

Kimberly-Clark

Q4 results soft, 2024 focus on volume recovery; Reiterate Underperform

Reiterate Rating: UNDERPERFORM | PO: 110.00 USD | Price: 118.04 USD

Q4 organic sales in-line but volume light on recovery

Q4 results EPS of \$1.51 was slightly ahead of our \$1.50 but missed the Street's \$1.53 as organic sales came in consistent with expectations but total company volumes were flattish vs. our expectation of +1% growth. The personal care segment saw its second sequential quarter of volume growth, at +1%, while the Consumer Tissue (-1%) and K-C Professional (-4%) segments moderated volume weakness.

Gross margin declines from Q3's peak; market share soft

Gross margin expanded +220bps y/y to 34.9%, but was below Q3's level of 35.8%, although a sequential step down was expected as pricing waned. In 2024, we see the gross margin landscape as less certain due to possible impacts of higher oil prices on raw material inputs, while KMB also noted higher distribution and labor costs along with currency headwinds. Meanwhile, market share of ~40% is below the company's goal of 50% or more on a cohort basis. Market share was partially affected by supply constraints in North America in 2023, which underperformed markets such as South Korea, Australia & New Zealand, and China where KMB saw varying levels of market share gains.

2024 guidance introduced; lowering estimates

KMB introduced 2024 guidance, with organic sales expected to increase +LSD to +MSD, with net sales offset by -300bps of currency headwind and -60% from the Brazil divestiture. Organic sales growth is expected to be balanced through the year but softer in Q1 due to more muted volume growth. We expect margins to be relatively steady although we note downside risk on shipping and commodity inputs due to the Red Sea conflict. Overall, we lower our Q1 EPS estimate to \$1.59 from \$1.76 prior and lower our 2024E EPS estimate to \$6.71 from \$6.91 prior. KMB plans to host an Investor Day in March to discuss its long-term outlook and strategy.

Reiterate Underperform, lowering PO to \$110 from \$115

We reiterate our Underperform rating and lower our PO to \$110 from \$115, reflecting a ~16x multiple on our CY25e EPS of \$7.06. We see a challenging setup ahead due to a potentially farther out recovery in volumes while pricing benefits wane, and softness in market share, offset by input cost benefits and cost savings.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	5.63	6.57	6.71	7.06	7.48
GAAP EPS	5.72	5.21	6.71	7.06	7.48
EPS Change (YoY)	-8.9%	16.7%	2.1%	5.2%	5.9%
Consensus EPS (Bloomberg)			7.02	7.47	7.84
DPS	4.62	4.70	4.84	5.00	5.16
Valuation (Dec)					
P/E	21.0x	18.0x	17.6x	16.7x	15.8x
GAAP P/E	20.6x	22.7x	17.6x	16.7x	15.8x
Dividend Yield	3.9%	4.0%	4.1%	4.2%	4.4%
EV / EBITDA*	14.1x	12.8x	12.1x	11.9x	11.5x
Free Cash Flow Yield*	4.7%	7.0%	5.8%	5.7%	5.9%

* For full definitions of *IQmethod*SM measures, see page 5.

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Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 24 January 2024 11:47PM EST

24 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	115.00	110.00
2024E Rev (m)	21,039.4	20,661.4
2025E Rev (m)	21,362.8	20,978.0
2026E Rev (m)	NA	21,300.1
2024E EPS	6.91	6.71
2025E EPS	7.23	7.06
2026E EPS	NA	7.48

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Stock Data

Price	118.04 USD
Price Objective	110.00 USD
Date Established	24-Jan-2024
Investment Opinion	A-3-7
52-Week Range	116.32 USD - 147.87 USD
Mrkt Val (mn) / Shares Out (mn)	39,768 USD / 336.9
Free Float	99.9%
Average Daily Value (mn)	231.51 USD
BofA Ticker / Exchange	KMB / NYS
Bloomberg / Reuters	KMB US / KMB.N
ROE (2024E)	245.5%
Net Dbt to Eqty (Dec-2023A)	NA
ESGMeter TM	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

iQprofileSM Kimberly-Clark

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	18.0%	20.9%	21.8%	22.1%	22.7%
Return on Equity	359.1%	299.3%	245.5%	260.5%	229.6%
Operating Margin	13.0%	14.5%	15.2%	15.4%	15.6%
Free Cash Flow	1,857	2,776	2,315	2,284	2,359

