



Clorox Company (CLX)

Updated December 1st, 2020 by Josh Arnold

Key Metrics

Current Price:	\$202	5 Year CAGR Estimate:	4.4%	Market Cap:	\$26 B
Fair Value Price:	\$181	5 Year Growth Estimate:	4.5%	Ex-Dividend Date:	01/26/21 ¹
% Fair Value:	112%	5 Year Valuation Multiple Estimate:	-2.2%	Dividend Payment Date:	02/12/21 ²
Dividend Yield:	2.2%	5 Year Price Target	\$225	Years Of Dividend Growth:	43
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	4.7%

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 \$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 \$7 billion in annual revenue.

Clorox reported first quarter earnings on November 2nd, 2020 with results coming in well ahead of expectations on both the top and bottom lines. Total revenue was up 27% year-over-year to \$1.92 billion on continued pantry-stocking behavior, particularly with cleaning supplies. Organic sales made up the entire increase of 27%. Eight of the company's 10 business units produced double-digit organic growth, so strength was broad-based.

Gross margin was up 400bps to 48% of revenue, the company's eighth consecutive quarter of year-over-year gross margin expansion. Strong volume growth, cost savings initiatives and favorable mix helped gross margins, but were slightly offset by higher manufacturing and logistical costs.

Earnings-per-share came to \$3.22, more than double the \$1.59 Clorox produced in the year-ago period. Cash from operations was up 41% year-over-year from \$271 million to \$383 million.

Guidance was updated to sales of +5% to +9%, flat gross margins, and diluted earnings-per-share of \$7.70 to \$7.95; we've updated our estimate to \$7.85 for this year on strong Q1 results and guidance.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$2.07	\$4.10	\$4.31	\$4.26	\$4.59	\$4.92	\$5.33	\$6.26	\$6.32	\$7.36	\$7.85	\$9.78
DPS	\$2.25	\$2.44	\$2.63	\$2.87	\$2.99	\$3.11	\$3.24	\$3.36	\$3.84	\$4.24	\$4.44	\$5.40
Shares³	139	131	130	130	129	129	129	128	128	128	128	125

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 continued into fiscal 2020, crimping margins. Q1 results were outstanding on the margin front, but we continue to see too many headwinds to make us overly bullish longer-term. In addition, virtually no sales growth outside of COVID-19-related stocking up makes margin expansion more difficult due to lack of operating leverage. While sales are growing at a rapid rate during the pandemic, that isn't sustainable, and we feel similarly with margins.

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 4.5% earnings-per-share growth annually in the coming years as conditions normalize. Clorox continues to buy small amounts of growth – like Nutranext – while

¹ Estimated date

² Estimated date

³ Share count in millions

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 December 1st, 2020 by Josh Arnold

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 \$4.44, to somewhere around \$5.40 per share by fiscal 2026.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	31.9	16.7	18.2	20.7	22.3	25.1	24.0	22.3	24.0	23.5	25.7	23.0
Avg. Yld.	3.4%	3.6%	3.4%	3.3%	2.9%	2.5%	2.5%	2.4%	2.5%	2.5%	2.2%	2.4%

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 23 times earnings, but Clorox currently trades at nearly 26 times earnings, which is a sizable increase from our last update since the stock has sold off. That implies the potential for a modest 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 2.2% today to 2.4% in 2026.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	106%	58%	58%	65%	64%	61%	59%	54%	61%	58%	57%	55%

