Kimberly-Clark

Second Quarter 2024 Earnings Pre-Recorded Management Discussion
July 23, 2024

Please view these remarks in conjunction with our Q2 2024 earnings release, which is furnished on Form 8-K, and additional information regarding our non-GAAP financial measures, including GAAP to non-GAAP reconciliations, available on our website investor.kimberly-clark.com under SEC Filings, or via the following link: investor.kimberly-clark.com/financial/sec-filings

We also invite you to listen to our live question-and-answer webcast with Kimberly-Clark management which will begin today at 8:00 a.m. Eastern Daylight Time and will also be available on investor.kimberly-clark.com under Events & Presentations.

Q2 2024 Earnings Pre-Recorded Management Discussion

Slide 1 | Cover Page

CHRIS JAKUBIK, HEAD OF INVESTOR RELATIONS, KIMBERLY-CLARK CORPORATION

Hello. This is Chris Jakubik, Head of Investor Relations at Kimberly-Clark, and welcome to our second-quarter 2024 business update.

Today, our Chairman and CEO, Mike Hsu, will provide an update on our overall business performance. And Nelson Urdaneta, our Chief Financial Officer, will provide an overall financial review and our outlook for the balance of the year.

We have also scheduled a separate live question-and-answer session with analysts.

You can access our earnings release, supplemental materials, and audio of our Q&A session at investor.kimberly-clark.com. A replay of the Q&A session will be available following the event through the same website.

Slide 2 | Safe Harbor

During our review, we will make some forward-looking statements that are based on how we see things today.

Actual results may differ due to risks and uncertainties, and these are discussed in our earnings release and our filings with the SEC.

We will discuss some non-GAAP financial measures during these remarks.

These non-GAAP financial measures should not be considered a replacement for, and should be read together with, GAAP results.

And you can find the GAAP to non-GAAP reconciliations within our earnings release and the supplemental materials posted at investor.kimberly-clark.com.

With that, I will turn it over to Mike.

Slide 3 | Powering Care

MIKE HSU, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, KIMBERLY-CLARK CORPORATION

Thank you, Chris, and thank you all for joining us today.

The first quarter marked a very encouraging start to Kimberly-Clark's new chapter of growth, and in the second quarter, we built further on our positive trajectory.

Through the first half, we delivered mid-single digit organic growth on the top line, and double-digit growth on the bottom line. This underscores our confidence in our full year plan. I want to express a heartfelt thank you to the people of Kimberly-Clark, for being the driving force of our progress. Through the implementation of our comprehensive, **innovation led growth strategy**, we are sharpening our focus, increasing operational scale, and unlocking greater long-term potential for the organization.

We're excited to have the ability to accelerate investment in our brands, our robust pipeline of innovation, and to further enhance our capabilities, to sustain and further enhance our momentum.

While we acknowledge the challenging conditions in the broader external landscape, we maintain a positive outlook on our business, and remain confident in our ability to successfully execute our transformation.

Slide 4 | Focused on Balanced and Sustainable Growth

We are very focused on delivering **Balanced and Sustainable growth**. And are encouraged by our progress in three key areas.

First, we delivered **positive volume-plus-mix** for the third consecutive quarter. Volume continued to improve and was positive for a second consecutive quarter. Our shift to a volume-and-mix driven growth model is taking hold, as we **leverage our best-in-class science and proprietary technologies** to deliver **innovative product solutions**, that win with consumers around the globe.

Second, we are gaining speed, focus and efficiency, as we **Wire Our Organization for Growth**.

And third, we continued to deliver strong productivity momentum, as we **Optimize Our Margin Structure** to fuel our growth. We achieved a better balance of price and costs versus prior year, and generated efficiencies throughout the value stream including manufacturing, distribution, and product design.

Slide 5 | Shift Towards Volume and Mix Driven Organic Net Sales Growth Continues

On the top line, we delivered strong organic growth in Q2, in the face of ongoing economic and consumer headwinds, that are likely to persist in the near term.

Our shift from price-driven to volume-and-mix driven organic growth is progressing, consistent with our 2024 plan and long-term strategy. In fact, our Q2 and first-half volume and mix gains were even more robust on an underlying basis.

