Third Quarter 2024 Earnings Pre-Recorded Management Discussion
October 22, 2024

Please view these remarks in conjunction with our Q3 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.

Q3 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 third-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 a financial review and update 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.

Our performance through the third quarter reflects great strides in execution and the achievement of important milestones in our Powering Care Strategy across all three pillars, accelerating innovation, optimizing our margin structure, and wiring our organization for growth.

Our volume-and-mix led growth model is gaining traction in the marketplace and in our year-to-date organic growth. We are delivering innovative product solutions, that are winning over consumers around the globe.

We continue to gain visibility and confidence in our strong, multi-year productivity pipeline, that will Optimize Our Margin Structure and fuel our growth.

On October 1, we successfully completed the re-wiring of our global matrix on a functional basis and are now operating under the segment structure we laid out in March, North America, International Personal Care, and International Family Care and Professional.

I want to thank our employees around the world for their efforts and hard work in achieving this significant milestone to become a better, stronger, and faster organization. I’m very proud and inspired by our team’s dedication to our mission, to serve the millions around the world who depend on Kimberly-Clark every day. Together, we‘re transforming Kimberly-Clark, to thrive in an increasingly complex and competitive global environment.

Our initiatives are sharpening our focus, and unlocking greater long-term potential for our company, our brands, and our stakeholders.

Slide 4 | Focused on Balanced and Sustainable Growth

Our 2024 plan was to establish Balanced and Sustainable growth, to serve as a strong foundation for accelerating our Powering Care initiatives in the coming years.

Through the first nine months, we’ve successfully delivered each element of our plan, in an environment that remains challenging from both an operating perspective, and for consumers.

On the top line, we’re seeing the shift to volume-plus-mix driven growth , in both consumption data and our results. We are leveraging best-in-class science and proprietary technologies, to launch innovative product solutions, that are exciting consumers around the globe.

Organic growth from volume-plus-mix is positive through the first nine months despite headwinds from changes in retail inventories, that I'll dive deeper into, in a moment,

On the bottom line, we're getting more efficient. We're managing input costs more effectively, and generating savings across our value stream, as we begin to leverage the best of Kimberly-Clark's global capabilities. This is resulting in lower costs in manufacturing, distribution, as well as product design, that are fueling investments, and our bottom-line growth.

This puts us on track to deliver mid-to-high teens constant-currency Adjusted Operating Profit and EPS growth in 2024. Growth that's ahead of our initial outlook for the year, and sustainable growth that's ahead of our long-term algorithm.

Our early progress is fueling accelerated investment in our brands, our robust pipeline of innovation, and our capabilities, to sustain and enhance top- and bottom-line momentum into 2025.

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

On the top line, pricing decelerated as expected, reflecting sequentially lower contribution from hyperinflationary markets. Our shift from price-driven to volume-plus-mix driven organic growth is progressing, consistent with our 2024 plan, and despite some discrete headwinds, that suppressed volume growth in the third quarter.

On an underlying basis, consumption growth of our brands remains resilient.

Personal Care focus markets, including China, North America, and Brazil, … all saw solid Q3 consumption gains. China drove double-digit volume growth for the third consecutive quarter, despite challenging local marketplace dynamics.

In fact, total company Mix remained positive year-to-date, rounding down to flat in Q3, reflecting ongoing gains in Personal Care across most countries and categories.

In Consumer Tissue, our international Developed Markets continued to grow volumes at a healthy rate, 3 percent in Q3, driven by Kleenex in the UK and Australia, and Andrex in the UK.

At the same time, volume growth was negatively impacted from a combination of lower shipments relative to consumption, a more difficult consumer environment that is showing through in some markets and professional channels, as well as lower private label sales in businesses we are exiting.

In the quarter, total company volume growth was suppressed by about 50 basis points due to softer demand in North America Professional channels, and 50 basis points from lower private label shipments in North America.

We also continued to experience lower shipments relative to consumption, in our North American branded Consumer businesses, in Q3. This was due to a combination of changes in retailer inventories, and some lost shipping days from our southeastern US facilities at the end of the quarter, due to Hurricane Helene. Combined, these factors negatively impacted total company volume growth in Q3 by 1 percentage point.

While this is disappointing from a near-term P&L perspective, demand for our brands and categories remains strong. We're improving our supply chain and service levels. and the discrepancy between shipments and consumption should fade as we progress through 2025.

Slide 6 | North America Consumer: Consumption vs Shipment Growth

Consumer takeaway of our brands in North America remained strong through the third quarter.

Across all retail channels, K-C branded value growth was up 3.2% in Q3, 40 basis points ahead of category value growth. In our Personal Care categories, unit growth was 3.3%, 200 basis points better than category growth.

