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Kimberly-Clark Corporation (KMB) CEO Mike Hsu on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-22-19 Earnings Summary

Press Release *Slides*

EPS of $1.84 beats by $0.04 | Revenue of $4.64B (1.27% Y/Y) misses by $-16.09M

Earning Call Audio

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Kimberly-Clark Corporation (NYSE:KMB) Q3 2019 Earnings Conference Call October 22, 2019 10:00 AM ET

Company Participants

Paul Alexander - Vice President of Investor Relations

Mike Hsu - Chief Executive Officer

Maria Henry - Chief Financial Officer

Conference Call Participants

Bonnie Herzog - Wells Fargo

Steve Powers - Deutsche Bank

Lauren Lieberman - Barclays

Jason English - Goldman Sachs

Andrea Teixeira - JPMorgan

Ali Dibadj - Bernstein

Olivia Tong - Bank of America

Steve Strycula - UBS

Kevin Grundy - Jefferies

Operator

Ladies and gentlemen, thank you for your patience and holding. We now have your presenters in conference. Please be aware that each of your lines is in a listen-only mode. At the conclusion of this morning's remarks, we will open the floor for questions. At that time, instructions will be given as to the procedure to follow if you would like to ask an audio question.

It is now my pleasure to introduce Mr. Paul Alexander.

Paul Alexander

Thank you, and good morning, everyone. Welcome to Kimberly-Clark's third quarter earnings conference call. With us today are Mike Hsu, our Chief Executive Officer; and Maria Henry, our CFO. Here is the agenda for the call. Maria will begin with a review of third quarter results. Mike will then provide his perspectives on our results and the outlook. We will finish with Q&A. We have a presentation of today's materials in the Investors section of our website.

As a reminder, we will be making forward-looking statements today. Please see the Risk Factors section of our latest Annual Report on Form 10-K for further discussion of forward-looking statements. Lastly, we will be referring to adjusted results and outlook, both exclude certain items described in this morning's news release. That release has further information about these adjustments and reconciliations to comparable GAAP financial measures.

And now, I will turn the call over to Maria.

Maria Henry

Thanks, Paul. Good morning, everyone. Thanks for joining the call today. Let me start with the headlines for the quarter. Organic sales increased 4% driven by higher net selling prices. We achieved strong margin improvement and growth in adjusted earnings per share while increasing brand investment. And finally, we are on track with our overall capital plan and we continue to return cash to shareholders.

Now let's look at the details of our results starting with sales. Our third quarter net sales were $4.6 billion. That's up more than 1% versus year ago and increased the two point drag from currency rate. Organic sales were up 4%. Net selling price increased 4% and product mix improve one point while volume sale 1% . Mike will provide more color on our top line in just a few minutes.

Moving on to profitability, third quarter adjusted gross margin was 35.8%, up a strong 260 basis points year-on-year. Adjusted gross profit increased 9% with selling prices well ahead of currency headwinds. We generated solid total cost saving of $95 million from our course FORCE and Restructuring program. Year-to-date cost savings are now $300 million. And is more likely that full year saving will be towards the low end of our $400 million to $450 million target range. Within that, our Restructuring is expected to over deliver while FORCE savings are anticipated to be below plan. On FORCE, performance has been solid in most businesses this year. That said, we were below plan in North America for our supply chain is facing tight capacity and higher than expected demand. At the same time, they were executing our restructuring activities.

Commodities turned favorable in the quarter, and were a modest benefit of $10 million. This is the first time in almost three years that we've seen commodity deflation. Other manufacturing costs also increased in the quarter compared to a relatively modest level last year.

Moving further down the P&L. Between-the-line spending was up 130 basis points as a percent of sales. That included higher advertising as we continue to invest more behind our brands particularly in digital marketing. SG&A expense also increased compared to a relatively low spending in the year ago quarter, and included higher incentive compensation expense. We're also starting to make investments to improve our commercial capabilities to drive future growth. Most of our investments for 2019 will occur in the fourth quarter.

Foreign currencies were also a headwind in the quarter, reducing operating profit by a mid-single digit rate. All-in-all, adjusted profit was up 8%. Third quarter adjusted operating margin was 18.5%, up a 110 basis points versus year ago. On the bottom line, adjusted earnings per share were $1.84, up 8% year-on-year. A higher adjusted effective tax rate was essentially offset by higher equity incomes and a lower share count.

Now let's look at cash flow and capital efficiency. Cash provided by operations in the third quarter was $886 million, compared to $692 million in the year ago quarter. As expected, this was a strong quarter including improved working capital and lower pension contributions. Capital spending was $298 million in the quarter. That's up versus last year driven by supply chain restructuring projects. We continue to allocate capital in shareholder friendly ways. Third quarter dividends and share repurchases total approximately $570 million and we expect the full-year amount will be $2.2 billion.

Looking at our segment results. In Personal Care, organic sales were up 5%; net selling prices increased 3% and volumes and product mix were each up one point. Personal Care operating margins were 21.3%, up 60 basis points year-on-year. The improvement was driven by organic sales growth and cost savings. In Consumer Tissue, organic sales were up 3%; net selling prices increased 5% while volumes fell two points. Consumer Tissue operating margins were 17.8%, up 340 basis points versus year ago with significant benefits from higher pricing along with cost savings and modest economy deflation.