In Personal Care, focus markets like China, North America, and Australia-New Zealand, all drove **solid consumption-driven volume gains**. China drove double-digit volume growth for the second quarter in a row, amidst challenging local marketplace dynamics.

In Consumer Tissue, our international Developed Markets grew volumes at a mid-single digit rate, driven by Kleenex in the UK and Australia, and Andrex in the UK.

These gains were tempered by an approximately 1-point headwind in both Q2 and the first half, from retail inventory reductions, primarily in North America, that continued at a higher-than-anticipated rate into our second quarter.

Mix remained positive in the second quarter, rounding down to flat, reflecting ongoing gains in Personal Care across most countries and categories.

These results give us confidence in our team's ability to drive further volume-and-mix gains in the second half and reflect excellent local agility and local execution.

Slide 6 | Enhancing Our Competitive Advantage

I am especially proud of our teams for delivering strong top and bottom-line performance, while simultaneously executing initiatives to strengthen our competitive position worldwide. The implementation of our transformation will bring greater focus, greater scale, and enhance our long-term potential.

We are generating strong momentum and have achieved some important milestones.

We completed the next phase of the creation of our **Powerhouse Supply Chain**, by bringing together our North America and International supply chain organizations, into one integrated enterprise-wide supply chain.

On July 1, our North America Consumer and Professional organizations were merged into **one integrated operating structure**.

We completed organizational design and announced assignments for the top three levels of the organization globally.

Between now and October 1, we will complete the wiring of our global matrix on a functional basis, bring greater focus to International Personal Care by organizing around Focus and Enterprise markets, and bring together our International Family and Professional Care businesses.

We've continued to streamline our portfolio and footprint in categories and markets where we don't see a path to winning long term. We completed the divestiture of our Personal Protective Equipment business on July 1. We announced plans to exit our operations in Nigeria and Bolivia. And as mentioned on our previous call, we're on track to exit additional private label business in early 2025. In doing so, we will halve our sales from private label manufacturing, from just more than 4% in 2023 to about 2% in 2025.

We also announced plans to close two facilities in the UK. While this was a difficult decision, it is an important step in supporting our sustainability strategy and improving our global tissue network utilization.

Slide 7 | Integrated Margin Management Creating Enterprise-Wide Visibility and Discipline

Our progress has been informed and enabled by our effort to establish greater enterprise-wide visibility, and operational discipline.

We are driving growth through innovation, and leveraging proprietary science-based technologies, to elevate our categories and brands. We are supporting this growth and ensuring we can provide the best value to consumers, by methodically optimizing our margin structure.

Our approach begins with managing input costs effectively. Our aim is to ensure neutral-to-positive Price Net of Cost inflation, or PNOC, on an ongoing basis.

Currently, we have good visibility and expect to be at least neutral on PNOC this year. We believe that is a reasonable expectation for our teams over the long term.

Achieving PNOC discipline enables us to leverage productivity gains to fuel further investment in growth, while delivering our bottom-line growth aspiration. Through the first half, we generated roughly $250 million in gross supply chain productivity, from our end-to-end approach to margin management.

We have reinvested some productivity gains at the Cost of Goods level, into enhancing supply chain capability, improving product quality, and further sharpening our brand propositions on every rung of the good-better-best ladder.

In SG&A, we're focusing investment, in R&D, brand building and enhancing our go-to-market or commercial capabilities.

As we take these actions, we're also improving our ability to support our sustainability aspirations. We released our annual sustainability report in June, and I encourage you to review it. It provides visibility on our progress, in responsible sourcing, our ambition to fully transition to natural forest fiber free, and how we are raising the bar in our categories.

Slide 8 | Capitalizing on Our Unique Advantages

Having had a front row seat to the CPG industry for over 30 years, I've never been more excited about the opportunities we have to further unlock growth and value here at Kimberly-Clark. We have a strong pipeline of pioneering innovation, a locally agile organization, and the ability to invest and build better, world-class capability, to sustain and build upon our momentum.

Around the world, across our categories, we're investing to enhance competitive advantage. We're driving innovation and reducing cost to enable us to continually strengthen consumer value across the good-better-best spectrum.

Our transformation and new chapter is off to a strong start further enhancing our opportunity to capitalize on our unique advantages, powerhouse brands and categories, pioneering innovation, and genius execution.

