



Clorox Company (CLX)

Updated November 3rd, 2018 by Josh Arnold

Key Metrics

Current Price:	\$154	5 Year CAGR Estimate:	2.7%	Volatility Percentile:	23.5%
Fair Value Price:	\$121	5 Year Growth Estimate:	5.0%	Momentum Percentile:	84.0%
% Fair Value:	128%	5 Year Valuation Multiple Estimate:	-4.8%	Growth Percentile:	30.4%
Dividend Yield:	2.5%	5 Year Price Target	\$154	Valuation Percentile:	16.2%
Dividend Risk Score:	B	Retirement Suitability Score:	B	Total Return Percentile:	10.4%

Overview & Current Events

Clorox is a manufacturer and marketer of consumer and professional products spanning a wide array of categories from charcoal to cleaning supplies to salad dressing. The company was founded in 1913 and has a market capitalization of \$20 billion. More than 80% of its \$6 billion in annual revenue comes from products that are #1 or #2 in their categories.

Clorox reported Q1 earnings on 10/31/18 and results were largely positive. Revenue was up 4% as the company experienced a 2% headwind from forex, while also seeing a net 3% gain from acquisitions and divestitures. Clorox recently acquired Nutranext, a maker of dietary supplements, while it divested its Aplicare business. In total, Nutranext helped the Lifestyle segment lead the way with a 26% revenue increase during the quarter. Gross margins fell 150bps to 43.4%, which is in-line with our prior guidance of 43.5%. Management offered up sales guidance of 2% to 4% and earnings-per-share guidance of \$6.20 to \$6.40; we've lowered our estimate of earnings-per-share slightly in sympathy.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$3.81	\$4.24	\$2.07	\$4.10	\$4.31	\$4.26	\$4.59	\$4.92	\$5.33	\$6.26	\$6.35	\$8.10
DPS	\$1.88	\$2.05	\$2.25	\$2.44	\$2.63	\$2.87	\$2.99	\$3.11	\$3.24	\$3.36	\$3.84	\$4.90
Shares	138	138	139	131	130	130	129	129	129	128	127	120

Earnings-per-share have grown very steadily throughout the past decade as Clorox continues to grow both organically as well as through acquisitions. In recent years, Clorox has been focused on cost savings and efficiencies that have afforded it more robust earnings growth via margin expansion. However, 2018 was marred by higher commodity and freight costs and those headwinds look set to continue in the coming year, crimping margins. Indeed, this was the cause of the margin decline we saw in Q1 and it appears that will continue throughout the year.

Earnings-per-share growth this year will be much lower than in FY2018 given that nearly the entirety of last year's gain was from tax reform. Clorox is back to a more normalized rate of growth now and given the headwinds from commodity and freight inflation, our average 5% annual earnings growth estimate will be slightly backloaded. Clorox continues to buy small amounts of growth – like Nutranext – while focusing on cost savings and reducing the float. None of these are significant drivers on their own but combined, should be enough to power mid-single digit earnings growth each year.

Clorox raised its dividend significantly recently as a result of tax reform, but we are expecting more moderate growth moving forward, in line with the company's historical pattern. We see a dividend payout of nearly \$5 by 2024.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	14.5	14.4	31.9	16.7	18.2	20.7	22.3	25.1	24.0	22.3	24.3	19.0
Avg. Yld.	3.4%	3.4%	3.4%	3.6%	3.4%	3.3%	2.9%	2.5%	2.5%	2.4%	2.5%	3.2%

Clorox experienced a sizable increase in its valuation in the years since 2012 as its price-to-earnings multiple increased by roughly 50%. We see fair value at 19 times earnings, but Clorox currently trades at 24.3 times earnings, near the peak valuation we've seen for the past decade. That implies a significant 4.8% headwind to total returns in the coming years.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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As a result of the valuation falling but continuing dividend growth, we believe the yield of the stock will rise from 2.5% today to 3.2% in 2024. Clorox continues to boost its dividend and with a modest payout ratio, that should continue.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
GP/A	43.0%	41.9%	43.5%	42.1%	42.5%	42.1%	43.6%	45.1%	44.7%	44.0%	43.5%	44.0%
Debt/A	104%	98%	102%	103%	97%	96%	97%	93%	88%	84%	84%	80%
Int. Cov.	6.0	6.8	5.7	7.5	8.2	9.9	10.6	12.9	13.3	14.0	15.0	16.5
Payout	48%	47%	106%	58%	58%	65%	64%	61%	59%	54%	60%	60%
Std. Dev.	20.4%	12.2%	25.5%	10.7%	13.9%	15.0%	15.5%	16.1%	13.8%	15.0%	14.8%	17.4%

