

Nat Apihunpunyakij
apihunpu@rice.edu

Kimberly-Clark Corp.

NYSE: KMB

Buy

February 27, 2002

S&P Sector – Cons. Staples

Industry – Household Products

MARKET DATA

Price	52-Wk Range	Price Target	Shares Out.	Market Cap.	Beta	Book Value	P/S	P/E
2-22-02 close	low on 10-2-01	Valuation Result	(million)	(billion)	MSN money	per share	(ttm)	(ttm)
\$62.90	\$52.06-\$72.19	\$75.00	525.2	\$32.1	0.43	\$11.30	2.25	20.44

From MSN Money



COMPANY OVERVIEW – FROM YAHOO! FINANCE

Kimberly-Clark Corporation is principally engaged in the manufacturing and marketing throughout the world of a wide range of consumer products. The Company is organized into three global business segments, Tissue, Personal Care and Health Care and Other. The Tissue segment includes facial and bathroom tissue, paper towels, wipers and napkins for household and away-from-home use; wet wipes; printing, business and correspondence papers, and related products. The Personal Care segment includes disposable diapers, training and youth pants and swimpants, feminine and incontinence care products and related products. The Health Care and Other segment includes healthcare products, consisting of surgical gowns, drapes, exam gloves, infection-control products, sterilization wraps, disposable face masks, respiratory products and other disposable medical products, specialty and technical papers and other products.

INVESTMENT RECOMMENDATION

- ☐ Buy 300 shares of KMB at market.
- ☐ Target Price \$80.00
- ☐ Stop Price \$57.50

SUMMARY

- ☐ The stock is currently undervalued by approximately 32%: Bloomberg's DDM valuation of KMB on February 20, 2002 rendered a price of \$81.10 per share. Using valuepro to calculate the discounted free cash flows, the intrinsic stock value is \$80.41. The equity risk premium used here was 5.5% with a beta of 0.43. The calculated WACC was 7.15%.
- ☐ KMB had fourth quarter 2001 increase in sales of \$3.7 billion compared to fourth quarter 2000, an increase of nearly 3%. KMB's estimated YTD 2001 sales will increase to nearly \$14.5 billion over YTD 2000 of \$13.98 billion, an increase of 3.9%.
- ☐ KMB's net income estimated income YTD 2001 is expected to decrease by approximately 9.7%. The net income decrease from prior year were because of lower earnings and sales from Latin American countries such as Argentina and Brazil, Latin American negative currency effects, and the shutdown costs of some Latin American plants. In addition, KMB took a one time pretax arbitration charges on its closing of the Mobile, Alabama pulp mill. The pretax charges in the fourth quarter of 2001 amounts to \$118 million or approximately \$0.14 per share. Its \$0.83 earnings per share earnings in the fourth quarter of 2001 was in line with analysts' estimates, but is lower than fourth quarter 2000 earnings per share estimate of \$0.87.
- ☐ 2001 was one of the most difficult environment faced in recent memory according to KMB's CEO Wayne R. Sanders. However, KMB has strong cash flow to help fund R&D in its personal care business segment and to grow its business. The outlook in all of KMB's international regions remain strong, but the business in Latin America remains uncertain.

INDUSTRY INSIGHT

News & Trends The household products industry produces such items as detergent, cleaners, diapers and personal care items, and tissue paper products. The industry worldwide generates about \$120 billion in sales. The bulk of the consumption of these products is in the U.S, Canada, Europe and Japan, with the United States accounting for 25% of the \$120 billion in worldwide sales. There has been a recent slowdown in the population growth for these major markets and market saturation that has reduced the growth rates for companies in this industry.

Industry competitors focus on product innovation and global brands as the vehicles to create competitive advantage, and eventually top and bottom line growth. Global brands are created through increasing global advertisements and focusing on cross-cultural appeals. Product innovation includes creating a new product category or to make improvements to existing products. However, having new products out in the consumer market is the riskier vehicle since only 15% of new products are successful in the consumer market.

