



# Clorox Company (CLX)

Updated August 8<sup>th</sup>, 2019 by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$158	<b>5 Year CAGR Estimate:</b>	0.6%	<b>Volatility Percentile:</b>	31.8%
<b>Fair Value Price:</b>	\$122	<b>5 Year Growth Estimate:</b>	3.0%	<b>Momentum Percentile:</b>	72.0%
<b>% Fair Value:</b>	130%	<b>5 Year Valuation Multiple Estimate:</b>	-5.1%	<b>Growth Percentile:</b>	15.0%
<b>Dividend Yield:</b>	2.7%	<b>5 Year Price Target</b>	\$141	<b>Valuation Percentile:</b>	17.2%
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	B	<b>Total Return Percentile:</b>	7.8%

## 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 across the globe, helping Clorox produce more than \$6 billion in annual revenue.

Clorox reported Q4 earnings on 8/1/19 and results were largely as expected. Revenue decreased 4% year-over-year in Q4 as the company saw volume fall 3%, while a small pricing increase partially offset a 2% headwind from currency translation. Clorox continues to struggle with volume, as it has for several quarters now, and its highly global revenue base introduces a currency translation problem. Clorox' exposure to Argentina was the issue in Q4 in terms of currency translation, but this is certainly not a new problem. The company's revenue outlook remains weak.

Q4 gross margins increased 110bps to 45.1% of revenue, primarily attributable to pricing increases and cost savings measures. Higher manufacturing and supply chain costs offset some of these gains, but Q4 was largely positive for margins considering the revenue headwinds the company is facing.

Diluted earnings-per-share rose 13% in Q4, from \$1.66 to \$1.88 year-over-year. The gain reflects a lower tax rate, higher margins, and lower advertising and promotional spending.

Clorox raised its dividend in May from \$3.84 to \$4.24 annually, a 10.4% increase from last fiscal year.

Clorox provided preliminary guidance for fiscal 2020 of revenue growth of flat to +2%, as well as earnings-per-share of \$6.30 to \$6.50. We're out with an initial estimate of \$6.40 for fiscal 2020, representing fractional growth against 2019.

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>EPS</b>	\$4.24	\$2.07	\$4.10	\$4.31	\$4.26	\$4.59	\$4.92	\$5.33	\$6.26	\$6.32	<b>\$6.40</b>	<b>\$7.42</b>
<b>DPS</b>	\$2.05	\$2.25	\$2.44	\$2.63	\$2.87	\$2.99	\$3.11	\$3.24	\$3.36	\$3.84	<b>\$4.24</b>	<b>\$5.20</b>
<b>Shares</b>	138	139	131	130	130	129	129	129	128	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, fiscal 2019 was marred by higher commodity and freight costs and those headwinds are continuing into fiscal 2020, crimping margins. Q4 results were strong on the margin front, but we continue to see too many headwinds for margins to make us overly bullish. In addition, virtually no sales growth makes margin expansion more difficult due to lack of operating leverage.

Earnings-per-share growth this year will be on par with last fiscal year as Clorox won't have the benefit of tax reform, and will have to rely upon operational earnings improvements. We're downgrading our growth estimate from 5% to 3% given the many challenges the company is facing, particularly in revenue generation. Clorox continues to buy small amounts of growth – like Nutranext – while focusing on cost savings and reducing the float. While these factors will produce some growth, we're cautious considering the weak revenue outlook, as well as the already-low effective tax rate. We see Clorox struggling to overcome currency headwinds and volume weakness for the foreseeable future.

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We expect Clorox to raise its dividend in the future from the current \$4.24, likely to somewhere around \$5.20 per share by 2024.

## Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	14.4	31.9	16.7	18.2	20.7	22.3	25.1	24.0	22.3	24.0	24.6	19.0
Avg. Yld.	3.4%	3.4%	3.6%	3.4%	3.3%	2.9%	2.5%	2.5%	2.4%	2.5%	2.7%	3.7%

Clorox has 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 24.6 times earnings, still near the peak valuation we've seen for the past decade despite recent weakness in the stock. That implies a significant 5.1% 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 2.7% today to 3.7% in 2024. Clorox continues to boost its dividend and with a reasonable payout ratio, that should continue.