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.4x	1.6x	1.5x	1.4x	1.4x
Asset Replacement Ratio	1.2x	1.0x	1.3x	1.3x	1.3x
Tax Rate	21.2%	22.4%	24.0%	24.0%	24.0%
Net Debt-to-Equity Ratio	NM	NM	NM	NM	NM
Interest Cover	9.3x	10.1x	10.4x	11.7x	13.0x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	20,175	20,431	20,661	20,978	21,300
% Change	3.8%	1.3%	1.1%	1.5%	1.5%
Gross Profit	6,219	7,047	7,220	7,350	7,568
% Change	1.3%	13.3%	2.5%	1.8%	3.0%
EBITDA	3,371	3,711	3,915	4,007	4,124
% Change	-6.4%	10.1%	5.5%	2.3%	2.9%
Net Interest & Other Income	(289)	(288)	(325)	(311)	(292)
Net Income (Adjusted)	1,905	2,227	2,249	2,321	2,415
% Change	-9.1%	16.9%	1.0%	3.2%	4.1%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,935	1,765	2,249	2,322	2,416
Depreciation & Amortization	754	753	768	783	799
Change in Working Capital	(17)	582	(16)	29	9
Deferred Taxation Charge	(57)	(322)	(126)	0	0
Other Adjustments, Net	118	764	422	147	148
Capital Expenditure	(876)	(766)	(982)	(997)	(1,013)
Free Cash Flow	1,857	2,776	2,315	2,284	2,359
% Change	7.8%	49.5%	-16.6%	-1.4%	3.3%
Share / Issue Repurchase	(6)	(128)	(700)	(700)	(700)
Cost of Dividends Paid	(1,558)	(1,588)	(1,622)	(1,644)	(1,666)
Change in Debt	(51)	(483)	(100)	(75)	(100)

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	427	1,093	986	986	743
Trade Receivables	2,280	2,135	2,208	2,208	2,276
Other Current Assets	3,022	2,475	2,441	2,441	2,481
Property, Plant & Equipment	7,885	7,913	8,167	8,167	8,675
Other Non-Current Assets	4,356	3,728	3,688	3,688	3,608
Total Assets	17,970	17,344	17,490	17,490	17,783
Short-Term Debt	844	567	567	567	567
Other Current Liabilities	6,490	6,363	6,386	6,386	6,532
Long-Term Debt	7,578	7,417	7,317	7,317	7,142
Other Non-Current Liabilities	2,511	1,929	2,329	2,329	2,329
Total Liabilities	17,423	16,276	16,599	16,599	16,570
Total Equity	547	941	891	891	1,213
Total Equity & Liabilities	17,970	17,217	17,490	17,490	17,783

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Household Products

Company Description

Kimberly-Clark (KMB) is a global health and hygiene company which sells consumer products. The company manufactures products including diapers, tissues, paper towels, incontinence care products, and feminine hygiene products. Global brands include: Huggies, Pull-Ups, Kotex, Kleenex, Cottonelle, Viva, Scott, Depend, and Poise. Approximately 50% of sales are derived outside of North America.

Investment Rationale

We rate KMB shares Underperform. We appreciate that KMB is beginning to execute on its dual-pronged growth strategy to: 1) elevate the core business, and 2) expand into high-growth developing markets. We see risk to the downside due to global declining birth rates, elevated commodity costs, and a potential economic downturn hurting share and premiumization mix across categories. Meanwhile, pricing actions are expected to abate, providing more limited upside to gross margin expansion.

Stock Data

Average Daily Volume 1,961,299

Quarterly Earnings Estimates

	2023	2024
Q1	1.67A	1.59E
Q2	1.65A	1.61E
Q3	1.74A	1.81E
Q4	1.51A	1.70E

Exhibit 1: KMB Income Statement: Q4 results EPS of \$1.51 was slightly ahead of our \$1.50

