

KIMBERLY-CLARK CORPORATION (NYSE: KMB)



(as at May 31, 2020)

Business Description:

Kimberly-Clark Corporation (KMB) engages in the manufacture and marketing of products made from natural or synthetic fibers. It operates through the following segments: Personal Care, Consumer Tissue, and K-C Professional (KCP). The Personal Care segment offers disposable diapers, training and youth pants, baby wipes, feminine and incontinence care products, and other related products. The Consumer Tissue segment produces and sells facial and bathroom tissue, paper towels, napkins and related products for household use. The K-C Professional segment supplies workplace supporting products such as wipers, tissue, towels, apparel, soaps and sanitizers. The company's brands include Depend, Huggies, Kleenex, Kotex and Scott. The company was founded by John A. Kimberly, Havilah Babcock, Charles B. Clark and Frank C. Shattuck in 1872 and is headquartered in Irving, TX.

Investment Thesis:

- **Strong market position globally.** KMB products are some of the most recognizable brands in the world, with approximately 25% of the world's population using K-C products. The products are sold in 175 countries, maintaining the number 1 or 2 position in 80 countries.
- **The company has demonstrated a strong track record in Developing Markets.** Developing markets present a large growth opportunity for KMB and the company has been emphasizing penetration in these geographies. As of 2019, the company has had 29% of net sales coming from these markets.
- **KMB has demonstrated a disciplined approach to cost reduction programs.** The company underwent the largest restructuring program in company history to streamline overhead and the supply chain. This resulted in over \$500 million in annual cost savings and will continue improving internal operations.

Industry Drivers/Trends

Consumer Packaged Goods:

- Businesses are growing increasingly conscious of the need to cut down the amount of non-biodegradable waste put into landfills, and plastic bottles, cloths and hygiene equipment are going to be some of the predominant targets of these campaigns.
- A driver of growth is the changing demographic, specifically strong millennial growth. Companies will look to capture on this growth through consumer brands that have been staples their entire lives.
- A large portion of sales within the industry are shifting towards online direct-to-consumer platforms. With the growth of e-commerce, companies must embrace this shift and grow their online presence to match consumer demands.

Competitive Advantages:

- Large global portfolio of brands
- Economies of scale leading to lower total operating costs

- Strong legacy of innovation
- Established supply chain and distribution network

Competitors:

- The Clorox Company, Colgate-Palmolive Company, Unilever PLC, The Procter & Gamble Company, Johnson & Johnson

Customers:

- Retailers, distributors, wholesalers, end consumers, enterprises & businesses

Barriers to Entry:

- **Branded Portfolio:** Existing brands have a distinct advantage as branded products are sold and recognized worldwide. It will be hard for a new entrant to gain enough market share from brand-loyal consumers to compete and survive.
- **Large Start-Up Costs:** Existing buildings and plant machinery make up a large part of an incumbent's assets. Financial costs that large are a sure barrier to a start-up company attempting to enter the consumer-packaged goods industry.
- **Economies of Scale:** Large companies in this space have an operating advantage as they have been able to operate at a large volume for a prolonged period. This operating cost advantage will discourage new entrants.

Officers and Directors:

Michael Hsu, Chairman & Chief Executive Officer; **Scott Boston**, Chief Human Resource Officer; **Maria Henry**, Chief Financial Officer; **Alison Lewis**, Chief Growth Officer; **Kim Underhill**, Group President of North America; **Tristram Wilkinson**, President of Europe, Middle East and Africa

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Financial Summary:

Income Statement (USD millions, years ended December 31st)

	2015	2016	2017	2018	2019
Revenue	18,591.0	18,202.0	18,348.0	18,486.0	18,450.0
COGS	(11,934.0)	(11,545.0)	(11,761.0)	(12,348.0)	(11,999.0)
Gross Profit	6,657.0	6,657.0	6,587.0	6,138.0	6,451.0
Profit before Tax	1,335.0	3,009.0	2,991.0	1,813.0	2,650.0
Net Profit	1,013.0	2,166.0	2,278.0	1,410.0	2,157.0
EPS (Diluted)	2.77	5.99	6.40	4.03	6.24
Dividends per Share	3.52	3.68	3.88	4.00	4.12

Balance Sheet

Total Assets	14,842.0	14,602.0	15,151.0	14,518.0	15,283.0
Long-Term Debt	6,106.0	6,439.0	6,472.0	6,247.0	6,487.0
Total Equity	(110.0)	(44.0)	690.0	(223.0)	(4.0)

Statement of Cash Flow

Cash Flows from Operations	2,306.0	3,232.0	2,929.0	2,970.0	2,736.0
Cash Flows from Investing	(1,201.0)	(732.0)	(851.0)	(902.0)	(1,042.0)
Cash Flows from Financing	(1,147.0)	(2,185.0)	(2,421.0)	(2,115.0)	(1,792.0)

Key Ratios and Figures (%)

Gross Margin	35.8%	36.6%	35.9%	33.2%	35.0%
Return on Invested Capital	23.0%	24.0%	24.0%	26.0%	27.0%

Source: Kimberly-Clark Corporation 2019 Annual Report



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