitive Pro-Relief in non-U.S. markets over the next year. It's the company's most significant new product introduction in years.

Bears Say

- Colgate operates in only a handful of product categories, limiting the foundation from which it can generate new products. It uses brand extensions so much that it risks numbing consumers to innovation.
- The firm has enjoyed a prosperous run in its Latin American markets, but it also has outsized exposure to the region. Slightly more than 25% of total sales are generated in Latin America but roughly 32% of operating profits before corporate expenses derive from the region.
- Despite strong U.S. market share positions in toothpaste and toothbrushes, Colgate still has some holes in its oral-care portfolio. It lacks a strong mouthwash brand or power toothbrush system.
-

Financial Overview

Financial Health: Colgate is an extremely profitable company generating very healthy cash from operations. The firm uses debt effectively while still providing ample coverage for interest expenses. EBITDA covers interest approximately 50 times, and Colgate's Cash Flow Cushion is just above 3 times. We currently give Colgate an issuer credit rating of AA.

Company Overview

Profile: Colgate-Palmolive is one of the world's largest consumer product companies. In addition to its namesake toothpaste and detergents, the firm manufactures shampoos, shower gels, deodorants, and shaving products. It also owns specialty pet food maker Hill's, which sells its products through veterinarians and specialty pet retailers. Colgate products are sold around the world; about three fourths of sales come from outside the United States.

Management: Colgate CEO and chairman Ian Cook has been with the company since the mid-1970s and has led the firm since 2007. The board has a number of long-tenured directors; this may be driving up Colgate's director compensation--it's among the highest we've seen, though significantly weighted to stock and option awards. The company has received numerous awards for its corporate governance, but we would prefer to see the chairman and CEO roles separated because we believe this promotes even stronger corporate governance. Salaries for executives other than Cook are in the 75th to 90th percentile compared to the firm's peer group. We take less of an issue with this than the significant stock awards that are driving up overall compensation. In 2007, for example, Cook received $1.5 million in restricted stock; in 2009 this had increased to $5.2 million. Since he already has more than $21.2 million in exercisable stock options (and $4.9 million in unexercisable options), we question how much more of a performance incentive such awards provide. In fiscal 2009 Cook's total compensation topped $17.0 million, including $1.1 million in salary, a $3.4 million bonus, and $9.5 million in stock compensation. Executives are required to own stock valued at 5 times their salary, and in total all officers and directors as a group own less than 1.10% of outstanding common stock and 1.41% of Series B convertible preferred shares, each of which is convertible into eight shares of common stock.

Colgate-Palmolive Company CL [NYSE] | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Stewardship	Morningstar Credit Rating	Industry
74.85 USD	92.00 USD	73.60 USD	115.00 USD	Low	Wide	B	AA	Personal Products

Analyst Notes

Jul. 29, 2010

Deflation Badgers Colgate

Colgate-Palmolive warned last year that the devaluation of the Venezuelan bolivar would hurt the firm's performance. While management underestimated the hit to profitability, as second-quarter results illustrate, we continue to expect the firm to recover from the current volatile situation in Latin America. Key to Colgate's long-term success is its ability to develop products at every price point, and even though results in Venezuela are challenging, we do not believe they undercut this strategy. Our fair value estimate remains intact.

Total internal sales growth was 3.5% compared with the year-ago period, with volume up 3.0%, pricing up 0.5%, and foreign exchange a negative 1.5%. Latin America is Colgate's largest division by sales and operating profit, and while internal sales volume increased 8.0% during the quarter, negative foreign exchange reduced sales growth by 7.5% and operating profits declined 10.5%. This is the first decline in operating profit in Latin America in more than four years, and management is undoubtedly looking to stem this decline as quickly as possible in its stronghold region. Additionally, the Hill's pet food business delivered another quarter of volume declines, delaying any turnaround in the business. Despite these problems, the gross margin at Colgate held steady with the same period last year at 58.8%, and operating profits increased modestly, led by cost-saving initiatives in the firm's greater Asia/Africa region.