Fiscal year end December; \$ in millions, except for per share data

	2023A					2024E				
	Mar-23	Jun-23	Sep-23	Dec-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Dec-24
	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY
Net Sales	\$5,195	\$5,134	\$5,132	\$4,970	\$20,431	\$5,090	\$5,157	\$5,244	\$5,171	\$20,661
growth	2.0%	1.4%	1.6%	0.1%	1.3%	-2.0%	0.4%	2.2%	4.1%	1.1%
Personal Care	2,704	2,685	2,700	2,602	10,691	2,623	2,698	2,754	2,732	10,807
growth	-0.9%	-0.9%	2.7%	1.8%	0.6%	-3.0%	0.5%	2.0%	5.0%	1.1%
Consumer Tissue	1,634	1,549	1,567	1,540	6,290	1,618	1,549	1,598	1,586	6,351
growth	4.2%	0.8%	-0.7%	-1.3%	0.8%	-1.0%	0.0%	2.0%	3.0%	1.0%
K-C Professional & Other	847	887	854	816	3,404	839	896	880	840	3,455
growth	8.6%	10.6%	2.2%	-2.6%	4.5%	-1.0%	1.0%	3.0%	3.0%	1.5%
Intersegment	10	13	11	12	46	11	14	12	13	48
Cost of Goods Sold - reported	3,469	3,403	3,294	3,233	13,399	3,329	3,374	3,387	3,351	13,442
Cost of Goods Sold	3,469	3,388	3,294	3,233	13,384	3,329	3,374	3,387	3,351	13,442
Gross Profit - reported	1,726	1,731	1,838	1,737	7,032	1,761	1,783	1,856	1,820	7,220
Gross Profit	1,726	1,746	1,838	1,737	7,047	1,761	1,783	1,856	1,820	7,220
Gross Margin- reported	33.2%	33.7%	35.8%	34.9%	34.4%	34.6%	34.6%	35.4%	35.2%	34.9%
y/y chg	339	352	528	217	359	137	86	(42)	24	52
Gross Margin	33.2%	34.0%	35.8%	34.9%	34.5%	34.6%	34.6%	35.4%	35.2%	34.9%
y/y chg	339	381	528	217	367	137	57	(42)	24	45
Marketing, research, g&a - reported	924	1,015	1,029	993	3,961	997	994	1,015	997	4,003
Marketing, research, g&a	924	1,000	1,029	993	3,946	997	994	1,015	997	4,003
as % of sales	17.8%	19.5%	20.1%	20.0%	19.3%	19.6%	19.3%	19.4%	19.3%	19.4%
y/y chg	81	158	277	153	167	180	(20)	(70)	(70)	6
Other (income) expense, net - reported	15	603	35	74	727	18	18	18	18	70
Other (income) expense, net	15	19	35	74	143	18	18	18	18	70
Operating Income - reported	787	113	774	670	2,344	746	771	824	805	3,147
Operating Income	787	727	774	670	2,958	746	771	824	805	3,147
Operating Margin	15.1%	14.2%	15.1%	13.5%	14.5%	14.7%	15.0%	15.7%	15.6%	15.2%
y/y chg	280	190	212	(86)	151	(49)	80	63	209	75
Nonoperating Expense - reported	(16)	(42)	(20)	(18)	(96)	(12)	(12)	(12)	(12)	(48)
Nonoperating Expense	(16)	(15)	(16)	(14)	(61)	(12)	(12)	(12)	(12)	(48)
Interest Income	7	9	18	32	66	6	6	6	6	24
Interest Expense	(73)	(76)	(74)	(70)	(293)	(76)	(75)	(75)	(75)	(301)
Pretax Income - reported	705	4	698	614	2,021	664	690	743	724	2,822
Pretax Income	705	645	702	618	2,670	664	690	743	724	2,822
Pretax Margin	13.6%	12.6%	13.7%	12.4%	13.1%	13.1%	13.4%	14.2%	14.0%	13.7%
Income Taxes - reported	173	(32)	157	155	453	159	166	178	174	677
Income Taxes	173	132	158	156	619	159	166	178	174	677
Tax Rate - reported	24.5%	-800.0%	22.5%	25.2%	22.4%	24.0%	24.0%	24.0%	24.0%	24.0%
Tax Rate - ex-charges	24.5%	20.5%	22.5%	25.2%	23.2%	24.0%	24.0%	24.0%	24.0%	24.0%
Income before Equity Interests	\$532	\$513	\$544	\$462	\$2,051	\$505	\$524	\$564	\$551	\$2,144
Share of net income of equity companies - reported	43	50	50	53	196	44	30	52	27	153
Share of net income of equity companies	43	50	50	53	196	44	30	52	27	153
Minority Interest - reported	(9)	16	(4)	(3)	0	(12)	(12)	(12)	(12)	(48)
Minority Interest	(9)	(4)	(4)	(3)	(20)	(12)	(12)	(12)	(12)	(48)
Net Income	\$566	\$559	\$590	\$512	\$2,227	\$537	\$542	\$604	\$566	\$2,249
Restructuring and other	0	477	3	3	483	0	0	0	0	0
GAAP Net Income - Diluted	566	102	587	509	1,764	537	542	604	566	2,249
Diluted EPS - continuing operations										
EPS - ex-charges	\$1.67	\$1.65	\$1.74	\$1.51	\$6.57	\$1.59	\$1.61	\$1.81	\$1.70	\$6.71
GAAP EPS - Diluted	\$1.67	\$0.30	\$1.73	\$1.50	\$5.21	\$1.59	\$1.61	\$1.81	\$1.70	\$6.71
Diluted Shares outstanding	338.2	338.9	338.9	339.0	338.8	337.6	336.0	334.3	332.7	335.2

Source: Company reports and BofA Global Research estimates.

BofA GLOBAL RESEARCH



Price objective basis & risk

Kimberly-Clark (KMB)

Our \$110 price objective is based on a CY25e P/E ratio of 16x, a discount to the company's 10-year average P/E multiple, due to a longer-term recovery in volumes and market share. On an absolute and relative basis vs. HPC peers, KMB trades below its 2-year forward P/E average of appx. 18x. We see a potentially difficult setup ahead, with current valuation justified by limited organic sales growth on weak volumes as pricing benefits wane, and tempered expectations on gross margin expansion ahead due to input volatility, partially offset by cost savings.

