



**MAYER FUND**  
ROBERT H. SMITH SCHOOL OF BUSINESS

12/03/2024  
Kshitiz Udainiya  
Consumer Staples

**Rating** BUY  
**Price (11/29/24)** \$139.35  
**1 yr Target Price** \$145.0

52 week range \$117.67 - \$149.30  
Market Cap \$46.47B

#### Statistics

Historical Beta 0.41  
Forward Beta 0.67

#### Coverage

Number of Analysts 20  
12 Month Mean Analyst PT \$150.36  
Institutional Holding 79.8%  
Analyst Rating 2.75

#### Ratios

P/E Ratio (TTM) 18.08x  
P/E Ratio (Forward) 19.04x  
Est. 5-Year Growth 7.2%  
PEG Ratio 2.64  
Dividend Yield 3.50%

#### Forecast Returns

Forecast Price Appreciation 19.43%



#### Analyst Recommendations



## Kimberly-Clark (KMB)

### Delivering Clean Returns

- **Initiating coverage with a Buy and a \$145.0 price target.**

#### PROS

- **Brand Recognition** – Kimberly-Clark owns globally recognized brands like Huggies, Kleenex, Scott, and Kotex, which provide a competitive edge and stable consumer demand.
- **Global Market Leader** – Kimberly-Clark is a leader in personal care and tissue products, with a presence in over 175 countries, providing diversification and growth opportunities in emerging markets.
- **Strong Dividend Yield** – Kimberly has a long history of consistent dividend payments and increases, making it an attractive choice.
- **Relatively Low Debt Levels** – A manageable debt profile compared to peers enhances financial stability and provides flexibility for strategic investments

#### CONS

- **Stagnant Revenue Growth** – Kimberly-Clark has faced challenges in achieving consistent top-line growth, particularly in developed markets where demand for its core products (e.g., tissues, diapers) has matured.
- **Risk Due to Global Operations** – Significant international exposure makes Kimberly-Clark's revenues and profitability sensitive to currency fluctuations.
- **Intense Competition** – The company faces stiff competition from both established players like Procter & Gamble and private-label brands, which can pressure pricing and market share.
- **Exposure to Raw Material Price Volatility** – Kimberly-Clark is heavily reliant on pulp, resin, and other materials, making its margins vulnerable to changes in prices and supply chain disruptions.

**Mayer Fund**  
Phone: (301) 405-7132

The Robert H. Smith School of Business  
[www.rhsmith.umd.edu/mayerfund](http://www.rhsmith.umd.edu/mayerfund)

University of Maryland  
[mayerfund@rhsmith.umd.edu](mailto:mayerfund@rhsmith.umd.edu)

## Executive Summary

Kimberly-Clark Corporation (KMB) presents an attractive investment opportunity for our portfolio by addressing the current overexposure to the food and beverage sector. As a global leader in household and personal care products, KMB operates in a resilient industry characterized by consistent demand, even during economic downturns.

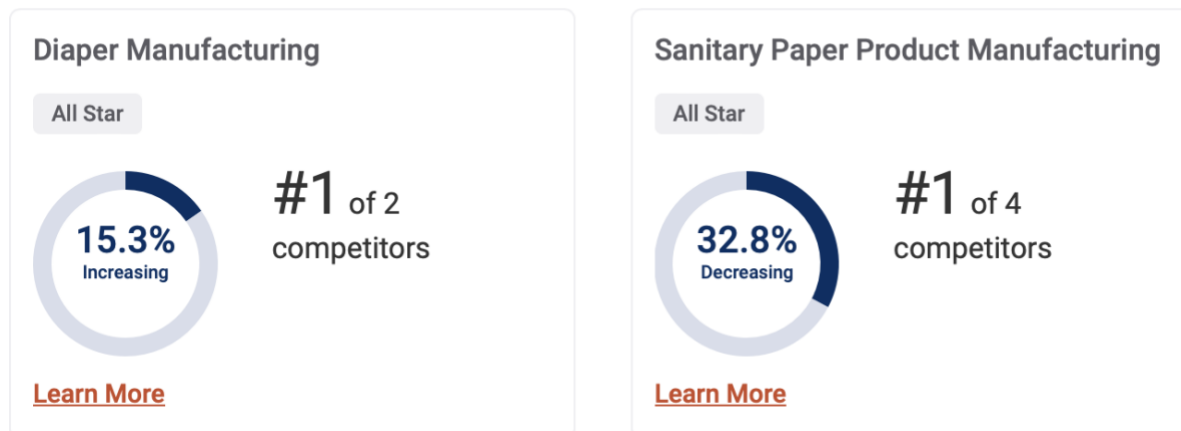
Currently trading at relatively low price-to-earnings (P/E) multiples of 18.08x (compared to the industry average of 22.5), KMB offers a valuation discount that enhances its attractiveness. Despite slower growth rates, the company's well-established brand portfolio and global market reach provide a foundation for stability. A notable advantage is KMB's status as a high-dividend-paying stock, with a current dividend yield of 3.5% and a long history of consistent dividend growth. This aligns with our portfolio's objective of balancing growth potential with reliable income streams. Furthermore, KMB's commitment to operational efficiency and sustainability positions it well for future challenges, while offering defensiveness in volatile markets.

