

MIRA INFORM REPORT

Report No. :	521115
Report Date :	25.07.2018

IDENTIFICATION DETAILS

Name :	KIMBERLY-CLARK ISRAEL LTD.
Formerly Known As :	<ul style="list-style-type: none"> • HOGLA - KIMBERLY LTD. • HOGLA LTD
Registered Office :	P.O. Box 231, Ramla (7210102), Machsanei Hasochnut Compound, Tel Aviv – Ramla Road, Zrifin 6093000
Country :	Israel
Financials (as on) :	30.09.2014
Date of Incorporation :	14.04.1963
Legal Form :	Private Limited Company
Line of Business :	Manufacturers, importers, exporters and marketers of household paper products, such as toilet paper ('Shmurat Teva'), towels, napkins (using the brand names 'Kleenex', 'Mollet', 'Lily', etc.), and disposable diapers ('Huggies', 'Titulim'), adult diapers ('Shikma'), women hygiene products ('Kotex', 'Lily Natura', 'Depend', 'Poise') and household/kitchen cleaning products ('Nicol').
No. of Employees :	Having 1,150 employees, as of September 2017, current number unavailable. Having 42,000 employees in KIMBERLY CLARK CORP.

RATING & COMMENTS

(Mira Inform has adopted New Rating mechanism w.e.f. 23rd January 2017)

MIRA's Rating :	A
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Credit Rating	Explanation	Rating Comments
A	Acceptable Risk	Business dealings permissible with moderate risk of default

Status :	Satisfactory
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Payment Behaviour :	Slow but correct
Litigation :	Exist

NOTES :

Any query related to this report can be made on e-mail : infodept@mirainform.com while quoting report number, name and date.

ECGC Country Risk Classification List

Country Name	Previous Rating (31.12.2017)	Current Rating (01.04.2018)
Israel	B1	B1

Risk Category	ECGC Classification
Insignificant	A1
Low Risk	A2
Moderately Low Risk	B1
Moderate Risk	B2
Moderately High Risk	C1
High Risk	C2
Very High Risk	D

ISRAEL - ECONOMIC OVERVIEW

Israel has a technologically advanced free market economy. Cut diamonds, high-technology equipment, and pharmaceuticals are among its leading exports. Its major imports include crude oil, grains, raw materials, and military equipment. Israel usually posts sizable trade deficits, which are offset by tourism and other service exports, as well as significant foreign investment inflows.

Between 2004 and 2013, growth averaged nearly 5% per year, led by exports. The global financial crisis of 2008-09 spurred a brief recession in Israel, but the country entered the crisis with solid fundamentals, following years of prudent fiscal policy and a resilient banking sector. Israel's economy also weathered the 2011 Arab Spring because strong trade ties outside the Middle East insulated the economy from spillover effects.

Slowing domestic and international demand and decreased investment resulting from Israel's uncertain security situation reduced GDP growth to an average of roughly 2.8% per year during the period 2014-17. Natural gas fields discovered off Israel's coast since 2009 have brightened Israel's energy security outlook. The Tamar and Leviathan fields were some of the world's largest offshore natural gas finds in the last decade. Political and regulatory issues have delayed the development of the massive Leviathan field, but production from Tamar provided a 0.8% boost to Israel's GDP in 2013 and a 0.3% boost in 2014. One of the most carbon intense OECD countries, Israel generates about 57% of its power from coal and only 2.6% from renewable sources.

Income inequality and high housing and commodity prices continue to be a concern for many Israelis. Israel's income inequality and poverty rates are among the highest of OECD countries, and there is a broad perception among the public that a small number of "tycoons" have a cartel-like grip over the major parts of the economy. Government officials have called for reforms to boost the housing supply and to increase competition in the banking sector to address these public grievances. Despite calls for reforms, the restricted housing supply continues to impact younger Israelis seeking to purchase homes. Tariffs and non-tariff barriers, coupled with guaranteed prices and customs tariffs for farmers kept food prices high in 2016. Private consumption is expected to drive growth through 2018, with consumers benefitting from low inflation and a strong currency.

