



Fourth Quarter 2023 Earnings Pre-Recorded Management Discussion

January 24, 2024

Please view these remarks in conjunction with our Q4 2023 earnings release, which is filed on Form 8-K, and additional information regarding our non-GAAP financial measures, including GAAP to non-GAAP reconciliations, available on our website investor.kimberly-clark.com under SEC Filings, or via the following link: investor.kimberly-clark.com/financial/sec-filings

We also invite you to listen to our live question-and-answer webcast with Kimberly-Clark management which will begin today at 8:30 a.m. Eastern Standard Time and will also be available on investor.kimberly-clark.com under Events & Presentations.

Q4 2023 Earnings Pre-Recorded Management Discussion

Slide 1 (Cover Page)

CHRIS JAKUBIK, HEAD OF INVESTOR RELATIONS, KIMBERLY-CLARK CORPORATION

Hello. This is Chris Jakubik, Head of Investor Relations at Kimberly-Clark, and welcome to our fourth-quarter 2023 business update.

Slide 2 (Safe Harbor)

During our review, we will make some forward-looking statements that are based on how we see things today.

Actual results may differ due to risks and uncertainties, and these are discussed in our earnings release and our filings with the SEC.

We will discuss some non-GAAP financial measures during these remarks.

These non-GAAP financial measures should not be considered a replacement for, and should be read together with GAAP results.

And you can find the GAAP to non-GAAP reconciliations within our earnings release and the supplemental materials posted at investor.kimberly-clark.com.

Slide 3 (Business Update)

Today, our Chairman and CEO, Mike Hsu, will provide an update on our overall business performance.

And Nelson Urdaneta, our Chief Financial Officer, will provide an overall financial review and our outlook for the coming year.

We have also scheduled a separate live question-and-answer session with analysts.

You can access our earnings release, supplemental materials and audio of our Q&A session at investor.kimberly-clark.com.

A replay of the Q&A session will be available following the event through the same website.

With that, I will turn it over to Mike.

MIKE HSU, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, KIMBERLY-CLARK CORPORATION

Thank you Chris, and thanks to everyone for joining us today.

Our fourth quarter results reflect a solid finish to a 2023 that was punctuated by better organic growth and a stronger recovery of costs, margins, and earnings than we anticipated at the start of the year.

Our results reflect the hard work and commitment of our people to excite and delight our consumers and customers, while navigating macro-economic challenges that have persisted across our industry.

Looking back at the past year, and in fact, the five years since I stepped into the role as CEO, I am incredibly proud of our team.

We've made significant enhancements to our business and how we're serving our customers and our consumers.

At the same time, we successfully addressed an unprecedented inflationary cycle continuous supply chain disruptions and the need to offset new, higher cost levels.

Importantly, we built advantages in key commercial areas that will benefit us for the long term. Through it all, we've learned some valuable lessons that have made us stronger.

Our strong performance this year and our solid finish gives us confidence that this phase of cost recovery and supply chain stabilization is largely behind us.

This is a pivotal moment for Kimberly-Clark.

We're positioned to build on the consumer centricity we've established over the past several years and take another leap forward into our next chapter of growth.

We do this from a much stronger financial position.

From our cost structure to our cash flow to our balance sheet, we're in a better position to accelerate and enhance the performance of our business.

Our growth strategies are working, and our financial performance has improved as we've strengthened our foundation.

But I believe we can do even better.

We're continuing to sharpen our strategic focus and I'm confident in and excited about the future of Kimberly-Clark.

We look forward to hosting an Investor Day in March to share more about the strategic priorities and key initiatives that will drive this step-change in the future.

Slide 4 (2023 Priorities)

We began 2023 with two main objectives:

- **Playing to Win** by continuing to elevate our categories and expand our markets.
- And driving **Profitable Growth** focused on margin recovery in a quality way, boosting our brand investments while remaining disciplined on costs.

And versus our initial expectations last January, we over-delivered on both fronts!

Slide 5 (Healthier Balance of Growth Emerging)

In terms of organic growth, the quality of our top line momentum has continued to improve with a healthier balance across price, volume, and mix.

I would like to highlight three key points about our organic growth since 2019.

First, in 2023, we built further on the sales gains achieved in the 2020-2022 pandemic period.

Second, the contribution from pricing to help offset unprecedented inflation is receding and our brands remain healthy and well-positioned to grow.

Third, underlying growth, volume plus mix is now turning positive.

Volumes have continued to improve and were flat in Q4.