In summary, Kimberly-Clark provides a compelling mix of value, income generation, and diversification into a defensive sector, making it an ideal addition to our portfolio strategy.

## Industry Overview

Although Kimberly-Clark's operations are segmented into Personal Care, Consumer Tissue, and K-C Professional, the company actively participates in multiple industries. Below are snapshots of the major industries in which Kimberly-Clark operates:

### Industry Market Share

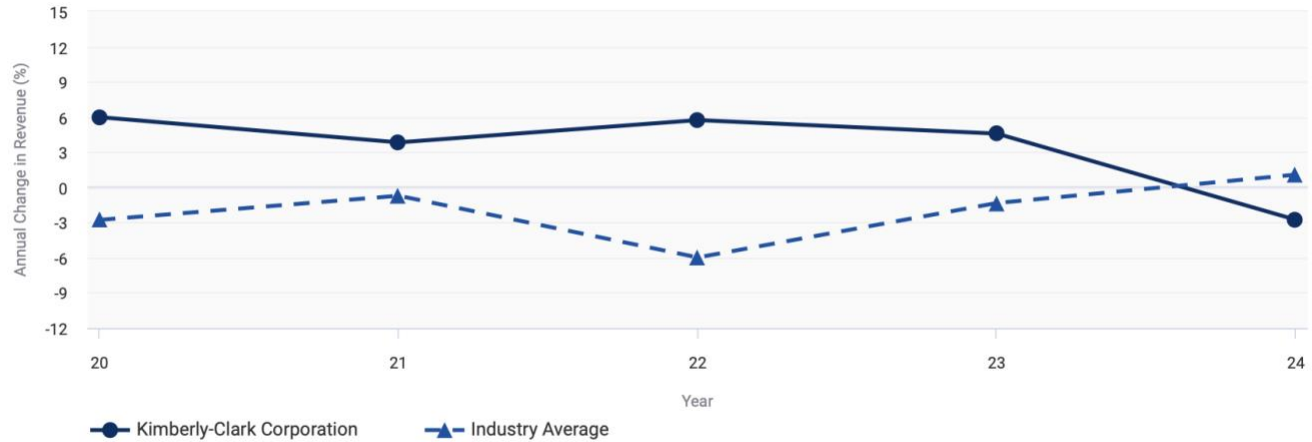


#### 1. Diaper Manufacturing

- Market Size: The global diaper market was valued at 64.37 billion in 2023, with a projected CAGR of 5.64% through 2030.



