

Kimberly-Clark(KMB)

\$131.19 (As of 02/28/20)

Price Target (6-12 Months): **\$139.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 08/20/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: B

Summary

Kimberly-Clark's shares have outpaced the industry in the past year. The company is gaining from robust saving plans such as the Global Restructuring and FORCE programs. Also, Kimberly-Clark's focus on its three key growth pillars bodes well. Such upsides along with organic sales growth, focus on innovation and brand investments supported the company's fourth-quarter performance. Further management's view for 2020 was impressive. However, the company has been struggling with softness in the K-C Professional unit due to several business exits. Further, it witnessed increased marketing, research and general expenses in the fourth quarter, wherein SG&A expenses escalated as well. Moreover, advertising costs are likely to remain high in 2020. Apart from this, the company has been witnessing unfavorable currency movements.

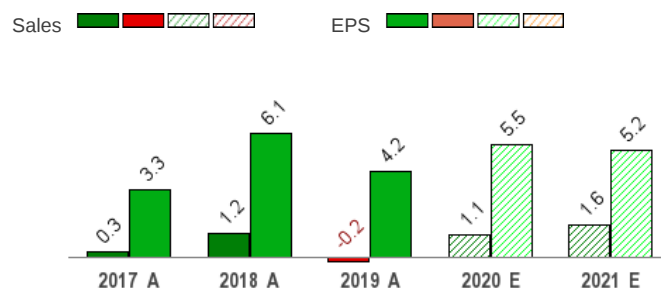
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$149.23 - \$114.62
20 Day Average Volume (sh)	1,339,940
Market Cap	\$45.0 B
YTD Price Change	-4.6%
Beta	0.47
Dividend / Div Yld	\$4.28 / 3.1%
Industry	Consumer Products - Staples
Zacks Industry Rank	Bottom 14% (219 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.6%
Last Sales Surprise	1.1%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	04/22/2020
Earnings ESP	0.0%
P/E TTM	19.1
P/E F1	18.1
PEG F1	3.5
P/S TTM	2.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,758 E	4,673 E	4,791 E	4,758 E	18,965 E
2020	4,664 E	4,581 E	4,708 E	4,695 E	18,658 E
2019	4,633 A	4,594 A	4,640 A	4,583 A	18,450 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.91 E	\$1.84 E	\$1.97 E	\$1.91 E	\$7.65 E
2020	\$1.83 E	\$1.76 E	\$1.88 E	\$1.80 E	\$7.27 E
2019	\$1.66 A	\$1.67 A	\$1.84 A	\$1.71 A	\$6.89 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/28/2020. The reports text is as of 03/02/2020.

Overview

Incorporated in Delaware in 1928, Kimberly-Clark Corporation is principally engaged in the manufacture and marketing of a wide range of consumer products around the world. The company sells its products to supermarkets; mass merchandisers; drugstores; warehouse clubs; variety and department stores; retail outlets; manufacturing, lodging, office building, food service, and health care establishments; and high volume public facilities.

Based on product grouping, the company conducts its operations in three business segments namely Personal Care, Consumer Tissue, and K-C Professional.

The **Personal Care** segment includes products like disposable diapers, training and youth pants, swimpants, baby wipes, feminine and incontinence care products, and other related products. Products in this segment are sold under the Huggies, Pull-Ups, Little Swimmers, GoodNites, DryNites, Kotex, U by Kotex, Intimus, Depend, Plenitud, Poise and other brand names. Sales from this segment constituted 49% of the top line in full-year 2019.

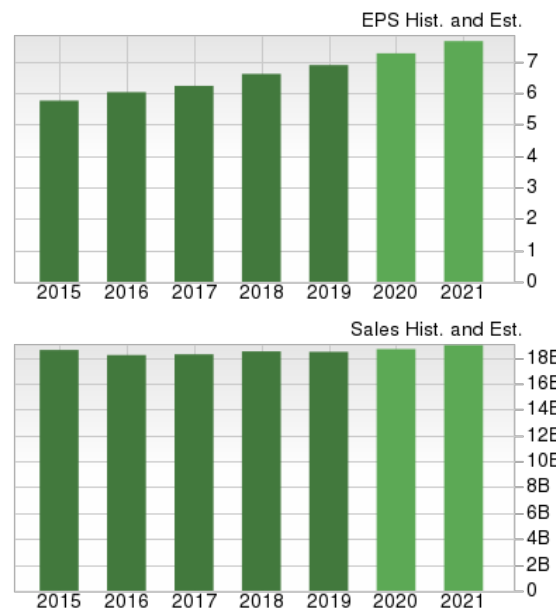
The **Consumer Tissue** segment includes facial and bathroom tissue, paper towels, napkins and related products, which are sold under the Kleenex, Scott, Cottonelle, Viva, Andrex, Scottex, Neve and other brand names. Sales from this segment constituted about 33% of the top line in full-year 2019.

