Kimberly-Clark

Full Year 2021 Results and 2022 Outlook
Prepared Remarks

January 26, 2022

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 Q4 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 which exclude certain items described in our Q4 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 full year 2021 financial results and 2022 financial outlook.

2021 RESULTS - OVERVIEW

Our team managed well through a year of significant macro volatility and unprecedented levels of inflation. The actions we have taken to address these pressures and our continued execution of our strategy position us well for long-term value creation.

I'll start with a quick review of our segment performance before going through the financial details.

Our personal care business, representing approximately half of the company's revenue, continued its strong performance, with share gains in approximately 70 percent of our key markets. Organic sales increased 6 percent for the year and were up 11 percent in the fourth quarter. While operating profit was down 4 percent in 2021, largely as a result of significant input cost inflation, the pricing actions we took during the year helped us grow operating profit year over year in the fourth quarter.

Our consumer tissue business remains healthy but faced a tough comparison with 2020 which included the COVID-related stock-up. That dynamic unwound in 2021, resulting in an organic sales decline of 11 percent as compared to 13 percent growth in 2020. In addition to the volume decline, profit was impacted by sizeable commodity inflation. Consumer tissue operating profit declined 39 percent year over year and represented approximately 75 percent of the company's overall adjusted operating profit decline.

Finally, our K-C Professional business is recovering but continues to be impacted by COVID-related dynamics. The business delivered positive organic sales growth in the last three quarters, and we continue to hold our strong share position in North America. In our washroom business, representing over half of segment revenue, we grew organic sales in the second half, but sales remain depressed versus pre-pandemic levels. Organic sales for overall K-C Professional were flat to 2020 and operating profit was down 23 percent, reflecting higher input costs and a temporary misalignment between fixed costs and current revenue of the business.

2021 RESULTS – DETAILS

Focusing first on the top-line, full year net sales were $19.4 billion, up 2 percent. Organic sales decreased 1 percent compared to a 6 percent growth last year which included increased demand related to the initial COVID waves, especially in North America consumer tissue. Volumes declined 4 percent while net selling prices rose 2 percent and product mix increased sales 1 point.

Changes in foreign currency exchange rates increased sales 1 percent. The Softex Indonesia acquisition increased sales 2 percent while exited businesses in conjunction with the 2018 Global Restructuring Program decreased sales slightly.

Adjusted gross margin was 31.6 percent, down 550 basis points year-on-year versus strong margins last year. Adjusted gross profit decreased 14 percent.

Gross margin was negatively impacted by significant input cost inflation and lower consumer tissue volume, partially offset by cost savings and the benefits from our swift and decisive pricing actions.

Input costs were unfavorable $1.5 billion year-over-year, representing a 770 basis point drag on gross margin. This is the highest level of annual inflation we have ever seen, nearly two times the previous high from 2018. Unlike past commodity inflation cycles, the cost increases last year were broad-based including not only the raw materials costs of pulp and polymer-based materials, but also distribution and energy costs. Cost inflation worsened considerably throughout 2021, with $1.0 billion of the full year inflation occurring in the second half.

We continued our focus on increasing operational efficiency, generating $550 million of cost savings from our FORCE and Restructuring programs in 2021, above our initial target for the year and somewhat above the updated range we provided in October.

Between-the-lines spending on an adjusted basis was 16.9 percent of net sales, 130 basis points lower than year-ago. The reduction was primarily due to lower incentive compensation expense. Advertising spending was 4.6 percent of net sales, 40 basis points lower than 2020 spending levels though above 2019 on both a percent of net sales and absolute dollar basis, reflecting our commitment to building strong brands.

The combined impact of commodity, currency and selling price was a 30 percent drag on operating profit for the year.

Adjusted operating margin was 14.6 percent, down 410 basis points, and adjusted operating profit was down 21 percent.

The adjusted effective tax rate was 21.5 percent compared to 22.7 percent in the year-ago period.

Full year adjusted earnings per share were $6.18 in 2021, down 20 percent and within our revised October guidance range of $6.05 to $6.25 per share.

Cash provided by operations was $2,730 million, down compared to record cash flow of $3,729 million in 2020, driven by lower earnings and less cash provided by working capital.

