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Kleenex



# Q2 2018 Results and 2018 Outlook

July 24, 2018

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# Conference Call Reminders

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## Forward-Looking Information

Certain matters in this presentation and conference call, including our 2018 outlook, expectations and planning assumptions, and any estimates, projections, and statements relating to our business plans or objectives, constitute forward-looking statements and are based upon management's expectations and beliefs concerning future events impacting the company. These statements are subject to risks and uncertainties, including currency rates and exchange risks, including in Argentina, cost savings and reductions, raw material, energy, and other input costs, competition, customer relationships, market demand and economic and political conditions, the anticipated cost savings from the company's FORCE program, charges and savings from the 2018 Global Restructuring Program, and contingencies. There can be no assurance that these future events will occur as anticipated or that the company's results will be as estimated. Forward-looking statements speak only as of the date they were made, and we undertake no obligation to publicly update them. For a more complete listing and description of other factors that could cause the company's future results to differ materially from those expressed in any such forward-looking statements, see Item 1A of the company's Annual Report on Form 10-K for the year ended December 31, 2017 entitled "Risk Factors."

## Non-GAAP Financial Measures

Management believes that non-GAAP financial measures enhance investors' understanding and analysis of the company's performance. As such, results and outlook have been adjusted to exclude certain items as indicated in the non-GAAP reconciliations to the comparable GAAP financial measures included in today's earnings release and described in additional information posted on our Web site ([www.kimberly-clark.com/investors](http://www.kimberly-clark.com/investors)). The non-GAAP financial measures exclude charges related to the 2018 Global Restructuring Program and U.S. tax reform related matters in 2018 and a net benefit associated with U.S. tax reform and related activities in Q4 2017.



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## Q2 2018 Results



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## Q2 2018 Headlines

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- Organic sales even year-on-year; growth in international markets offset by North America
- Margins and operating profit impacted by significant commodity inflation
- Delivered strong cost savings, reduced overhead spending, achieved 7 percent increase in adjusted earnings per share
- On track with restructuring program

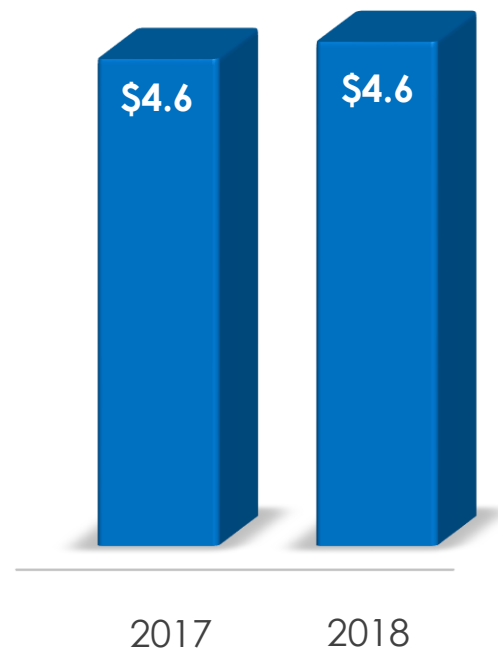


# Consolidated Net Sales

Net Sales	Q2 2018
<b>Total Change<sup>(a)</sup></b>	<b>1%</b>
Volume	(1%)
Net Price	(1%)
Mix/Other	1%
Currency	1%
Organic <sup>(b)</sup>	0%

- Organic sales even with year-ago

Q2 NET SALES  
(\$ BILLION)



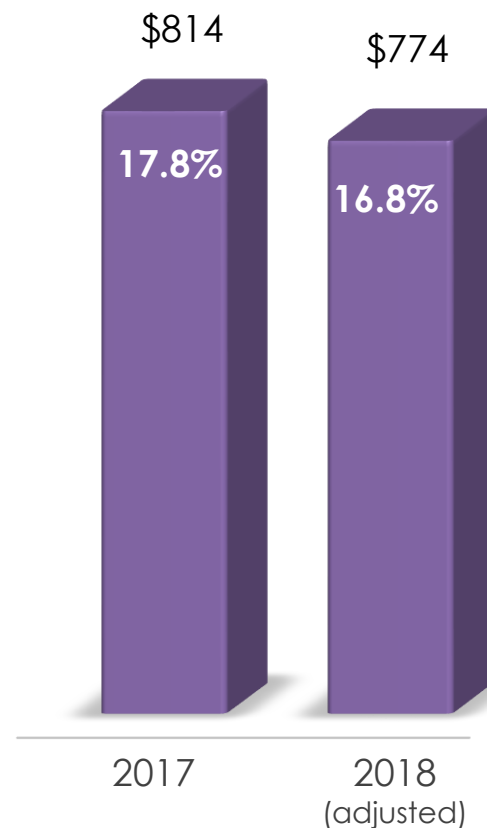
(a) Total may not equal the sum of volume, net price, mix/other and currency due to rounding.

(b) Growth before currency impacts.

