

Kimberly-Clark(KMB)

\$138.64 (As of 05/15/20)

Price Target (6-12 Months): **\$146.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 08/20/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:A

Value: C

Growth: A

Momentum: B

Summary

Kimberly-Clark's shares have outpaced the industry in the past year. The company has been witnessing higher consumer demand for its products. The upside can be attributed to panic-induced stockpiling amid the coronavirus outbreak. Impressively, first-quarter 2020 earnings and sales increased year over year and surpassed the consensus mark. Also, organic sales rose owing to over 8% rise in volumes due to the pandemic. Apart from these, the company is gaining from robust saving plans like Global Restructuring and FORCE programs. Also, Kimberly-Clark's focus on its three key growth pillars bodes well. However, in the second quarter management expects soft volumes in the K-C Professional unit owing to COVID-19. Further, increased marketing, research and general expenses along with unfavorable currency rates are concerns.

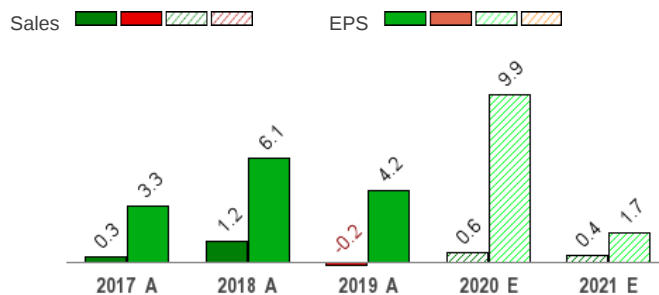
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$149.23 - \$110.66
20 Day Average Volume (sh)	1,875,692
Market Cap	\$47.2 B
YTD Price Change	0.8%
Beta	0.49
Dividend / Div Yld	\$4.28 / 3.1%
Industry	Consumer Products - Staples
Zacks Industry Rank	Top 16% (40 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.0%
Last Sales Surprise	2.3%
EPS F1 Est- 4 week change	3.5%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	18.9
P/E F1	18.3
PEG F1	3.6
P/S TTM	2.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,647 E	4,532 E	4,688 E	4,703 E	18,638 E
2020	5,009 A	4,489 E	4,560 E	4,553 E	18,557 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	\$2.05 E	\$1.81 E	\$1.96 E	\$1.87 E	\$7.70 E
2020	\$2.13 A	\$1.77 E	\$1.89 E	\$1.78 E	\$7.57 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 05/15/2020. The reports text is as of 05/18/2020.

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.

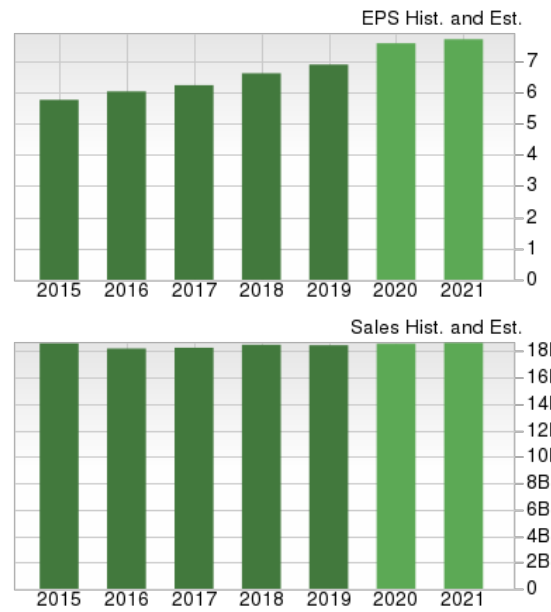
The **Consumer Tissue** segment includes facial and bathroom tissue, paper towels, napkins and related products, which are sold under the Kleenex, Scott, Cottonelle, Viva, Andrex, Scottex, Neve and other brand names. Sales from this segment constituted about 33% of the top line in full-year 2019.

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:

▲ **High Demand Amid Coronavirus Jitters:** The rapidly-spreading novel coronavirus has rattled the global market and disrupted economic activities. As complete physical isolation is the sole method to contain the spread of the pandemic, governments across several countries are imposing lockdowns and curfews. With community transmission gaining scale, people are hoarding essentials so that they do not have to venture out for daily supplies. Consequently, Kimberly-Clark is witnessing a spike in demand due to the panic-buying trends amid the coronavirus outbreak.

Kimberly-Clark's organic sales rose 11% year over year, owing to more than 8% rise in volumes due to consumer stockpiling amid coronavirus outbreak during first-quarter, 2020.