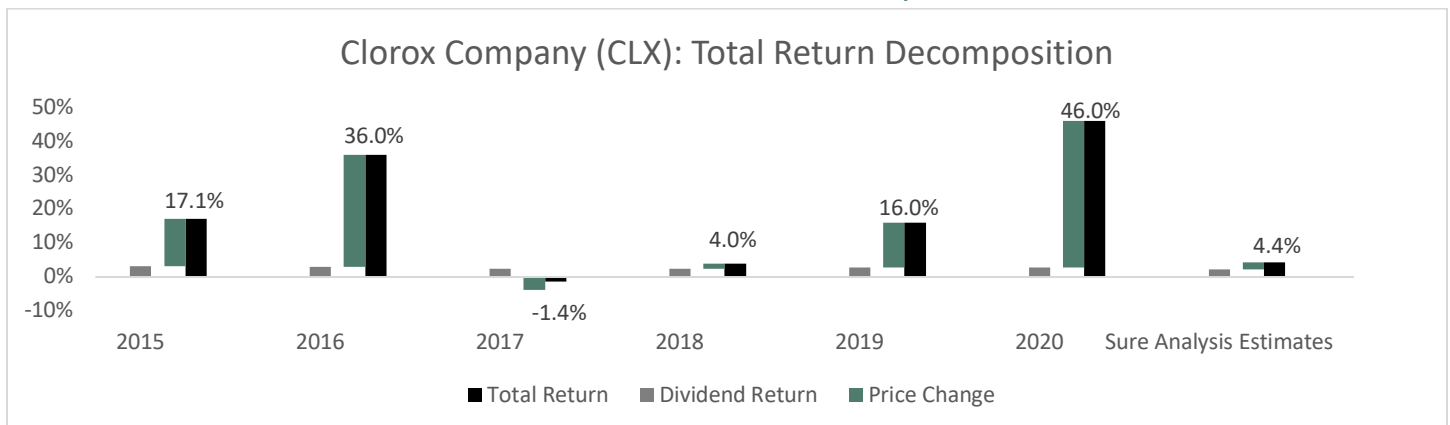
Clorox's payout ratio is 57%, at the upper range of where it has been for many years. The company's highly stable earnings base makes for a safe payout. Even during this recession, shareholders can count on Clorox maintaining (and likely slightly increasing) its dividend payment.

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 4.4% annually, comprised of the 2.2% yield, 4.5% earnings growth and a small headwind from the valuation. The stock continues to look overvalued at this point, but it does perform well during recessions and sports a decent yield. With the recent selloff, the stock is much closer to our estimate of fair value, and we are upgrading from sell to hold.

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 December 1st, 2020 by Josh Arnold

Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	5,231	5,468	5,533	5,514	5,655	5,761	5,973	6,124	6,214	6,721
Gross Profit	2,273	2,304	2,391	2,356	2,465	2,598	2,671	2,675	2,728	3,063
Gross Margin	43.5%	42.1%	43.2%	42.7%	43.6%	45.1%	44.7%	43.7%	43.9%	45.6%
SG&A Exp.	1,237	1,280	1,291	1,254	1,321	1,393	1,409	1,407	1,468	1,644
D&A Exp.	173	178	180	177	169	165	163	166	180	---
Operating Profit	921	900	964	969	1,000	1,056	1,117	1,125	1,107	1,274
Operating Margin	17.6%	16.5%	17.4%	17.6%	17.7%	18.3%	18.7%	18.4%	17.8%	19.0%
Net Profit	557	541	572	558	580	648	701	823	820	939
Net Margin	10.6%	9.9%	10.3%	10.1%	10.3%	11.2%	11.7%	13.4%	13.2%	14.0%
Free Cash Flow	470	420	585	630	749	606	634	782	786	---
Income Tax	276	248	279	305	315	335	330	231	204	246

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	4,163	4,355	4,311	4,258	4,164	4,510	4,573	5,060	5,116	6,213
Cash & Equivalents	259	267	299	329	382	401	418	131	111	871
Inventories	---	576	580	546	519	569	565	600	631	648
Goodwill & Int. Ass.	382	384	394	386	385	443	459	506	512	454
Total Liabilities	1,703	1,754	1,732	1,712	1,652	1,932	1,918	2,531	2,503	2,471
Accounts Payable	4,249	4,490	4,165	4,104	4,046	4,213	4,031	4,334	4,557	5,305
Long-Term Debt	423	412	413	440	431	490	501	507	507	1,329
Shareholder's Equity	2,584	2,721	2,372	2,313	2,191	2,312	2,195	2,483	2,683	2,780
D/E Ratio	(86)	(135)	146	154	118	297	542	726	559	908

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	12.8%	12.7%	13.2%	13.0%	13.8%	14.9%	15.4%	17.1%	16.1%	16.6%
Return on Equity	---	---	10400%	372%	427%	312%	167%	130%	128%	128%
ROIC	20.7%	21.3%	22.4%	22.4%	24.3%	26.4%	26.2%	27.7%	25.4%	27.1%
Shares Out.	139	131	130	130	129	129	129	128	128	128
Revenue/Share	37.88	41.33	41.61	41.85	42.59	43.74	45.40	46.54	47.88	52.64
FCF/Share	3.40	3.17	4.40	4.78	5.64	4.60	4.82	5.94	6.06	---

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.