On a share basis, our weighted market share across our categories was up versus a year ago, driven by a 70 basis point share gain in diapers and pants. Q3 market share was up or even in 7 of 8 categories versus a year ago. Sequentially, we held or gained share in 8 of 8 categories, versus Q2.

As you can see in the chart on the right, K-C consumption growth has been healthy for the past 7 quarters in North America. The chart also illustrates that shipment growth has been less consistent. I'll address a few causal factors.

As we highlighted at our investor day at the end of March, we've put relentless focus on improving our customer service levels since the COVID period. Last year, we were supply constrained in a number of our US categories. As we recovered supply, retailers rebuilt inventories, with the impact most pronounced in Q3 last year.

Over the past year, we have continued to stabilize our supply chain and improve fulfillment. Improved supply stability and the higher interest rate environment has likely given some retail customers increased confidence and/or desire to pare retail inventories of our products.

The year-on-year impact of this was highest in Q3, and somewhat more than we expected.

As a company, we're continuing to push for best-in-class performance of our on-time in-full rates across all our markets. It is possible that shipment growth could be lighter than consumption growth in Q4 as well.

This means that, for 2024, we are likely to come in slightly below the mid-single-digit range for organic net sales growth we anticipated at the start of the year.

At the same time, we remain on track to deliver firmly within the mid-to-high teens range for full year Constant Currency Adjusted Operating Profit and EPS growth that we discussed on our July earnings call.

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

The improved service levels I just highlighted, and the profit growth and margin progress we're delivering, is enabled by our focus and enterprise-wide visibility on productivity, through our Integrated Margin Management approach.

We continue to have good visibility and expect to be at least neutral on Price Net of Cost inflation, or PNOC, this year.

This, in turn, enables us to leverage supply chain productivity, overheads, and free cash flow generation, to fuel further investments in growth, while delivering our bottom-line growth aspirations.

Through the first three quarters, we generated $385 million in gross supply chain productivity, from our end-to-end approach to margin management.

As a result, we're well-positioned to deliver ahead of our long-term growth algorithm this year. We're leveraging strong execution to date to enhance the value of our products and brands, while accelerating investment to advance our transformation and long-term potential.

Slide 8 | Capitalizing on Our Unique Advantages

Our strategy is to invest more in our brands, to win with consumers across our categories.

Earlier this year, we highlighted successes we're having in the UK with Andrex bath tissue, in China with Huggies, and with Kleenex in the US, the UK and Australia.

In each of these examples, we've invested to enhance our competitive advantage to out-innovate, out-market, and out-activate the competition, in ways that strengthen our brand propositions across the spectrum of good-better-best.

Today, I'd like to highlight another investment we're making, to grow a category we created in the US, Adult Care.

Slide 9 | Winning with Consumers in Depend in the US

This year, we're increasing investment to lead and grow the Adult Care category with Depend. We're investing in superior innovation, and advertising to reduce the stigma associated with incontinence, and to expand new segments such as men's personal care. We're doing this through precision targeting enabled by strong retail partnerships.

This approach has led to strong results. Depend net sales are up 9% CAGR over the past 3 years. Market share is up 70 basis points year to date, while margins remain healthy.

Slide 10 | Digital Commerce Leading Depend Growth

Depend is the #1 Adult Care brand in the US, where about half of category sales are fulfilled through digital channels.

With Depend, we're investing to create a virtuous flywheel of growth. We're investing in digital retail partnerships, to win consumers through advanced data analytics, and precision targeting activations.

One example of leveraging data analytics to unlock growth, is our Night Defense campaign, Search is a key driver of traffic, and our enhanced approach led to a 240 basis point increase in traffic to Depend product detail pages.

We're also unlocking new audiences among active women users. Continuous targeting optimization is yielding a 75% higher than average detail page views.

Our content is powered by AI and continuously optimized. This has led to breakthrough results for Depend. Our conversion rate on Depend Fresh Protection is up by 500 basis points. Year-to-date we are experiencing 24% consumption growth across digital channels.

Slide 11 | Depend US: Partnering for Impact

We're working hard to expand the men's segment of Adult Care, through strong partnerships with relevant and inspirational celebrities like Emmitt Smith. Investments like this are enabling us to have open conversations, on topics difficult to discuss, to recruit new consumers into the category.

Slide 12 | Results: Digital Commerce Driving Depend Results

Together, these initiatives are driving strong momentum and overall wins for Depend.

This year Depend's share has grown 70 basis points across the total category and is up 230 basis points in digital channels.

Slide 13 | Enhancing Our Competitive Advantage

The fact that our teams are delivering wins like this WHILE also transforming the organization makes me very proud to be a K-Cer.

We are getting faster, more focused, and more efficient, as we Wire Our Organization for Growth.