In this regard, the company has been undertaking a number of measures to increase production of essential commodities. Also, Kimberly-Clark has been reallocating inventory to provide consumers with greater access to its products amid the crisis. Notably, the company is on track with assuring enhanced precautionary measures in its manufacturing units that continue to remain operational to support the production of essential commodities amid the coronavirus outbreak. We note that shares of the company have gained 9.8% in the past year against the industry's decline of 15%.

▲ **Impressive Q1 Performance:** Kimberly-Clark Corporation reported first-quarter 2020 results, with the bottom line improving year over year. Earnings also surpassed the Zacks Consensus Estimate, marking its fifth consecutive beat. Notably, adjusted earnings came in at \$2.13 per share, up 28% from the year-ago quarter's figure.

Moreover, the top line increased 8% year over year and beat the consensus mark during the first quarter. The quarterly performance reflected sales growth across all segments, savings from restructuring plans and increased business investments. In the first quarter, organic sales rose 11% year over year, owing to more than 8% rise in volumes due to consumer stockpiling amid coronavirus outbreak. Also, net selling prices and product mix inched up 1% each. In North America, organic sales in consumer products and K-C Professional increased 11% and 6%, respectively. Internationally, organic sales increased 9% across developing and emerging markets, while it grew 15% in developed markets.

▲ **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 first-quarter 2019, Kimberly-Clark generated cumulative savings worth \$325 million from the 2018 Global Restructuring Program. Management remains on track to generate 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. Although some of these realizations could occur in 2022 due to uncertainties in regard to the coronavirus outbreak. As part of this initiative, the company plans to sell or exit some low-margin businesses that deliver about 1% of net sales.

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 which are in turn driving its performance. During the first quarter, adjusted operating profit came in at \$997 million, up from \$807 million in the year-ago quarter. Results gained from higher organic sales and cost savings of \$100 million and \$25 million from the FORCE (Focused On Reducing Costs Everywhere) program and the 2018 Global Restructuring Program, respectively.

▲ **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. Although management has been seeing slowdown in these strategies due to the recent outbreak of the novel coronavirus, it expects to resume execution of such policies as soon as possible.

Reasons To Sell:

- ▼ **Softness in K-C Professional:** Although sales in the K-C Professional improved year over year during first-quarter 2020, management expects soft volumes in the segment during the second quarter due to coronavirus-related concerns. In fact, since April the company has started to witness some softness in the segment. This can be attributed to lower demand from end- markets like offices as well as retail and manufacturing among others. Moreover, management expects this trend to continue till the situation does not return to normal levels post the pandemic.
- ▼ **Rising Costs:** Kimberly-Clark has been seeing a rise in marketing, research and general expenses for the last few quarters. In the first quarter of 2020, the metric rose 14% to \$873 million. Prior to this, marketing, research and general expenses rose 12% in the fourth quarter of 2019. We believe that persistence of such trends is a threat to the company's performance in the future.
- ▼ **Currency Headwinds:** The company remains exposed to unfavorable foreign currency translations as it has a considerable international presence. In fact, during the first quarter of 2020, unfavorable currency movements weighed on sales by 2%. Further, unfavorable currency translations negatively impacted operating profit in the said period. Clearly, volatility in exchange rates is a threat to the company's performance.
- ▼ **Debt Analysis:** Kimberly-Clark's long-term debt totaled \$7,210 million as on Mar 31, 2020, up 16% sequentially. Further, the company's debt-to-capitalization ratio deteriorated sequentially from 0.98 to 1 at the end of the first quarter of 2020. Moreover, the company had current debt of \$1,238 million as of Mar 31, while its total cash and cash equivalents stood at \$979 million.
- ▼ **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 has been particularly challenged in South Korea, owing to lower birth rates. Further, price competition in China has been a concern for diaper sales.

Kimberly-Clark witnessed a 14% increase in marketing, research and general expenses in the first quarter of 2020. Also, management withdrew 2020 view due to coronavirus.

Last Earnings Report

Kimberly-Clark's Q1 Earnings Top Estimates, Sales up

Kimberly-Clark Corporation reported first-quarter 2020 results, with the bottom line improving year over year. Earnings also surpassed the Zacks Consensus Estimate, marking its fifth consecutive beat. Moreover, the top line increased year over year and beat the consensus mark. The quarterly performance reflected sales growth across all segments, savings from restructuring plans and increased business investments.

However, given the current situation related to the coronavirus outbreak and its unpredictable impact on economic activities as well as consumer and end-market demand worldwide, Kimberly-Clark is withdrawing its full-year 2020 guidance that was issued on Jan 23. Further, management is temporarily suspending its share buyback plans effective Apr 24.

Apart from these, management expects that certain restructuring activity and the related charges as a part of its 2018 Global Restructuring Program will extend into 2021 due to the pandemic. Earlier, the company had anticipated these activities to be completed by the end of 2020.