The **K-C Professional** segment consists of apparel, wipers, soaps, sanitizers, tissue and towels. Key brands in this segment include Kleenex, Scott, WypAll, Kimtech and Jackson Safety. Sales from this segment formed 17.7% of the top line in full-year 2019.

The **Corporate and Other** segment contributed 0.3% of full-year 2019 sales.

The company's health care business was spun-off on Oct 31, 2014.

Notably, Kimberly-Clark's net sales to Walmart constituted around 14% of its consolidated sales in 2016, 2017 as well as 2018.



Reasons To Buy:

▲ **Impressive Q4 Performance & 2020 View:** Kimberly-Clark reported fourth-quarter 2019 results, wherein both top and bottom lines came ahead of the Zacks Consensus Estimate and the latter marked its fourth consecutive beat. Adjusted earnings of \$1.71 per share surpassed the Zacks Consensus Estimate by a penny and increased 7% from the year-ago period. The quarterly performance reflected organic sales growth, savings from restructuring plans, increased brand investments and focus on innovation. Further, the K-C Strategy 2022 has been aiding the performance. To top it, the company ended 2019 with impressive margin growth, cost savings of \$425 million and returns to shareholders of about \$2.2 billion. Such upsides have helped shares of the company to gain 16.3% in the past year against the industry's decline of 13.4%.

Robust organic sales growth, cost savings efforts and increase investments in brands are the primary factors behind the upbeat performance. Kimberly-Clark is strongly focused on its K-C Strategy 2022.

Further, management issued an impressive outlook for 2020. The company forecasts 2020 net sales to grow 1% year over year. Further, Kimberly-Clark projects organic sales improvement of 2% on the back of higher net selling prices and volumes along with improved product mix. Additionally, management anticipates adjusted operating profit growth of 3-5% for the year. Considering all factors, management envisions 2020 adjusted earnings per share of \$7.10-\$7.35, up from \$6.89 reported in 2019.

▲ **2018 Global Restructuring & FORCE Programs Drive Savings:** Kimberly-Clark has been taking robust steps to lower costs. This is highlighted by the 2018 Global Restructuring Program as well as the FORCE Program. The 2018 Global Restructuring Program marks the company's biggest restructuring in a long time now. This plan is likely to enhance the company's underlying profitability by simplifying supply chain and manufacturing structures and thereby help it compete better and provide greater flexibility to undertake growth-oriented investments. Until the end of 2019, Kimberly-Clark generated cumulative savings worth \$300 million from the 2018 Global Restructuring Program. Management earlier stated that it expects pre-tax savings of \$500-\$550 million from this program by the end of 2021, backed by production supply-chain efficiencies and reduction in workforce. As part of this initiative, the company plans to sell or exit some low-margin businesses that deliver about 1% of net sales, mainly concentrated in the consumer tissue unit.

Moreover, Kimberly-Clark is aggressively cutting costs and enhancing supply-chain productivity through its Focus on Reducing Costs Everywhere or FORCE Program. The program is generating solid cost savings for a while. Kimberly-Clark generated total cost savings of \$425 million in 2019. In 2020, management expects to generate total cost savings of \$425-\$500 million. This includes expected savings of \$325-\$375 million from the FORCE program and \$100-\$125 million from the 2018 Global Restructuring Program.

▲ **3 Growth Pillars:** Kimberly-Clark remains committed toward its three key strategic growth pillars. These include focus on improving its core business in the developed markets; speed up growth of Personal Care segment in developing and emerging markets and enhance digital and e-commerce capacities. The company expects to meet these objectives through product development across different categories and leveraging capabilities in marketing and sales. The company has been progressing well with these objectives, which have been aiding portfolio and expanding global business.

▲ **K-C Strategy to Boost Growth:** Kimberly-Clark introduced a K-C Strategy 2022 in January 2019. The strategy is focused on generating balanced and sustainable growth to return value to shareholders in a tough environment. The program also concentrates on strengthening the company's brand portfolio, undertaking efficient capital allocation and executing robust cost discipline. In extension, the strategy is aimed toward successfully meeting the aforementioned goals pertaining to FORCE and Global Restructuring as well as the company's three main strategic pillars.

