Second Quarter 2021
Prepared Remarks

July 23, 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 Q2 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 Q2 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 second quarter 2021 financial results.

Q2 2021 RESULTS - OVERVIEW

Our second quarter results reflect a volatile environment.

Second quarter saw record commodity inflation ahead of our pricing actions as well as lower volumes due to inventory reductions, both retailer and in-home, in North America consumer tissue. This compares to record profitability in the year-ago quarter.

Our market share positions remain healthy overall and we continue to achieve strong cost savings and return cash to shareholders.

Q2 2021 RESULTS – DETAILS

Second quarter net sales were $4.7 billion, up 2 percent. Changes in foreign currency rates increased sales 3 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 declined 3 percent compared to a 4 percent increase in the year-ago period.

Outside of North America consumer tissue, organic sales were up approximately 4 percent, including 2 percent volume growth. Organic sales were up 9 percent in developing and emerging (D&E) markets and global personal care grew 6 percent. K-C Professional sales increased 2 percent and were also up sequentially, though the washroom business is still down versus prior year.

Second quarter adjusted gross margin was 31.9 percent, down 790 basis points year-on-year. Adjusted gross profit decreased 18 percent.

Gross margin was negatively impacted by commodity inflation, lower consumer tissue volumes and the related fixed cost under absorption. These headwinds were partially offset by benefits from cost savings and higher selling prices. Commodities were a 750 basis point drag on gross margin year-over-year, unfavorable by $345 million in the quarter. This is the highest level of inflation in a single quarter that we have on record. Input costs were higher than anticipated in the quarter, as sequential increases versus the first quarter reduced earnings per share by more than $0.30 compared to our going in assumption of closer to a $0.20 impact.

For the full-year, we're now planning for commodity inflation of $1,200 to $1,300 million compared to our estimate of $900 to $1,050 million from three months ago. On average, commodity costs have increased $725 million from our outlook at the beginning of the year and are now expected to be well beyond any single year impact we have experienced. The increased estimate is driven by polymer-based materials and pulp. North American market prices are now forecast to be up approximately 30 percent for pulp and more than 90 percent for polypropylene resin versus prior year.

We, and many other businesses, continue to be surprised by the unprecedented increase in raw material prices, with forecasts changing almost weekly. Current outlook indicates prices are peaking going into the third quarter before tapering somewhat later in the year. The dynamics are specific to each material but overall, we expect to exit 2021 with prices below current peaks but still well above levels at the end of 2020.

We generated $145 million of cost savings from our FORCE and Restructuring programs in the quarter. For the full-year, we've increased our cost savings target by $110 million compared to our original plan. Given the environment, our teams are accelerating savings programs and we expect to generate more value from our raw material contracts.

Other manufacturing costs were higher in the second quarter versus the same period prior year, driven by fixed cost under absorption in consumer tissue.

Between-the-lines spending on an adjusted basis was 17.5 percent of net sales, 20 basis points lower than year-ago. This was somewhat lower than we planned at the beginning of the quarter as we reduced discretionary spending and updated incentive compensation expectations.

Foreign currencies were a low-single digit benefit to operating profit in the quarter.

Adjusted operating margin was 14.3 percent, down 760 basis points, and adjusted operating profit was lower by 33 percent versus last year's record second quarter.

The adjusted effective tax rate was 22.5 percent in the second quarter of 2021.

All-in-all, second quarter adjusted earnings per share were $1.47 in 2021 compared to $2.20 in 2020.

Second quarter 2021 cash provided by operations was $565 million. The year-on-year decline reflects lower earnings, increased working capital and higher tax payments compared to a record year-ago quarter when we generated $1,579 million of cash flow. For perspective, this quarter was in line with Q2 2019 cash flow of $609 million.

We continue to allocate capital in disciplined, shareholder-friendly ways. Second quarter dividends and share repurchases totaled $550 million. We now target share repurchases of $400 to $450 million. This compares to our previous target of $650 to $750 million and reflects our reduced full year profit outlook. This adjustment aligns with our capital allocation strategy that prioritizes investment in the business and our dividend, which we increased 6.5 percent this year.

That concludes my comments on our second quarter results.

Mike Hsu

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

Q2 2021

Our second quarter reflects continued pandemic-driven volatility, a tough comparison with last year's second quarter, negative consumer tissue volumes as consumers and retailers in North America continued to destock at an accelerated rate and record high commodity prices. While we look forward to a return to a more normalized environment, we have moved decisively to take pricing actions to mitigate inflationary pressures and continue to prudently manage costs.

