



Clorox Company (CLX)

Updated May 6th, 2020 by Josh Arnold

Key Metrics

Current Price:	\$203	5 Year CAGR Estimate:	-1.2%	Market Cap:	\$25.6B
Fair Value Price:	\$138	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	07/21/20 ¹
% Fair Value:	147%	5 Year Valuation Multiple Estimate:	-7.5%	Dividend Payment Date:	08/07/20 ²
Dividend Yield:	2.1%	5 Year Price Target	\$168	Years Of Dividend Growth:	42
Dividend Risk Score:	B	Retirement Suitability Score:	C	Last Dividend Increase:	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 trades with a market capitalization of nearly \$26 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 \$6.5 billion in annual revenue.

Clorox reported third quarter earnings on May 1st, with very strong results on both the top and bottom lines. Total revenue soared 15% in the third quarter, while adjusted earnings-per-share increased by double that amount, adding 31% from the year-ago period to \$1.89. Sales and earnings grew in all of the company's reportable segments.

Sales were up thanks to staggering 18% volume growth globally, thanks to demand for the company's cleaning products. This was partially offset by a -2% headwind from unfavorable currency exchange, and -1% from unfavorable pricing and mix. Organic sales soared 17% in the quarter.

Gross margins were up strongly as well, adding 330bps to 46.7% of revenue. Volume growth was primarily responsible for the gain, as well as cost savings initiatives, which were partially offset by higher trade promotion spending.

Earnings came to \$241 million, or \$1.89 per share, up from \$187 million, or \$1.44 in the year-ago period. Earnings soared thanks to higher sales and gross margin expansion, which were partially offset by higher SG&A costs, as well as advertising spending.

The company produced net operating cash flows of \$806 million in the third quarter, about a third higher than the same period last year. We've boosted our earnings-per-share estimate for this year to \$6.90 on immense strength seen in Q3, and we think Q4 will be quite strong as well.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$4.24	\$2.07	\$4.10	\$4.31	\$4.26	\$4.59	\$4.92	\$5.33	\$6.26	\$6.32	\$6.90	\$8.39
DPS	\$2.05	\$2.25	\$2.44	\$2.63	\$2.87	\$2.99	\$3.11	\$3.24	\$3.36	\$3.84	\$4.24	\$5.16
Shares³	138	139	131	130	130	129	129	129	128	128	127	120

Earnings-per-share has grown steadily throughout the past decade as Clorox has grown 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. Q3 results were very strong on the margin front, but we continue to see too many headwinds for margins to make us overly bullish longer-term. In addition, virtually no sales growth makes margin expansion more difficult due to lack of operating leverage. While sales are growing at a rapid rate during the pandemic, that clearly isn't sustainable.

¹ Estimated date

² Estimated date

³ Share count in millions

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Earnings-per-share growth this year will be higher than last fiscal year as Clorox won't have the benefit of tax reform, but does have a very strong tailwind from the pandemic. We see Clorox producing just 4% earnings-per-share growth annually in the coming years, however, as conditions normalize. 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 once the pandemic passes.

We expect Clorox to raise its dividend from the current \$4.24, to somewhere around \$5.16 per share by 2025.

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	29.5	20.0
Avg. Yld.	3.4%	3.4%	3.6%	3.4%	3.3%	2.9%	2.5%	2.5%	2.4%	2.5%	2.1%	3.1%

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 20 times earnings, but Clorox currently trades at almost 30 times earnings, which is the highest valuation we've seen for the past decade. That implies the potential for a significant annual 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 could rise from 2.1% today to 3.1% in 2025.

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%	61%	61%

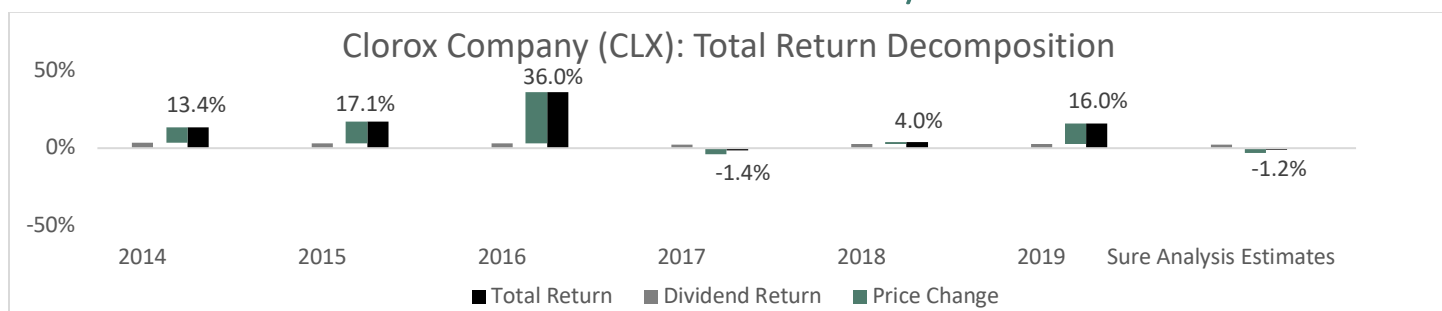
Clorox's payout ratio is 61%, at the upper range of where it has been for many years. The company's highly stable earnings base makes for a safe payout. Even during this recession, shareholders can count on Clorox maintaining (and likely slightly increasing) its dividend payment.

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. With its exposure to highly in demand cleaning products, this is even more so the case.

Final Thoughts & Recommendation

Overall, we are expecting five-year total returns of -1.2% annually, comprised of the 2.1% yield, 4% earnings growth and a significant headwind from the valuation. The stock continues to look very overvalued at this point, but it does perform well during recessions and sports a decent yield. Overall, Clorox earns a sell rating from Sure Dividend at current prices because of negative expected returns as shares trade at 147% 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	180
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	634	782	786
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	6.06

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

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