



Clorox Company (CLX)

Updated May 15th, 2021 by Josh Arnold

Key Metrics

Current Price:	\$181	5 Year CAGR Estimate:	6.0%	Market Cap:	\$23 B
Fair Value Price:	\$178	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	07/26/21 ¹
% Fair Value:	102%	5 Year Valuation Multiple Estimate:	-0.3%	Dividend Payment Date:	08/12/21
Dividend Yield:	2.5%	5 Year Price Target	\$217	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 \$23 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 third quarter earnings on April 30th, 2021, with results disappointing investors on both the top and bottom lines. Total revenue was flat year-over-year at \$1.8 billion, and organic revenue fell -1%. Lower shipment volumes were offset by favorable price mix and a 1% benefit from the company's purchase of its joint venture in Saudi Arabia, which was completed in July of 2020.

Gross margin was down 320bps in Q3, to 43.5% of revenue. The decline, which the company pointed out was its first gross margin contraction in the past 10 quarters, was the result of higher manufacturing and logistics costs, along with higher commodity costs. These factors were partially offset by lower trade promotion spending and the benefit of the company's cost saving efforts, but margins were quite poor in Q3.

Earnings-per-share came to a loss of -\$0.49 in Q3 on a reported basis, compared to \$1.89 in the year-ago period when the pandemic had just begun. However, the loss represents a non-cash impairment charge for the company's VMS business, and without this charge, adjusted earnings-per-share were \$1.62. The -14% decline was driven primarily by the gross margin miss, as well as higher advertising investments, which were partially offset by lower selling and administrative costs. After a very weak Q3, we've cut our estimate of earnings-per-share for this year to \$7.75.

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	\$7.75	\$9.43
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
Shares²	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. Q2 results were outstanding on the margin front, but we continue to see too many headwinds to make us overly bullish longer-term. Indeed, Q3 margins were well off the mark, substantiating our cautious stance. 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 were 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% earnings-per-share growth annually in

¹ Estimated date

² Share count in millions

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the coming years as conditions normalize, and as the base of earnings has come way down for the current fiscal year. 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, which we reiterate after weak Q3 results.

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	23.4	23.0
Avg. Yld.	3.4%	3.6%	3.4%	3.3%	2.9%	2.5%	2.5%	2.4%	2.5%	2.5%	2.5%	2.5%

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 essentially exactly where shares trade following another post-earnings selloff. Thus, we expect no little from the valuation on total returns in the coming years. With continued dividend growth on the horizon, we see the yield remaining about where it is.

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%	57%

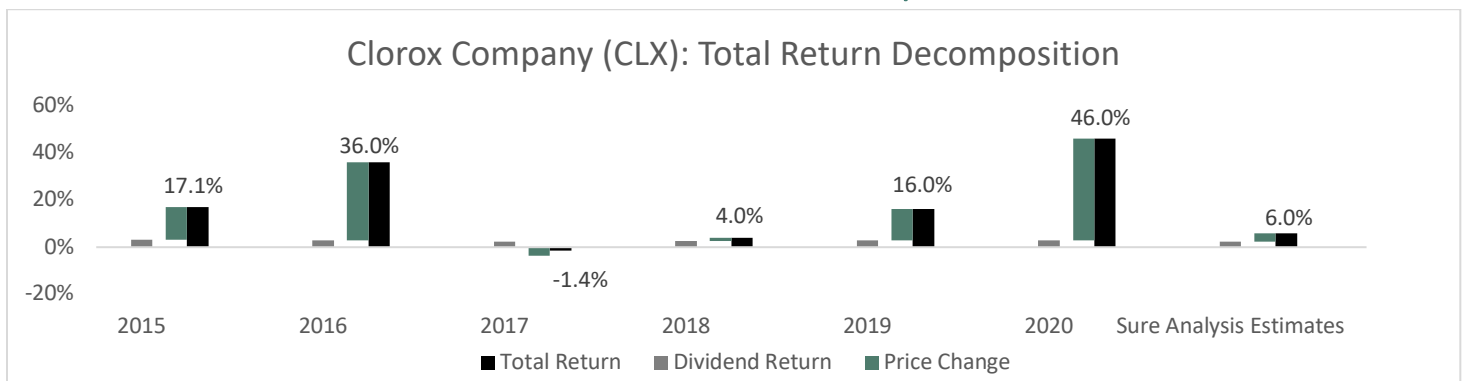
Clorox's payout ratio is 57%, in the range of where it has been for many years. The company's highly stable earnings base makes for a safe payout. Even during a recession, shareholders can count on Clorox maintaining (and likely slightly increasing) its dividend payment.

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 6% annually, comprised of the 2.5% yield, 4% earnings growth and basically 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 our estimate of fair value, and we are reiterating the stock at a hold rating, but note that the company faces significant margin headwinds.

Total Return Breakdown by Year



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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.

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