Possibly the most relevant issue facing Colgate and other consumer product firms is to what degree category growth is being driven by promotional spending. Developed market growth is increasingly reliant on at-the-shelf trade spending, with shoppers making more point of purchase decisions. At the same time, traditional media in the form of television advertising, for example, continues to drive growth in developing markets. We could foresee a scenario where Colgate must maintain high levels of commercial spending to remain competitive in its mature markets, while advertising spending must also stay at heightened levels to support emerging market growth. Such an environment would pressure profitability, particularly if competition becomes so heated that promotional efforts fail to drive the volume lift needed for operational leverage. Colgate has some of the most sophisticated promotional analysis tools in the industry and is adept at putting them to work. With tough comparison periods through the back half of the year, not all of the firm's problems will be in the rear view soon, but we believe Colgate will gain some distance.

Jul. 29, 2010

Tough 2Q for Colgate

Colgate-Palmolive warned last year that the devaluation of the Venezuelan bolivar would hurt the firm's performance. While management underestimated the hit to earnings, as second-quarter results illustrate, we continue to expect the firm to recover from the current volatile situation in Latin America. Key to Colgate's long-term success is its ability to develop products at every price point, and even though results in Venezuela are challenging, we do not believe they undercut this strategy. Our fair value estimate remains intact.

Total internal sales growth was 3.5% compared with the year-ago period, with volume up 3.0%, pricing up 0.5%, and

Analyst Notes (continued)

foreign exchange a negative 1.5%. Latin America is Colgate's largest division by sales and operating profit, and while internal sales volume increased 8.0% during the quarter, negative foreign exchange reduced sales growth by 7.5% and operating profits declined 10.5%. This is the first decline in operating profit in Latin America in more than four years, and management is undoubtedly looking to stem this decline as quickly as possible in its stronghold region. The Hill's pet food business delivered another quarter of volume declines, delaying any turnaround in the business.

Despite these problems, the gross margin at Colgate held steady with the same period last year at 58.8%, and operating profits increased modestly, led by cost-saving initiatives in the firm's greater Asia/Africa region. We expect questions about Colgate's results in Latin America and its Hill's business to be front and center during the firm's conference call.

Apr. 29, 2010

First Impression of Colgate's 1Q

As expected, an accounting charge related to the transition to hyperinflationary accounting depressed Colgate-Palmolive's first-quarter earnings, reported Thursday, but internal sales growth in the firm's core oral-care business remained strong. Our fair value estimate is unchanged.

Total sales of $3.8 million increased 9.5% from the same quarter last year, with an internal sales growth rate of 6.0% when foreign exchange is excluded. All regions showed top-line improvement, and Colgate's regional stronghold of Latin America led the way with a 14.5% internal revenue growth increase from the year-ago period. Promotional activity is as heated as ever, as evidenced by the 5.0% unit volume increase in Colgate's North America region in the face of 3.5% lower pricing during the quarter.

From what we can see so far, margins have yet to suffer, as gross margins improved 170 basis points from the same period last year to 59.2%. As some point, though, cost-saving opportunities will be harder to come by, and should input costs tick back up, maintaining healthy margins will be even more of a challenge with such fierce turf wars at the shelf. Profitability in Colgate's Hill's division improved during the quarter but the top line dragged, declining 2.5% on an internal basis during the quarter. The firm has some new products in the pipeline for its Hill's brand later in the year, but we suspect volume and revenue will remain weak until after the reset of its pricing fully anniversaries some overaggressive price increases implemented last year.

Apr. 08, 2010

Raising Colgate's Fair Value

After reviewing Colgate-Palmolive's full-year fiscal 2009 results, and management's expectations of the impact on results from the devaluation of the Venezuelan bolivar, we are significantly raising our fair value estimate. The increase is based on the gross margin expansion that Colgate delivered in 2009, a year in which top-line results were essentially flat to the prior-year period. The firm is finally on track to reach the 60% gross margin target it identified several years ago. This target was pushed further out to the future as benefits from Colgate's restructuring plan collided in 2008 and early 2009 with higher commodity and oil input costs. As these costs subsided, Colgate had to battle foreign currency headwinds and a more

Analyst Notes (continued)

cost-conscious consumer. Throughout this period, and despite some minor pricing missteps in its pet food business, Colgate has carefully calibrated its promotional spending to keep revenue growth as healthy as possible (under the circumstances) and gross margins inching up. Our new fair value estimate reflects a top line rebounding in fiscal 2010 and improved gross and operating profit margins.

