First Quarter 2021
Prepared Remarks

April 23, 2021

Company Participants

Mike Hsu, Chairman and CEO

Maria Henry, CFO

Paul Alexander, VP Investor Relations

Please view these remarks in conjunction with our Q1 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

Paul Alexander

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 Q1 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 first quarter 2021 financial results.

Q1 2021 RESULTS - OVERVIEW

Our first quarter results reflect a volatile and challenging environment.

First quarter comparisons were impacted by COVID-19 related stock up in the year-ago period, consumer tissue category softness and commodity inflation. We also experienced supply chain disruptions related to severe weather in the southern part of the United States. Setting aside the impacts from the supply chain disruptions, bottom-line earnings were broadly in-line with our expectations.

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

Q1 2021 RESULTS – DETAILS

First quarter net sales were $4.7 billion, down 5 percent. Organic sales decreased 8 percent compared to an 11 percent increase in the year-ago period. The acquisition of Softex Indonesia increased sales 2 percent and changes in foreign currency rates increased sales slightly.

Organic growth in 2020 included significant shipments to support consumer stock up related to the outbreak of COVID-19. That stock up impacted all business segments, in particular consumer tissue, and all major geographies.

In addition, sales volumes in North American consumer products in 2021 were negatively impacted by supply chain disruptions related to the severe weather conditions that occurred in February in the southern part of the United States. The disruptions included the temporary shutdown of several of our manufacturing facilities and reduced availability of raw materials from suppliers, mostly impacting our personal care business. The disruptions negatively impacted total company organic sales in the first quarter by approximately 2 percent and adjusted earnings per share by at least $0.15.

While our facilities resumed normal operations in the latter part of February, we continue to manage through temporary raw material constraints, working closely with both our suppliers and our customers. At this point, we expect the constraints will have a relatively small impact on our second quarter sales, and then our sales should return to normal levels thereafter.

We also experienced category softness in consumer tissue in the first quarter, particularly in North America.

On the other hand, we achieved strong organic sales growth in personal care in the developing and emerging (D&E) markets.

Mike’s remarks further address our first quarter sales and market share performance.

First quarter adjusted gross margin was 34.0 percent, down 320 basis points year-on-year. Adjusted gross profit decreased 13 percent.

Commodities were unfavorable by $135 million in the quarter. For the full-year, we're now planning for commodity inflation of $900 to $1,050 million compared to our estimate of $450 to $600 million from three months ago. The increased estimate is almost entirely due to pulp and polymer-based materials. On average, North American market prices are now forecast to be up more than 20 percent for pulp and more than 60 percent for polypropylene resin versus prior year.

We generated $105 million of cost savings from our FORCE and Restructuring programs. For the full-year, we've increased our cost savings target by $60 million compared to our original plan. Given the environment, our teams are accelerating savings programs and we expect to generate more value from our short-term raw material contracts.

Other manufacturing costs were higher in the first quarter, including costs related to COVID-19 and fixed cost under absorption.

Between-the-lines spending on an adjusted basis was 17.0 percent of net sales, even year-on-year.

Foreign currencies were a low-single digit drag on operating profit in the quarter, driven by unfavorable transaction effects.

Adjusted operating margin was 17.0 percent, down 290 basis points, and adjusted operating profit fell 19 percent.

The adjusted effective tax rate was 20.9 percent in the first quarter of 2021. That's down compared to 23.2 percent in the year-ago period because of certain tax planning initiatives.

All-in-all, first quarter adjusted earnings per share were $1.80 in 2021 compared to $2.13 in 2020.

First quarter 2021 cash provided by operations was $321 million. That compares to a very strong year-ago quarter when we generated $704 million of cash flow. The year-on-year decline reflects increased working capital, including payments for accrued expenses, and lower earnings.

We continue to allocate capital in shareholder-friendly ways. First quarter dividends and share repurchases totaled $535 million and we continue to expect that the full-year amount will be at least $2.15 billion.

That concludes my review of our first quarter results.

Mike Hsu

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

Q1 2021

First quarter organic sales were down in a volatile environment. Our market share positions remain healthy as we leverage and scale our enhanced commercial capabilities and continue to do the right things for the long-term success of our brands.

As Maria noted, sales last year included significant stock up related to COVID-19.

We experienced softer-than-expected category demand in consumer tissue in 2021. That included North American bathroom tissue, where category sales were down approximately 30 percent year-over-year and 20 percent versus the fourth quarter of 2020. This decline reflects consumer pantry de-stocking and potentially early effects of social mobility picking up in the latter part of the quarter. Despite this volatility, our market share performance in this business remains solid, as our shares were stable sequentially and down 1 point year-on-year.