Upside risks to our price objective are: 1) global rising birth rates, 2) continued elevation of brands with accelerated market share gains in developing and D&E markets, 3) a better than expected consumer environment leading to higher mix of premium products, 4) pricing actions and cost savings more than offset cost inflation, 5) key commodity costs abate.

Downside risks to our price objective are: 1) global declines in birth rates accelerate, 2) erosion in market share due to a challenging consumer environment, 3) difficulty implementing pricing and cost savings initiatives, 4) cost inflation continues to rise in key commodity costs, hampering gross margins.

Analyst Certification

I, Anna Lizzul, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Consumables Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	BellRing Brands Inc	BRBR	BRBR US	Bryan D. Spillane
	Coca-Cola Europacific Partners plc	CCEP	CCEP US	Bryan D. Spillane
	Colgate-Palmolive Company	CL	CL US	Bryan D. Spillane
	Constellation Brands	STZ	STZ US	Bryan D. Spillane
	Coty Inc.	COTY	COTY US	Anna Lizzul
	e.l.f. Beauty	ELF	ELF US	Anna Lizzul
	Freshpet, Inc.	FRPT	FRPT US	Bryan D. Spillane
	Kenvue Inc.	KVUE	KVUE US	Anna Lizzul
	Keurig Dr Pepper	KDP	KDP US	Bryan D. Spillane
	Kraft Heinz Company	KHC	KHC US	Bryan D. Spillane
	Lamb Weston Holdings Inc	LW	LW US	Peter T. Galbo, CFA
	McCormick & Co.	MKC	MKC US	Peter T. Galbo, CFA
	Mondelez International	MDLZ	MDLZ US	Bryan D. Spillane
	Monster Beverage Corporation	MNST	MNST US	Peter T. Galbo, CFA
	PepsiCo	PEP	PEP US	Bryan D. Spillane
	Philip Morris International	PM	PM US	Lisa K. Lewandowski
	Pilgrim's Pride Corp.	PPC	PPC US	Peter T. Galbo, CFA
	The Coca Cola Company	KO	KO US	Bryan D. Spillane
	The Procter & Gamble Company	PG	PG US	Bryan D. Spillane
NEUTRAL				
	Altria Group	MO	MO US	Lisa K. Lewandowski
	Celsius Holdings Inc	CELH	CELH US	Jonathan Keypour
	Church & Dwight	CHD	CHD US	Anna Lizzul
	Clorox	CLX	CLX US	Anna Lizzul
	Conagra Brands, Inc.	CAG	CAG US	Peter T. Galbo, CFA
	Estee Lauder Companies Inc.	EL	EL US	Bryan D. Spillane
	General Mills	GIS	GIS US	Bryan D. Spillane

US - Consumables Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	JM Smucker Company	SJM	SJM US	Peter T. Galbo, CFA
	Kellanova	K	K US	Peter T. Galbo, CFA
	Molson Coors Beverage Company	TAP	TAP US	Bryan D. Spillane
	The Duckhorn Portfolio, Inc.	NAPA	NAPA US	Peter T. Galbo, CFA
	The Hershey Company	HSY	HSY US	Bryan D. Spillane
	Utz Brands	UTZ	UTZ US	Peter T. Galbo, CFA
	WK Kellogg Co	KLG	KLG US	Peter T. Galbo, CFA

UNDERPERFORM

	Brown-Forman Corporation	BFB	BF/B US	Bryan D. Spillane
	Campbell Soup Company	CPB	CPB US	Peter T. Galbo, CFA
	Canopy Growth	YWEED	WEED CN	Lisa K. Lewandowski
	Canopy Growth	CGC	CGC US	Lisa K. Lewandowski
	Cronos Group	YCRON	CRON CN	Lisa K. Lewandowski
	Cronos Group	CRON	CRON US	Lisa K. Lewandowski
	Dole plc	DOLE	DOLE US	Bryan D. Spillane
	Herbalife Nutrition Ltd	HLF	HLF US	Anna Lizzul
	Hormel Foods Corp.	HRL	HRL US	Peter T. Galbo, CFA
	Kimberly-Clark	KMB	KMB US	Anna Lizzul
	Tyson Foods, Inc.	TSN	TSN US	Peter T. Galbo, CFA

RSTR

	The Vita Coco Company, Inc.	COCO	COCO US	Bryan D. Spillane
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iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and valuations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase[®] is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

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Disclosures

Important Disclosures

Kimberly-Clark (KMB) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Consumer Products Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	32	50.00%	Buy	16	50.00%
Hold	19	29.69%	Hold	8	42.11%
Sell	13	20.31%	Sell	7	53.85%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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