We have more work to get our good-better-best tiers where we think they should be. You should expect to see our investment continue to ramp up in the second half.

Now, I'd like to highlight a benefit of some prior investment we made that launched in the second quarter in the U.S.

This innovation is illustrative of our approach to leverage superior science that yields pioneering innovation and enables us to shape and elevate our categories, by delivering superior benefits for our consumers.

Slide 9 | Huggies North America Driving Mix and Growth with Solutions to Unmet Needs

We're committed to delivering the highest-quality consumer solutions at every rung of the good-better-best ladder.

In diapers, the core category benefit is, of course, Leak Protection.

In North America, we offer affordable leak protection with Huggies Snug-and-Dry. Beyond Leak Protection we are advancing into three demand spaces where needs remain underserved.

In Sleep, we pioneered the overnight occasion with Huggies Overnights.

In Comfort, we have Little Snugglers, a very soft and gentle diaper that protects exceptionally well. But there is so much more we can do to make baby more comfortable, especially fit and breathability. We have an exciting pipeline in this space and will be announcing more news soon.

And then there is Skin Health. If you are a parent, you know when your baby's sensitive skin is suffering from irritation or rash, it upsets the entire household.

In May, we launched our **Skin Essentials platform**, to redefine how a diaper could help your baby have a happier experience.

Slide 10 | Skin Essentials: Leveraging our Best Science and Marketing to Address Unmet Needs

Our new Huggies Skin Essentials diapers feature our proprietary SkinProtect liner, that we launched in China to great success last year. The patented technology in the liner, protects baby’s skin from the top causes of rash, that result from mess and moisture coming in contact with skin.

These diapers deliver superior performance, by leaving behind up to 5 times less mess than the leading store brand and offer a great value for consumers at the top end of the price ladder in the category.

We’re not stopping there.

Slide 11 | Skin Essentials: Leveraging our Best Science and Marketing to Address Unmet Needs

We’ve launched dermatologist approved Huggies Pull-Ups Skin Essentials in training pants. It’s our softest training pant, with a **100% breathable cover**.

Slide 12 | Skin Essentials: Leveraging our Best Science and Marketing to Address Unmet Needs

And we launched dermatologist approved **Huggies Skin Essentials wipes**, which are **hypoallergenic, fragrance free**, and are 30% thicker for a gentler clean.

Slide 13 | Depend Skinguard

Our commitment to skin health spans all ages and stages.

Depend now features Skinguard, providing superior comfort and our best skin protection ever. Depend with Skinguard is **10 times more breathable** than competitor brands.

To summarize, through the first half, we are off to a good start. We’re executing our strategic playbook. We’re focused on delivering superior consumer value—where-ever and however our consumers need us. To navigate an increasingly complex demand environment, we will accelerate investment in our brands and innovation through second half of the year.

Now, I’ll turn it over to Nelson, who will unpack the numbers behind our plan and our outlook.

NELSON URDANETA, CHIEF FINANCIAL OFFICER, KIMBERLY-CLARK CORPORATION

Slide 14 | Financial Results & 2024 Outlook

Thank you, Mike.

To echo our comments following our first quarter results, we are highly encouraged by the strong start to the year our team has delivered, and very proud of the foundation set for our new chapter of growth.

We're driving positive volume and mix growth as we navigate consumer and retail headwinds that are likely to persist in the near term. We delivered strong cost benefits through our gross productivity initiatives and input cost management on a pricing-net-of-cost basis.

And this provides us with a solid base to ramp up our investment spending and fully implement our new organizational structure in the second half of the year, while delivering full year top-line performance consistent with our long-term algorithm and bottom-line growth above our long-term algorithm in 2024.

Slide 15 | Strong Start to the Year

Second quarter organic growth was 4 percent, first half organic growth was 5 percent.

Volume plus mix contributed roughly 2 points of growth in both the quarter and the half, reflecting the shift to our volume and mix led organic growth strategy. This is even more encouraging, considering that we experienced roughly a one-point headwind in both the quarter and the first half from retail inventory destocking, primarily in North America.

