Colgate Palmolive Company

USA, Consumer Goods & Services

Accounting		Climate Assumptions		Audit		Date of analysis: *May 4 2021*
Judgements	Consistency with other reporting	Visibility	Paris alignment	Visibility in CAMs	Consistency Check-10K	Year end: December 2020 Report date: February 18 2021 AGM: May 8 2021
Significant concerns	Significant concerns	Significant concerns	Significant concerns	Significant concerns	Some concerns	Climate Action 100+ company, so seen by investors as key to driving global net zero emissions.

Summary view:
- A vast majority of the company's emissions are scope 3, stemming mainly from the use of its products by customers.
- In November 2020, Colgate reported new climate targets with more information to follow (not included within the 10-K).
- Information in the 10-K appears to be internally consistent, given the minimal discussion of climate change and steps committed to addressing it within the narrative reporting, and the fact it appears to be ignored in the financial statements and audit opinion. As new commitments turn into more concrete plans for activities and their associated costs, such information would help investors to monitor this aspect of progress.

Background

The Business.

- Colgate is a global consumer goods company, operating in two product segments: Oral, Personal and Home Care; and Pet Nutrition. By sales, Oral is the largest (44%), Personal Care (21%), Home Care (18%), and Pet Nutrition (17%). The Oral, Personal and Home Care businesses are managed geographically; North and Latin America are 23% and 21% of group sales respectively, and Europe and Asia Pacific are each just over 16%.
- The vast majority of emissions are Scope 3 (49m MtCO2e for 2019 – the latest figures available). Of this, 86% is from the use of its products by consumers, and the next largest categories are purchased goods and services (8%), and end of life treatment of products (3%).
- The company is exposed to price volatility related to raw materials such as essential oils, resins, pulp, tropical oils, tallow, corn, poultry and soybeans.

Approach to climate change.

- Climate risk is associated with part of the company's operational, regulatory and reputational and market risks, but the references are fairly generic and further analysis is not apparent.
- Colgate's plans to address climate risk are in transition, with a series of goals for 2020 having been met by 2019, according to its latest reporting published in August 2020.
- In November 2020, the company announced new climate targets including:
  - Reducing (absolute) Scopes 1&2 emissions: 30% by 2025 and 50% by 2030, from a 2018 base. Also by 2030, 100% of electricity for global operations is to be from renewables;
  - Reducing (absolute) Scope 3 emissions by 2025: 30% for purchased goods and services from a 2018 base, and 20% from consumer use of products, from a 2016 base;
  - Achieving Net Zero Carbon emissions in global operations by 2040; and
  - Eliminating one third of new plastics by 2025 (as part of transitioning to 100% recyclable, reusable, or compostable plastic packaging).
- The company describes on its website its 2025 Sustainability & Social Impact Strategy (announced November 2020), indicating "We've targeted net zero carbon emissions across our growing business, including our own operations, suppliers and consumers". However, this targeting of value-chain emissions does not appear to be presented elsewhere (not even in the related news announcement). The website indicates that more will be shared soon.
- The CDP reporting states that Colgate's '5% for the Planet' programme seeks to invest 5% of its capital budget in projects that reduce energy and water consumption and waste generation, and that a minimum of 2% of the manufacturing capital budget is targeted for energy reduction projects. Since 2011, it has invested more than $248m in more than 1,300 such projects, delivering estimated savings of more than $59m.

Accounting: judgements and consistency with other reporting

Accounting judgements		Significant concerns

- There is no explicit reference to climate change in the notes to the US GAAP financials. It is not apparent that any consideration of climate has been built into the numbers.
- Indefinite-lived assets subject to impairment testing include: goodwill ($3.8bn) and other intangibles ($1.9bn). No impairments were recognised during 2020 (outside of restructuring).
- Colgate considered the COVID-19 pandemic to have given rise to a "triggering event" relative to its investment in the Filorga skin health business acquired in 2019 for approx. $1.7m. However, its quantitative analysis determined that the value of the Filorga reporting unit and the related indefinite-life intangible assets were not impaired. Annual testing of the Filorga reporting unit also indicated no impairment, albeit with a narrowed margin of value exceeding the carrying amount by only 10%, and value of indefinite-life assets exceeding carrying amounts by less than 10%. The company does not appear to disclose assumptions made in conducting impairment analyses.
- The company has significant defined benefit pension and similar plan obligations, and plan assets set aside to fund these were valued at $2.6bn at the end of 2020 (70% fixed income, 25% equities). The degree to which the plan assets are insulated from climate risk is not clear.
- Colgate's CDP reporting indicates that many countries have introduced Emission Trading Schemes in the form of cap and trade (or others) to constrain actions that contribute to the adverse effects of climate change. It illustrates this further by noting that two plants in Europe were affected by the EU Emissions Trading Scheme in the past. It is not clear how material amounts have been or how amounts associated with the schemes have been accounted for.

Consistency with other reporting		Significant concerns

- It is concerning that separate disclosure is not more apparent in the financials, for example of associated R&D, capex, other costs (including any offsets), and the impact on margins etc of steps being taken in relation to climate risk commitments. As new commitments turn into more concrete plans for activities and their associated costs, such information would help investors to monitor this aspect of progress.

Climate assumptions in accounts: visibility and Paris alignment

Visibility of climate assumptions in accounts		Significant concerns

- There are no apparent climate-related assumptions. There is thus no sensitivity analysis.

Paris alignment		Significant concerns

- With no visibility, there can be no alignment with the goals of the Paris Agreement.

Audit: visibility in CAMs and consistency check

Audit firm: PricewaterhouseCoopers LLP	Responsible partner: Sharon Louise Kane
Audit standards: PCAOB (US)	

Visibility in Critical Audit Matters		Significant concerns

- There is no explicit reference to climate change apparent in the auditor's report.
- The audit opinion notes a single CAM: goodwill and indefinite-lived intangible assets interim impairment assessments – Filorga. While a future cash flow approach is taken to estimating asset values, climate risk and the company's plans to address it are not mentioned.
- That 'the audit effort involved the use of professionals with specialized skill and knowledge' is noted as a reason this topic is a critical audit matter, however the nature of the specialised skill and knowledge does not appear to be mentioned.

Consistency check		Some concerns

- PCAOB audit standards require the auditor to read other information that is presented together with financial statements and the auditor's report thereon. The auditor's report is silent on the outcome of the review, which implies that no material inconsistency was identified in the other information within the 2020 10-K.
- The 10-K appears to be internally consistent, given the minimal discussion on climate change in the narrative reporting and the fact it appears to be ignored in the financial statements.

The Climate Accounting Project is an independent investor-led project to reinforce the statements of the IASB and IAASB that material climate change issues are incorporated within their standards. This analysis seeks to understand the extent to which companies and auditors are delivering against this aspect of these standards and similar local standards.		**Key**
		Good practice
		Few concerns
		Some concerns
		Significant concerns

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