This industry is a stable one due to the everyday nature of the products in the industry. Competitors in the industry are focus on global branding because its

customers such as Wal-Mart and Costco are focus on international expansion. However, these customers may also be competitors or may go out of business as in the case of K-Mart that could reduce top line revenues for the players in this industry. Wal-Mart and Costco have created private label brands that can compete against these brand name products.

INVESTMENT HIGHLIGHTS

Overall Effect on

Wright Fund

If we decide to purchase 300 shares of KMB it will represent 30% of the holdings in the consumer staples sector (on a shares basis). If we acquire KMB, we are going to hold it for the long term until the price reaches in the mid 70s to low 80s range before liquidating the stock.

Currently, the Consumer Staples sector is underweighted. We feel that the purchase of KMB will diversify the holdings in the sector and to follow the GARP philosophy for investing in this sector.

Rationale & Risks

The risk for purchasing this stock is low. The beta is 0.4 and Kimberly-Clarke Corporation is a recognize brand name with steady streams of incoming cash flows. This looks to be a good purchase to diversify our holdings in the sector. The diversification factor shows in the correlation calculation on page 8. KMB is negatively correlated to our holdings in Phillip Morris (MO) and Anheuser-Busch (BUD).

Recent Results & Guidance

Industry Results:

- ☐ Long-term outlook for the household products industry is positive.
- ☐ According to Hoovers online, the industry had 6.39% net profit margin, 13.9% return on equity and a debt/equity ratio of 1.05.

TRB Earnings & Growth Estimates:

Earnings Estimates	Qtr(3/02)	Qtr(06/02)	FY(12/02)	FY(12/03)
Average Estimate	0.84	0.87	3.52	3.85
Number of Analysts	7	7	10	6
High Estimate	0.91	0.91	3.75	3.92
Low Estimate	0.80	0.85	3.44	3.70
Year Ago EPS	0.84	0.81	3.27	3.52
Growth Rate	-0.51%	6.88%	7.74%	9.14%

Zacks Industry:
PUBLSHG-NEWSPR

Kimberly-Clarke Corporation: Recent Annual Financials (from MSN Money)**Note: KMB has not filed its 10K for Fiscal 2001. Figures in 2001 are unaudited estimates.**

Annual Income Statement (Values in Millions)	12/2001	12/2000	12/1999	12/1998	12/1997
Sales	14,524.4	13,982.0	13,006.8	12,297.8	12,546.6
Cost of Sales	NA	7,636.8	7,095.4	7,088.6	7,481.7
Gross Operating Profit	NA	6,345.2	5,911.4	5,209.2	5,064.9
Selling, General & Admin. Expense	NA	3,142.2	3,055.0	2,889.1	2,789.7
Other Taxes	NA	0.0	0.0	0.0	0.0
EBITDA	NA	3,203.0	2,856.4	2,320.1	2,275.2
Depreciation & Amortization	NA	673.4	628.0	542.5	490.9
EBIT	NA	2,529.6	2,228.4	1,777.6	1,784.3
Other Income, Net	NA	314.6	399.0	285.8	206.4
Total Income Avail for Interest Exp.	NA	2,844.2	2,654.4	1,961.9	1,509.6
Interest Expense	NA	221.8	213.1	198.7	164.8
Minority Interest	NA	63.3	43.0	24.3	27.7
Pre-tax Income	NA	2,622.4	2,441.3	1,763.2	1,344.8
Income Taxes	NA	758.5	730.2	561.9	433.1
Special Income/Charges	NA	0.0	27.0	-101.5	-481.1
Net Income from Cont. Operations	1,626.5	1,800.6	1,668.1	1,177.0	884.0
Net Income from Discont. Ops.	0.0	0.0	0.0	0.0	0.0
Net Income from Total Operations	1,626.5	1,800.6	1,668.1	1,177.0	884.0
Normalized Income	NA	1,800.6	1,641.1	1,278.5	1,365.1
Extraordinary Income	0.0	0.0	0.0	0.0	0.0
Income from Cum. Eff. of Acct. Chg.	0.0	0.0	0.0	-11.2	0.0
Income from Tax Loss Carryforward	0.0	0.0	0.0	0.0	0.0
Other Gains (Losses)	0.0	0.0	0.0	0.0	17.5
Total Net Income	1,626.5	1,800.6	1,668.1	1,165.8	901.5
Dividends Paid per Share	1.11	1.07	1.03	0.99	0.95
Preferred Dividends	NA	0.00	0.00	0.00	0.00
Basic EPS from Cont. Operations	3.05	3.34	3.11	2.14	1.59
Basic EPS from Discont. Operations	0.00	0.00	0.00	0.00	0.00
Basic EPS from Total Operations	3.05	3.34	3.11	2.14	1.59
Diluted EPS from Cont. Operations	3.05	3.31	3.09	2.13	1.58