We continue to allocate capital in disciplined, shareholder-friendly ways. Capital spending was $1.0 billion in 2021, down $0.2 billion from 2020. Capital was lower than the initial guidance we provided for the year of $1.2 to $1.3 billion as we re-prioritized investment given the current operating environment. We continued our strong track record of returning cash to shareholders. Dividends and share purchases totaled $1.9 billion.

Finally, before I turn to the 2022 outlook let me note that we have now completed our 2018 Global Restructuring Program. We achieved total annual savings of $560 million compared to the $500 to $550 million initial savings target. The total pre-tax cost of the program was $2,175 million, versus the original estimate of $1,700 - $1,900 million. We exited or divested some low-margin business that represented about 1 percent of net sales and sold or closed 11 facilities.

The program reduced our structural cost base, simplified our organization structure and manufacturing supply chain, and enabled investment in our brands, growth initiatives and capabilities. We are proud of our teams' achievement in completing the largest restructuring in our history while navigating the COVID environment.

2022 OUTLOOK

We expect the operating environment will remain challenging with another year of high input cost inflation, continued supply chain disruption, and uncertainty around COVID impacts. Based on what we see in the macro environment and in our business today, we expect to accelerate our organic growth and make progress to restoring gross margins by year-end.

As the actions we have taken to offset headwinds materialize in the P&L and inflation moderates somewhat as the year progresses, we expect financial delivery will improve with stronger performance in the second half of the year.

We plan to deliver net sales growth of 1 to 2 percent. That includes an expected 2 point headwind from currencies. We are targeting organic sales growth of 3 to 4 percent, benefiting from the broad-based pricing actions we are taking. Given the overall level of pricing we expect to achieve, we are planning for some negative volume impacts but will remain nimble, closely monitoring our market shares and consumer reaction and adjusting as appropriate. We will support our growth with innovation, effective marketing, and by leveraging the strengthened commercial capabilities we have built over the last few years.

We expect operating profit to decline low to mid-single digits. Our outlook is for input cost inflation to be a headwind of $750 to $900 million, at the mid-point a 30 percent impact to operating profit, driven primarily by distribution and energy as well as polymer-based purchased materials and secondarily pulp. While we have seen some positive signs in the commodity prices of raw materials, our suppliers are facing many of the same cost pressures related to distribution and energy as we are, and these costs are reflected in our contracted rates. Additionally, currency is expected to be a mid-single digit headwind to operating profit.

On operating efficiency and cost, we are targeting to deliver $300 to $350 million of FORCE savings. Our FORCE target is solid, but down from 2021 as we will have less value from negotiated material prices. We expect strong performance on the other components of our FORCE program. We are committed to fully servicing consumer demand and in the current environment, supply chain disruptions and the associated costs are a headwind to our productivity savings.

Between-the-lines spending will be up year-on-year as a result of general inflation, restoration of incentive compensation and continued support for our most important investments. Advertising spending is expected to be similar to 2021.

We expect the effective tax rate will return to a more normal level and be between 22 and 24 percent. At the mid-point, that represents a year-on-year earnings headwind of approximately 2 percent.

Our earnings per share outlook is $5.60 to $6.00. At the mid-point, that is a 6 percent decline compared to adjusted earnings of $6.18 in 2021. We have strong top-line momentum in personal care and we expect improved growth in consumer tissue following two years of demand volatility. We also expect K-C Professional to return to growth, albeit not to pre-pandemic levels in 2022.

Our outlook, and the relatively wide earnings range, reflects a dynamic and challenging operating environment with less visibility than a typical year.

In terms of earnings profile, we expect earnings will decline sequentially in the first quarter and then improve as the year progresses. That reflects the input costs and supply chain disruptions remaining elevated relative to the timing of the net benefit from selling price increases and the expected ramp in cost savings as the year progresses.

Finally, we will continue to manage our company with financial discipline and allocate capital in shareholder friendly ways. We expect cash provided by operations will be down somewhat versus 2021, due to higher cash taxes and lower earnings. We are increasing our dividend by 1.8 percent. That is our 50^{th} consecutive annual increase in the dividend. Our A credit rating remains important and we will limit our share repurchases to the amount required to offset dilution, or about $100 million. In total, that is at least $1.5 billion in returns to shareholders.

