Third Quarter 2021
Prepared Remarks

October 25, 2021

Company Participants

Mike Hsu, Chairman and CEO

Maria Henry, CFO

Taryn Miller, VP Finance and Interim Head of Investor Relations

Please view these remarks in conjunction with our Q3 2021 earnings release, including the GAAP/non-GAAP reconciliations, that can be found on our website at www.kimberly-clark.com under the Investors section, or via the following link: www.kimberly-clark.com/investors

Taryn Miller

Hello and thank you for your interest in Kimberly-Clark. Included below are prepared remarks from Mike Hsu – our Chairman and Chief Executive Officer, and Maria Henry – our Chief Financial Officer.

As a reminder, these remarks include forward-looking statements. Please see the Risk Factors section of our latest Annual Report on Form 10-K for further discussion of forward-looking statements. The remarks refer to adjusted results and outlook – both exclude certain items described in our Q3 2021 earnings news release. The release has further information about these adjustments and reconciliations to comparable GAAP financial measures.

In addition to these remarks, we will host a live Q&A webcast today at 9:00 a.m. Central Time. To join the webcast or listen to a replay, please visit www.kimberly-clark.com/investors.

Maria Henry

My remarks focus on our third quarter 2021 financial results.

Q3 2021 RESULTS - OVERVIEW

Our third quarter results reflect a dynamic and challenging macro environment.

Topline growth was strong with organic sales up 4 percent. Margins and bottom line results were impacted by significant headwinds including continued commodity cost increases as well as higher distribution, labor and energy costs.

Our market share positions remain healthy overall and we continue to achieve strong cost savings, return cash to shareholders and invest in our brands and capabilities.

Q3 2021 RESULTS – DETAILS

Third quarter net sales were $5.0 billion, up 7 percent. Changes in foreign currency rates increased sales 1 percent and the net impact of the Softex Indonesia acquisition and exited businesses in conjunction with the 2018 Global Restructuring Program increased sales 2 percent. Organic sales increased 4 percent compared to a 3 percent increase in the year-ago period. Net selling prices rose 3 percent and product mix increased sales 1 point while volume was even with year-ago.

Third quarter adjusted gross margin was 30.6 percent, down 560 basis points year-on-year. Adjusted gross profit decreased 10 percent.

Gross margin was negatively impacted by input cost inflation, partially offset by benefits from organic sales growth and cost savings. Input costs were approximately a 1000 basis point drag on gross margin year-over-year, unfavorable by $480 million in the quarter. This is the highest level of inflation we have ever seen in a single quarter, surpassing the record inflation we experienced in the second quarter.

For the full-year, we're now planning for input cost inflation of $1,400 to $1,500 million compared to our estimate of $1,200 to $1,300 million from three months ago. On average, input costs have increased $925 million from our outlook at the beginning of the year and are now expected to be at levels close to double our previous record inflation peak. The increased estimate since July is driven by polymer-based materials, distribution cost and energy rates.

We generated $150 million of cost savings from our FORCE and Restructuring programs in the quarter. For the full-year, we expect total cost saving to be $520 to $540 million, which is on the lower half of the range we provided in July and approximately $100 million above our original target for the year.

Between-the-lines spending on an adjusted basis was 15.6 percent of net sales, 330 basis points lower than year-ago. This was lower than we planned at the beginning of the quarter as we updated incentive compensation expectations and reduced advertising and discretionary spending.

The combined impact of commodity, currency and selling price approached a 40 percent drag on operating profit in the quarter.

Adjusted operating margin was 14.9 percent, down 230 basis points, and adjusted operating profit was down 8 percent.

The adjusted effective tax rate was 20.9 percent in the third quarter of 2021.

Third quarter adjusted earnings per share were $1.62 in 2021 compared to $1.72 in 2020.

Third quarter 2021 cash provided by operations was $782 million, up from $559 million 2020, driven by improved working capital and lower tax payments.

We continue to allocate capital in disciplined, shareholder-friendly ways and are continuing our strong track record of returning cash to shareholders. In the third quarter, we returned approximately $450 million to shareholders through dividends and share repurchases. We now expect share repurchases for 2021 to be approximately $400 million, at the low end of our previous target range.

