



# Clorox Company (CLX)

Updated February 5<sup>th</sup>, 2019 by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$158	<b>5 Year CAGR Estimate:</b>	2.1%	<b>Volatility Percentile:</b>	25.8%
<b>Fair Value Price:</b>	\$121	<b>5 Year Growth Estimate:</b>	5.0%	<b>Momentum Percentile:</b>	90.8%
<b>% Fair Value:</b>	131%	<b>5 Year Valuation Multiple Estimate:</b>	-5.3%	<b>Growth Percentile:</b>	33.1%
<b>Dividend Yield:</b>	2.4%	<b>5 Year Price Target</b>	\$154	<b>Valuation Percentile:</b>	15.9%
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	B	<b>Total Return Percentile:</b>	11.3%

## 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 trades with a market capitalization of \$20 billion. More than 80% of its revenue comes from products that are #1 or #2 in their categories.

Clorox reported Q2 earnings on 2/4/19 and results beat expectations, sending the stock up strongly after the report. Total sales were up 4% as a 3% gain from the Nutranext acquisition was offset by a similar loss thanks to currency translation.

The cleaning segment saw its sales increase 6% as all of its businesses produced top line increases. The household segment produced a 4% decline in sales as its bags and wraps business saw increased competitive pressures. The lifestyle business saw a strong 25% revenue increase in Q2 as all of its businesses produced growth, in addition to the Nutranext acquisition, which was not part of the comparable base in last year's Q2. Finally, the international business continues to struggle, producing an 8% decline in revenue. To be fair, the entirety of the decline can be explained by a staggering 16% loss due to currency translation, but this is not a new story for Clorox.

Gross margins came in ahead of forecast in Q2, rising 70bps to 43.7%; expectations were for just 42.2%. Clorox continues to reap the benefits of a robust cost savings program that has been in place for some time, and its profitability is showing it. The company's CEO did say that pricing power is largely behind it, and that it is focusing on supporting sales growth through heavier advertising and sales promotion support. Those comments would lead one to believe margins have likely plateaued given that pricing power and marketing spending have been guided to move unfavorably.

In total, earnings-per-share rose 21% on an adjusted basis in Q2 on a strong showing on the top line and for margins. Management reaffirmed their prior guidance range, so we've left our estimate of \$6.35 for 2019 unchanged after Q2.

## Growth on a Per-Share Basis

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

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. Q2 results were much stronger on the margin front, but management's comments are keeping us from getting too bullish.

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, in addition to higher marketing spending and lower pricing power, our average 5% annual earnings growth estimate will be slightly backloaded. Clorox continues to buy small amounts of growth – like Nutranext – while

*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.*



# Clorox Company (CLX)

Updated February 5<sup>th</sup>, 2019 by Josh Arnold

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.

We expect Clorox to raise its dividend in the near future from the current \$3.84, likely to somewhere around \$4 per share for 2019. 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	24.9	19.0
Avg. Yld.	3.4%	3.4%	3.4%	3.6%	3.4%	3.3%	2.9%	2.5%	2.5%	2.4%	2.4%	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 24.9 times earnings, near the peak valuation we've seen for the past decade. That implies a significant 5.3% headwind to total returns in the coming years. As a result of the valuation falling but continuing dividend growth, we believe the yield of the stock will rise from 2.4% today to 3.2% in 2024. Clorox continues to boost its dividend and with a moderate payout ratio, that should continue.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	48%	47%	106%	58%	58%	65%	64%	61%	59%	54%	60%	60%

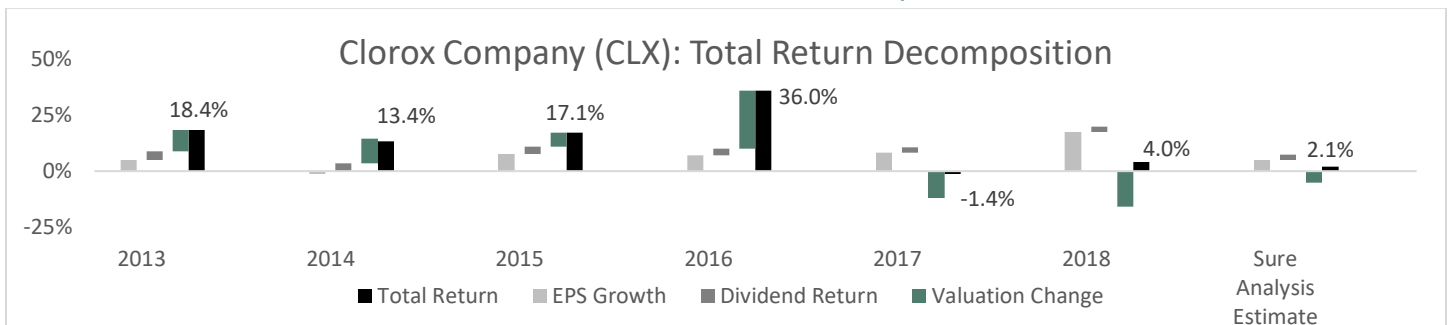
Clorox has improved its leverage and debt coverage in the past few years as it has managed to avoid taking on ever-rising debt totals. The gradual but meaningful improvement has allowed it to improve the safety of its dividend as well. Unless Clorox completes an unusually large acquisition, its debt 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, Q2 results notwithstanding. 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 2.1% annually, comprised of the 2.4% yield, 5% earnings growth and a 5.3% headwind from the valuation. The stock continues to look 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 because of very low expected returns as shares trade at 131% of our fair value estimate.

## Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



# Clorox Company (CLX)

Updated February 5<sup>th</sup>, 2019 by Josh Arnold

## Income Statement Metrics

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

## Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Total Assets</b>	4576	4548	4163	4355	4311	4258	4164	4510	4573	5060
<b>Cash &amp; Equivalents</b>	206	87	259	267	299	329	382	401	418	131
<b>Inventories</b>	366	332	382	384	394	386	385	443	459	506
<b>Goodwill &amp; Int. Ass.</b>	2292	1949	1703	1754	1732	1712	1652	1932	1918	2531
<b>Total Liabilities</b>	4751	4465	4249	4490	4165	4104	4046	4213	4031	4334
<b>Accounts Payable</b>	381	409	423	412	413	440	431	490	501	507
<b>Long-Term Debt</b>	3149	2795	2584	2721	2372	2313	2191	2312	2195	2483
<b>Shareholder's Equity</b>	-175	83	-86	-135	146	154	118	297	542	726
<b>D/E Ratio</b>	-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
<b>Return on Assets</b>	11.6%	13.2%	12.8%	12.7%	13.2%	13.0%	13.8%	14.9%	15.4%	17.1%
<b>Return on Equity</b>	N/A	N/A	N/A	-490%	N/A	372%	426%	312%	167%	130%
<b>ROIC</b>	17.7%	20.6%	20.7%	21.3%	22.4%	22.4%	24.3%	26.4%	26.2%	27.7%
<b>Shares Out.</b>	138	138	139	131	130	130	129	129	129	128
<b>Revenue/Share</b>	38.88	36.98	37.88	41.33	41.61	41.85	42.59	43.74	45.40	46.54
<b>FCF/Share</b>	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.

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.