Pricing decelerated to 2 percent in the second quarter from 4 percent in Q1, which included roughly 350 basis points of contribution from pricing in Argentina in Q2 down from approximately 450 basis points in Q1. In the second quarter, outside of hyperinflationary markets, pricing was down approximately 150 basis points, reflecting favorable revenue realization in North America Consumer Tissue, that was offset by lapping temporary, energy surcharge-related pricing in Western Europe last year, as well as targeted, strategic investments to optimize price-value tiers, primarily in several developing markets.

Looking forward, we would expect a top line profile in the second half of the year largely similar to the second quarter, with some risk from further retail inventory reductions in Q3 that should fade by the fourth quarter.

At Adjusted Operating Profit, dollars increased 16 percent in Q2 and 15 percent through the first half, with no material headwind from divestitures. Gains from volume and mix, favorable pricing net of input cost inflation, and supply chain productivity drove the growth. This more than offset greater marketing investments, including an approximate 50 basis point increase in advertising. And while overhead costs were up in the first half, they were down versus the prior year in the second quarter on an adjusted basis.

In the second half of the year, we would expect volume, mix, and supply chain productivity to continue driving profit growth. Pricing net of input cost inflation should be more balanced, and we plan to accelerate investment levels to support our innovation pipeline and ensure we're delivering superior offerings across good-better-best price-value tiers. Also, keep in mind that while divestitures represented no headwind to Adjusted Operating Profit or EPS in the first half of the year, we expect it will be a roughly 180 basis point headwind, year-on-year, in the second half.

Finally, Adjusted Earnings per Share were up 19 percent versus prior year in Q2, and 20 percent in the first six months of the year. Through the first half, this reflected the strong profit gains, some benefit from lower net interest expense, lower adjusted tax rate, as well as higher income from non-controlling equity interests.

Before moving to our segments, one last note regarding the impact of Hyperinflationary Market performance in the second quarter and the first half. The contribution from Hyperinflationary Markets in the quarter and the first half, were a slight headwind on a reported basis, given the strong, negative impact from currency translation, and results from those markets had no material impact on either Adjusted Gross Margin, or Adjusted Operating Profit margin performance versus the prior year.

Slide 16 | Personal Care

Looking at our results by segment, in Personal Care, our momentum has continued.

Pricing actions in hyperinflationary economies drove the 4 points of pricing in the second quarter, and 6 points in the first half. Putting that aside, we made further progress towards the innovation-led, volume and mix-driven growth our portfolio has the potential to deliver.

China grew volumes double digits for a second quarter in a row, behind innovation-driven share gains. North America volume plus mix was up mid-single digits, an acceleration from Q1, as retail inventory reductions were less of a factor in our Personal Care categories in the second quarter.

The strong gains in North America and China were complemented by volume-driven gains in other focus markets like Australia, Indonesia, and Brazil.

It's worth noting, that on a year-to-date basis, we are gaining global share in Baby and Child Care.

Operating Profit dollars were up double digits in both the second quarter and the first half, from a combination of favorable volume/mix, pricing net of cost inflation, and productivity. These gains more than offset the higher level of investments we're making in product quality and advertising, as well as unfavorable currency translation.

Slide 17 | Consumer Tissue

In Consumer Tissue, we saw some encouraging drivers of sustainable underlying growth, even though two, more temporary factors held back total organic growth in both the second quarter and first half.

Q2 volume grew at a mid-single digit rate in Developed Markets, but this was offset by a significant reduction of retail inventory in North America in the quarter, equivalent to approximately 250 basis points of total Consumer Tissue growth in Q2.

On the pricing front, in the second quarter we had favorable, low single digit revenue realization in North America, that was offset by the impact of lapping temporary energy-surcharge-related pricing in the prior year period in Western Europe. And I would note that this headwind will remain into the third quarter.

Despite these headwinds to organic growth, we are seeing sustained momentum in volume-led share gains with Andrex in the UK, and Kleenex in the US, the UK and Australia.

At Operating Profit, strong double-digit growth was driven by strong productivity gains, and a better balance of pricing relative to costs compared to the prior year.

Slide 18 | K-C Professional

In our K-C Professional business, we drove solid volume and mix gains in our Developing & Emerging markets.

But these gains were offset by lower volumes in North America, from a combination of ongoing business rightsizing, as well as recent foot traffic weakness in Foodservice, Retail, and Lodging channels.