Revenue Growth Comparison

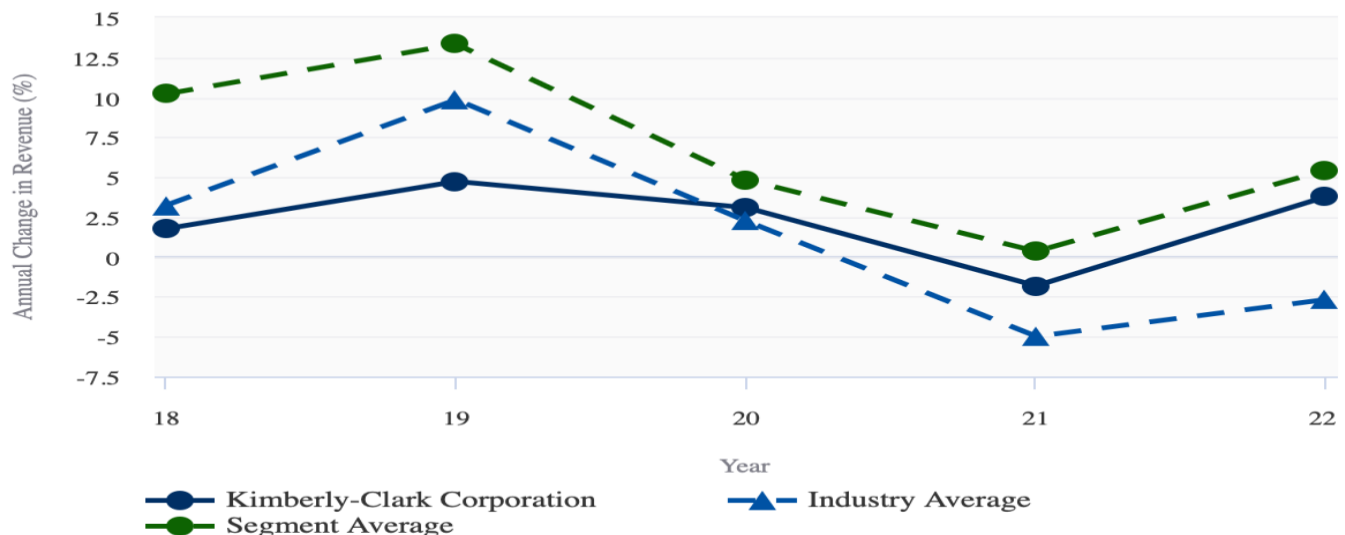


Source: IBISWorld

## 2. Sanitary Paper Products

- Market Size: The global sanitary paper products market, encompassing tissues, napkins, and wipes, is valued at approximately \$54.5 billion as of 2023, expected to grow at a 4.5% CAGR driven by increasing hygiene awareness.

Revenue Growth Comparison



Source: IBISWorld

### Sanitary Paper Product Manufacturing in the US — Companies and their Market Share (2022)



Source: IBISWorld, Kimberly-Clark Corporation

## Business Overview

Kimberly-Clark Corporation, founded in 1872 and incorporated in Delaware in 1928, is a global leader in the manufacturing and marketing of products designed to improve the quality of life. With a commitment to product innovation, the company operates through three primary business segments: Personal Care, Consumer Tissue, and K-C Professional. Kimberly-Clark leverages advanced technologies in fibers, nonwovens, and absorbency to create products made from both natural and synthetic materials.

Kimberly Clark operates through three main business segments:

- **Personal Care:** This segment provides a wide range of trusted products focused on care and protection for individuals and families. Offerings include disposable diapers, training pants, baby wipes, feminine care, incontinence products, and reusable underwear. Key brands include Huggies, Pull-Ups, Kotex, U by Kotex, Depend, Poise, Thinx, and GoodNites.
- **Consumer Tissues:** Kimberly-Clark offers innovative tissue products that help improve everyday living for families worldwide. Products in this category include facial tissues, bathroom tissue, paper towels, and napkins, marketed under well-known brands such as Kleenex, Scott, Cottonelle, Viva, Andrex, and Scottex.
- **K-C Professional:** The K-C Professional segment provides essential workplace solutions to help businesses create healthier, safer, and more productive environments. Products in this category include wipers, tissue, towels, personal protective equipment, and sanitizers. Key brands include Kleenex, Scott, WypAll, Kimtech, and KleenGuard.

Products for household use are sold through various retail outlets, including supermarkets, mass merchandisers, drugstores, warehouse clubs, and e-commerce platforms. Products for away-from-home use are distributed to sectors such as manufacturing, lodging, food service, and public facilities through distributors and direct sales.

Walmart Inc. is Kimberly-Clark's largest customer, representing approximately 13% of the company's consolidated net sales in 2023 and 2022, and 14% in 2021. The majority of sales to Walmart are in the Personal Care and Consumer Tissue segments.