In the long term, Israel faces structural issues including low labor participation rates for its fastest growing social segments - the ultraorthodox and Arab-Israeli communities. Also, Israel's progressive, globally competitive, knowledge-based technology sector employs only about 8% of the workforce, with the rest mostly employed in manufacturing and services - sectors which face downward wage pressures from global competition. Expenditures on educational institutions remain low compared to most other OECD countries with similar GDP per capita.

Source : CIA

COMPANY NAME & ADDRESS

KIMBERLY-CLARK ISRAEL LTD.

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HISTORY & LEGAL FORMATION

A private limited company, incorporated as per file No. 51-039032-1 on the 14.04.1963. Originally registered under the name HOGLA LTD., which changed to HOGLA - KIMBERLY LTD. on the 17.06.1996, following the entrance of a new investor (KIMBERLY CLARK), which changed to the present name on the 26.05.2016 (following the change in ownership).

On the 19.11.2006 SHIKMA LESHIPUR HAYEE HAPRAT LTD. and RAKEFET MARKETING AND TRADE SERVICE LTD. were merged into subject.

SHARE CAPITAL

Authorized share capital NIS 11,000,000.00, divided into -

10,999,999 ordinary shares (9,113,476 shares issued),

1 preferred share (issued), all of NIS 1.00 each, of which shares amounting to NIS 9,113,477.00 were issued.

SHAREHOLDERS

Subject is fully owned by KIMBERLY CLARK CORPORATION, of the U.S.A., publicly traded on the NYSE (NYSE:KMB).

In 1996 KIMBERLY Concern acquired 49.9% of subject's shares from HADERA PAPER. In 2000 KIMBERLY exercised its option to acquire additional 0.2% of subject from HADERA PAPER in consideration of US\$ 5 million, reaching a holding of 50.1% in subject.

In March 2015 KIMBERLY CLARK completed the acquisition of the 49.9% which were held by HADERA PAPER LTD. for the sum of NIS 648 million, and reached full ownership.

DIRECTORS

1. Uri Ben Shay, General Manager,
2. Ofer Lux.

BUSINESS

Manufacturers, importers, exporters and marketers of household paper products, such as toilet paper ('Shmurat Teva'), towels, napkins (using the brand names 'Kleenex', 'Mollet', 'Lily', etc.), and disposable diapers ('Huggies', 'Titulim'), adult diapers ('Shikma'), women hygiene products ('Kotex', 'Lily Natura'l, 'Depend', 'Poïse') and household/kitchen cleaning products ('Nicol').

Subject's products are distributed by subsidiary KIMBERLY CLARK ISRAEL MARKETING LTD. Sales are to all supermarket and drugstore chains, etc.

Small portion of sales is for export.

In 2013 79% of HOGLA KIMBERLY Group's sales were to the consumer market and 21% to the institutional market.

Purchase raw materials for production from 4 main foreign suppliers (FIBRIA, SODRA CELL (UK), HEINZEL, EKMAN & COAB) and from local affiliated company (AMNIR), and raw materials for diapers production from 3 main foreign suppliers (DOMTAR PAPER, WEYERHAEUSER, TOYOTA TSUSHO).

Among local suppliers: SASATECH, CHEMITRON, TADBIK-PACK, WET NAPS, SHALAG INDUSTRIES, and more.

Advertising agency: GITAM BBDO.

Operating from rented headquarters and a logistics center, on an area of 42,000 sq. meters, in Machsanei Hashochnut Compound, Tel Aviv – Ramla Road, Zrifin, from a rented Logistics Center in Rechasim (near Haifa), from 2 plants in Nahariya and Hadera (for tissue paper manufacturing, both rented from HADERA PAPER), and from a plant in Afula (for diapers manufacturing).

Website: www.kimberly-clark.co.il

Having 1,150 employees, as of September 2017, current number unavailable.

Having 42,000 employees in KIMBERLY CLARK CORP.

MEANS

Subject was valued at NIS 1,298.6 million for the acquisition of 49.9% by KIMBERLY CLARK CORP. in March 2015.

