KIMBERLY CLARK CORP
Form 10-Q
April 23, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________ to ________
Commission file number 1-225

KIMBERLY-CLARK CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	39-0394230
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)

P. O. Box 619100
Dallas, Texas
75261-9100
(Address of principal executive offices)
(Zip code)
(972) 281-1200
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o(Do not check if a smaller reporting company)	Smaller reporting company	o
		Emerging growth company	o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x

As of April 16, 2018, there were 349,329,075 shares of the Corporation's common stock outstanding.

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PART I – FINANCIAL INFORMATION
Item 1. Financial Statements
KIMBERLY-CLARK CORPORATION AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT
(Unaudited)

	Three Months Ended March 31	
(Millions of dollars, except per share amounts)	2018	2017
Net Sales	$4,731	$4,504
Cost of products sold	3,407	2,844
Gross Profit	1,324	1,660
Marketing, research and general expenses	1,079	807
Other (income) and expense, net	(2)	5
Operating Profit	247	848
Nonoperating expense	(9)	(14)
Interest income	2	2
Interest expense	(66)	(83)
Income Before Income Taxes and Equity Interests	174	753
Provision for income taxes	(104)	(207)
Income Before Equity Interests	70	546
Share of net income of equity companies	27	29
Net Income	97	575
Net income attributable to noncontrolling interests	(4)	(12)
Net Income Attributable to Kimberly-Clark Corporation	$93	$563
Per Share Basis		
Net Income Attributable to Kimberly-Clark Corporation		
Basic	$0.27	$1.58
Diluted	$0.26	$1.57
Cash Dividends Declared	$1.00	$0.97

See notes to consolidated financial statements.

KIMBERLY-CLARK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended March 31	
(Millions of dollars)	2018	2017
Net Income	$97	$575
Other Comprehensive Income, Net of Tax		
Unrealized currency translation adjustments	117	267
Employee postretirement benefits	—	(2)
Other	(1)	(16)
Total Other Comprehensive Income, Net of Tax	116	249
Comprehensive Income	213	824
Comprehensive income attributable to noncontrolling interests	(5)	(31)
Comprehensive Income Attributable to Kimberly-Clark Corporation	$208	$793

See notes to consolidated financial statements.

KIMBERLY-CLARK CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(2018 Data is Unaudited)

(Millions of dollars)	March 31, 2018	December 31, 2017
ASSETS		
Current Assets		
Cash and cash equivalents	$ 626	$ 616
Accounts receivable, net	2,470	2,315
Inventories	1,778	1,790
Other current assets	498	490
Total Current Assets	5,372	5,211
Property, Plant and Equipment, Net	7,328	7,436
Investments in Equity Companies	260	233
Goodwill	1,576	1,576
Other Assets	767	695
TOTAL ASSETS	$ 15,303	$ 15,151
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Debt payable within one year	$ 1,599	$ 953
Trade accounts payable	2,826	2,834
Accrued expenses	1,899	1,730
Dividends payable	350	341
Total Current Liabilities	6,674	5,858
Long-Term Debt	6,081	6,472
Noncurrent Employee Benefits	1,152	1,184
Deferred Income Taxes	421	395
Other Liabilities	359	299
Redeemable Preferred Securities of Subsidiaries	61	61
Stockholders' Equity		
Kimberly-Clark Corporation	317	629
Noncontrolling Interests	238	253
Total Stockholders' Equity	555	882
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 15,303	$ 15,151

See notes to consolidated financial statements.

KIMBERLY-CLARK CORPORATION AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENT
(Unaudited)

	Three Months Ended March 31	
(Millions of dollars)	2018	2017
Operating Activities		
Net income	$97	$575
Depreciation and amortization	211	178
Asset impairments	74	—
Stock-based compensation	18	20
Deferred income taxes	(27)	(25)
Net losses on asset dispositions	36	5
Equity companies' earnings in excess of dividends paid	(27)	(26)
Operating working capital	103	(264)
Postretirement benefits	(41)	(21)
Other	98	(6)
Cash Provided by Operations	542	436
Investing Activities		
Capital spending	(189)	(215)
Investments in time deposits	(83)	(37)
Maturities of time deposits	19	70
Other	(3)	4
Cash Used for Investing	(256)	(178)
Financing Activities		
Cash dividends paid	(341)	(329)
Change in short-term debt	249	196
Debt repayments	(2)	(8)
Proceeds from exercise of stock options	14	78
Acquisitions of common stock for the treasury	(197)	(295)
Other	(6)	(9)
Cash Used for Financing	(283)	(367)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	7	21
Change in Cash and Cash Equivalents	10	(88)
Cash and Cash Equivalents - Beginning of Period	616	923
Cash and Cash Equivalents - End of Period	$626	$835

See notes to consolidated financial statements.

KIMBERLY-CLARK CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all material adjustments which are of a normal and recurring nature necessary for a fair presentation of the results for the periods presented have been reflected. Dollar amounts are reported in millions, except per share dollar amounts, unless otherwise noted.

