

Kimberly-Clark(KMB)

\$135.79 (As of 01/03/20)

Price Target (6-12 Months): **\$143.00**

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:B

Value: C

Growth: B

Momentum: C

Summary

Kimberly-Clark's shares have outpaced the industry in the past year. The company is gaining from saving plans such as the Global Restructuring and FORCE programs. Also, Kimberly-Clark's focus on its three key strategic growth pillars bodes well. Such upsides, along with robust organic sales, improved gross margin and investments in brands supported the company's third-quarter performance. Further management raised the view for 2019. 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 third quarter, wherein SG&A expenses escalated. Moreover, unfavorable currency movements weighed on sales by 2% and negatively impacted adjusted operating profit in the said period.

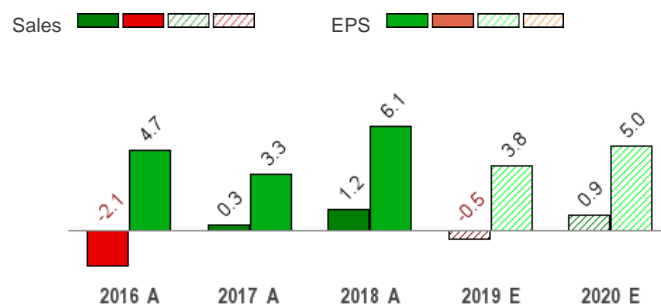
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$143.50 - \$107.44
20 Day Average Volume (sh)	1,089,222
Market Cap	\$46.5 B
YTD Price Change	-1.3%
Beta	0.51
Dividend / Div Yld	\$4.12 / 3.0%
Industry	Consumer Products - Staples
Zacks Industry Rank	Bottom 36% (162 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.2%
Last Sales Surprise	-0.2%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	01/23/2020
Earnings ESP	-0.9%
P/E TTM	20.1
P/E F1	18.9
PEG F1	3.7
P/S TTM	2.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	4,626 E	4,588 E	4,703 E	4,598 E	18,553 E
2019	4,633 A	4,594 A	4,640 A	4,508 E	18,391 E
2018	4,731 A	4,604 A	4,582 A	4,569 A	18,486 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.79 E	\$1.76 E	\$1.87 E	\$1.78 E	\$7.20 E
2019	\$1.66 A	\$1.67 A	\$1.84 A	\$1.70 E	\$6.86 E
2018	\$1.71 A	\$1.59 A	\$1.71 A	\$1.60 A	\$6.61 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 01/03/2020. The reports text is as of 01/06/2020.

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 48.5% of the top line in full-year 2018.

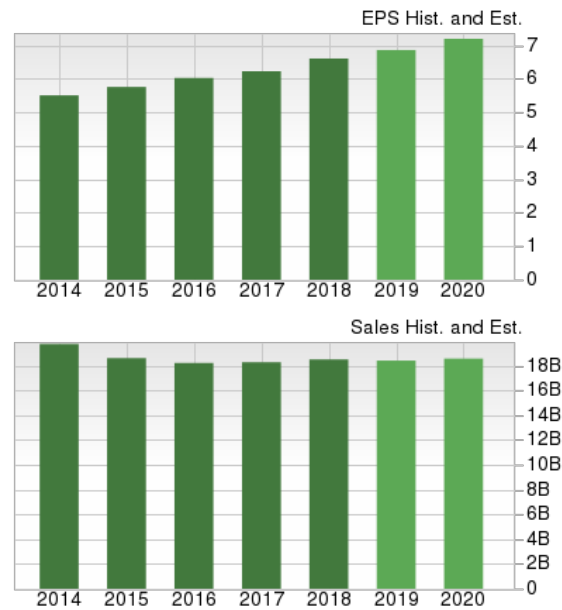
The **Consumer Tissue** segment includes facial and bathroom tissue, paper towels, napkins and related products, which are sold under the Kleenex, Scott, Cottonelle, Viva, Andrex, Scottex, Neve and other brand names. Sales from this segment constituted 32.7% of the top line in full-year 2018.

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 18.4% of the top line in full-year 2018.