## **Business Acquisitions and Divestitures:**

On February 24, 2022, Kimberly-Clark completed the acquisition of a majority and controlling share in Thinx Inc., a leader in the reusable period and incontinence underwear category. The total consideration for the acquisition was \$181 million, including \$53 million in cash, the fair value of Kimberly-Clark's previously held equity investment of \$127 million, and \$1 million for certain share-based awards. In Q1 2023, Kimberly-Clark exercised a redemption notice for a portion of the remaining common securities of Thinx. This redemption closed in Q2 2023, increasing the company's stake to 70%, with an additional acquisition of \$48 million. The final redemption was completed in Q4 2023, bringing Kimberly-Clark's ownership of Thinx to 100% for \$47 million.

On June 1, 2023, Kimberly-Clark concluded the sale of its Neve tissue brand and related tissue assets in Brazil. The transaction, announced on October 24, 2022, was valued at \$212 million, which included a base purchase price of \$175 million and additional adjustments of \$37 million for working capital and other closing costs. The deal also involved a licensing agreement allowing the acquirer to manufacture and market Kimberly-Clark's iconic Kleenex, Scott, and Wypall brands in Brazil for an agreed period.

## **Investment Issues and Risks**

### **Risks Related to Business and Operations**

#### **Raw Material and Supply Costs:**

Significant increases in prices for raw materials, energy, transportation, or other necessary supplies, without corresponding increases in selling prices, could adversely affect financial results.

#### **Technology and Cybersecurity Risks:**

Failures in key technology systems, cyberattacks, privacy breaches, or data breaches could materially impact business operations, financial condition, and reputation.

#### **International Market Risks:**

Kimberly-Clark's international operations are subject to risks including changes in foreign currency exchange rates, currency restrictions, and political, social, and economic instability, which could negatively affect financial results.

#### **Geopolitical Risks (Russia and Ukraine):**

The war in Ukraine has led Kimberly-Clark to adjust operations in Russia, including curtailing media activity, halting capital investments, and focusing only on essential products. Ongoing geopolitical instability poses increased risks, including supply chain disruptions, higher input costs, and potential asset impairments.

#### **Reputation and Brand Risk:**

Damage to the reputation of Kimberly-Clark or any of its brands could negatively impact the business and consumer trust.

#### **Supply Chain and Manufacturing Disruptions:**

Disruptions in supply chains or manufacturing and distribution operations could have a significant adverse impact on business performance.

#### **Retailer Dependence and Sales Channels:**

Increasing dependence on key retailers in developed markets and the emergence of new sales channels may expose the company to risks, including changes in consumer behavior or retailer dynamics.



### Acquisitions and Divestitures:

Potential acquisitions or divestitures of product lines or businesses could impact the company's financial performance and operational focus.