It is possible that the firm's new Colgate Sensitive Pro-Relief toothpaste introduction could be a catalyst for top-line sales growth in excess of the long-term mid-single-digit growth rate that we forecast. Given the current economic climate, however, and the super-premium positioning of the product, we're comfortable waiting to see how the introduction plays out in more markets. Early results for the toothpaste, which addresses problems with tooth sensitivity, are promising, and with sales growth in the segment in the high single digits and an estimated market size of $1 billion, Colgate management is understandably optimistic about the potential to take category market share. By the end of 2010 the product will be in roughly 81 of the 200 countries in which Colgate operates, but still not the United States. We'll have a greater feel for how receptive consumers are to a toothpaste price point 2-3 times higher than the entry price point as the roll-out takes hold. We'll also have more insight to Colgate's ability to bring its promotional tool, Colgate Business Planning (CBP), to bear for its first global new product roll-out in years. For now, though, we believe the benefits from Colgate's five-year restructuring efforts are starting to bear fruit and will give the firm a solid foundation from which to continue to grow earnings.

Pricing data thru Sept. 03, 2010 Rating updated as of Sept. 03, 2010 Fiscal year-end: December

Colgate-Palmolive Company CL

Sales USD Mil	Mkt Cap USD Mil	Industry	Sector
15,722	36,377	Personal Products	Consumer Goods

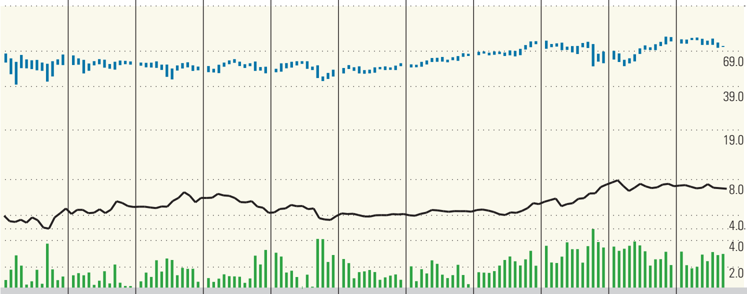
Colgate-Palmolive is one of the world's largest consumer product companies. In addition to its namesake toothpaste and detergents, the firm manufactures shampoos, shower gels, deodorants, and shaving products. It also owns specialty pet food maker Hill's, which sells its products through veterinarians and specialty pet retailers. Colgate products are sold around the world; about three fourths of sales come from outside the United States.

300 Avenue Park
New York, NY 10022-7499
Phone: 1 212 310-2000Website: http://www.colgate.com

Morningstar Rating	Last Price	Fair Value	Uncertainty	Economic Moat™	Stewardship Grade
★★★★	74.85	92.00	Low	Wide	B

per share prices in USD

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	YTD
Annual Price High	66.75	64.75	58.86	60.99	59.04	57.15	67.08	81.27	81.98	87.39	86.15
Low	40.50	48.50	44.05	48.60	42.89	48.25	53.41	63.75	54.36	54.51	73.12
Recent Splits											



Price Volatility
Monthly High/Low
Rel Strength to S&P 500
52 week High/Low
87.39 - 70.45
10 Year High/Low
87.39 - 40.50
Bear-Market Rank
3 (10=worst)
Trading Volume Million

Stock Performance

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	YTD
Total Return %	0.3	-9.5	-8.0	-2.8	4.1	9.4	21.2	21.6	-10.1	22.4	-7.1
+/- Market	10.4	3.5	15.4	-29.2	-4.9	6.4	7.6	18.1	28.4	-1.0	-6.2
+/- Industry	15.0	-5.4	-10.9	-20.7	-6.0	9.1	2.8	10.4	7.9	11.3	-9.7
Dividend Yield %	1.0	1.2	1.4	1.8	1.9	2.0	1.9	1.8	2.3	2.1	2.6
Market Cap USD Mil	36938	31862	28221	26889	27129	28415	33554	39741	34593	40596	36377