In K-C Professional, organic sales grew 3%; selling prices rose more than 3% and product mix improved one point, while volumes were down 2%. K-C Professional operating margins of 21% were up 210 basis points versus prior year. The improvement was driven by higher net selling prices and cost savings. Overall, it was a strong quarter and I am pleased that we are in a position to raise our outlook while we invest in the business for the long term.

I'll now turn the call over to Mike.

Mike Hsu

Thank you, Maria. Good morning, everyone. Let me start by saying, I'm pleased with our third quarter results. We achieved stronger improvement on organic sales margins and earnings per share. We continue to launch innovations, invest more on our brands and pursue our growth priorities. We also return significant cash to shareholders. As Maria just mentioned, we delivered 4% organic sales growth in the quarter. Our pricing initiatives are on track and driving our growth.

We also continue to improve product mix which was up one point for the third consecutive quarter. Encouragingly, the pricing of promotion environment remains broadly constructive. Let me share some of the top-line highlights for the quarter starting in North America. Organic sales in consumer products increased 4% and within that organic sale rose 4% in Personal Care and 3% in Consumer Tissue. Growth in North America was driven by 4% higher selling prices led by Consumer Tissue. Mix was up point and led by Huggies diapers which included modest benefits from the launch of Huggies Special Delivery. Volumes were down one point overall. Adult care volumes were up double digits. Poise and Depend had strong momentum driven by product innovation, marketing investment and robust consumer demand.

Baby and child care volumes were down mid-single digits compared to a mid-single digit increased last year. Results this year included softness on baby wipes and Huggies snug and dry diapers. In North America, K-C Professional organic sales increased 5% and growth was driven by continued strong price realization while category volumes remain sluggish.

Now turning to developing in emerging markets, our performance was solid with organic sales growth of 5%. That included two points a growth from Argentina. Now in terms of our key personal care businesses, in China, organic sales were up mid-teens compared to a soft performance last year. Sales were up double digits in both diapers and femcare and in diapers, our net pricing was helped by reduced and more targeted promotional spending. In addition, innovations we launched on premium Huggies are delivering strong growth and improving mix. In femcare, our innovation and premiumization strategy supported by great digital marketing continue to deliver strong results.

In ASEAN, organic sales rose high single digits led by Huggies in Vietnam. In Eastern Europe, organic sales increased high teens with healthy gains in volume and pricing. Growth was strong in both Huggies and Kotex reflecting excellent sales execution, winning innovation and strong marketing. In Brazil, organic sales were up mid-single digits compared to high teens growth last year, as we're starting to lap the price increases we took in 2018. We've also modestly increased promotion support to enhance our competitive position. Growth this quarter was relatively balanced between pricing and volume with volume growth led by adult care and feminine care.

We experienced softer results in Latin America outside of Argentina and Brazil and that included Peru where sales were down in a challenging environment. And as a result, we've dialed back the price increase we took earlier this year and we've launched a value to your diaper. Overall, I am broadly encouraged by performance in D&E markets and remain optimistic about our future growth prospects.

Finally, in developed markets outside North America organic sales were up 1% with solid performance in South Korea and Australia. Beyond sales, I'm pleased with the margin and cash flow improvement we delivered in the quarter. Our teams are working hard on both those fronts.

Turning to the full year, we're raising our outlook on both the top and bottom line. Our revised organic sales growth target is 3% to 4% which compares favorably to our prior target of 3%. While we're up 4% year-to-date, the fourth quarter is our toughest quarterly comp of the year. That said, we expect a solid fourth quarter which should bring the full year well within the 3% to 4% range. On the bottom line, we're now targeting adjusted earnings per share of $6.75 to $6.90 that's $0.10 per share higher than our prior outlook.

I'm pleased that we're increasing our outlook while we continue to invest for future success. I know many of you are starting to look ahead the next year and so I'll briefly comment on 2020. Our teams have recently started planning for next year. And in terms of the external operating environment we'll be operating in, we're encouraged with commodity cost trends. On the other hand, currencies remain volatile in recent forward rates imply headwinds to the next year, especially in Latin America. We'll continue to closely watch global economic conditions which in general suggest slower growth going forward.

At this point, we're focused on building a robust plan for next year that's consistent with our balanced approach to value creation. One that includes higher growth investments in generally aligns with our K-C strategy 2022 financial objectives. As a reminder, those objectives are 1% to 3% growth in organic sales and mid-single digit growth in adjusted earnings per share. Certainly things could evolve in the next three months but in the broad terms that's how we're currently thinking about next year. We will provide our specific outlook in January.

In summary, I'm encouraged by the progress we're making in 2019, while we invest more to enable longer term success. We're confident in our ability to deliver balanced a sustainable growth and create shareholder value. That concludes our prepared remarks and now we'll be happy to take your questions.

Question-and-Answer Session

Operator

[Operator Instructions]

Our first question is coming from Bonnie Herzog with Wells Fargo.