## SWOT ANALYSIS

SWOT		SWOT	
<p>Accounting for strengths, weaknesses, opportunities and threats, SWOT is a common method used to evaluate how a company is performing in a given industry. The below analysis considers external factors based on the Diaper Manufacturing industry to identify opportunities and threats, as well as internal financial metrics that provide insight into how Kimberly-Clark Corporation is performing. Note: private company financial metrics are estimated based on available information and comparisons to similar companies.</p>		<p>Accounting for strengths, weaknesses, opportunities and threats, SWOT is a common method used to evaluate how a company is performing in a given industry. The below analysis considers external factors based on the Sanitary Paper Product Manufacturing industry to identify opportunities and threats, as well as internal financial metrics that provide insight into how Kimberly-Clark Corporation is performing. Note: private company financial metrics are estimated based on available information and comparisons to similar companies.</p>	
<p><b>S Strengths</b></p> <p><b>Profitability</b> <b>\$347m</b> 1 of 4 peers</p> <p>Kimberly-Clark Corporation has a profit margin that falls within the top 50% of its industry peer group, indicating the company may manage its operating expenses more effectively than industry competitors.</p> <p><b>Product Diversity</b> <b>4.0</b> 1 of 4 peers</p> <p>Greater product diversity than average indicates Kimberly-Clark Corporation is less exposed to volatility from single product lines.</p>	<p><b>Productivity vs. Segment Average</b> <b>\$51,352</b> 1 of 4 peers</p> <p>With higher revenue per employee than similar sized companies, Kimberly-Clark Corporation appears to be more effective at leveraging their workforce and resources to generate revenue in this industry.</p>	<p><b>S Strengths</b></p> <p><b>Productivity vs. Segment Average</b> <b>\$108k</b> 1 of 4 peers</p> <p>With higher revenue per employee than similar sized companies, Kimberly-Clark Corporation appears to be more effective at leveraging their workforce and resources to generate revenue in this industry.</p> <p><b>Profitability</b> <b>\$715m</b> 2 of 4 peers</p> <p>Kimberly-Clark Corporation has a profit margin that falls within the top 50% of its industry peer group, indicating the company may manage its operating expenses more effectively than industry competitors.</p>	<p><b>Product Diversity</b> <b>6.0</b> 1 of 4 peers</p> <p>Greater product diversity than average indicates Kimberly-Clark Corporation is less exposed to volatility from single product lines.</p>
<p><b>W Weaknesses</b></p> <p><b>Productivity vs. Industry Average</b> <b>\$51,352</b> 1 of 4 peers</p> <p>Compared to the industry average, Kimberly-Clark Corporation is generating less revenue per employee.</p>		<p><b>W Weaknesses</b></p> <p><b>Productivity vs. Industry Average</b> <b>\$108k</b> 2 of 4 peers</p> <p>Compared to the industry average, Kimberly-Clark Corporation is generating less revenue per employee.</p>	<p><b>Revenue Growth vs. Segment Average</b> <b>2.3%</b> 1 of 4 peers</p> <p>Kimberly-Clark Corporation is underperforming compared to its industry peers with over 500 employees on revenue growth.</p>
<p><b>O Opportunities</b></p> <p>Low Imports</p> <p>Low Customer Class Concentration</p>	<p><b>High Profit vs. Sector Average</b></p> <p><b>Low Product/Service Concentration</b></p>	<p><b>O Opportunities</b></p> <p>Low Customer Class Concentration</p> <p>High Revenue per Employee</p>	<p><b>Low Product/Service Concentration</b></p>
<p><b>T Threats</b></p> <p>Low &amp; Steady Level of Assistance</p> <p>High Capital Requirements</p>	<p><b>High Competition</b></p>	<p><b>T Threats</b></p> <p>Low &amp; Steady Level of Assistance</p> <p>Medium Imports</p> <p>High Capital Requirements</p>	<p><b>High Competition</b></p> <p><b>Low Profit vs. Sector Average</b></p>

## Red Flag Analysis

### Audit Opinion

Deloitte has served as the Corporation's auditor since 1928 and they issued an unqualified opinion.

**Complexity and Subjectivity in Trade Promotion Accruals:** The audit opinion highlights a critical audit matter related to the estimation of future customer claims for trade promotions, which involves significant judgment and complexity. This raises a potential red flag as the subjectivity in forecasting customer claims could lead to material misstatements if inaccurate estimates are made.

**Reliance on Automated IT Controls and Systems:** The audit also emphasizes testing of automated IT controls and systems used to process trade promotions. While these systems are designed to enhance accuracy, they are complex and globally integrated, which poses a red flag regarding the risk of system errors or breakdowns in the controls over revenue reduction from promotions.

### Historical Negative Currency Impact

The company has consistently experienced a negative currency impact on its various revenue streams, which may suggest potential inefficiencies in its currency risk hedging strategies. This recurring trend could indicate that the company is not fully mitigating the risks associated with foreign exchange fluctuations, potentially affecting the stability of its financial performance.

### **Impact from Argentina**

The company has been facing a steep increase in prices and big currency impact due to hyperinflationary economies in international markets, mainly Argentina. This might continue for the near future.

### **Executive Team**

#### **Mike Hsu, Chairman and Chief Executive Officer**

Before becoming CEO in January 2019, Mr. Hsu served as chief operating officer, leading day-to-day operations of Kimberly-Clark's business units, along with the global innovation, marketing, and supply chain functions. Joining Kimberly-Clark in 2012 as group president of the company's nearly \$8 billion North American Consumer Products business, he quickly became known as a leader with passion and vision who could drive growth and value creation. Prior to Kimberly-Clark, Mr. Hsu held senior and executive leadership roles at Kraft Foods.