Diluted EPS from Discont. Operations	0.00	0.00	0.00	0.00	0.00
Diluted EPS from Total Operations	3.05	3.31	3.09	2.13	1.58

Kimberly-Clarke Corporation: Recent Annual Financials (from MSN Money)

Note: KMB has not filed its 10K for Fiscal 2001. Figures in 2001 are unaudited estimates.

Annual Balance Sheet (Values in Millions)	12/2001	12/2000	12/1999	12/1998	12/1997
Assets					
Current Assets					
Cash and Equivalents	NA	206.5	322.8	144.0	90.8
Receivables	NA	1,809.6	1,600.6	1,465.2	1,606.3
Inventories	NA	1,390.4	1,239.9	1,283.8	1,319.5
Other Current Assets	NA	383.4	398.5	473.9	472.4
Total Current Assets	NA	3,789.9	3,561.8	3,366.9	3,489.0
Non-Current Assets					
Property, Plant & Equipment, Gross	NA	12,014.8	11,080.8	10,547.7	9,756.2
Accum. Depreciation & Depletion	NA	5,096.3	4,858.8	4,702.7	4,155.6
Property, Plant & Equipment, Net	NA	6,918.5	6,222.0	5,845.0	5,600.6
Intangibles	NA	2,009.9	1,246.1	588.3	594.8
Other Non-Current Assets	NA	1,761.5	1,785.6	1,710.1	1,581.6
Total Non-Current Assets	NA	10,689.9	9,253.7	8,143.4	7,777.0
Total Assets	NA	14,479.8	12,815.5	11,510.3	11,266.0
Liabilities & Shareholder's Equity					
Current Liabilities					
Accounts Payable	NA	1,175.9	780.4	663.0	747.1
Short Term Debt	NA	1,490.5	782.4	635.4	663.1
Other Current Liabilities	NA	1,907.5	2,283.0	2,492.3	2,296.1
Total Current Liabilities	NA	4,573.9	3,845.8	3,790.7	3,706.3
Non-Current liabilities					
Long Term Debt	NA	2,000.6	1,926.6	2,068.2	1,803.9
Deferred Income Taxes	NA	987.5	836.9	666.3	580.8
Other Non-Current Liabilities	NA	869.2	868.5	899.9	887.1
Minority Interest	NA	281.3	244.6	198.0	162.6
Total Non-Current Liabilities	NA	4,138.6	3,876.6	3,832.4	3,434.4
Total Liabilities	NA	8,712.5	7,722.4	7,623.1	7,140.7

Shareholder's Equity

Preferred Stock Equity	NA	0.0	0.0	0.0	0.0
Common Stock Equity	NA	5,767.3	5,093.1	3,887.2	4,125.3

Total Equity	NA	5,767.3	5,093.1	3,887.2	4,125.3
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Total Liabilities & Stock Equity	NA	14,479.8	12,815.5	11,510.3	11,266.0
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Total Common Shares Outstanding	525.2 Mil	533.4 Mil	540.6 Mil	538.3 Mil	556.3 Mil
Preferred Shares	NA	0.0	0.0	0.0	0.0
Treasury Shares	NA	35.2 Mil	28.0 Mil	30.3 Mil	12.3 Mil

Kimberly-Clarke Corporation: Recent Annual Financials (from MSN Money)

Note: KMB has not filed its 10K for Fiscal 2001. Figures in 2001 are unaudited estimates.