In addition, facial tissue category sales were down 35 percent year-on-year in North America and more than 20 percent in Europe, reflecting a very mild cold and flu season in 2021 and stock-up last year. Nonetheless, Kleenex facial tissue market shares were up year-on-year in both markets.

The weather-related supply chain disruptions that Maria noted were also a meaningful headwind in the quarter. Prior to these disruptions, we were off to a good start to the year in North American personal care. Our underlying momentum remains healthy, particularly in baby and child care, and our market shares for the quarter were up year-on-year in both Huggies diapers and baby wipes.

We had another excellent quarter in D&E markets in personal care, with several businesses ahead of plan. Overall, organic sales grew 6 percent despite volatile market conditions. Organic sales increased double-digits in Brazil, China, Eastern Europe, India, and South Africa. Organic sales were down in most of the rest of Latin America and in ASEAN, reflecting difficult economic and category conditions.

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. Shares were down in Vietnam.

Organic sales for our consumer businesses in developed markets were down 12 percent, generally reflecting consumer stock up last year. That said, Huggies diaper market shares were up multiple share points in Australia and South Korea. Andrex bathroom tissue shares were down in the U.K.

Organic sales in K-C Professional globally were down 13 percent in the quarter – in-line to slightly ahead of our expectations with strong pricing and mix benefits. As social mobility and return-to-work pick up and travel and lodging industries recover, we expect that to translate into better demand for washroom products, although we haven't seen much of that just yet in orders. There are indications that demand is starting to moderate for product categories such as PPE and wipers that have been elevated during the pandemic.

We continue to scale and launch innovations globally and support our brands with strong marketing campaigns. In the first quarter, we launched innovations on Huggies diapers in North America, China, Eastern Europe and Latin America. We also introduced improved Viva paper towels in North America and Kotex feminine care products in Eastern Europe. Looking ahead, we have more launches, including in adult care and feminine care in North America and Brazil and on Huggies diapers in Australia, Brazil, China and South Korea.

Our innovation pipeline continues to improve and it's a key reason for our continued progress on market shares this year.

2021 OUTLOOK

We will continue to execute K-C Strategy 2022, invest behind our brands and capabilities, and focus on improving our market positions and our company for long term success.

We have updated our outlook for 2021 to reflect a more challenging and volatile near-term environment than we previously expected. That said, our business remains fundamentally healthy and we are moving rapidly to mitigate commodity headwinds.

We're now targeting full-year 2021 organic sales growth of 0 to 1 percent compared to our prior outlook of 1 to 2 percent. The new range is driven by updated tissue category assumptions, as we now expect that more of the net benefit of higher consumer tissue demand from COVID-19 dynamics in 2020 will reverse this year than we planned three months ago. We've also taken into account lost sales as a result of the supply chain disruptions related to the winter storm.

Our new outlook for full-year 2021 adjusted earnings per share is $7.30 to $7.55, which compares to our previous target of $7.75 to $8.00. The 45 cent reduction in our outlook is driven by input cost inflation net of selling price increases, the updated tissue category assumptions and the supply chain disruptions related to the winter storm. While we won't fully offset the input cost inflation in 2021 given the speed and magnitude of the increases, we plan to offset a meaningful portion of them this year. We expect to fully offset them over time, just like we've done in past commodity cycles.

Increasing selling prices will be the primary way we recover higher commodity costs. In North America, at the end of March we announced mid-to-high single digit price increases across the majority of our consumer products business – nearly all of those increases will be effective in late June. Many of our other businesses around the world will also be raising prices.

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. We aren't planning to reduce investment, despite the worsening commodity environment. We expect that full-year 2021 advertising spending, as a percent of net sales, will be in line with our original plan for the year.

We expect second quarter conditions will be challenging. In particular, we're planning for more cost inflation coming ahead of most of our new selling price increases. Category demand dynamics in consumer tissue and K-C Professional could also be more volatile than normal, and we'll be working through the supply chain disruptions in North America. We also expect that our between-the-lines spending will pick-up from a relatively low level in the first quarter, including more investment spending.

Earnings growth in the second half of the year should be quite meaningful as our pricing actions take hold and cost savings accelerate.

We're not pleased with the reduction in our outlook for 2021. We started the year strong and with good momentum. However, several macro changes have occurred over the last three months and while we are responding rapidly, we are not able to cover the financial impact within the year.

That said, the drivers for the outlook update do not reflect the fundamental health of our business or our long-term growth prospects.

Our teams are doing an excellent job managing through this environment and I'm confident they will continue to do so 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.