BonnieHerzog

Good morning. Hi. I have a question on pricing in the US. I guess I'd love to hear your outlook for pricing especially as you guys are starting to lap some of the price increases you've taken over the last year. So just like to hear from your perspective if you are concerned at all that we might see pricing stagnate or even rollback, again given we're not seeing as much commodity pressures we saw last year or do you think you've got some pricing power to put through another modest increase later this year possibly early next year? Thanks.

MikeHsu

Yes. Bonnie, overall, I think your question was regarding North America specifically. Overall, obviously we're on track for this year. Volumes better than our plan which we feel good about where we are. I think we should going forward is there may not be as much list pricing extra given where the commodity environment is. We're not really seeing downward promotional pressure at this point. So I think though the category remains relatively stable, robust and consumer demand remains healthy.

I think going forward whether or not there is list pricing being-- one of the things I mentioned in our K-C strategy 2022 is our kind of commercial capabilities as I'm calling them. One area which is revenue growth management and we're really emphasizing driving that revenue realization, whether that comes from list or it comes from trade efficiencies or price tax what I might say price pack changes .So those are areas I think we're going to continue to push globally to kind of drive revenue growth of whether or not there may be list pricing.

BonnieHerzog

Okay. So it's more revenue management and not a function of price mix. if I hear you correctly?

MikeHsu

Revenue mix, yes for sure.

BonnieHerzog

Yes, okay. And then if I may just ask a second one on, you're developing an emerging market growth. So it looks like it moderated a bit sequentially. So could you walk through the key drivers of this? And then separately most of the growth in you're developing in emerging markets, it still seems to be coming from pricing and really not from volume. So how much of this has been a response to FX headwinds and then do you expect volume growth to re-accelerate here, especially given your volume comps across the emerging markets should be relatively easy? Thanks.

MikeHsu

Yes. Bonnie, great question. We feel really great, very good about D&E growth. I think that demand remains robust. We are cycling our pricing that was pretty strong in the second half last year, particularly in Latin America. Just for reference, we're up 7% year-to-date in DNA, up five in a quarter and it's five consecutive quarter, quarters of mid to high single digit growth for us in DNA. So I think we feel very good about the progress we're making. We are seeing double-digit growth in multiple markets including Central and Eastern Europe. China now importantly on both diapers and femcare.

Our ASEAN business was up high single digits. And Latin America overall was up high single digits. And even excluding a market like Argentina which has a lot of list pricing but Brazil in the quarter was up mid-single digits with volume up as well. And so I think we internally we have a lot of emphasis on driving volume. Certainly, we have some benefits from pricing this year, but we feel good about the innovation that we're launching this year that's getting traction. We feel great of our about our investments in advertising particularly on the digital side, which we continue to increase our investment in. And so part of the plan is you may not expect to have this level of pricing every year, but we are looking at drive and earn our growth going forward.

Operator

Our next question comes from Steve Powers with the Deutsche Bank.

StevePowers

Thanks. Good morning. Hi. So to follow up on Bonnie's question ,the gross margin and commodification that you're seeing now is great as is the pricing resiliency. But as we look to next year especially with the market concerned about potential economic slowing as you had mentioned, Mike. Does this year's gross margin upside increase the odds at all of competitive activity in the year ahead? And how do you monitor that risk from where you sit?

MikeHsu

Yes. I think any prudent person would say that could happen. I would say largely I think we've said on previous calls, the commodity inflation that's occurred has been a multi-year effect. Multi-year impact and so we're only now recovering margins from where they were from a couple of years ago. So from our side I wouldn't expect us to be very aggressive on price points going forward. But certainly we'll want to be competitive. And then as we think about next year, I think we do believe commodities are stabilizing a bit and maybe we'll be less of a factor for next year. But we still expect to see some modest pricing carryover effects from this year into next year, at least in the beginning.

StevePowers

Okay. Great. And then as this quarter began, you welcomed Alison Lewis aboard as Chief Growth Officer. Can you talk a bit more about her role and her mandate and how perhaps her presence is expected to influence the planning process as you plot out 2020?

MikeHsu

Yes. We're really excited about Alison coming on board. We feel very fortunate to have her and she brings a wealth of experience from some great companies and has great background both innovation, marketing, digital spaces. And all the areas that we're trying to grow. She -- her title is Chief Growth Officer that encompasses our marketing and our commercial functions, which include kind of our global sales. We don't have -- it's not a global sales organization, but it's a kind of center of excellence that going to drive better sales capability, revenue growth management, and digital and in our innovation. So aside from that she's got that all the functions that you might attach to a CMO as well. So we feel great about it. She's bringing a lot of thinking that's I would say additive to kind of how we're thinking about things. And she's going to bring a lot of expertise and an insight. So great start, we're really excited about it.

Operator

Our next question comes from Lauren Lieberman with Barclays.

LaurenLieberman

Hi. Good morning. First thing I just wanted to follow up on was the mention of capacity constraints in North America. And do you just -- what business that's been in where that surprise has been? That's my first question.