Financials

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	TTM
Revenue USD Mil	9358	9428	9294	9903	10584	11397	12238	13790	15330	15327	15722
Gross Margin %	54.4	55.1	54.6	55.0	55.1	54.4	54.8	56.2	56.3	58.8	59.2
Oper Income USD Mil	1721	1861	2013	2166	2122	2215	2161	2653	3021	3615	3543
Operating Margin %	18.4	19.7	21.7	21.9	20.0	19.4	17.7	19.2	19.7	23.6	22.5
Net Income USD Mil	1043	1125	1266	1396	1301	1323	1325	1709	1957	2291	2181
Earnings Per Share USD	1.70	1.89	2.19	2.46	2.33	2.43	2.46	3.20	3.66	4.37	4.19
Dividends USD	0.63	0.68	0.72	0.90	0.96	1.11	1.25	1.40	1.56	1.72	1.85
Shares Mil	626	607	588	578	570	556	550	543	535	525	520
Book Value Per Share USD	1.95	0.92	0.05	1.11	1.83	2.12	2.31	4.10	3.45	5.96	5.08
Oper Cash Flow USD Mil	1536	1600	1611	1768	1754	1784	1822	2204	2238	3277	3368
Cap Spending USD Mil	-367	-340	-344	-302	-348	-389	-476	-583	-684	-575	-569
Free Cash Flow USD Mil	1170	1259	1268	1466	1406	1395	1345	1621	1555	2702	2799

Profitability

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	TTM
Return on Assets %	14.2	15.8	18.0	19.2	16.1	15.4	15.0	17.8	19.5	21.7	20.5
Return on Equity %	80.8	138.9	—	—	166.2	128.0	116.0	104.3	102.2	97.7	90.2
Net Margin %	11.1	11.9	13.6	14.1	12.3	11.6	10.8	12.4	12.8	14.9	13.9
Asset Turnover	1.28	1.32	1.32	1.36	1.31	1.33	1.39	1.43	1.53	1.45	1.48
Financial Leverage	6.5	13.8	259.6	12.6	8.9	7.8	7.7	4.8	5.7	3.8	4.3

Financial Health

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	06-10
Working Capital USD Mil	103	80	79	51	9	14	-168	456	757	211	856
Long-Term Debt USD Mil	2537	2812	3211	2685	3090	2918	2720	3222	3585	2821	3331
Total Equity USD Mil	1468	846	350	887	1245	1350	1411	2286	1922	3116	2632
Debt/Equity	2.28	5.57	117.61	4.52	3.18	2.66	2.29	1.54	2.06	0.96	1.35

Valuation

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	TTM
Price/Earnings	38.0	30.6	23.9	20.3	22.0	22.6	26.5	24.4	18.7	18.8	17.9
P/E vs. Market	—	—	—	—	—	—	—	—	—	1.1	1.2
Price/Sales	4.3	3.7	3.3	2.9	2.8	2.7	2.9	3.1	2.4	2.8	2.5
Price/Book	33.1	62.9	—	45.3	27.9	25.9	28.3	19.0	19.9	13.8	14.7
Price/Cash Flow	26.5	21.9	19.2	16.4	16.6	17.2	19.8	19.2	16.4	13.2	11.6

Growth Rates Compound Annual

Grade: C	1 Yr	3 Yr	5 Yr	10 Yr
Revenue %	0.0	7.8	7.7	5.3
Operating Income %	19.7	18.7	11.2	8.2
Earnings/Share %	19.4	21.1	13.4	11.5
Dividends %	10.3	11.2	12.4	11.3
Book Value/Share %	72.9	37.2	26.6	9.0
Stock Total Return %	7.9	6.4	9.5	5.3
+/- Industry	-10.9	5.6	5.3	-1.2
+/- Market	-2.2	15.6	11.4	8.9

Profitability Analysis

Grade: B	Current	5 Yr Avg	Ind	Mkt
Return on Equity %	90.2	109.7	—	22.0
Return on Assets %	20.5	17.9	—	8.4
Fixed Asset Turns	4.7	4.7	—	7.0
Inventory Turns	5.2	5.7	—	13.8
Revenue/Employee USD K	412.7	401.4*	—	845.6
Gross Margin %	59.2	56.1	—	40.2
Operating Margin %	22.5	19.9	—	14.1
Net Margin %	13.9	12.5	—	9.3
Free Cash Flow/Rev %	17.8	12.6	—	0.1
R&D/Rev %	—	—	—	10.2