Subject is an "Approve Enterprise" and as such enjoys tax benefits and State incentives. In 2001, the Israeli Investment Center (IIC) approved a US\$ 18.5 million investment plan for the expansion of subject's plant in Nahariya.

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In 2005, IIC approved another NIS 33 million investment plan for the expansion of subject's plant in Nahariya.

In November 2007, it was reported that subject invested NIS 5 million in shifting manufacturing of its "Kleenex" brand products to the Nahariya plant, and in addition invested further NIS 5 million in products promotion.

In December 2011 it was reported that subject is investing NIS 30 million in the upgrading the "Huggies" production line.

In December 2014 it was reported that subject is investing NIS 100 million in a new premium diaper production line in its Afula plant.

Subject enjoys the financial strength of parent company KIMBERLY CLARK CORP., whose consolidated B/S data shows:

	(US\$ millions)	
	<u>31.12.2017</u>	<u>31.03.2018</u>
Total assets	15,151	15,303
Equity (in deficit)	629	317

KIMBERLY CLARK CORP. current market value US\$ 36.82 billion.

Data from HADERA PAPER's 2014 financial statements on subject (as of 31.12.2014, in 2015 HADERA PAPER exited from subject):

Total assets: NIS 1,105,017,000 (of which NIS 659,408,000 current assets).

Total liabilities: NIS 435,441,000 (of which NIS 654,922,000 current liabilities).

There are no charges registered on the company's assets.

Consolidated B/S shows (last obtainable):

	<u>NIS (thousands)</u>	
	<u>30.09.2014</u>	<u>31.12.2013</u>
<u>ASSETS</u>		
Current assets		
Cash and cash equivalents	43,483	36,340
Trade receivables	295,538	262,624
Inventories	257,403	242,209
Other current assets	<u>18,987</u>	<u>8,049</u>
	615,411	549,222
Non-current assets		
VAT receivable	21,167	27,405
Fixed assets	431,925	371,488
Other non-current assets	<u>2,175</u>	<u>2,003</u>
	<u>455,267</u>	<u>400,896</u>
	1,070,678	950,118
	=====	=====
<u>LIABILITIES</u>		
Current liabilities		
	655,575	615,318
Non-current liabilities		
	144,161	74,411

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Equity	<u>270,942</u>	<u>260,389</u>
	1,070,678	950,118
	=====	=====

REVENUES

Consolidated Statement of Operations

	<u>NIS (thousands)</u>		
	<u>Year ended 31.12</u>		
	<u>2011</u>	<u>2012</u>	<u>2013</u>
Sales	1,547,021	1,608,821	1,643,218
Gross profit	449,305	480,622	547,702
Operating profit	62,500	98,832	120,883
Income before income taxes	55,048	78,623	109,652
Net income	(90,430)	54,206	54,593
	=====	=====	=====

2014 consolidated sales were NIS 1,609.5 million (NIS 1,219.9 million subject solo), making an operating profit of NIS 142.7 million. Subject ended 2014 with a net profit of NIS 90.9 million.

2014 (and earlier years) sales included also subject's Turkish subsidiary KCTR, and after subject's share in KTCR became lower than 20% since 2015, the subsidiary's sales no longer appear in subject's statement of income.

From subject's CFO (for the years 2015/16):

2015 sales were around NIS 1,300 million.

2016 sales were around NIS 1,300 million.

Later sales figures not disclosed.

OTHER COMPANIES

MOLLET MARKETING LTD., 100%,

KIMBERLY CLARK ISRAEL MARKETING LTD. (formerly HOGLA KIMBERLY MARKETING LTD.), 100%, subject's marketing arm,

KIMBERLY CLARK TUKETIM MALLARI SANAYI VE TICARET A.S. (KCTR), 20%, Turkey.

KIMBERLY-CLARK CORPORATION (KIMBERLY CLARK), incorporated 1928, based in USA, engaged in manufacturing and marketing of a range of products made from natural or synthetic fibers, operates in four segments: personal care, consumer tissue, k-c professional & other and health care, with manufacturing facilities in 36 countries and products sold in approximately 175 countries. 2017 consolidated sales were US\$ 18,259 million, net profit US\$ 2,278 million.

