

KIMBERLY CLARK CORP
Form 10-Q
July 25, 2017

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2017

OR

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 (I.R.S. Employer
incorporation) 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 No

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 No

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

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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.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of July 18, 2017, there were 353,302,843 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		Six Months	
	Ended		Ended	
	June 30		June 30	
(Millions of dollars, except per share amounts)	2017	2016	2017	2016
Net Sales	\$4,554	\$4,588	\$9,037	\$9,064
Cost of products sold	2,910	2,924	5,741	5,761
Gross Profit	1,644	1,664	3,296	3,303
Marketing, research and general expenses	842	847	1,655	1,672
Other (income) and expense, net	3	(21)	8	(11)
Operating Profit	799	838	1,633	1,642
Interest income	2	3	4	7
Interest expense	(85)	(81)	(168)	(157)
Income Before Income Taxes and Equity Interests	716	760	1,469	1,492
Provision for income taxes	(202)	(217)	(409)	(424)
Income Before Equity Interests	514	543	1,060	1,068
Share of net income of equity companies	26	35	55	70
Net Income	540	578	1,115	1,138
Net income attributable to noncontrolling interests	(9)	(12)	(21)	(27)
Net Income Attributable to Kimberly-Clark Corporation	\$531	\$566	\$1,094	\$1,111
Per Share Basis				
Net Income Attributable to Kimberly-Clark Corporation				
Basic	\$1.50	\$1.57	\$3.08	\$3.08
Diluted	\$1.49	\$1.56	\$3.06	\$3.06
Cash Dividends Declared	\$0.97	\$0.92	\$1.94	\$1.84

See notes to consolidated financial statements.

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

	Three Months Ended June 30		Six Months Ended June 30	
(Millions of dollars)	2017	2016	2017	2016
Net Income	\$540	\$578	\$1,115	\$1,138
Other Comprehensive Income (Loss), Net of Tax				
Unrealized currency translation adjustments	55	(72)	322	136
Employee postretirement benefits	(1)	13	(3)	7
Other	(24)	12	(40)	(7)
Total Other Comprehensive Income (Loss), Net of Tax	30	(47)	279	136
Comprehensive Income	570	531	1,394	1,274
Comprehensive income attributable to noncontrolling interests	(1)	(9)	(32)	(31)
Comprehensive Income Attributable to Kimberly-Clark Corporation	\$569	\$522	\$1,362	\$1,243

See notes to consolidated financial statements.

KIMBERLY-CLARK CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(2017 Data is Unaudited)

(Millions of dollars)	June 30, December 31,	
	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents	\$1,051	\$ 923
Accounts receivable, net	2,221	2,176
Inventories	1,738	1,679
Other current assets	380	337
Total Current Assets	5,390	5,115
Property, Plant and Equipment, Net	7,246	7,169
Investments in Equity Companies	283	257
Goodwill	1,527	1,480
Other Assets	624	581
TOTAL ASSETS	\$15,070	\$ 14,602

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities		
Debt payable within one year	\$1,246	\$ 1,133
Trade accounts payable	2,629	2,609
Accrued expenses	1,671	1,775
Dividends payable	343	329
Total Current Liabilities	5,889	5,846
Long-Term Debt	6,777	6,439
Noncurrent Employee Benefits	1,278	1,301
Deferred Income Taxes	441	532
Other Liabilities	296	309
Redeemable Preferred Securities of Subsidiaries	58	58
Stockholders' Equity (Deficit)		
Kimberly-Clark Corporation	102	(102)
Noncontrolling Interests	229	219
Total Stockholders' Equity	331	117
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$15,070	\$ 14,602

See notes to consolidated financial statements.

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

(Millions of dollars)	Six Months	
	Ended June 30	
	2017	2016
Operating Activities		
Net income	\$1,115	\$1,138
Depreciation and amortization	358	349
Stock-based compensation	50	45
Deferred income taxes	(34)	3
Equity companies' earnings in excess of dividends paid	(22)	(30)
Operating working capital	(191)	(48)
Postretirement benefits	(8)	(4)
Adjustment related to Venezuelan operations	—	(11)
Other	(7)	(29)
Cash Provided by Operations	1,261	1,413
Investing Activities		
Capital spending	(386)	(397)
Proceeds from sales of investments	—	28
Investments in time deposits	(61)	(73)
Maturities of time deposits	70	42
Other	(10)	16
Cash Used for Investing	(387)	(384)
Financing Activities		
Cash dividends paid	(674)	(650)
Change in short-term debt	114	(322)
Debt proceeds	344	796
Debt repayments	(12)	(591)
Proceeds from exercise of stock options	107	58
Acquisitions of common stock for the treasury	(597)	(293)
Other	(46)	(1)
Cash Used for Financing	(764)	(1,003)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	18	11
Change in Cash and Cash Equivalents	128	37
Cash and Cash Equivalents - Beginning of Period	923	619
Cash and Cash Equivalents - End of Period	\$1,051	\$656
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 with the 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, 2016. The terms "Corporation," "Kimberly-Clark," "K-C," "we," "our" and "us" refer to Kimberly-Clark Corporation and its consolidated subsidiaries.

Recently Adopted Accounting Standards

In 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2016-09, Compensation-Stock Compensation (Topic 718). The new guidance simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. We adopted this standard as of January 1, 2017. The adoption did not have a material impact on our financial position, results of operations and cash flows.

Prior periods were not recast.

In 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force), providing guidance on eight specific cash flow statement classification matters. We early adopted this standard as of January 1, 2017. The adoption of this standard did not have a material impact on our cash flow statement. Prior periods were not recast.

Accounting Standards Issued - Not Yet Adopted

In 2017, the FASB issued 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. The standard is effective for public companies for annual periods beginning after December 15, 2017, including interim periods within those annual periods. Prior periods are required to be recast. We will adopt this standard as of January 1, 2018. Net periodic benefit cost for pensions and other postretirement benefits for the six months ended June 30, 2017 and 2016 was \$55 and \$61 of which \$26 and \$30, respectively, related to service cost.

In 2016, 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. The ASU is effective for public companies for fiscal years beginning after December 15, 2017, and interim periods within those annual periods. The ASU should be applied on a modified retrospective basis, recognizing the effects in retained earnings as of the beginning of the year of adoption. We will adopt this standard as of January 1, 2018. The impact of this standard on our financial position, results of operations and cash flows is not expected to be material.

In 2016, 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. Early adoption is permitted. The effects of this standard on our financial position, results of operations and cash flows are not yet known.

In 2014, 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 and will supersede most current revenue recognition guidance. In 2016, the FASB issued four amendments to the ASU. The standard is effective for public companies for annual and interim periods beginning after December 15, 2017. We will adopt this ASU effective January 1, 2018. The

guidance is required to be adopted on either a full or modified retrospective basis. As this standard is not expected to have a material impact on our financial position, results of operations and cash flows on either a full or modified retrospective basis, we do not plan to recast prior periods.

Note 2. 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.