Financial Position

Grade: A	12-09 USD Mil	06-10 USD Mil
Cash	600	555
Inventories	1209	1246
Receivables	1626	1594
Current Assets	3810	3811
Fixed Assets	3516	3410
Intangibles	3123	3003
Total Assets	11134	10586
Payables	1559	1382
Short-Term Debt	361	42
Current Liabilities	3599	2955
Long-Term Debt	2821	3331
Total Liabilities	8018	7954
Total Equity	3116	2632

Valuation Analysis

	Current	5 Yr Avg	Ind	Mkt
Price/Earnings	17.9	22.2	17.3	15.0
Forward P/E	14.3	—	—	13.0
Price/Cash Flow	11.6	17.1	10.8	6.9
Price/Free Cash Flow	13.9	22.9	13.5	14.7
Dividend Yield %	2.6	—	2.8	2.0
Price/Book	14.7	21.4	3.6	2.0
Price/Sales	2.5	2.8	1.9	1.2
PEG Ratio	1.5	—	—	1.5

*3Yr Avg data is displayed in place of 5Yr Avg

Quarterly Results

Revenue USD Mil	Sep 09	Dec 09	Mar 10	Jun 10
Most Recent Period	3998.0	4081.0	3829.0	3814.0
Prior Year Period	3988.0	3664.1	3502.8	3745.0

Rev Growth %	Sep 09	Dec 09	Mar 10	Jun 10
Most Recent Period	0.3	11.4	9.3	1.8
Prior Year Period	13.0	0.6	-5.7	-5.5

Earnings Per Share USD	Sep 09	Dec 09	Mar 10	Jun 10
Most Recent Period	1.12	1.21	0.69	1.17
Prior Year Period	0.94	0.94	0.97	1.07

Industry Peers by Market Cap

	Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%
Colgate-Palmolive Co	36377	15722	17.9	90.2

Major Fund Holders

	% of shares
Fidelity Contrafund	2.17
American Funds Growth Fund of Amer A	1.75
Vanguard Total Stock Mkt Idx	1.04

TTM data based on rolling quarterly data if available; otherwise most recent annual data shown.

Morningstar's Approach to Rating Stocks

Our Key Investing Concepts

- Economic Moat™ Rating
- Discounted Cash Flow
- Discount Rate
- Fair Value
- Uncertainty
- Margin of Safety
- Consider Buying/Consider Selling
- Stewardship Grades

At Morningstar, we evaluate stocks as pieces of a business, not as pieces of paper. We think that purchasing shares of superior businesses at discounts to their intrinsic value and allowing them to compound their value over long periods of time is the surest way to create wealth in the stock market.

We rate stocks 1 through 5 stars, with 5 the best and 1 the worst. Our star rating is based on our analyst's estimate of how much a company's business is worth per share. Our analysts arrive at this "fair value estimate" by forecasting how much excess cash--or "free cash flow"--the firm will generate in the future, and then adjusting the total for timing and risk. Cash generated next year is worth more than cash generated several years down the road, and cash from a stable and consistently profitable business is worth more than cash from a cyclical or unsteady business.

Stocks trading at meaningful discounts to our fair value estimates will receive high star ratings. For high-quality businesses, we require a smaller discount than for mediocre ones, for a simple reason: We have more confidence in our cash-flow forecasts for strong companies, and thus in our value estimates. If a stock's market price is significantly above our fair value estimate, it will receive a low star rating, no matter how wonderful we think the business is. Even the best company is a bad deal if an investor overpays for its shares.

Our fair value estimates don't change very often, but market prices do. So, a stock may gain or lose stars based just on movement in the share price. If we think a stock's fair value is $50, and the shares decline to $40 without much change in the value of the business, the star rating will go up. Our estimate of what the business is worth hasn't changed, but the shares are more attractive as an investment at $40 than they were at $50.

Because we focus on the long-term value of businesses, rather than short-term movements in stock prices, at times we may appear out of step with the overall stock market. When stocks are high, relatively few will receive our highest rating of 5 stars. But when the market tumbles, many more will likely garner 5 stars. Although you might expect to see more 5-star stocks as the market rises, we find assets more attractive when they're cheap.