BANKERS

According to our records (subject's CFO refused to confirm the u/m bank data):

Bank Hapoalim Ltd.

Mizrahi Tefahot Bank Ltd.

Bank Leumi Le'Israel Ltd., branches data not forthcoming.

CHARACTER AND REPUTATION

In April 2014 the Lod District Court approved a class action lawsuit regarding leaking "Huggies" diapers, for the total sum of NIS 1,875.5 million. Matter is pending (case file No. 18451-04-11, next hearing scheduled 06.09.2018).

Apart from that, nothing unfavorable learned.

It should also be noted that the launch by SUPER-PHARM (Israel's leading drug store chain) of its private diaper brand ("Baby's") in April 2014, was expected to harm subject (10% of subject's diapers sales are to SUPER-PHARM – see *below*).

Despite our efforts, we were unable to speak with subject's CFO as he was always unavailable. In fact, no one answered in subject's offices, which is due to the holiday period in Israel.

Subject is a local leading company in the non-foods products.

In the whole local FMCG market, according to StoreNext market research subject held 2.4% (money terms) market share in 2017 (similar to 2016), making it the 9th largest supplier in Israel.

According to market surveys, in March 2015: in the baby diapers, subject's brands "Huggies" and "Titulim", which captured 23.8% and 40.2% market share, respectively, compared to 21.1% and 45.9% in March 2014. The decrease in "Huggies" share is explained in the loss of market share to SUPER-PHARM's new brand.

In a market survey from December 2015 on baby diapers, subject's diapers 'Haggies' brand stood as the largest with 41% market share, followed by 'Pampers' brand (23%).

The baby diapers market was valued at NIS 439 million (excluding the pharma chains, estimated at further NIS 40 million) according to a report from April 2015, and a new local player with discount prices entered ('Babysitter'), capturing significant market share from its competitors (holding 10%).

In the toilet paper products, subject's brands lead the market in 2013 with some 64.1% of the market share in a NIS 400 million market, 46.1% in disposable kitchen paper, and 60.7% in paper tissues. In the female hygiene products categories it holds 24.8% market share mainly with its brands "Lily" and "Cotex".

Subject is ISO-9001:2000, ISO-14001 and ISO-18001 certified.

In 1999 subject acquired OVISAN, now KCTR, a Turkish diapers and paper products manufacturer, for US\$ 16.35 million. Products launching started in 2005. KCTR experienced operational losses, inflicting on subject for several years, mainly due to difficulties in penetrating the competitive diapers market. However, following the implementation of a strategic plan since 2006, including transferring part of the marketing activities to UNILEVER

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in Turkey, sales have been significantly increasing reaching US\$ 109 million in 2012, and reaching operational profitability as of Q3-2012 (though still losing in 2012 in a whole).

Subject invested US\$ accumulated sum of US\$ 157 million in KCRT during 2005-2010, and additional US\$ 7.4 million in 2011. In February 2011 the Turkish Court accepted HADERA PAPER (subject's former parent company) 2 appeals against Turkish Tax Authorities for paying tens of US\$ million.

In May 2014 subject's board approved capital fuel to KCTR of up to US\$ 21 million, and as of March 2015 NIS 71 million of which were fueled in practice.

At a later date, subject sold 80% in KCTR, reaching current holdings of 20%.

In February 2010 it was reported that subject will invest NIS 7 in an adult diaper brand. Subject said to be the major player in the segment with 66% market share, in a market valued NIS 100 million per annum.

In July 2010 it was reported that subject will invest a total sum of NIS 20 million in its leading toilet paper line and feminine hygienic pads.

In October 2013 it was reported that subject invested NIS 5 million in a new compact toilet paper.

In January 2015 it was reported that subject is launching a new diaper with an investment of NIS 10 million in development.

In April 2016 it was reported that subject will start distributing directly to small retailers, establishing a distributing system and will cease to relay on large wholesalers who acted as distributors. Subject will invest in the move NIS 10 million.