We've been driving consistent, positive mix the past four years reflecting our strategy to elevate our categories.

And this has shown most prominently in our Personal Care business, where we strategically focused the majority of our organic investments.

Slide 6 (2023 Innovation)

A key driver has been our focus on launching category-defining innovation.

It's our heritage, and it's a focal point of our strategy to elevate our categories and expand our markets.

Our approach to innovation has evolved to be more consumer-centric, driving consumer-preferred solutions, guided by consumer insights and behaviors to create and scale end-to-end advantages.

We've focused on propositions that can deliver the trifecta of consumer desirability, technology advantage and margin expansion.

In 2023, we prioritized innovation in two of the biggest consumer demand spaces in Personal Care, Skin Health & Wellness and Leak-Free Comfort.

In Skin Health & Wellness, we leveraged advantaged technology for superior performance in products such as our Huggies Dual Zone for skin health, Huggies Newborn Zinc Enriched and Kotex Liners with a pH indicator.

The team did an incredible job of scaling the Kotex launch globally within its first full year.

In Leak-Free Comfort, we applied advantaged product designs to improve performance in Feminine Care with Kotex Overnight, a platform being rolled out globally. In Youth Pants where GoodNites XL drove growth into its second full year of launch and in Diapers with a new marketing push behind our superior-performing Huggies Blowout Blocker in all of our newborn lines.

These innovations were successful because of the consumer-preferred solutions they deliver as well as the strategic investments we made to improve our commercial execution over the past few years.

Slide 7 (Commercial Capabilities)

Our commercial execution is much stronger and more integrated than at any point in the Company's history:

- We've enhanced and scaled our innovation and product technologies.
- We've pivoted toward a digital-first brand paradigm, focused on building ongoing relationships with our consumers.
- We're enabling superior in-market execution by leveraging world-class process and tools.
- and we've enhanced net revenue realization through a disciplined analytical approach, helping us to systematically optimize trade decisions in real time.

As a result, new product launches in the past 3 years represented 54% of 2023 net sales in our Consumer businesses and contributed more than 70% of our incremental organic growth in 2023.

In Personal Care, we have more than doubled the rate innovation was delivering for us as recently as 2021.

In addition, more than 75% of our top 25 projects are now being scaled globally.

This level of innovation has helped mitigate the volume and mix impact of, and in many cases helped facilitate, the revenue realization we've driven over the past two years.

We're moving faster and with greater confidence because we now have leading-edge commercial tools to take more informed actions and capitalize on our innovative products.

A testament to our improvement in commercial execution is the fact that for the second year in a row we've topped The Advantage Survey as the best CPG manufacturer in North America.

Slide 8 (2023 Results | Gross Margin Recovery)

Together, these factors have been key contributors to what has been a price/mix- and productivity-driven gross margin recovery through the end of 2023.

Over the past five quarters, accretive innovation, improved commercial execution and a strong ongoing stream of cost savings enabled our rapid recovery in gross margins.

This is critical because our Gross Margins and more specifically Gross Profit dollars serve as our fuel for growth and investments in the future.

In the second half of 2023, we recovered to 2019 levels, faster than originally anticipated and can now pivot our focus from cost recovery to accelerating growth and building longer-term competitive advantages.

Importantly, we view our gross margin recovery to-date as a milestone, not an endpoint and believe there remains ample opportunity for us to expand margins from here.

Slide 9 (Strategic Foundation)

We've made great progress, but we have a lot of opportunity yet to be realized.

There's no question that pressures on our consumers and inflationary economies in some of our developing markets will remain challenging in the near term.

And we will continue our relentless focus on market share and our need to improve upon recent trends.

The foundation we've established over the past several years has positioned us to take another leap forward into our next chapter of growth.

Elevating our categories and expanding our markets is working and can be accelerated.

We're in a better position to fully leverage the investments we've made.

We know where we can improve even more in terms of volume, mix and efficiency to drive margins further.

And we are in a much stronger financial position to undertake a step-change in the business.

Which is a good place to hand off to Nelson to cover our financial results and initial outlook for 2024.

Slide 10 (Financial Results & 2024 Outlook)

NELSON URDANETA, CHIEF FINANCIAL OFFICER, KIMBERLY-CLARK CORPORATION

Thank you, Mike.

The stronger financial position we now enjoy truly resides in the exceptional execution, discipline, and portfolio optimization our team has displayed these past two years.