For further information, refer to the consolidated financial statements and footnotes included in our Annual Report on Form 10 K for the year ended December 31, 2017. The terms "Corporation," "Kimberly-Clark," "K-C," "we," "our" and "us" refer to Kimberly-Clark Corporation and its consolidated subsidiaries.

In prior years, we followed an accounting practice whereby costs associated with sales of K-C Professional dispensers were classified as a reduction in revenue, similar to sales incentives. Effective January 1, 2018, we changed this practice and now classify these costs as cost of products sold. This change resulted in an immaterial increase in net sales and cost of products sold and all applicable amounts included in this filing have been recast accordingly.

Recently Adopted Accounting Standards

The Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2017-07, Compensation-Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The standard requires that an employer report the service cost component in the same line items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside of operating profit (presented as "Nonoperating expense" in our consolidated income statement). We adopted this standard as of January 1, 2018 and applied the amendments retrospectively, and all applicable amounts included in this filing have been recast accordingly. We used the practical expedient that permits us to use the amounts previously disclosed in our employee postretirement benefits note for the prior comparative periods as the basis for applying the retrospective presentation requirements.

The FASB issued ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory, which removes the prohibition in ASC 740 against the immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory. We adopted this standard as of January 1, 2018 on a modified retrospective basis and recorded an immaterial cumulative adjustment to retained earnings.

The FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. We adopted this ASU effective January 1, 2018 on a full retrospective basis. Adoption of this standard did not result in significant changes to our accounting policies, business processes, systems or controls, or have a material impact on our financial position, results of operations and cash flows or related disclosures. As such, prior period financial statements were not recast. We primarily generate revenue from the sale of finished products and recognize revenue at the time of product shipment or delivery, depending on when control passes. Rebate and promotion accruals are based on estimates of the quantity of customer sales. Promotion accruals also consider estimates of the number of consumer coupons that will be redeemed and timing and costs of activities within the promotional programs. The cost of promotion activities provided to customers is classified as a reduction in sales revenue. Under ASU No. 2014-09, effective January 1, 2018 for interim reporting, the estimated redemption value of consumer coupons and related expense are recorded when the related revenue from customers is recognized. In prior years, these costs were recognized at the time of coupon issuance. The impact of this change was not material.

Accounting Standards Issued - Not Yet Adopted

The FASB issued ASU No. 2018-02, Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The standard will permit entities to reclassify tax effects stranded in accumulated other comprehensive income ("AOCI") as a result of U.S. tax reform to retained earnings. The standard is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The effects of this standard on our financial position, results of operations and cash flows are not expected to be material.

The FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The standard makes more financial and non-financial hedging strategies eligible for hedge accounting, amends the presentation and disclosure requirements and changes how companies assess effectiveness. For public companies, this ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted in any interim period. The effects of this standard on our financial position, results of operations and cash flows are not expected to be material.

The FASB issued ASU No. 2016-02, Leases (Topic 842). Under the new guidance, a lessee will be required to recognize assets and liabilities for all leases with lease terms of more than 12 months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. The ASU requires additional disclosures. The standard is effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The ASU requires adoption based upon a modified retrospective transition approach. The effects of this standard on our financial position, results of operations and cash flows are not yet known.

Note 2. 2018 Global Restructuring Program

On January 23, 2018, we announced the 2018 Global Restructuring Program to reduce our structural cost base by streamlining and simplifying our manufacturing supply chain and overhead organization. We expect to close or sell approximately 10 manufacturing facilities and expand production capacity at several others. We expect to exit or divest some lower-margin businesses that generate approximately 1 percent of our net sales. The sales are concentrated in our consumer tissue business segment. The restructuring is expected to impact our organizations in all major geographies. Workforce reductions are expected to be in the range of 5,000 to 5,500. Certain capital appropriations under the 2018 Global Restructuring Program are being finalized. Accounting for actions related to each appropriation will commence when the appropriation is authorized for execution.

The restructuring is expected to be completed by the end of 2020, with total costs anticipated to be $1.7 billion to $1.9 billion pre-tax ($1.35 billion to $1.5 billion after tax). Cash costs are expected to be $900 to $1.0 billion, primarily related to workforce reductions. Non-cash charges are expected to be $800 to $900 pre-tax and will primarily consist of incremental depreciation and asset impairments. Restructuring charges in 2018 are expected to be $1.2 billion to $1.35 billion pre-tax ($950 to $1.05 billion after tax).

The following charges were incurred in connection with the 2018 Global Restructuring Program:

	Three Months Ended March 31, 2018
Cost of products sold:	
Charges for workforce reductions	$ 119
Asset impairments	74
Asset write-offs	55
Incremental depreciation	28
Other exit costs	1
Total	277
Marketing, research and general expenses:	
Charges for workforce reductions	286
Other exit costs	14
Total	300
Total charges	577
Provision for income taxes	(143)
Net charges	434
Net impact related to equity companies and noncontrolling interests	(6)
Net charges attributable to Kimberly-Clark Corporation	$ 428

The asset impairments charge measurement was based on the excess of the carrying value of the impacted asset groups over their fair values. These fair values were measured using discounted cash flows, expected over the limited time the assets would remain in use, and as a result, the assets were essentially written off. The use of discounted cash flows represents a level 3 measure under the fair value hierarchy.