MEGA RETAIL, Israel's 2nd largest supermarket chain and a significant client of subject, encountered financial difficulties in recent period and entered a creditors' arrangement in July 2015. The debt arrangement, where MEGA Chain had total debt to some 530 suppliers in volume of hundreds NIS million, entered into force in July 2015, in essence is delay of the debt: 70% spread for the next several months and 30% to 2017 (then paid in 36 monthly installments).

Despite the arrangement, MEGA Chain was unable to recover on its own and in January 2016 entered freezing procedures, with reported debt to subject –as of July 2015- of NIS 24.1 million (out of total debt to suppliers of NIS 477 million). Eventually MEGA chain was sold to a competing supermarket chain (BITAN WINES) in June 2016 for NIS 455 million (earlier, part of MEGA branches sold separately).

In May 2016 it was reported that subject is investing NIS 1 million in baking products sub category (cupcake cups, popcorn packaging, cake stands, etc.).

According to the Central Bureau of Statistics (CBS), import of paper (as raw materials for the Paper industries) to Israel in 2017 amounted to US\$ 737 million, 4% increase from 2016 (or 2.5% decrease in NIS terms to NIS 2,653 million), compared to US\$ 708.5 million, US\$ 686 million & US\$ 781 million, in 2016, 2015 & 2014, respectively.

The local industry investments (in current prices) in imported machinery and equipment by the Paper & paper products industry in 2017 climbed by 48% (quantity change percent change on previous year) to NIS 150 million, after 30% rise in 2016 and after 47% drop in 2015).

According to StoreNext Market Research survey (based on circa 80% of the sales in the local FMCG bar-coded market), in 2017 the FMCG market summed up to NIS 41.6 billion, with 1.5% increase in sales in terms of price,

sided by a 0.9% increase in real terms (the prices index rose by 0.6%). That comes after a freeze in 2016 from 2015 and mild increases in sales in 2015 and 2014, compared to the previous year.

Food products sales in 2017 witnessed 1.9% rise in money terms from 2016 and totaled NIS 31.2 billion (after 0.8% decrease in 2016), beverages sales rose by mere 0.3% summing at NIS 4.5 billion (rose 1.5% in 2016), personal care goods dropped by 0.6% with sales of NIS 2.7 billion (marked similar decrease in 2016), while sales of home care goods totaled NIS 3.2 billion, representing 1.2% rise from 2016 (after minor decrease in 2016).

SUMMARY

Notwithstanding the lack of updated data from subject's officials, considered good for trade engagements.

FOREIGN EXCHANGE RATES

Currency	Unit	Indian Rupees
US Dollar	1	INR 69.05
UK Pound	1	INR 90.30
Euro	1	INR 80.54
ILS	1	INR 18.89

Note : Above are approximate rates obtained from sources believed to be correct

INFORMATION DETAILS

Analysis Done by :	NIY
Report Prepared by :	TPT

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RATING EXPLANATIONS

Credit Rating	Explanation	Rating Comments
A++	Minimum Risk	Business dealings permissible with minimum risk of default
A+	Low Risk	Business dealings permissible with low risk of default
A	Acceptable Risk	Business dealings permissible with moderate risk of default
B	Medium Risk	Business dealings permissible on a regular monitoring basis
C	Medium High Risk	Business dealings permissible preferably on secured basis
D	High Risk	Business dealing not recommended or on secured terms only
NB	New Business	No recommendation can be done due to business in infancy stage
NT	No Trace	No recommendation can be done as the business is not traceable

NB is stated where there is insufficient information to facilitate rating. However, it is not to be considered as unfavourable.

This score serves as a reference to assess SC's credit risk and to set the amount of credit to be extended. It is calculated from a composite of weighted scores obtained from each of the major sections of this report. The assessed factors are as follows:

- Financial condition covering various ratios
- Company background and operations size
- Promoters / Management background
- Payment record
- Litigation against the subject
- Industry scenario / competitor analysis
- Supplier / Customer / Banker review (wherever available)