The **Corporate and Other** segment contributed 0.3% of full-year 2018 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 Performance in Q3 & Raised View:** Kimberly-Clark reported third-quarter 2019 results, wherein both top and bottom lines improved year over year and the latter marked its third consecutive beat. Adjusted earnings of \$1.84 per share surpassed the Zacks Consensus Estimate of \$1.80 and increased 7.6% from the year-ago period. The quarterly performance reflected organic sales growth, improved margins, savings from restructuring plans, increased brand investments and focus on innovation. Further, the K-C Strategy 2022 helped the company maintain momentum and enhance shareholder value. In fact, such upsides have helped shares of the company to gain 23.6% in the past year against the industry's decline of 10.8%.

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.

Notably, the solid performance was also followed by a raised earnings outlook for the year. Management now envisions 2019 earnings of \$6.75-\$6.90 per share, up from the prior forecast of \$6.65-\$6.80.

▲ **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 third quarter of 2019, Kimberly-Clark generated cumulative savings worth \$260 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 quite a while. During the third quarter, Kimberly-Clark generated savings of \$95 million from the FORCE and 2018 Global Restructuring Program (on a combined basis). Year to date, the company's savings came in at \$300 million and it expects to generate savings toward the low end of the \$400-\$450 million range.

▲ **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 2% and 5% in the first and second quarters of 2019, respectively, the segment's sales dropped 1% in the third quarter. This was due to adverse currency rates and several business exits as part of the 2018 Global Restructuring Plan. Volumes were down 2%. This was somewhat cushioned by improved product mix and higher net selling prices. Although sales rose 4% in North America, the same declined 2% and 7% in developing and emerging markets, and developed markets outside North America, respectively.
- ▼ **Rising Costs:** Kimberly-Clark witnessed a 9% increase in marketing, research and general expenses in the third quarter of 2019. Also, SG&A expenses increased year over year, partly due to a rise in incentive compensation expenses. The company is in the process of making further investments to enhance its commercial capacity, with most of them planned for the fourth quarter. This is likely to elevate Kimberly-Clark's cost burden, which may pressurize margins.
- ▼ **Currency Headwinds:** The company remains exposed to unfavorable foreign currency translations as it has a considerable international presence. In fact, during the third quarter of 2019, unfavorable currency movements weighed on sales by 2%. Further, unfavorable currency translations negatively impacted operating profit in the said period. Volatility in exchange rates is a threat.
- ▼ **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 9% increase in marketing, research and general expenses in the third quarter of 2019. Also, SG&A expenses increased year over year.

Last Earnings Report

Kimberly-Clark Q3 Earnings Beat, Organic Sales Improve

Kimberly-Clark reported third-quarter 2019 results, wherein adjusted earnings of \$1.84 per share surpassed the Zacks Consensus Estimate of \$1.80 and increased 7.6% from the year-ago period. The solid performance was also followed by a raised earnings outlook for the year.

Management now envisions 2019 earnings of \$6.75-\$6.90 per share, up from the prior forecast of \$6.65-\$6.80.

Quarter Ending **09/2019**

Report Date	Oct 22, 2019
Sales Surprise	-0.16%
EPS Surprise	2.22%
Quarterly EPS	1.84
Annual EPS (TTM)	6.77

Quarter in Detail

Kimberly-Clark's sales came in at \$4,640 million, which fell short of the Zacks Consensus Estimate of \$4,647 million. However, the top line climbed 1% 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 4% year over year, owing to improved net selling prices (up 4%) 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 4% and 5%, respectively. Internationally, organic sales increased 5% across developing and emerging markets, while it grew 1% in developed markets.

Adjusted operating profit came in at \$859 million, up from \$798 million in the year-ago quarter. Results gained from higher net selling prices along with cost savings of \$50 million and \$45 million from FORCE (Focused On Reducing Costs Everywhere) program and 2018 Global Restructuring Program, respectively.

Further, lower input costs stemming from a decline in raw material expenses benefited results.