See Note 8 for charges by segment.
The following summarizes the restructuring liabilities activity for the quarter:

	2018
Restructuring liabilities at January 1	$—
Charges for workforce reductions and other exit costs	418
Cash payments	(14)
Currency and other	3
Restructuring liabilities at March 31	$407

Of the $407 total restructuring liabilities, $306 recorded in Accrued expenses flows through Operating working capital in our consolidated cash flow statement and the remaining $101 recorded in Other Liabilities flows through Other under operating activities in our consolidated cash flow statement.

Note 3. U.S. Tax Reform

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act made changes to the U.S. tax code, which included (1) reduced U.S. corporate tax rate from 35 percent to 21 percent, (2) implemented a base erosion and anti-abuse tax, (3) generally eliminated U.S. federal income taxes on dividends from foreign subsidiaries, (4) a new provision designed to tax global intangible low-taxed income ("GILTI") of foreign subsidiaries which allows for the possibility of utilizing foreign tax credits to offset the tax liability (subject to some limitations), (5) a lower effective U.S. tax rate on certain revenues from sources outside the U.S., and (6) a one-time transition tax on certain undistributed earnings of foreign subsidiaries.

In the period ended December 31, 2017, we recorded a provisional discrete net tax benefit associated with the Tax Act and related matters. In the quarter ended March 31, 2018, we recorded discrete net tax expense of $82 primarily related to recently issued guidance affecting tax benefits we recorded in fourth quarter 2017 for certain tax planning actions taken in anticipation of the Tax Act.

As of March 31, 2018, the amounts recorded for the Tax Act remain provisional for the transition tax, the remeasurement of deferred taxes, and our reassessment of permanently reinvested earnings, uncertain tax positions and valuation allowances. These estimates may be impacted by further analysis and future clarification and guidance regarding available tax accounting methods and elections, earnings and profits computations, state tax conformity to federal tax changes and the impact of the GILTI provisions. At March 31, 2018, we were not able to reasonably estimate, and therefore have not recorded, deferred taxes for the GILTI provisions. We have not yet determined our policy election with respect to whether to record deferred taxes for basis differences expected to reverse as a result of the GILTI provisions in future periods or use the period cost method. We have, however, included an estimate of the current GILTI impact in our tax provision for 2018.

Note 4. Fair Value Information

The following fair value information is based on a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels in the hierarchy used to measure fair value are:

Level 1 – Unadjusted quoted prices in active markets accessible at the reporting date for identical assets and liabilities.

Level 2 – Quoted prices for similar assets or liabilities in active markets. Quoted prices for identical or similar assets and liabilities in markets that are not considered active or financial instruments for which all significant inputs are observable, either directly or indirectly.

Level 3 – Prices or valuations that require inputs that are significant to the valuation and are unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

During the three months ended March 31, 2018 and for the full year 2017, there were no significant transfers among level 1, 2, or 3 fair value determinations.

Derivative assets and liabilities are measured on a recurring basis at fair value. At March 31, 2018 and December 31, 2017, derivative assets were $30 and $27, respectively, and derivative liabilities were $69 and $51, respectively. The fair values of derivatives used to manage interest rate risk and commodity price risk are based on LIBOR rates and interest rate swap curves

and NYMEX price quotations, respectively. The fair values of hedging instruments used to manage foreign currency risk are based on published quotations of spot currency rates and forward points, which are converted into implied forward currency rates. Measurement of our derivative assets and liabilities is considered a level 2 measurement. Additional information on our classification and use of derivative instruments is contained in Note 7.

Redeemable preferred securities of subsidiaries are measured on a recurring basis at fair value and were $61 at both March 31, 2018 and December 31, 2017. They are not traded in active markets. For certain redeemable securities, fair values were calculated using a floating rate pricing model that compared the stated spread to the fair value spread to determine the price at which each of the financial instruments should trade. The model used the following inputs to calculate fair values: face value, current LIBOR rate, unobservable fair value credit spread, stated spread, maturity date and interest or dividend payment dates. The fair values of the remaining redeemable securities were based on a discounted cash flow valuation model. Measurement of the redeemable preferred securities is considered a level 3 measurement.

Company-owned life insurance ("COLI") assets are measured on a recurring basis at fair value. COLI assets were $68 at both March 31, 2018 and December 31, 2017. The COLI policies are a source of funding primarily for our nonqualified employee benefits and are included in other assets. The COLI policies are measured at fair value using the net asset value per share practical expedient, and therefore, are not classified in the fair value hierarchy.

The following table includes the fair value of our financial instruments for which disclosure of fair value is required:

	Fair Value Hierarchy Level	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
		March 31, 2018		December 31, 2017	
Assets					
Cash and cash equivalents[(a)]	1	$ 626	$ 626	$ 616	$ 616
Time deposits[(b)]	1	252	252		