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Kimberly Clark (KMB) EQ Update-12/18 Quarter

Current EQ Rating*	Previous EQ Rating
4-	4-

*For an explanation of the EQ Review Rating scale, please refer to the end of this report

We maintain our earnings quality rating of 4- (Acceptable) pending release and review of the 10-K.

KMB reported adjusted EPS of $1.60, 5 cps short of the consensus target as results were weighed down by raw materials inflation and currency volatility. We will need the 10-K to complete our review but maintain our earnings quality rating of 4- (Acceptable) for now. We highlight the following developments in the quarter:

- **Inventory days (DSI) were down about a day versus a year ago after adjustment for restructuring charges in COGS.** This continues a trend seen in the last few quarters. In the past, LIFO inventory has risen which as reduced our concern that the company was benefitting from a LIFO liquidation. We will be looking at detail in the K for more insight.

- **Days payable spiked by approximately 8 days** over a year ago after adjustment for restructuring charges in COGS.

- **We have expressed concern with KMB's ongoing restructuring programs in the past.** The company's 2018 restructuring announced in January of 2018 has not increased in scope in the last few quarters. However, the company announced its new KC Strategy 2022 plan on the call. At this point, the plan appears to simply be a set of goals to focus its strategy, but we will be very skeptical should the plan morph into the expansion of restructuring charges.

- **The 9/18 quarter received a significant benefit from a lower than anticipated tax rate while the 12/18 quarter rate of 18.6% was closer to expectations.** The full-year tax rate was 21%, but the company is forecasting a 23-25% rate in 2019 which implies a 3.5% drag on earnings.

Explanation of EQ Rating Scale

6- "Exceptionally Strong"	Indicates uncommonly conservative accounting policies to the point that revenue and earnings are essentially understated relative to the company's peers. Higher possibility of reporting positive earnings surprises
5- "Strong"	Indicates the company has no areas of concern with its reported results and we see very little risk of the company disappointing due to recent results being overstated from aggressive reporting in recent periods.
4- "Acceptable"	Indicates the company may have exhibited a minor "red flag", but the severity of the issue is not yet a concern. Minimal risk of an earnings disappointment resulting from previous earnings or cash flow overstatement
3- "Minor Concern"	Indicates the company has exhibited either a larger number of or more serious warning signs than companies receiving a 4. The likelihood of an immediate earnings or cash flow disappointment is not considered to be high, but the signs mentioned deserve a higher degree of attention in the future.
2- "Weak"	Indicates the company's recent reported results have benefitted materially from aggressive accounting. Follow up work should be performed to determine the nature and extent of the problem. There is a possibility that upcoming results could disappoint as the impact of unsustainable benefits disappears.
1- "Strong Concerns"	Indicates that the company's recent results are significantly overstated and that we view a disappointment in upcoming quarters is highly likely.

In addition to the numerical rating, the EQ Review Rating may also include either a minus or plus sign. A minus sign indicates that our analysis shows the overall earnings quality of the company has worsened since the last review and there is a possibility the numerical rating will fall should the problem continue into the next quarter. Likewise, a positive sign indicates that the overall earnings quality is improving, and the company may see an upgrade in its numerical rating should the trend continue.

Key Points to Understand About the EQ Score

The EQ Review Rating is much more than a blind, quantitative scoring method. While we utilize proprietary adjustments, ratios, and methods developed over decades of earnings quality analysis, the foundation of all of our analysis is reading recent SEC filings, press releases, conference call transcripts and in some cases, conversations with managements.

The EQ Review Rating is not comparable to a traditional buy/sell rating. The Rating is intended to specifically convey the extent to which reported earnings may be over/understated. Fundamental factors such as forecasts for future growth, increasing competition, and valuation are not reflected in the rating. Therefore, a high score does not in itself indicate a company is a buy but rather indicates that recent results are a good indication of the underlying earnings and cash generation capacity of the company. A low score (1-2) will likely result in us performing a more thorough review of fundamental factors to determine if the company warrants a full-blown sell recommendation.

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