▲ **Product Innovation:** Kimberly-Clark is one of the leading players in several consumer product categories. The company's regular innovation helps in improving brand positions and market share in the consumer categories. In fact, the company continues to remain focused on innovation, in particular in the training pant category, in order to drive growth. Further the company also plans to innovate products under its adult incontinence and tissue category. Also, the company announced a number of innovation plans, including upgrades on Poise pads and Huggies diapers.

Reasons To Sell:

- ▼ **Softness in K-C Professional:** K-C Professional has been grappling with dismal sales. After declining 1%, 5% and 2% in the third, second and first quarters of 2019, respectively, the segment's sales dropped 3% in the fourth quarter. This was due to adverse currency rates and several business exits as part of the 2018 Global Restructuring Plan. Further, volumes were down 3%. This was somewhat cushioned by improved product mix and higher net selling prices. Although sales rose 1% in North America, the same declined 5% each in developing and emerging markets, and developed markets outside North America.
- ▼ **Rising Costs:** Kimberly-Clark has been seeing a rise in marketing, research and general expenses for the last few quarters. In the fourth quarter of 2019, the metric rose 12% to \$859 million. Also, SG&A expenses increased \$100 million in the quarter. Apart from this, management stated that advertising spending increased 60 bps as a percentage of sales in 2019, which marked the highest ever year-over-year increase for Kimberly-Clark. Also, advertising expenses are anticipated to rise in 2020. The company is in the process of making further investments to enhance its commercial capacity, which is likely to elevate its cost burden. This may keep margins under pressure.
- ▼ **Currency Headwinds:** The company remains exposed to unfavorable foreign currency translations as it has a considerable international presence. In fact, during the fourth quarter of 2019, unfavorable currency movements weighed on sales by 2%. Further, unfavorable currency translations negatively impacted operating profit in the said period. Also, currency headwinds are likely to prevail in 2020 and impact net sales by 1%.
- ▼ **Increased Competition in the Diapers Segment:** Kimberly-Clark's diaper segment faces significant competitive activity, which puts the company's market share at risk. The segment remains particularly challenged in South Korea, owing to lower birth rates. Further, price competition in China have dampened diaper sales.

Kimberly-Clark witnessed a 12% increase in marketing, research and general expenses in the fourth quarter of 2019. Also, SG&A expenses increased year over year.

Last Earnings Report

Kimberly-Clark Q4 Earnings Beat Estimates, Rise Y/Y

Kimberly-Clark Corporation reported fourth-quarter 2019 results. Adjusted earnings of \$1.71 per share surpassed the Zacks Consensus Estimate by a penny and increased 7% from the year-ago period.

Kimberly-Clark's sales came in at \$4,583 million, which surpassed the Zacks Consensus Estimate of \$4,532 million. The top line remained flat year over year. Unfavorable currency movements weighed on sales by 2%. Also, business exits pertaining to the 2018 Global Restructuring Program had a slight negative impact on sales.

Organic sales rose 3% year over year, owing to improved net selling prices (up more than 2%) and product mix (up 1%), somewhat offset by a 1% drop in volumes. In North America, organic sales in consumer products and K-C Professional rose 3% each. Internationally, organic sales increased 3% across developing and emerging markets, while it grew 1% in developed markets.

Adjusted operating profit came in at \$826 million, up from \$742 million in the year-ago quarter. Results gained from higher net selling prices, better product mix, and cost savings of \$85 million and \$40 million from the FORCE (Focused On Reducing Costs Everywhere) program and the 2018 Global Restructuring Program, respectively. Further, lower input costs stemming from a decline in pulp costs benefited results.

However, unfavorable currency translations, increased advertising expenses and a rise in selling, general and administrative costs negatively impacted adjusted operating profit.

Segment Details

Personal Care Products: Segment sales of \$2,242 million rose 1%, owing to improved net selling prices (up 2%) and product mix (up roughly 2%). This was offset by unfavorable currency rates, which hurt sales by 2%. Further, sales increased 2% in North America and 1% in developing and emerging markets. The metric declined 3% across developed markets outside North America.

Consumer Tissue: Segment sales of \$1,511 million grew 1% year over year. Results gained from improved net selling prices (up 3%), partially offset by lower volumes (down 1%). Adverse currency movements hurt sales by 1%. Sales grew 4% in North America, while it fell 2% each in developing and emerging markets, and developed markets outside North America.