# Adjusted Gross and Operating Profit

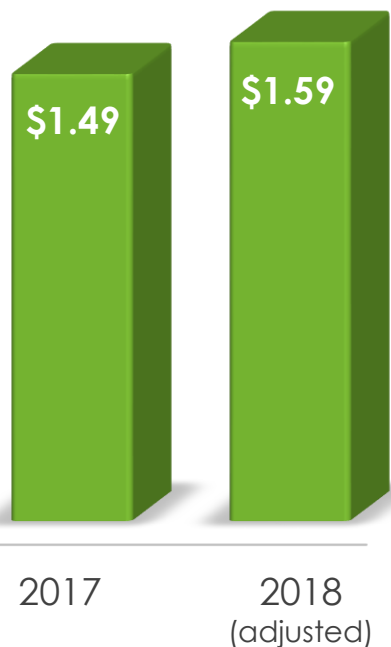
- Gross margin 33.4 percent, down 270 basis points
- Commodity inflation \$200 million
  - Primarily pulp and secondarily other raw materials
  - Full-year estimate now \$675 to \$775 million; prior estimates: \$400 to \$550 million (April), \$300 to \$400 million (January)
- FORCE cost savings \$110 million
  - Full-year target now \$425 to \$450 million (original plan \$400 million)
- 2018 Global Restructuring Program cost savings \$40 million
  - Full-year target now \$100 to \$120 million (original plan \$50 to \$70 million)
- Between-the-lines spending down 180 basis points as a percent of net sales
  - Restructuring and reduced overhead costs
- Operating margin 16.8 percent, down 100 basis points
- Operating profit down 5 percent

## Q2 OPERATING PROFIT / MARGIN (\$ MILLION)



# Adjusted Earnings Per Share

Q2 EPS



- Adjusted effective tax rate 23.0 percent vs. 28.2 percent last year
  - 7 points of earnings growth
  - Expect full-year adjusted effective tax rate to be at low end of 23 to 26 percent target range
- Lower interest expense
- Reduced share count
- Adjusted EPS \$1.59, up 7 percent year-on-year

# Cash Flow and Capital Allocation

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- Cash provided by operations \$787 million
  - Down compared to \$825 million in year-ago quarter
  - Restructuring payments, lower taxes
  - In-line with expectations
- Continue to allocate capital in shareholder-friendly ways
  - Dividends and share repurchases approximately \$575 million; continue to expect full-year total \$2.1 to \$2.3 billion



# Personal Care

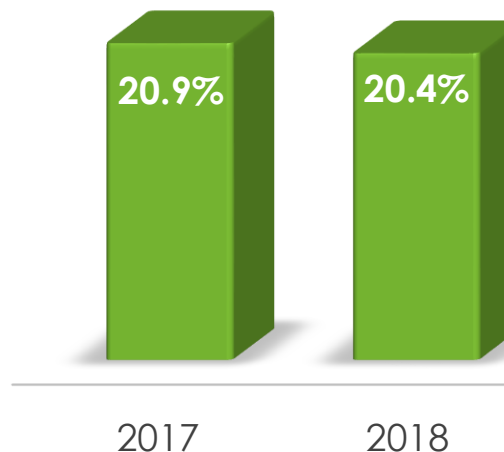
## Net Sales

Q2 2018

<b>Total Change</b>	<b>(1%)</b>
Volume	0%
Net Price	(2%)
Mix/Other	1%
Currency	0%
Organic	(1%)



## OPERATING MARGIN



- Organic sales down 1 percent
  - Net selling prices declined 2 percent, product mix improved 1 point
- Operating margin down 50 basis points

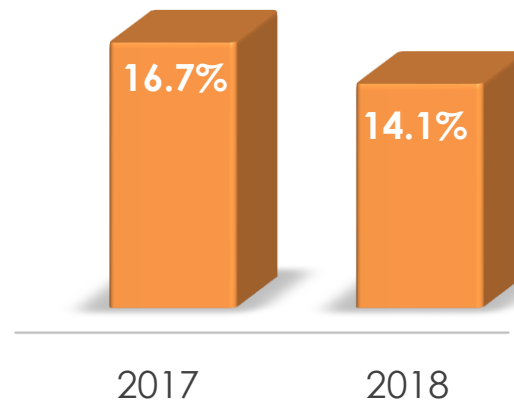
# Consumer Tissue

## Net Sales

Q2 2018

<b>Total Change</b>	<b>1%</b>
Volume	(3%)
Net Price	2%
Mix/Other	1%
Currency	2%
Organic	(1%)

## OPERATING MARGIN



- Organic sales fell 1 percent
  - Volume decreased 3 percent, net selling prices increased 2 percent, product mix improved slightly
- Operating margin down 260 basis points
  - Higher pulp costs and lower volumes, partially offset by cost savings, lower overheads, favorable price and mix