And as we look back at 2023, we have many reasons to believe in our potential and our ability to drive that momentum across the enterprise.

Slide 11 (Q4 Results)

Fourth quarter organic growth was 3 percent reflecting further, gradual progress in getting towards a healthier balance across price, mix and volume with volumes flat as we begin to lap the strong pricing actions taken over the past several quarters.

In fact, pricing in the second half of 2023 was predominantly driven by price increases in inflationary, developing markets. A profile we expect will continue in 2024.

Gross margin increased 210 basis points to 34.9 percent reflecting improved revenue realization, mix, and cost savings that more than offset other manufacturing costs and currency headwinds.

Looking forward, our cost basket in the near term is likely to remain mixed, with favorability in some raw materials contrasting with higher distribution and labor costs as well as currency headwinds.

Below Gross Profit, Adjusted Operating Income margin was down 80 basis points and Adjusted Earnings per Share was three cents below Q4 last year.

Currency headwinds, both in the form of translation as well as a negative impact from monetary losses in hyperinflationary economies, were in fact, a significant factor that held back Operating Profit growth, Operating Margin and EPS in the fourth quarter.

The negative impact from monetary losses in hyperinflationary economies, captured in the Other Income and Expense line, was approximately 70 million dollars in Q4, representing more than 100-basis points of negative impact to Operating Margins.

At Adjusted EPS, this impact was partially offset by higher interest income, resulting in a roughly 9 cent per share negative impact in the quarter.

These impacts were largely driven by a significant devaluation since we last updated our guidance in late October.

Slide 12 (2023 Results)

For the full year,

- we built further on the strong organic sales gains in 2022 as pricing faded, as expected, and volume plus mix gradually turned positive,
- adjusted gross margin for the year improved 370 basis points to 34.5 percent reflecting our hard-fought return to pre-pandemic Gross Margin levels in the second half of the year,
- while Adjusted Operating Margin grew 150 basis points and Adjusted Earnings per Share were up 17%, mainly for the same reasons.

There were two other factors driving our full year results worth highlighting.

First, at Operating Profit and EPS, note that the full year negative impact from monetary losses in hyperinflationary economies was about 115 million dollars, representing a roughly 50-basis point negative impact to Adjusted Operating Margin.

At EPS, we saw a roughly 16 cent impact net of interest income from our monetary positions in those hyperinflationary economies.

Second, and more important, is our investments in our brands, our people, and our capabilities, investments we've continued to make despite the ups and downs in our gross margin.

Our 2023 Marketing, Research and General expense levels, specifically, reflect Advertising spending of more than 5% of Net Sales, up almost \$200 million from last year, and the successful deployment of Revenue Growth Management capabilities.

It also reflects the upgrading of our commercial talent, technology investments that include a new system to increase procurement efficiency across the enterprise, as well as higher incentive compensation.

While this has held back our Operating Profit margins versus 2019 levels, as we've highlighted today, those investments have been critical in recovering our baseline earnings power and driving organic growth.

And as we make further progress towards a volume and mix driven organic growth profile, we're confident that we will begin to see the type of margin leverage we expect from these investments.

Before I get to our 2024 outlook, I'll provide some highlights on each of our segments.

Slide 13 (Personal Care)

In Personal Care, the momentum we saw in the second half and the quality of fourth quarter results is both encouraging and something we expect to build upon.

Organic sales growth reflected a shift to a more balanced contribution from volume, mix and price in the second half, with volumes positive for the second consecutive quarter.

North America Personal Care grew 5% in Q4 driven entirely by volume and mix.

Outside of North America, China grew volumes in the high-single digits for the full year while other markets saw improving volume and mix trends as the year progressed, relative to strong, but necessary, year-on-year price increases throughout the year.

And at a category level, it's worth noting continued momentum in Feminine Care from share gains leading to double-digit organic growth for the full year.

At the Operating Margin, Q4 levels reflected both a typical seasonal low in the business as well as an unfavorable swing in one-off, discrete costs versus the prior year.

That said, the mid-17 percent margins in the second half and full year represent a solid base from which we expect to build going forward.

Slide 14 (Consumer Tissue)

In Consumer Tissue, the organic growth trend into Q4 reflected improved volumes sequentially as we begin to lap considerable pricing taken in previous quarters.

Full year organic growth was driven by North America and Developed Markets, with North America delivering flat volumes for the full year.

And in the UK, momentum of our Andrex brand continued as we recover from supply chain disruptions.