K-C Professional (KCP): Segment sales dropped 3% to \$815 million due to a 3% adverse impact from several business exits as part of the 2018 Global Restructuring Plan. Also, currency woes hurt sales by 1%. Further, volumes were down 3%. This was somewhat cushioned by improved product mix (up 2%) and higher net selling prices (up 2%). Sales rose 1% in North America, while the same declined 5% each in developing and emerging markets, and developed markets outside North America.

Kimberly-Clark generated cash from operating activities of \$924 million during the quarter under review. Management incurred capital expenditures of \$342 million. It expects capital expenditures of \$1,150-\$1,350 million for 2020.

During the quarter, Kimberly-Clark bought back 1.9 million shares for \$252 million. In 2019, the company made buybacks of 6.2 million shares for \$800 million. For 2020, management expects share buybacks of \$700-\$900 million. Concurrently, management announced a 3.9% hike in its quarterly dividend, taking it to \$1.07 per share.

Other Developments & Guidance

Management is on track with the 2018 Global Restructuring Program. Until the end of 2019, Kimberly-Clark incurred pre-tax cumulative restructuring charges of \$1,402 million related to this program, while it made cumulative savings worth \$300 million from the same.

In 2020, management expects to generate total cost savings of \$425-\$500 million. This includes expected savings of \$325-\$375 million from the FORCE program and \$100-\$125 million from the 2018 Global Restructuring Program. Moreover, the company expects cost of key inputs to drop in the range of \$50-\$200 million, thanks to lower pulp costs. However, advertising expenses are anticipated to rise in 2020.

Management forecasts 2020 net sales to grow 1% year over year. Further, Kimberly-Clark projects organic sales improvement of 2% on the back of higher net selling prices and volumes along with improved product mix. However, currency headwinds are likely to impact net sales by 1%, while business exits related to the 2018 Global Restructuring Program are also expected to slightly affect sales.

Management anticipates adjusted operating profit growth of 3-5% for the year. The company also expects interest expenses to rise in 2020, wherein currency headwinds are likely to prevail. Considering all factors, management envisions 2020 adjusted earnings per share of \$7.10-\$7.35, up from \$6.89 reported in 2019.

Quarter Ending 12/2019

Report Date	Jan 23, 2020
Sales Surprise	1.13%
EPS Surprise	0.59%
Quarterly EPS	1.71
Annual EPS (TTM)	6.88

Recent News

Kimberly-Clark Announces Dividend – Nov 21, 2019

The company's board declared quarterly dividend of \$1.03 per share, payable on Jan 3, 2020 to shareholders in record as on Dec 6.

Valuation

Kimberly Clark shares are down 4.6% in the year-to-date period and up 16.3% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 6.8% in the year-to-date period, while the Zacks Consumer Staples sector is down 10.5%. Over the past year, the Zacks sub-industry is down 13.4%, while the sector gained 1.6%.

The S&P 500 index is down 8% in the year-to-date period and 7.1% in the past year.

The stock is currently trading at 17.9X forward 12-month earnings, which compares to 19.71X for the Zacks sub-industry, 17.59X for the Zacks sector and 16.87X for the S&P 500 index.

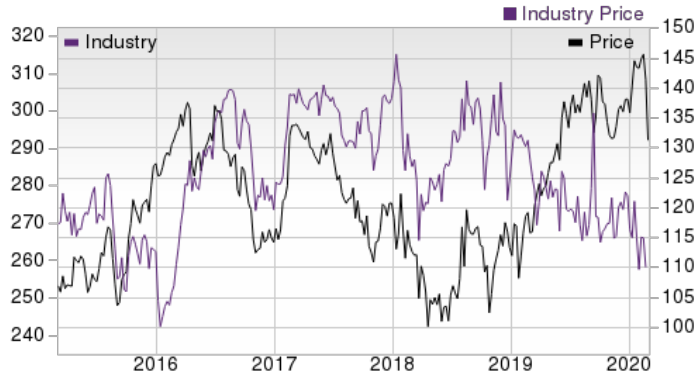
Over the past five years, the stock has traded as high as 22.12X and as low as 13.93X, with a 5-year median of 18.77X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$139 price target reflects 18.85X forward 12-month earnings.