MariaHenry

Yes. The North America system is running at very high capacity levels. And it is across the segments, Lauren, in the consumer business. The high capacity is or high utilization rates are one of the drivers that are affecting our FORCE cost savings in the quarter. Typically, you like to run it at very high capacity utilization, but it does limit your flexibility when volume comes in stronger than you anticipated. And so we're seeing some additional costs as the North America team looks to maintain high service levels, deliver on the volume that is coming in and that's one of the factors that's showing up with the lower FORCE cost savings in the quarter.

LaurenLieberman

Okay. Great. And then I want to also follow up on D&E market because at least the way that we've been tracking it, it looks like where there was maybe a little bit of away disappointment in the quarter by my reckoning anyway was in KCP in the D&E markets because consumer tissue and personal care continued to be pretty solid performance as we've seen for several quarters now. But KCP slowed pretty materially being flat. So can you just talk a little bit about what's going on in that business? If this is sort of intentionally stepping away from major maybe lower margin business or if it's macro volatility and because that was I think more of a factor in the quarter than I would have expected. Thanks.

MikeHsu

Yes. Thanks, Lauren. Overall, I think we feel very good about KCP. I think it was real strong performance in North America, solid quarter overall, but D&E was about flat on organic for the quarter. I think nothing really systemic there. In fact, actually our leader there has a real emphasis on expanding D&E going forward. We feel like we have a lot of good growth opportunity. We've got a couple major projects to kind of dress a couple key markets for us which include Brazil and China for us. So I think we're very bullish about the D&E overall for KCP, but just a little softness in the quarter but nothing systemic there. We were really pleased with our 5% growth in North America which I would tell you is a great result in a market where category actually -- category demand is actually softened from what we can tell in the categories.

So I think that the strategy of kind of elevating these categories with our premium products is working fairly well.

LaurenLieberman

Okay. Great. And then I wanted to also just talk a little bit about the longer term and reinvestment. Because you mentioned when you're talking about the sort of preliminary outlook or just conversation points around next year, you've got encouraged by commodities. Of course, the FX headwinds as we can all see higher growth investments which you've already spoken to and sort of articulating your vision and sort of long-term plan. And but I was curious if you talk about sort of maybe top three priorities for reinvestment? So degree of granular you can. Is it salesforce capabilities in the US? For example, but any kind of thought process around the top three priorities for investment and to what degree that's getting started like you said in the fourth quarter of this year and should start to see results as we go into 2020.

MikeHsu

Yes. Great question. Thanks for holding us accountable. I think the one, I'd say a couple things which is I think that things have changed a lot over the past for the course let's say 12 to 18 months. And I think we feel very good about reinvesting more in our businesses. A couple of key factors is certainly I think you mentioned in your note this morning which is the market environments much more conducive to investment, given kind of the competitive environment, I think it's giving an opportunity from marketing innovation to breathe. And so we're finding that investments we are making in marketing are more productive. Investments we're making innovation are more productive.

So that's probably the first big thing. And so certainly if you follow that line of logic then one key area for us is to invest more in digital, which is very high return for us. We're making a lot of progress there. And we're up in our capability. I'd say it's multiple markets and not only kind of our high kind of e-commerce markets, a more broadly overall across markets.

Second, we are investing in capability. I talked a lot about with Bonnie about revenue growth management. A very important capability for us, helped us realize all this pricing this year. But if there's not as much list pricing going forward it becomes a little harder. And so we have to up the capability of the organization. We've been investing this year in training and development and tools to help our organization do that. And then the third key area is the product investments. And that's kind of the lifeblood of our business is that innovation we feel very positive about the innovation that we've been launching. The 5D core diaper in China is doing very, very well.

We just launched special delivery although it's just gaining distribution now. So it's too early to tell, but we're very excited about the prospects for that in our business. And so I think those are probably the three big areas. And then when I might add is I mentioned in my prepared remarks a couple hotspots in areas that we want to address to improve our share performance. I mentioned Peru in our prepared remarks. Snug & Dry, North America just as always you're going to have some businesses. They're going to need a little bit more work or investment and those are some targets for us.

LaurenLieberman

Okay. And is there just as you're looking forward, is there any reason-- you're talking in a fairly conservative way I would think around the commodity environment. And tailwind should be material as we go into next year at least on pulp. So does anything you can offer as to why that might not be the case?

MariaHenry

Yes. I think it's too early to give a confirmed outlook on 2020, Lauren, there. We look at the forward curves in addition to looking at the spot rates. We've seen some estimates that have commodities above where spot is today. But we'll have to wait and see. And we'll give you our perspective when we get to January.

MikeHsu

And, Lauren, if I would just build on that briefly. Some of the things that are not quite as visible in the marketplace, but where we're experiencing pretty good levels of the inflation this year includes local costs in Latin America just as businesses like ours are raising prices, our suppliers are also raising prices. And that's a factor in the results this year. Where that is next year we'll see, we'll give you our perspective in January. And then also distribution costs continue to run higher year-over-year this year both in Latin America and really globally around the world.

So where that ends up again will give you a better visibility in January but those are two factors that are certainly inflationary this year that you may not see fully.

Operator

Our next question comes from Jason English with Goldman Sachs.