Annual Cash Flow (in Millions)	12/2001	12/2000	12/1999	12/1998	12/1997
Cash Flow from Operating Activities					
Net Income (Loss)	NA	1,800.6	1,668.1	1,177.0	884.0
Depreciation and Amortization	NA	673.4	628.0	542.5	490.9
Deferred Income Taxes	NA	84.1	126.2	53.3	11.2
Operating (Gains) Losses	NA	22.8	-184.4	210.9	646.9
Extraordinary (Gains) Losses	NA	0.0	0.0	0.0	0.0
Change in Working Capital					
(Increase) Decr. in Receivables	NA	0.0	0.0	87.5	13.4
(Increase) Decr. in Inventories	NA	0.0	0.0	-0.4	-43.7
(Increase) Decr. in Other Curr. Assets	NA	0.0	0.0	14.2	-13.6
(Decrease) Incr. in Payables	NA	0.0	0.0	-98.1	-93.9
(Decrease) Incr. in Other Curr. Liabs.	NA	0.0	0.0	60.4	-439.1
Other Non-Cash Items	NA	-447.7	-103.6	-56.0	-49.5
Net Cash from Cont. Operations	NA	2,133.2	2,134.3	1,991.3	1,406.6
Net Cash from Discont. Operations	NA	0.0	0.0	0.0	0.0
Net Cash from Operating Activities	NA	2,133.2	2,134.3	1,991.3	1,406.6
Cash Flow from Investing Activities					
Cash Flow Provided by:					
Sale of Property, Plant, Equipment	NA	44.5	115.2	324.9	779.6
Sale of Short Term Investments	NA	53.1	0.0	0.0	0.0
Cash Used by:					
Purchase of Property, Plant, Equipmt.	NA	-1,464.8	-1,058.3	-1,012.0	-944.3
Purchase of Short Term Investments	NA	0.0	0.0	0.0	0.0
Other Investing Changes Net	NA	182.3	366.3	-11.3	-141.1
Net Cash from Investing Activities	NA	-1,184.9	-576.8	-698.4	-305.8
Cash Flow from Financing Activities					
Cash Flow Provided by:					
Issuance of Debt	NA	1,060.1	117.7	538.3	462.8
Issuance of Capital Stock	NA	90.3	60.8	38.3	49.2
Cash Used for:					
Repayment of Debt	NA	-446.7	-239.7	-321.7	-253.8
Repurchase of Capital Stock	NA	-1,190.7	-779.0	-919.7	-910.6

Payment of Cash Dividends	NA	-580.1	-551.3	-545.5	-530.6
Other Financing Charges, Net	NA	2.5	12.8	-29.4	89.8

Net Cash from Financing Activities	NA	-1,064.6	-1,378.7	-1,239.7	-1,093.2
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Effect of Exchange Rate Changes	NA	0.0	0.0	0.0	0.0
Net Change in Cash & Cash Equivalents	NA	-116.3	178.8	53.2	7.6
Cash at Beginning of Period	NA	322.8	144.0	90.8	83.2
Free Cash Flow	NC	88.3	524.7	433.8	-68.3

KMB Daily Stock Chart (source: BigCharts.com 2-21-02)



Current Consumer Staples Correlation Matrix If KMB is a holding (based on historical weekly returns for the most recent 52 weeks)

	MO	BUD	KMB
MO	1		
BUD	0.6481	1	
KMB	-0.1002	-0.0187	1

KMB VERSUS DIRECT COMPETITOR RATIOS AND GROWTH RATE ANALYSIS

Kimberly-Clark Corporation (KMB) versus Proctor & Gamble (PG)		
Ratios	KMB	PG
Price/Sales	2.25	2.81
Price/Book	5.52	9.66
Price/Earnings	20.44	39.91
Price/Cash Flow	13.44	22.31
Return on Assets	10.8%	7.2%
Return on Equity	27.4%	26.1%
EPS Growth (3 years)	12.2%	-7.4%
Revenue Growth (3 years)	5.9%	1.2%

KMB's biggest rival in the industry is Proctor & Gamble (PG). As seen from the table above, KMB is the more attractive stock to purchase due to lower price to sales, book, earnings and cash flow ratios. In addition, KMB has a higher return on assets, return on equity, EPS growth, and revenue growth to those of PG.