Organic sales declined 3 percent in the quarter. As Maria noted, organic sales increased 4 percent excluding North America consumer tissue, which declined 27 percent in the quarter compared to 22 percent growth in the year ago period - which was unprecedented in terms of consumer purchasing behavior, especially in North America bathroom tissue. While the lapping of the COVID-19 related consumer stock-up was anticipated, the impact in the second quarter was beyond our expectations. We knew last year's volume increase had multiple drivers, including increased at home usage, higher consumer pantry levels, and retailer inventory changes. It was difficult to precisely separate the magnitude of each of the drivers and when and how they would normalize. In the first half of 2021, the consumer pantry and retailer inventory rebalancing occurred faster than we previously assumed.

Personal care organic sales were up 6 percent in the quarter. Our personal care business in North America was up 2 percent, gaining momentum throughout the quarter as we recovered from the winter storm impact we told you about in April. Raw material shortages hindered sales in the first half of the quarter. By late in the quarter, order fulfilment was back to more normal levels. As expected, our on-shelf availability impacted our diapers and pants market share in the first part of the quarter as well. We recovered well over half of the share decline as we exited the quarter. Our underlying momentum remains healthy, particularly in baby and child care, and we expect that to continue going forward.

We had another excellent quarter in D&E markets in personal care. Overall, organic sales grew 8 percent. All regions delivered growth 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 Brazil, India, Argentina and throughout the Middle East, Africa and Eastern Europe region. China personal care was up mid-single digits in the quarter and up mid-teens year-to-date. China diapers organic sales increased double-digits in the quarter and year-to-date. Organic sales were down in most of the rest of Latin America and in ASEAN.

We continue to gain market share broadly in personal care in D&E. Over the last three months, our shares were up year-over-year in most of our key markets. That included China, throughout Eastern Europe, India, Peru and South Africa.

Organic sales for our consumer businesses in developed markets were up 1 percent, with strong growth in personal care, up 12 percent. Huggies diaper market shares were up multiple share points in Australia and South Korea. Consumer tissue organic sales were down mid-single digits compared to a strong base period which included COVID-19 related shipments.

Organic sales in K-C Professional globally were up 2 percent in the quarter, slightly below our expectations as growth of pandemic demand categories, such as PPE and wipers, softened while sales for washroom products have been slow to ramp up. As social mobility and return-to-work increase and travel and lodging industries recover, we are seeing green shoots with sequential improvement in the demand for washroom products.

Our innovation pipeline continues to build and is one of the contributors to our market share progress. We continue to scale and launch innovations globally and support our brands with strong marketing campaigns. In the second quarter, we launched innovations on Poise, Depend and U by Kotex in North America and Huggies in China, South Korea and Australia. We also continue to support our recent innovations on Huggies diapers in North America, Eastern Europe and Latin America as well as Kotex feminine care products in Eastern Europe.

2021 OUTLOOK

We have updated our outlook for 2021 to reflect second quarter performance, including the higher impact of commodity costs and our current forecast on macro factors. We are taking actions as appropriate and remain confident in our strategies to create long-term shareholder value.

We now expect full-year 2021 organic sales decline of 0 to 2 percent compared to our prior outlook of 0 to 1 percent growth. The new range reflects second quarter results and updated consumer tissue category assumptions.

Our new outlook for full-year 2021 adjusted earnings per share is $6.65 to $6.90, which compares to our previous target of $7.30 to $7.55. The reduction in our earnings per share outlook reflects additional commodity inflation and lower consumer tissue category volumes, including related fixed cost under absorption. Both factors had a significant impact in the first quarter but have worsened further in the last three months. We expect tissue dynamics will normalize and we are taking actions to fully offset the increase in commodity costs over time.

Increasing selling prices will be the primary way we recover higher commodity costs. In North America, we implemented mid-to-high single digit price increases across the majority of our consumer products business in late-June. Many of our other businesses around the world are implementing price increases as well including in developed markets and throughout much of D&E.

We are also increasing our cost savings expectations for the year and reducing discretionary general and administrative spending.

We are continuing to execute our investment strategy. Our investments behind our brands, capabilities and technologies have been improving our performance in the marketplace and they are critical to our long-term success. While we have deferred some investments in light of the current environment, we continue to invest in our commercial capabilities around innovation, consumer insights, and digital.

We're expecting earnings to accelerate sequentially in the second half of the year as our pricing actions take hold, cost savings step up, and consumer tissue begins to normalize from significant de-stocking that occurred in the first half of the year. Commodity prices will continue to be a significant headwind in the back half as they are now expected to peak during the third quarter before moderating somewhat.

While none of us are pleased with the new outlook, it reflects how rapidly the environment has changed since the start of the year.

Moreover, the drivers for the outlook update, commodities rising faster than we can offset them in the near-term and a more rapid reversal of last year's consumer tissue category demand increase, do not reflect the fundamental health of our business or our long-term growth prospects.

We will continue to execute K-C Strategy 2022, invest behind our brands and capabilities, and focus on further improving our market positions and our company for long term success. We will also operate with financial discipline and return significant cash to shareholders.

I'm confident our teams will manage through this environment with excellence while we continue to build a stronger company for long-term success and value creation.

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