JasonEnglish

Hey, good morning, folks. Thank you for taking my question. I want to come back to is Lauren's question on the capacity tightness. And, Maria, your answer, you mentioned that it's both tissue and personal care. I love to understand more what's going on in tissue because your volume has been down 2% in 2017 in North America; 2% in 2018, tracking down 5% year-to-date. So in context to the sort of multiyear volume erosion what's led to capacity tightness in that network? And the second sort of derivative question is, is this really just a byproduct of your reorganization and how many plants that you've targeted right I think there's eight maybe that you've announced or identified. How many of those sit within the North America tissue network?

MariaHenry

Sure. They are very related, Jason, on the tissue side of the house as we've been executing changes to get pricing into the market that is one of the factors that is driving the utilization rates and the capacity within our tissue plant to execute against the volume demand. The Restructuring is also a major factor in what's happening in the supply chain in North America as we execute some facility shutdowns. We re standing up additional capacity in various places across the network. So if you think about everything that's moving in North America with the pricing changes that we're making, the restructuring activities that we have going on; the innovations that we have going into the market there, there's a lot going on right now in the North America Network and obviously executing the restructuring with excellence and expeditiously is a high priority for a business.

In terms of the plant closures, we've announced seven of approximately 10 that we intend to close. One of them is our Fullerton operation, which is a tissue manufacturing facility out in California for North America.

MikeHsu

Yes. And just to pile on, Jason. So as Maria said, we like, we prefer to run at high utilization. And it doesn't leave you a whole lot of wiggle room in your base date. and then when you're working through a restructuring, you are building inventory to kind of move the tissue asset or move production over. At the same time, when volume is a little bit better than your plan to kind of add to a triple witching event. And so we got a great team. I would say these are not systemic issues. But we're just putting a lot of challenges on them and we'll work through it. I would tell you that some of these cost issues, they're not going to be systemic. But they do reflect some of the operational difficulties that you might have.

JasonEnglish

That's helpful. One follow-on just to help me consider understand how the restructuring fits in with all this. You step back and it's been a little surprising for us to see you and not defending market share a bit more aggressively in tissue. But then you mentioned your tie-down capacity and you're actually working to shut down more capacity. Is there a concerted effort here to actually shrink your tissue business volumetrically to get to a more profitable base going forward?

MariaHenry

No. There isn't. What -- the net result will be that we continue to have strong capacity in the tissue business. The more productive assets are the assets that we will be continuing to run and some of the less productive assets are the ones that will be taking out of the system. But overall, we are not looking to reduce volume in our tissue business.

MikeHsu

Yes. Jason, our teams would be really upset with us if we told them to shrink share a little bit. So we recognize actually share this year is probably one of the areas we really want to improve on. That's one of the reasons why we want to reinvest. So we're a little light in some areas and we'll work on our way back there. And that's why we want to make some of the investments we are making.

Operator

Our next question comes from Andrea Teixeira with JPMorgan.

AndreaTeixeira

Hi. Good morning. How are you? So I wanted to go back to 2020 initial guide. So it seems to me and your stock obviously is getting impacted now when you say you gave the initial outlook of I think the long-term is 1% to 3% organic growth. And correct me if I'm wrong if that changed with you are changed now to the 4%. And the mid-single digit EPS seems to me a bit conservative given that you're going to be lapping all these challenges in commodities. And you inflected, as a matter of fact you inflected the commodities finally this quarter. So me -- I understand when you're coming from the price increase, but the price increase it was about like 100 bps or something in some of the areas.

So I was just wondering if you can kind of unpack that long-term and why giving us that outlook if you're still moving - still looking at the commodities. And how the commodities will play out for next year? So I just wanted to, if you can unpack both the top line and the bottom line. Thank you.

MikeHsu

Yes. Andrea, I think we came out in January with under K-C strategy 2022 kind of targets for us which we said organically was 1% to 3% and mid single digits on organic and then mid-single digits on the EPS line. And so we just put those out in January. We still think those are the right ones for us. We recognized that we had a little benefit with some commodity easing perhaps this year. But on a long-term basis, we still see the fundamentals of our business kind of tracking toward that. And so we are working towards that and that's how we're thinking about our plan.

Certainly next year we think commodities are less of a factor. But we still have some FX issues particularly in Latin America. And we'll be working through those. So that's how we think about 2020. I don't know, Maria, you want to add anything to that.

MariaHenry

Yes, no. I think that's right and the midterm algorithms that we discussed with K-C 2022 on the top line is also informed by what we're expecting for the market growth rate and is reflective of that.

AndreaTeixeira

Sorry if we can go back to China, if I can squeeze that commentary on baby diapers and also the commentary on incontinence. like if you can talk to us like how that is inflecting and how you're seeing that thing out into 2020?

MikeHsu

Sorry, Andrea, about diapers and incontinence --

MariaHenry

In China.

AndreaTeixeira

Yes. In China, yes.

MikeHsu

Yes. Overall, I'd say diapers, we're excited about our 5D diaper, and it's off to a very good start. Overall, I think in China right now shares overall flat. I'd say we're growing at a strong pace, double-digit rate and the value in the premium tiers and then down a bit in the value tiers which is aligned with our strategy. But we think one of the key things about

China we're saying is I think the terms of competition of a game is shifting back to innovation, which I think is important and good in the market in which consumers want a better product.