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

Segment Details

Personal Care Products: Segment sales of \$2,305 million rose roughly 2%, owing to improved net selling prices (up 3%), volumes (up 1%) and product mix (up 1%). This, to an extent, was offset by unfavorable currency rates, which hurt sales by 3%. Further, sales increased 5% in North America and 3% in developing and emerging markets. Sales declined 3% across developed markets outside North America.

Consumer Tissue: Segment sales of \$1,484 million grew about 1% year over year. Results gained from improved net selling prices (up 5%), partially offset by lower volumes (down 2%). Adverse currency movements hurt sales by 2%. Sales grew 3% in North America and 1% in developing and emerging markets. Sales dropped 4% across developed markets outside North America.

K-C Professional (KCP): Segment sales dropped 1% to \$839 million due to a 2% impact each from adverse currency rates and several business exits as part of the 2018 Global Restructuring Plan. Volumes were down 2%. This was somewhat cushioned by improved product mix (up 1%) and higher net selling prices (up 3%). Sales rose 4% in North America, while the same declined 2% and 7% in developing and emerging markets, and developed markets outside North America, respectively.

Other Financial Updates

The company ended the quarter with cash and cash equivalents of \$416 million, long-term debt of \$6,198 million and stockholders' deficit of \$141 million, excluding non-controlling interest of \$229 million.

Further, Kimberly-Clark generated cash flow of \$886 million from operating activities during the quarter under review. Management incurred capital expenditures of \$298 million. During the quarter, Kimberly-Clark returned roughly \$570 million to shareholders via dividends payouts and share buybacks. To this end, the company bought back 1.6 million shares for approximately \$214 million. For 2019, management expects share buybacks of \$800 million.

Other Developments & Guidance

Management is on track with the 2018 Global Restructuring Program, which is aimed at lowering the company's structural costs and improving financial flexibility. Until the third quarter of 2019, Kimberly-Clark incurred pre-tax cumulative restructuring charges of \$1,251 million related to this program, while it made cumulative savings worth \$260 million from the same.

Management now forecasts full-year net sales to drop year over year. The company had earlier expected net sales to be flat to down 1% year over year. Kimberly-Clark now projects organic sales improvement of 3-4% compared with prior guidance of 3% growth.

Management anticipates adjusted operating profit growth of 4-5% for the year. Earlier, the company estimated 3-5% growth.

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 up 23.6% over the trailing 12-month period. In the same time frame, the Zacks sub-industry is down 10.8% but the sector is up 20.9%.

The S&P 500 index is up 28.4% in the past year.

The stock is currently trading at 18.85X forward 12-month earnings, which compares to 20.98X for the Zacks sub-industry, 19.63X for the Zacks sector and 18.7X for the S&P 500 index.

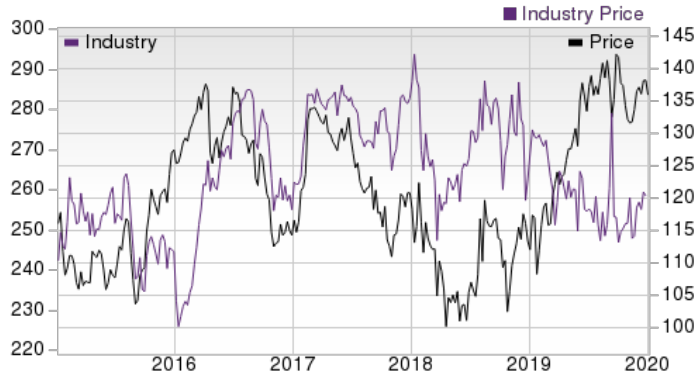
Over the past five years, the stock has traded as high as 22.12X and as low as 18.76X, with a 5-year median of 18.76X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$143 price target reflects 19.85X forward 12-month earnings.