Specifically, we saw both sequential and year-over-year share gains in Q4 as well as double-digit consumption growth for the full year.

At Operating Profit, margins for the segment strengthened as the year progressed, reflecting the improving volume trends as well as ongoing productivity initiatives.

Slide 15 (K-C Professional)

Finally, our K-C Professional business results reflected the success of our sharpened strategic focus on country : category segments that we see as more resilient, as well as investments in innovation to create value-driven propositions and sustainable solutions for our customers.

As a result, organic growth has been driven by a strong contribution from necessary pricing that was largely lapped in North America and other Developed Markets in the fourth quarter.

Volumes have primarily reflected expected elasticity from pricing, while mix has been a solid contributor throughout because of the choices we've made to emphasize certain segments over others.

In Q4, volumes in North America reflected the ongoing rightsizing of the business in terms of both our own focus on profitable volume as well as wholesale inventory levels.

And we would expect a more subdued volume picture to continue into Q1 for the same reasons, with improved trends as the year progresses.

In terms of Operating Margin for Professional, while Q4 levels reflected typical seasonality versus the rest of the year, full year Gross and Operating margins in the business improved to levels that enable us to shift our full focus on investing to drive growth going forward.

Slide 16 (Free Cash Flow & Balance Sheet)

The last area that I want to touch upon, and speaks as much to the strengthening of our financial profile as our P&L, is our cash flow and balance sheet.

In 2023, we generated \$2.8 billion in free cash flow while investing roughly \$770 million in capex spending.

This reflected both the recovery in our baseline earnings power as well as better working capital discipline that we're beginning to drive throughout the organization.

As a result, we've been able to rapidly reduce both Net Debt and our Net Leverage to levels consistent with our long-term, single-A credit rating target.

Taken together, we now have the strong financial footing to accelerate the type of step-change in the business we know we're capable of.

Our confidence in our path forward is also reflected in the dividend increase we announced today.

Which brings me to our outlook for 2024.

Slide 17 (2024 Outlook)

Overall, while significant exogenous headwinds like currency are likely to remain a factor in our reported results, we are cautiously optimistic that both the consumer environment and our own operating momentum will continue to lead to durable, profitable growth.

On the top line, we are expecting Low-to-Mid Single Digit Organic Net Sales growth, a range of organic growth that we expect will include approximately 200 basis points from pricing in hyperinflationary economies.

At the same time, reported Net Sales growth is likely to be negatively impacted by roughly 300 basis points from currency translation and another 60 basis points from divestitures.

At Operating Profit, we currently expect High-Single-Digit to Low Double-Digit growth on a Constant Currency basis.

This reflects our expectations for further improvements in revenue realization, business mix and cost savings.

It also includes an assumption for costs from monetary losses in hyperinflationary economies, captured within the Other Income and Expenses line, at roughly half the rate we experienced in 2023.

Reported Operating Profit growth is likely to be negatively impacted by approximately 400 basis points from currency translation.

We currently expect High Single Digit Earnings Per Share growth on a Constant Currency basis, reflecting both interest expenses and effective tax rate slightly higher versus the prior year.

Here again, we expect reported EPS results to be impacted by approximately 400 basis points from currency translation.

As far as pacing during the year, we expect 2024 reported net sales to be relatively balanced between the first half and second half of the year, although with a relatively lower rate of organic net sales growth in the first quarter versus the full year as our 2024 programming has a greater impact as the year unfolds.

At the same time, we expect operating profit and earnings this year to be more 48 percent versus 52 percent, first-half versus second-half weighted, compared to what turned out to be more of 51:49 split in 2023.

This reflects a combination of the balance of sales, greater currency headwinds in the first half and our expectation for greater productivity gains as the year progresses.

With that, I will turn it back to Mike for some closing thoughts.

Slide 18 (Summary)

MIKE HSU, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, KIMBERLY-CLARK CORPORATION

Thanks, Nelson.

In closing, we are proud of our 2023 results and the solid finish to the year.

We enter 2024 having advanced the Company's strategic foundation, consumer-centricity and financial position.

Moving forward we will continue to invest in differentiating our global brands and strengthening our capabilities.

We will further leverage our cost structure and remain financially disciplined.

And we'll make sure we are deploying capital in ways that benefit the enterprise and deliver value to our shareholders.

On behalf of my leadership team and the more than 40,000 employees who work tirelessly to fulfill our purpose of bringing Better Care for a Better World, thank you for your time and interest in Kimberly-Clark.

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