We feel like we have very good products and if not the best products that are in the market there. So we feel great about that. Adult incontinence for us is still a huge opportunity. It's a relatively small category in China, but I think ripe for development and we're increasing our focus there.

Operator

Our next question comes from Ali Dibadj with Bernstein.

AliDibadj

Hey, guys. So I want to go back to a couple things. One is around the cost savings efforts and it's really rare to see you go to the lower end of any cost savings plan like you're doing FORCE even more broadly. And to Jason's question, I think it was around the implications of perhaps, I think you are getting to consumer tissue volumes down and still having capacity issues i.e. maybe you've gone too far at least my interpretation of the subtext there. How do you get comfortable that perhaps the cost savings and the shutting down the plants from the restructuring or anything else just isn't going too far and you might have kind of pushed a little bit.

I know it's a question we've asked all of us for many, many years but this is really the -- a really big sign here particularly given the tissue volumes are down. And in that area you're running it too high of a capacity.

MariaHenry

Yes. I think, overall, we think that the plans that we have and that we're executing on the restructuring are completely appropriate, Ali. I think that working through a restructuring of this size at the same time that there are a lot of other factors going on in the supply chain network is certainly not an easy task. So as we get through the execution period on the supply chain restructuring. It's not totally surprising that there are some challenges around flexibility. And that's what you're seeing here. In terms of the savings, I think the total savings are solid and when you look at the details of it, our teams are delivering on savings from product optimization, savings from productivity and waste improvements.

We talked about coming into the year that on the savings front, we would have lower negotiated price savings associated with our long-term contract. So that's been flowing through the numbers this year. The other thing I say is that the numbers outside of North America where we've been talking about some supply chain challenges are strong on FORCE. So good savings across the globe and the challenges that we're having in North America with the high utilization rates just mean that we're incurring more costs to meet stronger volumes than we anticipated, maintain the service levels and so that's what's really going on.

I think importantly, we still see lots of opportunity for productivity in our supply chain. And so we're working through a lot of things this year with a lot of moving pieces. We're focused on getting that restructuring executed and on the personal care side, we'll be adding some capacity into the network and that will catch things up on the North America side of the house. But overall the teams are doing a good job executing it. There continues to be strong opportunity in the supply chain. And I think when we have completed the restructuring program, we're going to be in a good place.

MikeHsu

Yes. And overall I think restructuring, Ali, I'd say we're moving out of higher-cost locations into more efficient locations that will deliver low, total deliver cost lower.

AliDibadj

Okay. So just a playback so I'm dead clear on this. You anticipated more than a negative for volume and consumer tissue in North America. So some more worse than that and that's why you have this capacity constraint. And as we go forward FORCE and cost savings we should be very surprised if there's a slowdown in that pace in 2020 or beyond. Is that the right playback?

MariaHenry

But I haven't given any numbers specifically for 2020 but what I will tell you is that there continues to be opportunity for additional productivity out of our global supply chain.

AliDibadj

Okay. Thank you. And then on pricing just two vectors on that. Would love your guidance historical perspective on what happens to pricing when commodities look like they're doing what they're doing now. Certainly my perspective from outside in view is it's not just a possibility but it's a likelihood that the pricing comes down, particularly in tissue perhaps a little bit less than diapers in North America. So love your perspective there and then secondly on pricing. The word that everybody is using and certainly used over the past several months is premiumization in the whole industry. But I always find your guide is sense of this is really useful in the lens for the whole industry which is how should we think about premiumization in a world between North America where the consumer may actually be slowing down again over the next few years. And does that raise risk profiles of a lot of Kimberly-Clark and other companies as such.

MikeHsu

Yes. I mean, Ali, I think you know, we're very focused on having the right value proposition. And so I do personally believe premiumization is the path that a company like ours needs to take globally. I think certainly holds in a core market like the US, but certainly D&E and many D&E markets are ready for that too. But we're going to keep our sharp eye on kind of having the right value proposition for the consumer. And so therefore for us premiumization means we're going to earn it by making the products perform better or do more for the consumer.

So that's the first part of it. I'd say with regard to the first part of your question and when the commodities ease, I'd say part maybe the first part is that this has been a multiyear issue. And so we're still well above kind of some of the commodity levels that we were a couple years ago. And so and still recovering the margins. That said in the past and I've been around long enough seven years now. long enough to see couple cycles of this. And we have seen a little bit more promoted activity when you get some long-term deflation.

I'd say we're prepared for that. I mean one of the areas in our revenue growth management initiative is we have invested in tools, the capability to let us pick kind of the more efficient events and trade optimization and promotion optimization is a key word for us inside the halls here. And so we'll work through that. But I think we're prepared in either scenario, but right now I think we're seeing pricing and promotion relatively stable in the marketplace right now.

AliDibadj

And you're not seeing any incremental questions being raised by retailers for the industry or across the board given perhaps their greater desire for margin in these categories?

MikeHsu

I would say no more than the typical.

AliDibadj

Okay.

