



# Clorox Company (CLX)

Updated February 6<sup>th</sup>, 2021 by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$191	<b>5 Year CAGR Estimate:</b>	4.3%	<b>Market Cap:</b>	\$24 B
<b>Fair Value Price:</b>	\$191	<b>5 Year Growth Estimate:</b>	2.0%	<b>Ex-Dividend Date:</b>	04/26/21 <sup>1</sup>
<b>% Fair Value:</b>	100%	<b>5 Year Valuation Multiple Estimate:</b>	0.0%	<b>Dividend Payment Date:</b>	05/12/21 <sup>2</sup>
<b>Dividend Yield:</b>	2.3%	<b>5 Year Price Target</b>	\$211	<b>Years Of Dividend Growth:</b>	43
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Last Dividend Increase:</b>	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 \$24 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 \$7.5 billion in annual revenue.

Clorox reported second quarter earnings on February 4<sup>th</sup>, 2021 with results coming in better than expectations on both the top and bottom lines. However, the company provided bearish guidance on comparable sales for the back half of the year, and the stock traded lower as a result.

Clorox reported second quarter sales of \$1.84 billion, which was up 27% year-over-year. The company said it produced double-digit sales increases in three of its four segments due to ongoing COVID-19-driven demand, as well as behavioral shifts among consumers that are spending more time at home. Clorox added 1% to the top line from a recent acquisition of a joint venture in Saudi Arabia. Organic sales were up 26% during the quarter, but we note that COVID-driven demand will begin to be lapped in the company's third quarter.

Gross margin was up 130bps to 45.4% of revenue year-over-year, representing the ninth consecutive quarter of gross margin expansion from the prior year. The gains this quarter were due to strong volumes, cost saving initiatives, and lower trade promotion spending. Higher manufacturing and logistics costs cut into gains slightly, but Clorox is doing a terrific job of expanding margins. We note comparables on margins become more difficult beginning in Q3 as well.

Earnings-per-share came to \$2.03 in Q3, up from \$1.46 in the same period a year ago, reflecting sales and gross margin expansion, which offset higher SG&A costs. Net cash from operations is up 26% year-to-date to \$629 million.

Our estimate of earnings-per-share for this year is now up to \$8.30 following terrific Q2 results.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>EPS</b>	\$2.07	\$4.10	\$4.31	\$4.26	\$4.59	\$4.92	\$5.33	\$6.26	\$6.32	\$7.36	<b>\$8.30</b>	<b>\$9.16</b>
<b>DPS</b>	\$2.25	\$2.44	\$2.63	\$2.87	\$2.99	\$3.11	\$3.24	\$3.36	\$3.84	\$4.24	<b>\$4.44</b>	<b>\$5.40</b>
<b>Shares<sup>3</sup></b>	139	131	130	130	129	129	129	128	128	128	<b>128</b>	<b>125</b>

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. Q2 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

<sup>1</sup> Estimated date

<sup>2</sup> Estimated date

<sup>3</sup> Share count in millions

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sales are growing at a rapid rate during the pandemic, that isn't sustainable, and we feel similarly with margins. This is why we are cautious on growth potential beginning in Q3 of this fiscal year.

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 2% earnings-per-share growth annually in the coming years as conditions normalize. Clorox continues to buy small amounts of growth 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 in fiscal 2021.

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	23.0	23.0
Avg. Yld.	3.4%	3.6%	3.4%	3.3%	2.9%	2.5%	2.5%	2.4%	2.5%	2.5%	2.3%	2.6%

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, and that is exactly where shares trade following a post-earnings selloff. Thus, we expect no impact from the valuation on total returns in the coming years. With continued dividend growth on the horizon, we see the yield potentially moving up slightly over time.

## 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%	54%	59%

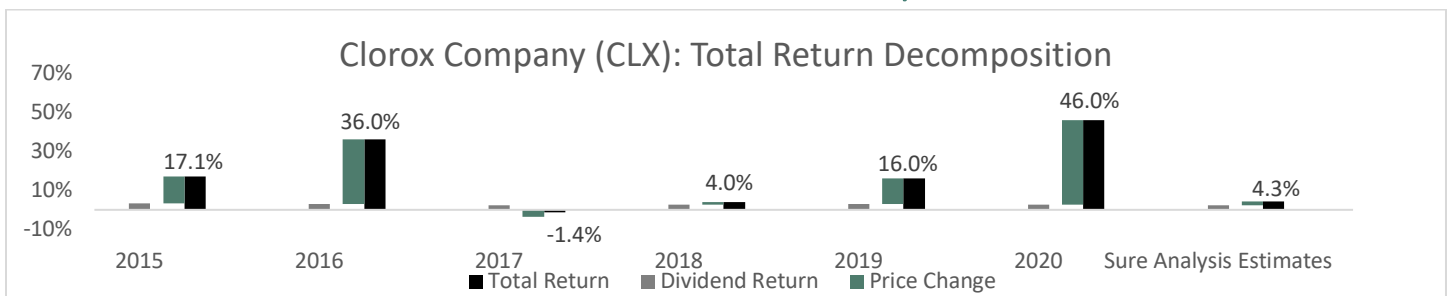
Clorox's payout ratio is 54%, in the range of where it has been for many years. The company's highly stable earnings base makes for a safe payout. Even during a recession, shareholders can count on Clorox maintaining (and likely slightly increasing) its dividend payment.

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 4.3% annually, comprised of the 2.2% yield, 2% earnings growth and no impact from the valuation. The stock is fairly valued in our view, and it performs well during recessions and sports a decent yield. With the recent selloff, the stock is in line with fair value, and we are reiterating the stock at a hold rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

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

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets</b>	4,163	4,355	4,311	4,258	4,164	4,510	4,573	5,060	5,116	6,213
<b>Cash &amp; Equivalents</b>	259	267	299	329	382	401	418	131	111	871
<b>Inventories</b>	---	576	580	546	519	569	565	600	631	648
<b>Goodwill &amp; Int. Ass.</b>	382	384	394	386	385	443	459	506	512	454
<b>Total Liabilities</b>	1,703	1,754	1,732	1,712	1,652	1,932	1,918	2,531	2,503	2,471
<b>Accounts Payable</b>	4,249	4,490	4,165	4,104	4,046	4,213	4,031	4,334	4,557	5,305
<b>Long-Term Debt</b>	423	412	413	440	431	490	501	507	507	1,329
<b>Shareholder's Equity</b>	2,584	2,721	2,372	2,313	2,191	2,312	2,195	2,483	2,683	2,780
<b>D/E Ratio</b>	(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
<b>Return on Assets</b>	12.8%	12.7%	13.2%	13.0%	13.8%	14.9%	15.4%	17.1%	16.1%	16.6%
<b>Return on Equity</b>	---	---	10400%	372%	427%	312%	167%	130%	128%	128%
<b>ROIC</b>	20.7%	21.3%	22.4%	22.4%	24.3%	26.4%	26.2%	27.7%	25.4%	27.1%
<b>Shares Out.</b>	139	131	130	130	129	129	129	128	128	128
<b>Revenue/Share</b>	37.88	41.33	41.61	41.85	42.59	43.74	45.40	46.54	47.88	52.64
<b>FCF/Share</b>	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

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