We have strong momentum to build upon. Our US team was just named the #1 supplier by retailers in the Advantage Survey for a third consecutive year.

Completing the re-wiring of our global matrix on a functional basis and implementing our new segment structure, will enable us to capture scale benefits and bring the best of Kimberly-Clark to all markets, better and faster than any one of our individual markets could previously do on its own.

In Q3, we upgraded our North America digital core to SAP S,4 Hana. This provides a scalable platform to deliver operational supply chain savings and customized, AI-enabled, sales and marketing capabilities across our North American categories and brands.

Finally, we continue to follow through on the portfolio and footprint streamlining initiatives we previously announced, including the exit of certain private label businesses.

As we do this, we'll benefit by focusing resources and investments on categories and markets with the greatest long-term potential for value creation.

To summarize, our third quarter results reflect continued strong execution across the business. We're focused on delivering superior consumer value—wherever and however our consumers need us. We are gaining share while navigating an increasingly complex demand environment. We have good momentum in the business, and are on track to deliver strong operating profit, margin, and EPS growth for the full year.

Looking ahead, we'll continue to accelerate innovation, and optimize costs, to deliver the highest-quality consumer solutions at every price point, while simplifying our operational structure, so that we can be faster and more effective in our markets around the world.

Now, I'll turn it over to Nelson, to unpack the numbers and our outlook.

<u>NELSON URDANETA, CHIEF FINANCIAL OFFICER, KIMBERLY-CLARK CORPORATION</u>

Slide 14 | Financial Results & 2024 Outlook

Thank you, Mike.

First and foremost, I'm really proud of the team for their strong execution through the first nine months of our Powering Care strategy, delivering a stronger start on both the top- and bottom-lines than we anticipated at the outset of the year.

We're driving sustainable growth of our brands in what has remained, and is likely to remain, a challenging environment, operationally, and for our consumers.

We're delivering our gross productivity initiatives and successfully managing input costs on a pricing-net-of-cost basis, enabling us to ramp up investment spending in the second half of the year.

And we're achieving organic top-line performance consistent with our long-term algorithm, and bottom-line growth above our long-term algorithm in 2024.

Slide 15 | On Track to Deliver a Strong Year

Third quarter organic growth was 1 percent, while organic growth through the first nine months was 4 percent.

Volume plus mix was flat in the quarter for the reasons Mike outlined earlier but remained at roughly 2 points of growth on a year-to-date basis, reflecting the shift to our volume and mix led organic growth strategy.

Pricing decelerated to 1 percent in Q3 from 3 percent in the first half, reflecting a deceleration to approximately 260 basis points of contribution from pricing in Argentina in the third quarter, down from approximately 400 basis points in the first half. Similar to the second quarter, in Q3, 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 expect our fourth quarter top line profile to be largely similar to Q3, reflecting a more difficult consumer environment that is showing through in some markets and professional channels, as well as some ongoing risk from further retail inventory reductions that could again temper year-on-year growth.,

At Adjusted Operating Profit, dollars increased 5 percent in the third quarter and 12 percent through the first nine months, with divestitures representing a 120 basis point headwind in Q3 and 40 basis points headwind year-to-date. while unfavorable currency translation held back growth by approximately 400 basis points in the quarter and 750 basis points in the past nine months.

Beyond that, gains from supply chain productivity drove the growth. This more than offset greater marketing investments, including an approximate 60 basis point increase in advertising. And while overhead costs were up in the first half, they were down versus the prior year in Q3 on an adjusted basis mainly due to timing of expenses versus the prior year period.

For the fourth quarter we expect Operating Profit growth to be largely muted, as we will further accelerate investments in our operations and in our brands, which we expect to be largely offset by continued productivity savings and lower Other Income and Expenses versus the prior year.

Finally, Adjusted Earnings per Share were up 5 percent versus prior year in Q3, and 15 percent in the first nine months of the year. Q3 Adjusted EPS reflected largely flat year-on-year income from non-controlling equity interests, whereas in the first half of the year we saw growth in part due to favorable currency movements in the Mexican Peso.

Slide 16 | Personal Care

Looking at our results by segment, in Personal Care, we made further progress towards the innovation-led, volume and mix-driven growth our portfolio has the potential to deliver.

All sub-segments grew organically in the quarter, and on a year-to-date basis, we are gaining global share in Baby and Child Care,

Pricing actions in hyperinflationary economies drove pricing in the third quarter.

China grew volumes double digits for the third quarter in a row, behind innovation-driven share gains. This was complemented by volume gains in other focus markets like … Australia and Brazil.

North America volume plus mix was up just one point in the quarter, But a combination of changes in retail inventory levels versus the prior year, lower sales of private label products, and the hurricane impact at the end of the quarter created a 1.5 percentage point headwind in Q3 for total Personal Care.