MariaHenry

Yes. I just add that while we're all pleased that pulp is deflationary in the quarter. The full year 2019 pulp cost outlook is still above 2017's level and frankly all other years since 2010 with the exception of 2018. So we are happy with the trend but it's still an elevated level.

Operator

Our next question comes from Olivia Tong with Bank of America.

OliviaTong

Great. Thanks. I want to talk a lot about specifically about D&E about pricing. Because it sort of feels a little bit like you're knocking on the upper limit that the market can handle on pricing. So can you talk about the outlook there and your overall outlook for D&E going forward?

MikeHsu

Yes. I think primarily biggest factor in D&E this quarter was we're starting to cycle or laugh our pricing that we had in Latin America last year. I mean this time last year we launched increasing prices, high single, low double digits and brought that forward being in this year. I think we've rolled over our pricing in a market like Brazil right now. And so you're starting to see that. So I think last quarter in Brazil our organic was up teens, this quarter is up mid-single digits. Still a good number with volume up, but certainly cycling the pricing.

And I don't know that we will have cycled the upper limit. There are a lot of factors in play including the FX cost. The inflation internal in the market and the wage inflation that occurs like in a market like Argentina. So I don't think I'll judge on whether we're at a limit or not. But I do think we have cycled a lot of the pricing that we had planned this year. We don't have a lot more going forward for the balance of this year. Olivia?

OliviaTong

I am here. So appreciate the answer but just in terms of the offset maybe volume increasing. Is there innovation coming to market or there are other things? Is it -- usually in the second half you've got a little bit more of an innovation heavy period, so just kind of understanding what's coming down the pipe for D&E.

MikeHsu

Yes. I think we feel good about what's been in the marketplace and overall for the year, I'd say with the levels of pricing that we have, our volumes overall have been a bit stronger in a market like Brazil with volumes up with pricing last quarter of teens. I think that's a very good result. A lot of that was an artifact of a few things which is one great in market execution. We're expanding distribution on key brands; expanding our presence on key items. And so I think that's driving very good results. We're really growing and expanding the adult care category. The femcare category and the femcare category in Brazil into more geographies.

And I think we're up double digits in those categories. And so we're really excited about that progress. Similarly, like in CEE, I'd say it's a combination of innovation and market execution and marketing. This driving high teens organic growth including volume. China, similarly the innovations working in our 5D diaper. We saw return to growth last quarter. It's accelerated this quarter. So overall I think the teams are doing -- been doing a very good job in D&E and are driving the volume with disciplined market execution, innovation and good marketing.

OliviaTong

Got it. If I can turn to pulp, obviously, that market is now --the prices there are stabilizing a bit. So could you lock-in more than you typically would at this point in the year in terms of the price on pulp? And what kind of visibility do you have on the cost outlook for yourself in 2020?

MariaHenry

Yes. I would remind you that as part of pulp price management strategy, we look to negotiate contracts that are generally a year in term. And we look closely at how we do that and we look at a combination of mechanisms. We consider floors and ceilings. We consider fixed pricing and we balance out how much we look to basically have a hedge on the pricing going into the following year and how much we want to leave flexibility to take advantage of the spot market. So we're working through all of those things. I don't have any specific thing to share with you on how we're thinking about that next for 2020 but when we provide our outlook in January, it'll be reflective of how we land on that. But obviously, we have visibility to spot market and the forward rate curves.

Operator

Thank you. Our next question comes from Steve Strycula with UBS.

SteveStrycula

Hi, good morning. So quick clarification question. Can you quantify what Argentina was as an impact for --to the global comp in the quarter? And then I have a follow up question for Maria.

MikeHsu

Yes, Steve, it was about two points of our total developing and emerging markets growth, and D&E is about 30% of company's sales.

SteveStrycula

Okay, super helpful. And then Maria, just to kind of piggyback on that last question, if we just assume spot rates just hold where they are for like the next 18 months, so we don't assume it better or worse. Should we think about the fourth quarter being the maximum flow through from call like pulp deflation or should we actually expect that to build further next year as we think about some of these contracts being reset on an annual basis? And then I have one last question for Mike.

MariaHenry

Sure. In terms of this year's outlook, our outlook for 2019 is generally aligned with the spot market. And then for next year, as I mentioned earlier, it -- the forecasts are still moving it, Some forecasts have the outlook for next year above spot and there's a lot of factors that are still moving around. So I hate to keep going back to this. But we'll have more to say on that in January, as we continue to lock down our mechanisms for our pulp size into next year.

SteveStrycula

Okay. I appreciate that. And then, Mike, fundamentally a lots going right for you this year or for the broader team rather. And one of the few things you mentioned on the call where you would say there's an opportunity for improvement in 2020 is maybe selectively some pockets of market share. Would you kind of comment on your top priorities from like category comp, product or category country combination for next year? And what do you think is like the mechanism of delivery in the form of reinvestment that we need to see to kind of jumpstart the shared trends in this category, country combinations? Thank you.