The table below shows summary valuation data for KMB

Valuation Multiples - KMB					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	17.9	19.71	17.59	16.87
	5-Year High	22.12	21.93	22.38	19.34
	5-Year Low	13.93	13.74	16.66	15.18
	5-Year Median	18.77	17.95	19.68	17.44
P/S F12M	Current	2.4	1.73	8.96	3.12
	5-Year High	2.68	2.12	11.13	3.43
	5-Year Low	1.84	1.57	8.09	2.54
	5-Year Median	2.3	1.93	9.88	3.01
EV/EBITDA TTM	Current	12.4	8.82	35.87	10.93
	5-Year High	16.04	19.99	45.75	12.88
	5-Year Low	10.42	3.68	31.94	8.49
	5-Year Median	12.4	12.97	38.84	10.79

As of 02/28/2020

Industry Analysis Zacks Industry Rank: Bottom 14% (219 out of 254)



Top Peers

Church & Dwight Co., Inc. (CHD)	Neutral
Colgate-Palmolive Company (CL)	Neutral
The Clorox Company (CLX)	Neutral
Energizer Holdings, Inc. (ENR)	Neutral
Newell Brands Inc. (NWL)	Neutral
WD-40 Company (WDFC)	Neutral
Bed Bath & Beyond Inc. (BBBY)	Underperform
Tupperware Brands Corporation (TUP)	Underperform

Industry Comparison Industry: Consumer Products - Staples				Industry Peers		
	KMB Neutral	X Industry	S&P 500	NWL Neutral	TUP Underperform	WDFC Neutral
VGM Score	C	-	-	A	C	C
Market Cap	44.97 B	2.98 B	21.48 B	6.53 B	139.36 M	2.36 B
# of Analysts	6	4.5	13	8	1	2
Dividend Yield	3.14%	0.00%	2.07%	5.96%	0.00%	1.55%
Value Score	C	-	-	B	B	F
Cash/Price	0.01	0.04	0.04	0.04	0.42	0.01
EV/EBITDA	13.26	14.38	12.57	9.83	1.76	26.44
PEG Ratio	3.51	2.20	1.84	2.20	0.20	NA
Price/Book (P/B)	231.82	3.19	2.88	1.31	NA	16.19
Price/Cash Flow (P/CF)	13.64	11.05	11.58	2.61	0.50	37.29
P/E (F1)	18.07	18.06	16.87	10.07	2.46	36.16
Price/Sales (P/S)	2.44	1.43	2.34	0.73	0.07	5.62
Earnings Yield	5.53%	5.42%	5.91%	9.92%	40.70%	2.77%
Debt/Equity	32.03	0.68	0.70	1.19	-3.53	0.47
Cash Flow (\$/share)	9.62	4.48	6.94	5.91	5.65	4.63
Growth Score	C	-	-	B	D	B
Hist. EPS Growth (3-5 yrs)	3.90%	3.38%	10.85%	-3.08%	-3.28%	8.05%
Proj. EPS Growth (F1/F0)	5.44%	5.50%	6.79%	-9.85%	-14.07%	18.66%
Curr. Cash Flow Growth	3.32%	-2.28%	5.92%	-76.89%	-11.25%	-3.66%
Hist. Cash Flow Growth (3-5 yrs)	2.19%	4.69%	8.38%	28.55%	-4.40%	5.06%
Current Ratio	0.73	1.79	1.23	1.38	0.83	1.84
Debt/Capital	96.97%	44.89%	42.53%	54.29%	NA	31.85%
Net Margin	11.69%	2.68%	11.57%	1.20%	5.37%	13.03%
Return on Equity	3,809.60%	13.40%	16.80%	15.44%	-92.53%	36.50%
Sales/Assets	1.21	0.97	0.54	0.53	1.37	1.35
Proj. Sales Growth (F1/F0)	1.13%	4.60%	4.07%	6.84%	NA	5.82%
Momentum Score	B	-	-	B	D	A
Daily Price Chg	-2.10%	-0.78%	-1.44%	1.25%	-6.25%	-2.39%
1 Week Price Chg	-2.89%	0.00%	-0.94%	-4.33%	8.18%	-2.23%
4 Week Price Chg	-9.29%	-8.83%	-10.98%	-22.85%	-56.49%	-10.11%
12 Week Price Chg	-3.90%	-9.47%	-7.84%	-17.62%	-62.25%	-11.12%
52 Week Price Chg	12.29%	-6.30%	1.20%	-4.93%	-90.54%	-3.62%
20 Day Average Volume	1,339,940	834,383	2,169,477	3,883,176	3,069,530	82,160
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-56.06%	0.00%
(F1) EPS Est 4 week change	0.00%	-0.68%	-0.09%	-2.39%	-56.06%	0.00%
(F1) EPS Est 12 week change	0.93%	-3.00%	-0.24%	-3.46%	-56.06%	-0.42%
(Q1) EPS Est Mthly Chg	0.00%	-1.98%	-0.72%	-46.56%	NA	0.00%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	C
Momentum Score	B
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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