All that said, we do expect volume trends to improve moving forward, turning positive in the second half of the year.

Pricing was down in the quarter, from the impact of lapping temporary energy-surcharge-related pricing in the prior year period. Again, a headwind at the pricing line that will be with us into the third quarter.

At Operating Profit, dollars were essentially flat in the second quarter, but up 8 percent through the first half. Q2 results primarily reflected productivity gains offset by unfavorable price net of cost inflation in the quarter.

And as volume trends pick up in the second half of the year, we would expect Operating Profit to follow suit.

Slide 19 | Free Cash Flow

Finally, in terms of Adjusted Free Cash Flow, we delivered $1.1 billion in the first half of the year, and we are on track to deliver at least $2 billion of Adjusted Free Cash Flow in 2024.

Underpinning our confidence is the fact that we continue to optimize overall working capital levels, including inventory, which is driving a significant improvement in our cash conversion cycle. In the second quarter, we achieved negative 6.8 days, or more than 6 days better than the second quarter of 2023, and down from negative 4.2 days at the end of the first quarter.

This reflects further progress in modernizing our supply chain and capturing the $500 million of incremental working capital savings we're targeting in the next few years.

Which brings me to our outlook for 2024.

Slide 20 | Outlook

As I said earlier, our strong first half results provide a solid base for us to ramp up our investment spending, and fully implement our new organizational structure in the second half of the year. Our results to date have also bolstered our confidence in delivering durable, full year top-line performance consistent with our long-term algorithm and bottom-line performance above our long-term algorithm in 2024.

On the top line, we still expect Mid-Single-Digit Organic Net Sales growth, with sustained year-over-year improvement in volume and mix trends into the second half of the year.

We also continue to expect that pricing in hyperinflationary economies will contribute approximately 300 basis points of organic growth for the year, and that full year Reported Net Sales growth will be negatively impacted by roughly 400 basis points from currency translation, and another 120 basis points from divestitures.

There's no question that we will have to continue navigating consumer, category, and retail headwinds that we've seen, and that are likely to persist in the near term.

But we have strong second-half plans to drive market leading organic growth, driven by sustainable volume and mix gains, underpinned by our pioneering innovation. And our first half offers us flexibility to accelerate investments in our brands, capabilities, and market expansion, to sustain and build momentum across the portfolio.

At Adjusted Operating Profit and Adjusted Earnings Per Share, we now expect Mid-to-High Teens growth on a Constant Currency basis for the year. That's up from our previous outlook for Low-Teens growth.

This reflects the faster, stronger first half on the top line and supply chain productivity fronts, as well as our expectation that we will be at least neutral in terms of pricing net of cost inflation.

It also reflects our intention to step up investments, to support our innovation agenda and strengthen our competitiveness across categories, countries, and channels. From quality improvements and supply chain capabilities, to R&D, brand building and commercial capabilities, our rate of investment is expected to pick up considerably relative to productivity savings in the second half of the year.

Our outlook continues to include a negative impact from divestitures of just less than 100 basis points for the year, or 180 basis points, year-over-year in the second half given the timing of our Personal Protective Equipment divestiture.

At Adjusted Operating Profit, we continue to expect that costs from monetary losses in hyperinflationary economies, captured within the Other Income and Expenses line, will be roughly half the rate we experienced in 2023.

And at Adjusted Earnings per Share, we continue to expect net interest expenses and the effective tax rate to be slightly higher than the prior year.

And finally, Adjusted Operating Profit growth and Adjusted EPS growth are still likely to see a 700 basis point negative impact from currency translation.

I would like to thank our teams across the world for such an encouraging first half, and for effectively managing all the headwinds we are navigating through as we wire our organization for growth.

With that, I will turn it back to Mike for some closing thoughts.

Slide 21 | Focused on Balanced and Sustainable Growth

Thank you, Nelson.

I'll finish where we started today's discussion.

I am very proud of how our teams around the world have advanced our new operating model.

We've delivered strong, high-quality results to date, which put us in a strong position to navigate a dynamic consumer and retail environment, accelerate investments across the enterprise, and enhance the value of Kimberly-Clark to all our stakeholders.

Thank you for your time and interest in Kimberly-Clark as we continue to write our next chapter of growth by Powering Care.