The table below shows summary valuation data for KMB

Valuation Multiples - KMB					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	18.85	20.98	19.63	18.7
	5-Year High	22.12	21.93	22.39	19.34
	5-Year Low	18.76	17.95	16.65	15.17
	5-Year Median	18.76	17.95	19.68	17.44
P/S F12M	Current	2.51	1.9	9.75	3.47
	5-Year High	2.67	2.12	11.03	3.47
	5-Year Low	1.84	1.57	8.02	2.54
	5-Year Median	2.27	1.93	9.78	3
EV/EBITDA TTM	Current	12.51	13.92	34.11	12.66
	5-Year High	13.26	14.8	36.97	12.66
	5-Year Low	9.79	9.26	29.14	9.08
	5-Year Median	11.7	11.63	33.26	10.78

As of 01/03/2020

Industry Analysis Zacks Industry Rank: Bottom 36% (162 out of 252)



Top Peers

Bed Bath & Beyond Inc. (BBBY)	Neutral
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
Tupperware Brands Corporation (TUP)	Neutral
WD-40 Company (WDFC)	Neutral

Industry Comparison Industry: Consumer Products - Staples				Industry Peers		
	KMB Neutral	X Industry	S&P 500	NWL Neutral	TUP Neutral	WDFC Neutral
VGM Score	B	-	-	A	C	C
Market Cap	46.55 B	2.85 B	23.66 B	7.90 B	402.44 M	2.64 B
# of Analysts	6	5	13	6	1	2
Dividend Yield	3.03%	0.00%	1.79%	4.93%	13.12%	1.27%
Value Score	C	-	-	A	A	F
Cash/Price	0.01	0.07	0.04	0.06	0.30	0.01
EV/EBITDA	17.69	11.23	13.88	5.70	2.45	29.39
PEG Ratio	3.66	2.02	1.99	1.97	0.26	NA
Price/Book (P/B)	528.96	3.84	3.36	1.90	NA	18.17
Price/Cash Flow (P/CF)	14.73	12.51	13.62	0.80	1.46	41.63
P/E (F1)	18.87	17.84	18.74	11.84	3.12	40.20
Price/Sales (P/S)	2.52	1.35	2.67	0.92	0.21	6.23
Earnings Yield	5.30%	5.25%	5.32%	8.47%	32.08%	2.49%
Debt/Equity	70.43	0.67	0.72	1.50	-3.53	0.41
Cash Flow (\$/share)	9.22	4.17	6.94	23.20	5.65	4.63
Growth Score	B	-	-	A	D	B
Hist. EPS Growth (3-5 yrs)	3.50%	3.50%	10.56%	-0.65%	-3.28%	9.11%
Proj. EPS Growth (F1/F0)	4.88%	6.27%	7.41%	-5.74%	-5.71%	19.15%
Curr. Cash Flow Growth	8.53%	10.61%	14.83%	425.31%	-11.25%	-3.66%
Hist. Cash Flow Growth (3-5 yrs)	0.61%	4.69%	9.00%	73.31%	-4.40%	5.06%
Current Ratio	0.75	1.53	1.23	1.48	0.83	1.98
Debt/Capital	98.60%	45.72%	42.92%	59.98%	NA	29.28%
Net Margin	10.96%	2.49%	11.08%	-5.56%	5.37%	13.21%
Return on Equity	93,800.00%	12.51%	17.10%	15.93%	-92.53%	36.86%
Sales/Assets	1.23	1.10	0.55	0.50	1.37	1.39
Proj. Sales Growth (F1/F0)	0.88%	3.05%	4.20%	0.39%	NA	5.82%
Momentum Score	C	-	-	C	F	B
Daily Price Chg	-0.03%	-0.65%	-0.61%	-2.20%	-3.18%	-0.36%
1 Week Price Chg	0.04%	0.08%	0.13%	-3.20%	-6.27%	0.11%
4 Week Price Chg	-0.53%	0.00%	2.60%	-0.37%	9.01%	-0.78%
12 Week Price Chg	-1.52%	2.73%	8.87%	-1.01%	-44.88%	4.71%
52 Week Price Chg	22.73%	-0.60%	29.34%	2.13%	-74.67%	8.82%
20 Day Average Volume	1,089,222	358,487	1,603,615	3,212,411	1,465,901	59,374
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	-0.63%	0.00%	0.00%
(F1) EPS Est 12 week change	0.35%	-3.29%	-0.57%	4.61%	-26.67%	-3.72%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	B
Momentum Score	C
VGM Score	B

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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