Mike will now share his perspective on 2021 sales and the overall outlook for 2022.

Mike Hsu

My remarks focus on 2021 organic sales, market conditions and our market shares, as well as our full-year 2022 outlook.

2021 RESULTS

In 2021 we continued to execute our strategy of Elevating our Categories and Expanding our Markets. While our overall financial results were disappointing, we took decisive action to offset the impact of higher costs with significant pricing actions. These actions, which began in the first half, helped us deliver organic sales growth and improved net selling prices in the second half of the year, including strong fourth quarter performance.

Importantly, we continued to make significant progress accelerating organic growth in personal care. Through the year, our team launched strong innovation and supported it with superior local market execution, all of which contributed to solid share gains in numerous key markets. In addition, we solidified our market positions in several critical growth markets by integrating Softex in Indonesia, commissioning a new production facility in Nigeria and building our route-to-market in India.

Personal care organic sales grew 6 percent, the third consecutive year we delivered growth at or above 5 percent. Our personal care business in North America grew 5 percent in 2021 and 13 percent in the fourth quarter. Sequentially, market shares improved or held in the majority of our categories, even as we recovered from significant supply chain disruption in the first half of the year.

We also performed strongly in Developing and Emerging markets, up 5 percent across our three segments. Personal care organic sales were up 8 percent with growth in all regions. Our brands continued to perform strongly in the face of COVID volatility. For the year, organic sales were up double digits in nearly all key markets, including China, Brazil, Argentina, Eastern Europe, South Africa and India. Economic and category conditions continued to pressure growth in some Latin America markets and in ASEAN where organic sales declined. Our full-year market shares were up in key markets, including China, throughout Eastern Europe, and South Africa.

In developed markets outside of North America, organic sales were up 5 percent with strong multi-point market share gains on Huggies in our large markets of Australia and South Korea.

In consumer tissue, consumer purchase patterns began to normalize and pantry stocks unwound as we cycled 13 percent growth in 2020. As a result, our consumer tissue organic sales were down 11 percent, but stabilized at more normal demand levels.

Similarly, demand stabilized in K-C Professional as sales were even with year-ago. Demand for our washroom products continued to improve throughout 2021 though at a slower pace than previously anticipated, a result of slower than expected return to office in North America.

2022 OUTLOOK

We are committed to delivering balanced and sustainable growth and will do so while navigating what will remain an elevated cost environment in 2022. We will focus on three priorities:

- Keep our teams, partners and consumers safe while operating in the dynamic COVID environment.
- Accelerate organic sales growth
- Restore our margins

Our strategy to Elevate our Categories and Expand our Markets is working and we will continue leading the development of our markets. We have strong organic sales growth and share momentum, especially in personal care. We will continue to support our brands with breakthrough innovation supported with agile digital and superior local market execution.

We expect consumer tissue growth to improve, as we have largely cycled the consumer stock-up effects brought about by the COVID-related demand volatility we have experienced the past two years.

We also expect improved growth in K-C Professional. Although business performance will be impacted by the pace of return to office and travel recovery, we are excited about our new washroom offerings and believe they will gain traction with the end-user community.

We are committed to restoring our margins and expect to make progress this year. We took significant pricing actions in the second and third quarters of 2021 across most of our businesses around the world. In addition, we announced further pricing actions that go into effect this quarter. We expect pricing to offset a majority of the impact of cost inflation and are confident in our ability to restore our margins to pre-pandemic levels over time.

We will remain disciplined with our spending. We will continue to invest to support our people and our brands, further strengthen our commercial capabilities around the world, and move our digital capabilities to the next level. We believe the levels of investment Maria outlined will support our growth plans and position us well for the long-term.

We remain confident in the potential of our categories and in our ability to develop innovative products that will further enhance our portfolio and the value we provide our consumers. That is how we will fulfill our purpose of providing Better Care for a Better World.

I am grateful for the hard work and dedication of our talented teams in 2021, and we are committed to doing all we can to ensure a safe and rewarding work environment in the year ahead.

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