Quarter in Detail

Adjusted earnings came in at \$2.13 per share, which surpassed the Zacks Consensus Estimate of \$2.01 and increased 28% from the year-ago quarter's figure.

Kimberly-Clark's sales came in at \$5,009 million, which surpassed the Zacks Consensus Estimate of \$4,894 million. The top line increased 8% year over year. Unfavorable currency movements put pressure on sales by 2%. Also, business exits pertaining to the 2018 Global Restructuring Program had a slight impact on sales.

Organic sales rose 11% year over year, owing to more than 8% rise in volumes due to consumer stockpiling amid coronavirus outbreak. Also, both net selling prices and product mix inched up 1% each.

In North America, organic sales in consumer products and K-C Professional increased 11% and 6%, respectively. Internationally, organic sales increased 9% across developing and emerging markets, while it grew 15% in developed markets.

Adjusted operating profit came in at \$997 million, up from \$807 million in the year-ago quarter. Results gained from higher organic sales and cost savings of \$100 million and \$25 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: Sales of \$2,422 million rose 6% year over year, owing to improved net selling prices (up 1%), product mix (up 2%) and volumes (up roughly 7%). This was offset by unfavorable currency rates, which hurt sales by 3%. Further, sales increased 10% in North America as well as 3% in developing and emerging markets. The metric also grew 5% across developed markets outside North America.

Consumer Tissue: Segment sales of \$1,723 million rose 13% year over year. Results gained from improved net selling prices (up 1%) and volumes (up 14%). Adverse currency movements hurt sales by 2%. Sales grew 12% in North America and 10% in developing and emerging markets. The metric increased 17% in developed markets outside North America.

K-C Professional (KCP): Segment sales increased 4% to \$848 million owing to improved net selling prices (up 2%), product mix (up 1%) and volumes (up 4%). This was offset by 1% adverse impact from several business exits as part of the 2018 Global Restructuring Plan. Also, currency woes hurt sales by 2%. Sales rose 5% in North America and 2% in developing and emerging markets. The metric increased 5% in developed markets outside North America.

Other Financial Updates

The company ended the quarter with cash and cash equivalents of \$979 million, long-term debt of \$7,210 million and stockholders' equity of \$46 million.

Further, Kimberly-Clark generated cash from operating activities of \$704 million during the quarter under review. Management incurred capital expenditures of \$352 million.

During the quarter, Kimberly-Clark bought back 1.6 million shares for \$224 million.

Quarter Ending 03/2020

Report Date	Apr 22, 2020
Sales Surprise	2.34%
EPS Surprise	5.97%
Quarterly EPS	2.13
Annual EPS (TTM)	7.35

Recent News

Kimberly Clark Declares Dividend – Apr 30, 2020

Kimberly Clark has declared quarterly cash dividend of \$1.07 per share. This will be payable on Jul 2, 2020 to shareholders of record as on Jun 5.

Kimberly-Clark Sees High Demand Amid Coronavirus Jitters – Apr 7, 2020

Kimberly-Clark issued a business update regarding the coronavirus outbreak. This provider of various essential hygiene products like toilet paper, tissues, wet wipes and paper towels among others across more than 150 countries is witnessing a spike in demand due to the panic-buying trends amid the coronavirus outbreak.

In this regard, the company is undertaking a number of measures to increase production of essential commodities. Also, Kimberly-Clark is reallocating inventory to provide consumers with greater access to its products amid the crisis. Notably, the company is assuring enhanced precautionary measures in its manufacturing units that continue to remain operational to support the production of essential commodities amid the coronavirus outbreak.

Also, the company along with its foundation has pledged more than \$8 million to various organizations with a view to support them in their fight against the consequences of the novel coronavirus outbreak.

Valuation

Kimberly Clark shares are up 1.6% in the year-to-date period and 9.8% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 1.7% in the year-to-date period, while the Zacks Consumer Staples sector is down 16.7%. Over the past year, the Zacks sub-industry is down 15%, while the sector declined 11.1%.

The S&P 500 index is down 10.4% in the year-to-date period and up 2.6% in the past year.