Operating Profit dollars were 4% lower than prior year in the quarter but up 7% through nine months. we continued to step up investments in our brands which was partially offset by lower overheads, while gross profit was essentially flat versus prior year. The decline in the third quarter, reflected a combination of currency headwinds and stepped-up investment in our brands, as well as comparisons with a prior year period that benefited from significant fixed cost leverage from very strong shipments.

Slide 17 | Consumer Tissue

In Consumer Tissue, we continue to see drivers of sustainable underlying growth, even though two, more temporary factors held back total organic growth in both the third quarter and year to date.

Volume again grew at a low-single digit rate in Developed Markets in Q3. But this was offset by a combination of retail inventory changes, the hurricane impact, and lower sales of private label product in North America. Combined, these three factors created a headwind equivalent to approximately 200 basis points of total Consumer Tissue growth in Q3.

On the pricing front, in the third quarter we had favorable revenue realization in North America, that was more than offset by the impact of lapping temporary energy-surcharge-related pricing in the prior year period in Western Europe,

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

At Operating Profit, we were essentially flat versus the prior year in Q3, consistent with flat overall volume and mix. That said, we remain up strong double-digits year to date, 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 international Developed Markets.

But these gains were offset by lower volumes in North America, due to foot traffic weakness in Foodservice, Retail, and Lodging channels. as well as recent, softer demand in industrial channels.

Pricing was down 1 percent in the quarter, as the impact of lapping temporary energy-surcharge-related pricing in the prior year period, was partially offset by inflation-driven pricing in hyperinflationary markets.

At Operating Profit, dollars were down 4 percent in the third quarter, but up 4 percent through the first nine months. Q3 results reflected mainly the impact of the Personal Protective Equipment divestiture, while operating results benefitted from gross productivity savings partially offset by volume softness.

Slide 19 | Free Cash Flow

Finally, in terms of Adjusted Free Cash Flow, we had another strong quarter of cash generation, delivering roughly $2 billion through the first nine months of the year, and we continue to expect delivering in excess of $2 billion of Adjusted Free Cash Flow in 2024.

Our Integrated Margin Management process and supply chain initiatives are enabling us to continue optimizing overall working capital levels, driving further improvement in our cash conversion cycle. In the third quarter, we achieved negative 8.4 days, or more than 8 days better than the third quarter of 2023.

Which brings me to our outlook for 2024.

Slide 20 | Outlook

Our results to date have given us strong visibility in delivering 2024 results that reflect durable, full year top-line performance consistent with our long-term algorithm and bottom-line performance above our long-term algorithm.

On the top line, our algorithm is based on leading market growth where we compete. At the start of the year, we expected our markets to revert to a historical rate of 2 to 3%. As we head into the end of the year, market growth is likely to be at the low end of that range for the year, reflecting North American Professional channel weakness, as well as softening consumer demand, most prominently in Latin America, South Korea, and Southeast Asia.

Together with the adverse impact of retail inventory changes we've highlighted, we now expect Organic Net Sales growth for the year, to be between 3 and 4 percent.

To be clear, our focus through the end of the year will be to ensure that we establish a solid base with sustainable consumption momentum as we manage through the macro and consumer challenges heading into 2025.

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.

At Adjusted Operating Profit and Adjusted Earnings Per Share, we continue to expect Mid-to-High Teens growth on a Constant Currency basis for the year.

This reflects the strong and sustainable results we've delivered to date through winning innovation, supply chain productivity, as well as our expectation that we will be at least neutral in terms of pricing net of cost inflation, It also reflects our intent to step up investments, to support our innovation agenda and strengthen our competitiveness across categories, countries, and channels. as we finish the year.

Our outlook continues to include a negative impact from divestitures of approximately 75 basis points for the year, or 180 basis points, year-over-year in the fourth quarter reflecting our Personal Protective Equipment divestiture.

Also, we continue to expect Adjusted Operating Profit for the year, to reflect costs from monetary losses in hyperinflationary economies, captured within the Other Income and Expenses line, that are roughly half the rate we experienced in 2023. so a meaningful source of year-on-year favorability in the fourth quarter.

And at Adjusted Earnings per Share, we now expect net interest expense and the effective tax rate to be in line with the prior year versus our previous expectation of slightly up.

Finally, we now expect an approximate 650 basis point negative impact from currency translation to Adjusted Operating Profit growth and Adjusted EPS growth versus our previous expectation of 700 basis points.

I would like to thank our teams across the world for an encouraging start to our next chapter in the first nine months of this year, 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.

The third quarter results we reported today reflect strong execution across the business as we initiate the transformation of our organization.

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

We're 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.