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

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	47%	106%	58%	58%	65%	64%	61%	59%	54%	61%	66%	70%

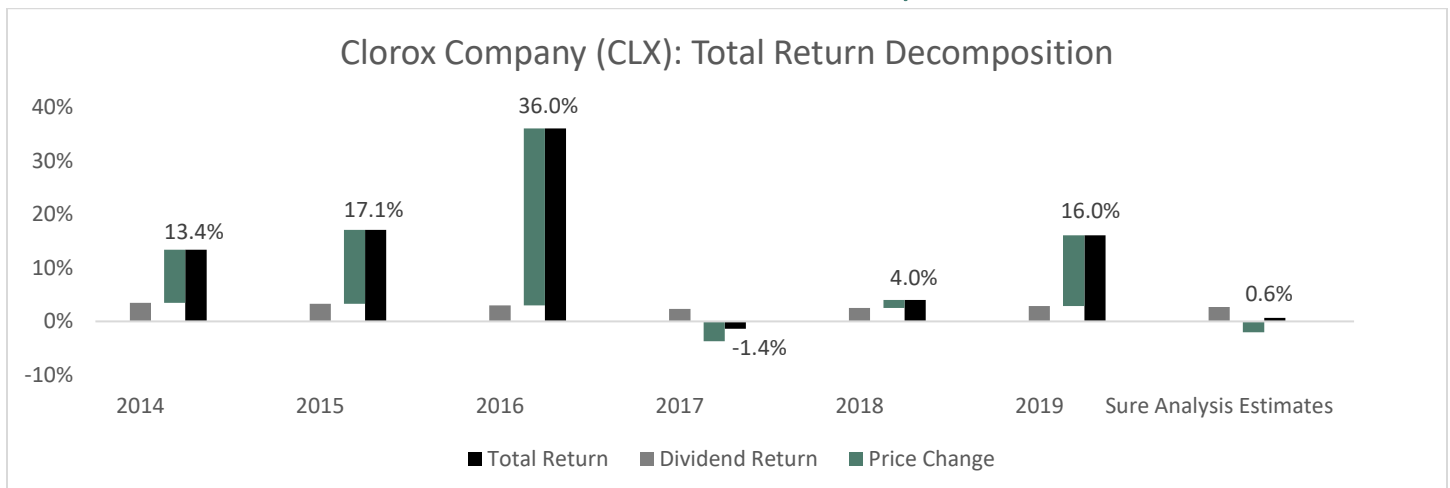
Clorox's payout ratio is 66%, at the upper range of where it has been for many years. The company's highly stable earnings base makes for a safe payout. Even when the next recession strikes, shareholders can count on Clorox maintaining (and likely slightly increasing) its dividend payments.

Clorox's 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 0.6% annually, comprised of the 2.7% yield, 3% earnings growth and a 5.1% headwind from the valuation. The stock continues to look very 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 130% of our fair value estimate.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	5234	5231	5468	5533	5514	5655	5761	5973	6124	6214
Gross Profit	2319	2273	2304	2391	2356	2465	2598	2671	2675	2728
Gross Margin	44.3%	43.5%	42.1%	43.2%	42.7%	43.6%	45.1%	44.7%	43.7%	43.9%
SG&A Exp.	1228	1237	1280	1291	1254	1321	1393	1409	1407	1468
D&A Exp.	183	173	178	180	177	169	165	163	166	
Operating Profit	973	921	900	964	969	1000	1056	1117	1125	1124
Operating Margin	18.6%	17.6%	16.5%	17.4%	17.6%	17.7%	18.3%	18.7%	18.4%	18.1%
Net Profit	603	557	541	572	558	580	648	701	823	820
Net Margin	11.5%	10.6%	9.9%	10.3%	10.1%	10.3%	11.2%	11.7%	13.4%	13.2%
Free Cash Flow	618	470	420	585	630	749	606	637	780	
Income Tax	279	276	248	279	305	315	335	330	231	204

## Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	4548	4163	4355	4311	4258	4164	4510	4573	5060	5116
Cash & Equivalents	87	259	267	299	329	382	401	418	131	111
Inventories			576	580	546	519	569	565	600	631
Goodwill & Int. Ass.	332	382	384	394	386	385	443	459	506	512
Total Liabilities	1949	1703	1754	1732	1712	1652	1932	1918	2531	2503
Accounts Payable	4465	4249	4490	4165	4104	4046	4213	4031	4334	4557
Long-Term Debt	409	423	412	413	440	431	490	501	507	1035
Shareholder's Equity	2795	2584	2721	2372	2313	2191	2312	2195	2483	2683
D/E Ratio	83	-86	-135	146	154	118	297	542	726	559

## Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	13.2%	12.8%	12.7%	13.2%	13.0%	13.8%	14.9%	15.4%	17.1%	16.1%
Return on Equity	N/A	N/A	-490%	N/A	372%	426%	312%	167%	130%	128%
ROIC	20.6%	20.7%	21.3%	22.4%	22.4%	24.3%	26.4%	26.2%	27.7%	25.4%
Shares Out.	138	139	131	130	130	129	129	129	128	129.79
Revenue/Share	36.98	37.88	41.33	41.61	41.85	42.59	43.74	45.40	46.54	47.88
FCF/Share	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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