The stock is currently trading at 18.19X forward 12-month earnings, which compares to 22.32X for the Zacks sub-industry, 18.53X for the Zacks sector and 20.8X 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 18.78X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$146 price target reflects 19.16X 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	18.19	22.32	18.53	20.8
	5-Year High	22.12	22.32	22.37	20.8
	5-Year Low	13.93	13.74	16.65	15.19
	5-Year Median	18.78	17.97	19.66	17.45
P/S F12M	Current	2.54	1.88	8.65	3.23
	5-Year High	2.72	2.12	11.16	3.44
	5-Year Low	1.84	1.57	8.1	2.54
	5-Year Median	2.32	1.91	9.89	3.02
EV/EBITDA F12M	Current	11.62	13.87	34.18	12.29
	5-Year High	12.87	14.8	37.75	12.65
	5-Year Low	9.55	9.26	29.8	9.09
	5-Year Median	11.62	11.72	34.1	10.82

As of 05/15/2020

Industry Analysis Zacks Industry Rank: Top 16% (40 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
The Clorox Company (CLX)	Outperform	1
Bed BathBeyond Inc. (BBBY)	Neutral	3
ChurchDwight Co., Inc. (CHD)	Neutral	2
ColgatePalmolive Company (CL)	Neutral	3
Energizer Holdings, Inc. (ENR)	Neutral	3
Newell Brands Inc. (NWL)	Neutral	4
Tupperware Brands Corporation (TUP)	Neutral	3
WD40 Company (WDFC)	Neutral	4

Industry Comparison Industry: Consumer Products - Staples				Industry Peers		
	KMB	X Industry	S&P 500	NWL	TUP	WDFC
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	4	3	4
VGM Score	A	-	-	D	C	C
Market Cap	47.21 B	3.12 B	18.98 B	4.96 B	125.97 M	2.38 B
# of Analysts	6	5	14	8	1	2
Dividend Yield	3.09%	0.00%	2.21%	7.86%	0.00%	1.54%
Value Score	C	-	-	D	A	F
Cash/Price	0.02	0.06	0.06	0.09	1.23	0.01
EV/EBITDA	13.96	11.18	11.60	8.41	3.02	26.62
PEG Ratio	3.56	2.79	2.58	6.28	0.18	NA
Price/Book (P/B)	1,026.35	4.35	2.59	1.43	NA	16.10
Price/Cash Flow (P/CF)	14.41	13.38	10.28	1.98	0.98	37.58
P/E (F1)	18.31	19.69	19.01	10.87	2.22	41.33
Price/Sales (P/S)	2.51	1.26	1.92	0.55	0.07	5.68
Earnings Yield	5.46%	4.62%	5.06%	9.23%	45.14%	2.42%
Debt/Equity	156.74	0.82	0.75	1.69	-1.80	0.46
Cash Flow (\$/share)	9.62	2.31	7.01	5.91	2.61	4.63
Growth Score	A	-	-	C	F	B
Hist. EPS Growth (3-5 yrs)	4.54%	3.38%	10.82%	-5.50%	-16.50%	6.84%
Proj. EPS Growth (F1/F0)	9.89%	-0.43%	-10.48%	-36.69%	-20.55%	4.60%
Curr. Cash Flow Growth	3.32%	5.95%	5.68%	-76.91%	-53.46%	-3.66%
Hist. Cash Flow Growth (3-5 yrs)	2.19%	4.69%	8.52%	28.55%	-17.72%	5.06%
Current Ratio	0.87	1.44	1.27	1.33	0.77	1.66
Debt/Capital	99.37%	62.82%	44.25%	62.82%	NA	31.44%
Net Margin	12.55%	0.98%	10.54%	-11.25%	-1.92%	12.70%
Return on Equity	2,686.77%	14.00%	16.29%	16.26%	-13.18%	35.92%
Sales/Assets	1.23	1.24	0.54	0.57	1.27	1.32
Proj. Sales Growth (F1/F0)	0.58%	2.79%	-2.55%	-1.82%	0.00%	-6.93%
Momentum Score	B	-	-	F	C	A
Daily Price Chg	1.50%	0.18%	0.20%	0.69%	-2.28%	1.19%
1 Week Price Chg	1.26%	3.26%	3.23%	1.06%	2.84%	3.68%
4 Week Price Chg	-0.78%	2.09%	0.88%	-7.22%	27.23%	2.80%
12 Week Price Chg	-2.48%	-12.19%	-23.26%	-41.18%	-58.88%	-7.92%
52 Week Price Chg	7.71%	-3.19%	-12.56%	-24.71%	-88.85%	5.98%
20 Day Average Volume	1,875,692	551,370	2,553,422	4,301,443	2,913,447	114,415
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-1.26%	0.00%	0.00%
(F1) EPS Est 4 week change	3.51%	0.00%	-5.57%	-21.23%	0.00%	0.00%
(F1) EPS Est 12 week change	4.22%	-6.61%	-16.22%	-30.17%	-56.06%	-11.85%
(Q1) EPS Est Mthly Chg	0.63%	-1.68%	-11.63%	-59.82%	NA	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	A
Momentum Score	B
VGM Score	A

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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