That concludes my comments on our third quarter results.

Mike Hsu

My remarks focus on third quarter 2021 organic sales, market conditions and our market shares, and our full-year 2021 outlook.

Q3 2021

Third quarter organic sales were strong and market shares remain healthy as we leverage and scale our enhanced commercial capabilities in a dynamic and challenging environment. We're seeing the benefit from the pricing actions we implemented in the second and third quarters, and we continue to scale and launch innovations globally and support our brands with strong marketing campaigns.

As Maria noted, organic sales were strong, increasing 4 percent in the quarter. Personal care organic sales were up 9 percent in the quarter. Our personal care business in North America was up 11 percent and market shares were healthy with continued strong recovery following supply challenges related to the winter storm.

We had another excellent quarter in D&E markets in personal care. Overall, organic sales grew 7 percent, which is encouraging given how COVID-19 continued to negatively impact consumers, category conditions and economic activity in many markets. Organic sales increased double-digits in China, Argentina, Brazil, India, Eastern Europe and South Africa. Organic sales were down sharply in ASEAN and some Latin America markets, reflecting difficult economic and category conditions.

Our market positions remain strong and are improving in personal care in D&E. Year-to-date, our shares were up year-over-year in most of our key markets. That included China, throughout Eastern Europe, India and South Africa.

Organic sales for our personal care businesses in developed markets were up 7 percent. Huggies diaper market shares were up multiple share points in Australia and South Korea.

Consumer tissue organic sales were down 6 percent compared to a strong base period, which was up 10 percent and included COVID-19 related shipments in North America and developed markets to support retailer inventory recovery following consumer stock up early in the pandemic.

Organic sales in K-C Professional were up 12 percent in the quarter. We continue to see sequential improvement in the demand for washroom products though at a somewhat slower pace than previously anticipated given the delay in return to office related to the resurgence of COVID-19.

Although we are encouraged with our topline performance, our bottom-line results were negatively impacted by record levels of inflation and supply chain disruptions that increased our costs well beyond what we anticipated.

2021 OUTLOOK

We have therefore updated our 2021 outlook to reflect third quarter performance and our expectations for the fourth quarter, including the higher impact of input costs and our current forecast on macro factors.

We now expect full-year 2021 organic sales decline of 1 to 2 percent compared to our prior outlook for decline of 0 to 2 percent. The shift to the lower end of the range reflects the impact of the COVID-19 resurgence and the volume impact of supply chain disruptions.

Our outlook for full-year 2021 adjusted earnings per share is now $6.05 to $6.25, which compares to our previous target of $6.65 to $6.90. The reduction in our earnings per share outlook reflects additional input cost inflation, lower volumes and supply chain disruptions which are increasing our costs well beyond the expectation we established just last quarter.

This operating environment has limited our visibility. At mid-year we believed we were looking at some level of stabilization but instead the volatility has compounded. We are experiencing inflation and supply chain challenges in a manner not seen before and it is becoming clear these headwinds are not likely to be resolved quickly.

In the second and third quarters we took pricing actions, including raising selling prices for most of our businesses, in both consumer and K-C Professional in North America and around the world. With the continued cost inflation, we have announced further pricing actions and will pursue additional initiatives to ensure we achieve our cost savings goals to help mitigate cost inflation as we head into 2022.

Given the significant and rapid changes in the operating environment, we have re-prioritized our investment spending. Our focus is to serve our consumers and we are investing in our supply chain to better meet the demand for our products. We have reduced spending in other areas such as advertising and general and administrative spending. We are being disciplined with the spending, ensuring we continue to invest in our brands and commercial capabilities around innovation, consumer insights, and digital for long-term growth.

Our new outlook reflects a rapidly changing environment. We are actively managing through the global supply chain disruptions which are compressing margins in the near-term. We are taking a balanced set of actions to preserve topline growth and recover margins over time.

We will continue to invest in our brands and capabilities. Our strategy is working, and we remain confident in our future and our ability to create long-term shareholder value.

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This concludes our prepared remarks for today. Thank you for your interest in Kimberly-Clark.