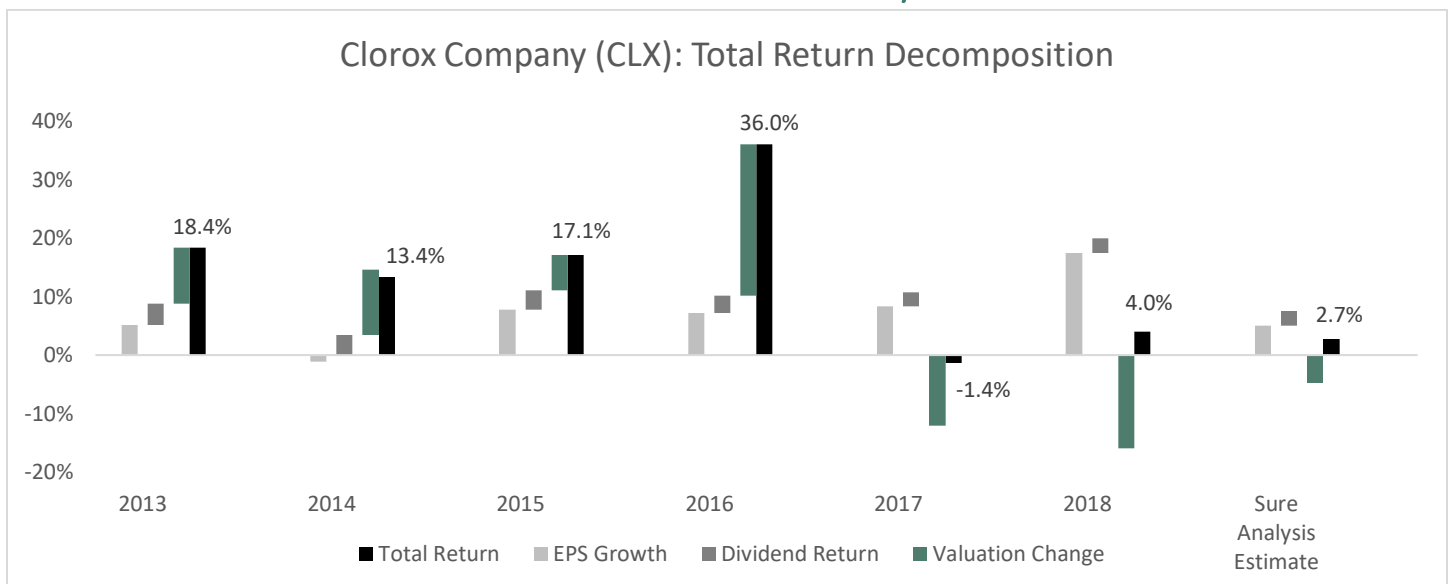
Clorox has improved its leverage and debt coverage in the past few years as it has managed to avoid taking on ever-rising debt totals. The gradual but meaningful improvement has allowed it to improve the safety of its dividend as well. Unless Clorox completes an unusually large acquisition, its debt should continue to fall over time. However, gross margins are struggling due to rising input and transportation costs and the company's cost saving measures have not been able to keep up. We are forecasting roughly flat gross margins over the next five years as Clorox tries to increase efficiency while fighting off pricing pressures, higher input costs and freight inflation.

Clorox' competitive advantages include its broad array of products as well as the fact that it largely makes staples that people buy irrespective of economic conditions. This affords Clorox strong recession resistance as it actually increased its earnings markedly during and after the Great Recession. Clorox is a pure-play defensive stock in that regard.

Final Thoughts & Recommendation

Overall, we are expecting five-year total returns of just 2.7% annually, comprised of the 2.5% yield, 5% earnings growth and a 4.8% headwind from the valuation. Earnings-per-share growth is the most at risk due to the margin situation, but the bar is fairly low, and Clorox has produced enough sales growth to do most of the work. The stock looks overvalued at this point, but it does perform well during recessions and sports a respectable yield. Overall, Clorox earns a sell recommendation from Sure Dividend at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	5450	5234	5231	5468	5533	5514	5655	5761	5973	6124
Gross Profit	2346	2319	2273	2304	2391	2356	2465	2598	2671	2675
Gross Margin	43.0%	44.3%	43.5%	42.1%	43.2%	42.7%	43.6%	45.1%	44.7%	43.7%
SG&A Exp.	1214	1228	1237	1280	1291	1254	1321	1393	1409	1407
D&A Exp.	188	183	173	178	180	177	169	165	163	166
Operating Profit	1018	973	921	900	964	969	1000	1056	1117	1125
Operating Margin	18.7%	18.6%	17.6%	16.5%	17.4%	17.6%	17.7%	18.3%	18.7%	18.4%
Net Profit	537	603	557	541	572	558	580	648	701	823
Net Margin	9.9%	11.5%	10.6%	9.9%	10.3%	10.1%	10.3%	11.2%	11.7%	13.4%
Free Cash Flow	542	618	470	420	585	630	749	606	637	780
Income Tax	274	279	276	248	279	305	315	335	330	231

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	4576	4548	4163	4355	4311	4258	4164	4510	4573	5060
Cash & Equivalents	206	87	259	267	299	329	382	401	418	131
Inventories	366	332	382	384	394	386	385	443	459	506
Goodwill & Int. Ass.	2292	1949	1703	1754	1732	1712	1652	1932	1918	2531
Total Liabilities	4751	4465	4249	4490	4165	4104	4046	4213	4031	4334
Accounts Payable	381	409	423	412	413	440	431	490	501	507
Long-Term Debt	3149	2795	2584	2721	2372	2313	2191	2312	2195	2483
Shareholder's Equity	-175	83	-86	-135	146	154	118	297	542	726
D/E Ratio	-18.0	33.67	-30.05	-20.16	16.25	15.02	18.57	7.78	4.05	3.42

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	11.6%	13.2%	12.8%	12.7%	13.2%	13.0%	13.8%	14.9%	15.4%	17.1%
Return on Equity	N/A	N/A	N/A	-490%	N/A	372%	426%	312%	167%	130%
ROIC	17.7%	20.6%	20.7%	21.3%	22.4%	22.4%	24.3%	26.4%	26.2%	27.7%
Shares Out.	138	138	139	131	130	130	129	129	129	128
Revenue/Share	38.88	36.98	37.88	41.33	41.61	41.85	42.59	43.74	45.40	46.54
FCF/Share	3.87	4.37	3.40	3.17	4.40	4.78	5.64	4.60	4.84	5.93

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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