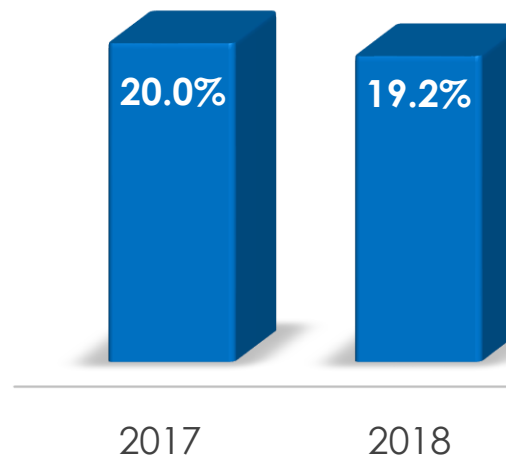
# K-C Professional

## Net Sales

Q2 2018

<b>Total Change</b>	<b>3%</b>
Volume	1%
Net Price	0%
Mix/Other	1%
Currency	2%
Organic	2%

## OPERATING MARGIN



- Organic sales grew 2 percent
  - Up in all major geographies
  - Volumes and mix each up 1 percent
- Operating margin down 80 basis points
  - Compared to strong year-ago quarter
  - Commodity inflation, partially offset by cost savings and benefits from top-line growth

# Summary

- Difficult environment, particularly with significant commodity inflation
- Strong cost savings
- Good progress on restructuring program
- Shareholder-friendly capital allocation





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## Q2 Recap & 2018 Outlook

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## Q2 2018 Top-line Recap

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- Organic sales even in quarter
  - Year-to-date organic sales up 1 percent
  - In-line with full-year target
- Three main growth priorities for 2018
  - Strengthen and grow our core businesses
  - Accelerate personal care growth in developing and emerging (D&E) markets
  - Build further digital and e-commerce capabilities



# Growth Priorities

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## **Strengthen and grow core businesses**

- North American consumer products organic sales down 2 percent following strong Q1
  - Year-to-date volume up 2 percent and organic sales even
    - Better indicator of performance due to changes in timing of promotion shipments
  - Market shares up or even in 5 of 8 categories year-to-date
  - Launched numerous innovations and supporting brands with strong marketing and promotion programs
  - Initiatives on track with expectations

# Growth Priorities

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## Strengthen and grow core businesses

- K-C Professional
  - North American organic sales up 2 percent with volume growth in all major product categories
  - D&E organic sales increased 3 percent, led by Asia-Pacific
- Developed markets outside of North America
  - Organic sales rose 1 percent
  - South Korea: diaper business continues to be impacted by lower birth rate, other brands growing nicely

# Growth Priorities

## Accelerate personal care growth in D&E markets

- Q2 organic sales even year-on-year
  - China organic sales down about 10 percent
    - Competitive promotion activity in diaper market increased
    - Launched upgraded Huggies® premium diaper, rolling out improved premium diaper-pant
    - Optimistic about these innovations
    - Expect challenging near-term market conditions
  - Brazil organic sales up mid-single digits, compared to high-single digit decline in base period
    - Volumes up slightly, despite modest impact from transportation strike
    - Pricing now positive

# Growth Priorities

## Accelerate personal care growth in D&E markets

- Argentina organic sales up mid-single digits
  - Price realization continues to be positive
  - Volumes for us and category down - difficult economic conditions
- Eastern Europe organic sales increased double-digits for third consecutive quarter
  - Volumes rose double-digits on both Huggies® and Kotex® - innovations, strong marketing programs, expansion outside of Russia
- Market share trends positive in most of these key markets
  - Shares up in Brazil, Argentina, Eastern Europe; down in China diapers

# Growth Priorities

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## **Build further digital and e-commerce capabilities**

- Continue to make good progress
  - Digital marketing programs
  - Joint business plans with customers
  - Investments in tools
- Online sales continue to grow at healthy double-digit rates so far this year

# Selling Prices

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- In April, outlined several actions to improve net realized revenue
- Actions broadly on track and pricing trends slowly improving
  - Net selling prices: down 2 percent Q4 2017, down 1 percent Q1 2018, down half a percent Q2 2018
- Expect overall pricing in second half to turn modestly positive, mostly because of the actions we've taken in first six months
  - Also lapping elevated promotion spending in North America, particularly in fourth quarter
- Businesses closely evaluating further opportunities to increase net selling prices
  - Anticipate nearly all potential impact would start to show up in results next year



# 2018 Outlook

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- Near-term environment more challenging, responding by aggressively reducing costs and increasing selling prices where we can
- Continue to execute long-term strategies to deliver balanced and profitable growth
  - Innovate, support brands with category-building marketing campaigns, pursue targeted growth initiatives, improve key capabilities
  - Sustainable cost reductions while we implement global restructuring to make company even stronger

# 2018 Outlook

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- Sales
  - Continue to target organic sales growth of approximately 1 percent
  - Outlook on foreign currencies has worsened considerably
    - Expect neutral to 1 percent negative impact
    - Previously expected 1 to 2 percent positive impact
- Targeting full-year adjusted EPS \$6.60 to \$6.80
  - Previous outlook \$6.90 to \$7.20
  - Expect commodities and currencies will be a combined operating profit headwind of 20 to 25 percent
    - Original 2018 plan included net drag of high-single to low-double digits
    - Expect to offset approximately half of additional headwinds with more benefits from pricing, cost savings, spending reductions

# Summary

- Aggressively managing factors we control to benefit near-term results in a challenging environment
- Executing our long-term strategies to create sustainable shareholder value





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## Q&A Session



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