MikeHsu

Yes. Maybe, Steve, great question. I think maybe the caveat or precursor is, we're right in the middle of our plans for 2020 right now. So I actually haven't even seen kind of the detailed role of a 2020 for us yet. Although, I'd say if you look at our business, I'll start with North America. Overall, I think our shares a little soft than we like this year, although we are seeing sequential progress this quarter. I think the team is feeling very good about the progress they're making especially with the innovation and the marketing plans that they have.

So to see an ongoing improvement in North America is a top priority. Certainly we -- usually, we don't get very far into the call before we start talking about China. It remains our biggest growth opportunity, both in the near term and the long term. We're really excited about I think that the progress that the team has made. So our investments in both the product especially in diapers, and then the marketing side, both in diapers and especially in femcare, digital marketing, I think is working really well for us and I think that's really important.

I think we've had great growth in Central and Eastern Europe both either double digit growth, whether it's in the 20s, or the high teens for a couple years now, and we feel great about that. So that's continues to be a high priority.

Latin America, as we talked about, I think the Brazil team is doing a great job executing. We have a couple pockets in Latin America, which are important markets for us like Peru that I mentioned, that we're seeing a little increased competition. And so we're going to make sure that we have the right product offering in that market to be competitive and strengthen our position in that marketplace.

Operator

Our next question comes from Kevin Grundy with Jefferies.

KevinGrundy

Hey. Thanks. Good morning, Mike. Good morning, Maria. So just to kind of build on the last question. Mike, I'm not sure if you can say much more. But if the question relates to innovation pipeline and adequacy of investments, so when we spoke with you earlier this year and you took over leadership of the company, the comments were you weren't comfortable resetting earnings kind of for the sake of resetting earnings in the absence of having the right sort of innovation pipeline to spend behind.

But kind of building on this, we've had a lot of conversations around sort of a lack of satisfaction with your market share trends in the US. Where do you kind of stand now? I mean what is the satisfaction with current investment levels for the company broadly? And then kind of marrying that up with the higher growth investments, in your slides you kind of gave us a few data points qualitatively at least between FX and commodities. And then you did include their higher growth investments looking at the next year.

How should we be thinking about that? Is there potential for acceleration relative to what we've seen? And then I have a follow-up.

MikeHsu

Yes. I think we've been working on what I would say the commercial capability development of which innovation is a key area. The four pockets that I'll talk about. Innovation, digital, marketing overall but digital especially, revenue growth management and then selling capability or in-market execution. So those are our big four. I will tell you I feel very good about the progress we're making globally across the enterprise in these areas. One of the areas I do think we're making progress is on the innovation front. And I think we're starting to see our team's work much more effectively together across markets to leverage our enterprise scale on technology. And I think that's hitting the market or is going to affect what we're doing in the market.

Some of the 5D line that we saw in China was developed by other parts of the world. The Huggies Special delivery that we just launched in North America was jointly developed between Korea, China, Brazil and the US team. And so we're starting to see more of that activity. So suffice it to say we want bigger, more impactful innovation with our consumers. And you'll see more of that going forward. And then in terms of the investment, it's just to support that. Whether it's in the product cost or it's in the marketing of that product. And be more aggressive and how we market that.

I think those are areas that we're going to want to invest in. And then the last area and it coincides with our market execution capability pillars. We want to play a bigger hand in developing categories. And we're seeing more of that I think I mentioned in Brazil, we're seeing double, high double-digit growth in adult care and baby wipes. And that's because of a concerted effort by the team in Latin America to focus on geographies and categories and expand the development of those categories. And so you'll see more of that investment going forward as well.

KevinGrundy

Mike, it sounds like -- it feels like you believe the company can execute on that and still deliver on the company's long-term EPS algorithm. I didn't detect anything that suggests an outsized investment would be needed. Is that fair?

MikeHsu

Yes. I think that's been our stance since I think our January meeting which is, that's why we set forth these medium-term targets that would one to three top and mid single digit bottom and at the same time we would create the funds and room necessary for us to drive some of the investment that we think we need to do to improve the share position of our brand for he long term and then also build the categories in kind of the big opportunities that we have in D&E for the long term.

KevinGrundy

Okay. That's helpful. One quick follow-up. The net revenue management which you've spoken a lot about, that's a big number. I understand it approaches the company's cost of goods sold in terms of absolute dollars. Is that something you will ever put a number on for investors in terms of the opportunity in over what period of time you think it can be realized?

MikeHsu

Well, I was about to say something but Maria shaking her head. So --[Multiple Speakers] I'm just kidding. We're not ready to put a number on that it probably, they're probably not yet-- not at this point.

End of Q&A

Operator

Our next question comes from Caroline Levy with Macquarie. At this time, we have no other questions in the queue.

Paul Alexander

All right. So, Caroline, if you're not there, we appreciate everyone's questions today. And we'll wrap up with a quick comment from, Mike.

Mike Hsu

Okay. Well, we're very pleased with our results this year. We have a strong quarter and we feel very good about the performance thus far this year. And we're very optimistic about our growth prospects for the future, both in the near term and the long term. And our plan is to deliver balanced and sustainable value creation. So thank you guys very much.

Paul Alexander

Thank you very much.

Operator

Ladies and gentlemen, that concludes this morning's presentation. You may disconnect your phone lines. And thank you for joining us this morning.