Why are we here today?
Some background and context

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What am I going to tell you?

• Why Kimberly-Clark? A leading proxy for industry?

• Why now?

• Why you?
Why Kimberly-Clark?

• Proxy lens into potential industry trends

• Why? What about who?

• Cost Control

• Sustainability

• Innovation
Who is Kimberly-Clark?

- Global Fortune 500 company with $21 billion sales
- 140 year old company with sales in 175 countries
- 57,000 employees
- Nearly a quarter of the world’s population uses a K-C product each day
- Hold #1 or #2 brand share in more than 80 countries
- Four global businesses and representative brands:

<table>
<thead>
<tr>
<th>Consumer Tissue</th>
<th>Personal Care</th>
<th>Professional (B2B)</th>
<th>Healthcare</th>
</tr>
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<tbody>
<tr>
<td>Kleenex, Scott</td>
<td>Huggies, Kotex</td>
<td>Kleenex, Scott</td>
<td>Kimberly-Clark</td>
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<td>Cottonelle</td>
<td>Dependa</td>
<td>Wypall, Jackson</td>
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- Gloves
- Gowns
- Drapes
- Sterile Wrap
- Tubes
- Diagnostics
- Surgical Accessories
We produce a lot of tissue
dergo: we consume a lot of
virgin and recycled fiber
Sustainability

• Long history of sustainability leadership
  • 70s, 80s, 90s: Corporate Energy and Environment
  • Vision program 1995 – 2010
  • Sustainability 2015

• Organizational commitment
  • Leadership commitment
  • GBP 2015
  • Structure – sustainability and continuous improvement
  • New fiber commitment announced at Rio +20

• Fiber leadership
History of responsible fiber sourcing and we continue to raise the bar

Why K-C? Sustainability

• Introduced use of Recycled Fiber

1970s

• KCP (bamboo & wheat straw) and EMEA consumer (bamboo)
• FSC continued expansion

2007

• Set goal of 100% certified suppliers

2003

• 1st to require 3rd party certification

2009

• Joined WWF’s GFTN
• Alliance with Greenpeace

2011

• Sustainable Forest Mosaics Initiative with Conservation International; later a featured case study in State of the World’s Forests 2011 report

2012 +

• Global GFTN agreement
• KCP gains FSC labeling for 95%+ of NA tissue & towel

• New Fiber Procurement Policy
• Stated FSC preference
• KCP 1st with FSC tissue products

• Bamboo
• Wheat Straw
• Development

Kleenex and Scott Naturals: 1st U.S. Branded Consumer Tissue Maker to adopt FSC
Kimberly-Clark Announces Ambitious Sustainable Development Goal for Forest Use

• K-C laid out a bold vision to significantly reduce its Forest Fiber Footprint*, at the Rio+20 United Nations Conference on Sustainable Development, held in Rio de Janeiro, Brazil.

• A key component of this vision is a goal to transition at least 50 percent of wood fiber sourced from natural forests to alternate sources by 2025.

*Forest Fiber Footprint is a new term developed by K-C that includes reducing sourcing from natural forests and increasing land use efficiency.
August RISI article attempts to outline some possible dynamics and implications

- Bamboo in US best grows in Southeast; pulping capacity is or will be available
- Sustainability/environmental issues are growing in importance to the pulp and paper industry, not waning, despite tough economic times.
- Potentially negative for Canadian NBSK market over time
- Recovered paper crunch could be part of the driver as:
  - bamboo and wheat straw could be seen as “greener” option than traditional virgin
  - If shift from RF towards BHK, bamboo could provide needed properties potentially lost from the softwood content of RF (i.e., RF crunch could drive more virgin consumption overall, not just BHK)
Innovation

• Invented:
  • Facial tissue
  • Paper towels
  • Toilet paper on a role
  • Feminine pads
  • Disposable training pants

• Global innovation centers

• Fiber and sustainability innovation
  • Recycled fiber use
  • UCTAD technology
  • ecoLOGICAL program and measurement tool
  • Exploration of alternative fibers
Why now?

• Fiber macroeconomics

• Sustainability
  • Demographics (Population, standards of living)
  • Resources
  • Systems thinking and visionary

• Fiber
RF forecast to move up in price and volatility

15 year Recovered Fiber Outlook

- US domestic recovery rate for recovered fiber at 66.8% (AF&PA)
- Consumption rates among domestic tissue consuming mills expected to remain stable. Export volume increasing year over year.
- Foreign region generation rates continue to increase, but material quality and quantity of available fiber remain a constraint.
- Long term impact of stable EUC may slow growth rate as consuming mills switch between VF and RF.

Source: RISI 15-year International RF Forecast

29 August 2012
North American printing & writing decline while RF exports increase

- Printing & writing paper is the feedstock for high-deinking grade waste paper.
- Suppliers have responded to supply drop by cutting capacity through curtailment and closures.
- Trend expected to slow in coming years, but continue downward due to continued reduced market consumption of paper.
  - Reduced office use
  - School budget cut-backs
  - Impact of electronic devices
- Expect ongoing decline in quality of printing & writing paper as recycled content degrades and more foreign paper is introduced to the market.

Source: RISI World Pulp & Recovered Paper Forecast - 15-Year
Virgin price forecast estimates continued divergence between NSK and Eucalyptus

- Major EUC expansions confirmed
  - Eldorado: 1.5MM t/y Q4 2012
  - Montes Del Plata: 1.3MM t/y, Q1 2013
  - Suzano: 1.3-1.5MM t/y, Q4 2013

  Outlook for EUC price expected to remain flat following expansion activity.

- NBSK demand is stable but some flexible market capacity converting to dissolving pulp. This shift constrains the market’s ability to add incremental capacity in tight supply periods.

- China drives global demand. Buying behavior tends to follow an opportunistic model exploiting market cycles. There is no real demand growth outside of China (w/o China, overall demand would be down 4%)

- Three year sample of market prices starting to reflect a seasonal spike in 2nd quarter.

Source: RISI World Pulp & Recovered Paper Forecast - 15-Year
What’s that mean for industry?

**Short to medium term**

- Eucalyptus prices generally stable due to massive capacity online 2013 = 2015
- Increasing price and volatility in NHK and likely RF
- Uncertainty in many other fibers

**Medium to long term**

- Uncertain how industry consolidation will play out
- Uncertain stability of eucalyptus prices (exchange rates, cost of capital and land)
- Constricted supply and increased demand in high quality RF globally

Risky Business: 
Could alternative fibers help offset prices and risk?
Sustainability topics continue to increase in visibility and impact, therefore traction

- **Demographics:**
  - Population growth
  - Increasing standards of living
  - Estimated carrying capacity constraints

- **Increasing awareness:**
  - Climate change, water scarcity
  - Global communication speed and mechanisms
  - Activism; empowered consumers
  - Mainstream adoption and messaging

- **Systems thinking and solutions**
  - Cross industry and cross disciplinary
  - Public-Private-NGO partnership
  - Think tanks and consultancies
The multiple sources and uses of fiber make it a particularly critical commodity group

- How will fuel and energy be produced most effectively while protecting the environment?
- How will land be used most efficiently?
- How will we provide adequate food for an increasingly large and consuming global population?
- How can we provide the fiber input needs for these growing industries and populations?
- How do we answer all of these questions while protecting forests globally for the ecosystem services the planet relies on?
Why you?

- Broad experts
- Deep thinkers
- Multidisciplinary challenges and solutions
- GA Tech leadership

Have fun!!