#### **Ehab Abou-Oaf, President, International Family Care & Professional**

As President of International Family Care and Professional, Ehab Abou-Oaf leads Kimberly-Clark's family care consumer businesses, which includes the Kleenex and Andrex brands, among others, and the company's international professional products, across Latin America, Europe, Middle East & Africa and Asia Pacific. Most recently, he served as President of Kimberly-Clark Professional (KCP), leading the global business-to-business operations. Mr. Abou-Oaf strengthened our business, resulting in increased sales and profit, market share growth across categories, and stronger employee engagement. Prior to joining Kimberly-Clark in early 2020, Mr. Abou-Oaf spent 19 years in senior management roles with Mars, Inc.

#### **Katy Chen, President, International Personal Care**

As President, International Personal Care for Kimberly-Clark, Katy Chen is responsible for leading the company's largest international personal care businesses comprising Greater China, S Korea, Australia & New Zealand, Indonesia and Brazil. Prior to her appointment as President, IPC, Ms. Chen served as Vice President and Managing Director of K-C China, a role which she led Huggies to category leadership, attaining record-high shares, and drove Kotex to become the fastest growing brand in its category.

#### **Nelson Urdaneta, Chief Financial Officer**

As Chief Financial Officer for Kimberly-Clark, Nelson Urdaneta oversees Finance and Global Business Services, and is responsible for building a strong foundation of growth and long-term shareholder value to deliver the company's purpose of Better Care for a Better World.



Mr. Urdaneta joins Kimberly-Clark after nearly 17 years at Mondelēz International, where he held numerous positions of increasing responsibility across multiple geographies.

## Competition

### Procter & Gamble (P&G)

P&G is a global consumer goods company offering products in five segments: Beauty, Grooming, Health Care, Fabric & Home Care, and Baby, Feminine & Family Care. Its brands include Olay, Old Spice, Head & Shoulders, Pantene, Dawn, Febreze, Charmin, and Bounty. P&G sells in over 180 countries, using various retail channels like grocery stores, e-commerce, and mass merchandisers.

### Colgate-Palmolive

This company focuses on Oral, Personal & Home Care, and Pet Nutrition. It markets products like Colgate toothpaste, Palmolive soap, Ajax cleaners, and Hill's Pet Nutrition. Colgate-Palmolive operates across five geographic regions: North America, Latin America, Europe, Asia Pacific, and Africa/Eurasia.

### Clorox

Clorox sells cleaning, household, lifestyle, and international products. It offers brands such as Clorox bleach, Pine-Sol, Liquid-Plumr, and Kingsford charcoal. Clorox operates mainly in the U.S., but also sells internationally.

### Edgewell Personal Care

Edgewell focuses on personal care, with products in wet shaving, sun and skin care, feminine care, and infant care. Its brands include Schick, Banana Boat, Playtex, Stayfree, and Wet Ones.

### Church & Dwight

Church & Dwight markets household, personal care, and specialty products, including brands like Arm & Hammer, KABOOM, and OxiClean. It operates mainly in North America but has some international presence.





## COMPARABLE COMPANY ANALYSIS

## COMPANY DATA

### I/B/E/S ESTIMATES

## CM

## VALUATION MULTIPLES

**Kimberly-Clark Corporation**

**Kimberly-Clark Corporation**Share count

### Price Appreciation

### Model Current Valuation with Sensitivity of Ke

<b>Terminal Growth Rate</b>	<b>2.0%</b>
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### Cost Of Equity Ke

Growth step	0.5%
Ke step	0.4%

Disclaimer:

This report is solely for the use of the Mayer Fund and is not to be construed as investment advice or to be used in any other manner by anyone other than the Mayer Fund.

## Summary/Conclusion

I recommend initiating a **Buy** on Kimberly-Clark Corporation (KMB) with a target price of \$145. Trading at a P/E of 18.08x, below the industry average of 22.5x, KMB offers an attractive valuation alongside stability from its strong global brands and defensive market position. Its 3.5% dividend yield and consistent payout growth while its focus on sustainability and efficiency supports long-term potential. KMB provides a compelling opportunity to diversify into the resilient household and personal care sector while enhancing both value and income in the portfolio.