We calculate our star ratings nightly after the markets close, and issue them the following business day, which is why the rating date on our reports will always be the previous business day. We update the text of our reports as new information becomes available, usually about once or twice per quarter. That is why you'll see two dates on every Morningstar stock report. Of course, we monitor market events and all of our stocks every business day, so our ratings always reflect our analyst's current opinion.

Economic Moat™ Rating

The Economic Moat™ Rating is our assessment of a firm's ability to earn returns consistently above its cost of capital in the future, usually by virtue of some competitive advantage. Competition tends to drive down such

Morningstar Research Methodology for Valuing Companies

Competitive Analysis → **Economic Moat™ Rating** → Company Valuation → **Fair Value Estimate** → Uncertainty Assessment → ★★★★★

Competitive Analysis

Analyst conducts company and industry research:

- Management interviews
- Conference calls
- Trade-show visits
- Competitor, supplier, distributor, and customer interviews

Economic Moat™ Rating

The depth of the firm's competitive advantage is rated:

- None
- Narrow
- Wide

Company Valuation

Analyst considers company financial statements and competitive position to forecast future cash flows.

Assumptions are input into a discounted cash-flow model.

Fair Value Estimate

DCF model leads to the firm's Fair Value Estimate, which anchors the rating framework.

Uncertainty Assessment

An uncertainty assessment establishes the margin of safety required for the stock rating.

★★★★★

★
★★
★★★
★★★★
★★★★★

The current stock price relative to fair value, adjusted for uncertainty, determines the rating.

economic profits, but companies that can earn them for an extended time by creating a competitive advantage possess an Economic Moat. We see these companies as superior investments.

Discounted Cash Flow

This is a method for valuing companies that involves projecting the amount of cash a business will generate in the future, subtracting the amount of cash that the company will need to reinvest in its business, and using the result to calculate the worth of the firm. We use this technique to value nearly all of the companies we cover.

Discount Rate

We use this number to adjust the value of our forecasted cash flows for the risk that they may not materialize. For a profitable company in a steady line of business, we'll use a lower discount rate, also known as "cost of capital," than for a firm in a cyclical business with fierce competition, since there's less risk clouding the firm's future.

Fair Value

This is the output of our discounted cash-flow valuation models, and is our per-share estimate of a company's intrinsic worth. We adjust our fair values for off-balance sheet liabilities or assets that a firm might have--for example, we deduct from a company's fair value if it has issued a lot of stock options or has an under-funded pension plan. Our fair value estimate differs from a "target price" in two ways. First, it's an estimate of what the business is worth, whereas a price target typically reflects what other investors may pay for the stock. Second, it's a long-term estimate, whereas price targets generally focus on the next two to 12 months.

Uncertainty

To generate the Morningstar Uncertainty Rating, analysts consider factors such as sales predictability, operating leverage, and financial leverage. Analysts then classify their ability to bound the fair value estimate for the stock into one of several uncertainty levels: Low, Medium, High, Very High, or Extreme. The greater the level of uncertainty, the greater the discount to fair value required before a stock can earn 5 stars, and the greater the premium to fair value before a stock earns a 1-star rating.

Margin of Safety

This is the discount to fair value we would require before recommending a stock. We think it's always prudent to buy stocks for less than they're worth.The margin of safety is like an insurance policy that protects investors from bad news or overly optimistic fair value estimates. We require larger margins of safety for less predictable stocks, and smaller margins of safety for more predictable stocks.

Consider Buying/Consider Selling

The consider buying price is the price at which a stock would be rated 5 stars, and thus the point at which we would consider the stock an extremely attractive purchase. Conversely, consider selling is the price at which a stock would have a 1 star rating, at which point we'd consider the stock overvalued, with low expected returns relative to its risk.

Stewardship Grades

We evaluate the commitment to shareholders demonstrated by each firm's board and management team by assessing transparency, shareholder friendliness, incentives, and ownership. We aim to identify firms that provide investors with insufficient or potentially misleading financial information, seek to limit the power of minority shareholders, allow management to abuse its position, or which have management incentives that are not aligned with the interests of long-term shareholders. The grades are assigned on an absolute scale--not relative to peers--and can be interpreted as follows: A means "Excellent," B means "Good," C means "Fair," D means "Poor," and F means "Very Poor."