



Clorox Company (CLX)

Updated August 7th, 2021, by Josh Arnold

Key Metrics

Current Price:	\$163	5 Year CAGR Estimate:	5.6%	Market Cap:	\$20 B
Fair Value Price:	\$128	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	10/26/21 ¹
% Fair Value:	128%	5 Year Valuation Multiple Estimate:	-4.8%	Dividend Payment Date:	11/12/21
Dividend Yield:	2.8%	5 Year Price Target	\$188	Years Of Dividend Growth:	44
Dividend Risk Score:	B	Retirement Suitability Score:	B	Last Dividend Increase:	4.5%

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 \$7 billion in annual revenue.

Clorox reported fourth quarter and full-year earnings on August 3rd, 2021, with results far below expectations and the company produced disappointing guidance for the upcoming fiscal year as well. Total revenue fell -9.1% year-over-year to \$1.8 billion, which missed estimates by more than \$100 million. Adjusted earnings-per-share were also well short of the mark, hitting 95 cents, missing estimates by 36 cents.

Organic sales were down -10% in Q4, but on a two-year stacked basis, organic sales were up 13%. The company saw a negative impact from unfavorable pricing and mix in Q4. Gross margins were down 970 bps year-over-year to 37.1% of sales, which was driven by higher manufacturing and logistics costs, increased commodity costs due to commodity inflation, decreasing leverage from lower revenue, and unfavorable mix, partially offset by benefits cost savings.

The company posted guidance of a decline of -2% to -6% in organic sales and adjusted earnings-per-share of \$5.40 to \$5.70 for this year. Our initial estimate is the midpoint at \$5.55. The company expects to be challenged with commodity costs, manufacturing costs, and logistics costs this fiscal year. Clorox also boosted its dividend for the 44th consecutive year, this time adding 4.5% to a new annualized payout of \$4.64 per share.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$4.10	\$4.31	\$4.26	\$4.59	\$4.92	\$5.33	\$6.26	\$6.32	\$7.36	\$7.25	\$5.55	\$8.15
DPS	\$2.44	\$2.63	\$2.87	\$2.99	\$3.11	\$3.24	\$3.36	\$3.84	\$4.24	\$4.44	\$4.64	\$5.65
Shares²	131	130	130	129	129	129	128	128	128	127	127	126

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, second half 2021 margins were well off the mark, substantiating our cautious stance. In addition, lower revenue 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. In fact, these factors already unwound with Q4 results.

We see Clorox producing 8% earnings-per-share growth annually in 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

¹ Estimated date

² Share count in millions

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considering the weak revenue outlook. We see Clorox struggling to overcome currency headwinds and volume weakness for the foreseeable future, which will also create an uphill battle for margins.

We expect Clorox to raise its dividend from the current \$4.64, to somewhere around \$5.65 per share by fiscal 2027.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	16.7	18.2	20.7	22.3	25.1	24.0	22.3	24.0	23.5	27.7	29.4	23.0
Avg. Yld.	3.6%	3.4%	3.3%	2.9%	2.5%	2.5%	2.4%	2.5%	2.5%	2.2%	2.8%	3.0%

Clorox has experienced a sizable increase in its valuation in the years since 2012 as its price-to-earnings multiple has nearly doubled. We see fair value at 23 times earnings but shares now trade for more than 29 times this year's earnings estimate given the sharp decline from last year's earnings base. We think the valuation could be a headwind for shareholders in the coming years as a result. With continued dividend growth on the horizon, we see the yield remaining about where it is.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	58%	58%	65%	64%	61%	59%	54%	61%	58%	61%	84%	69%

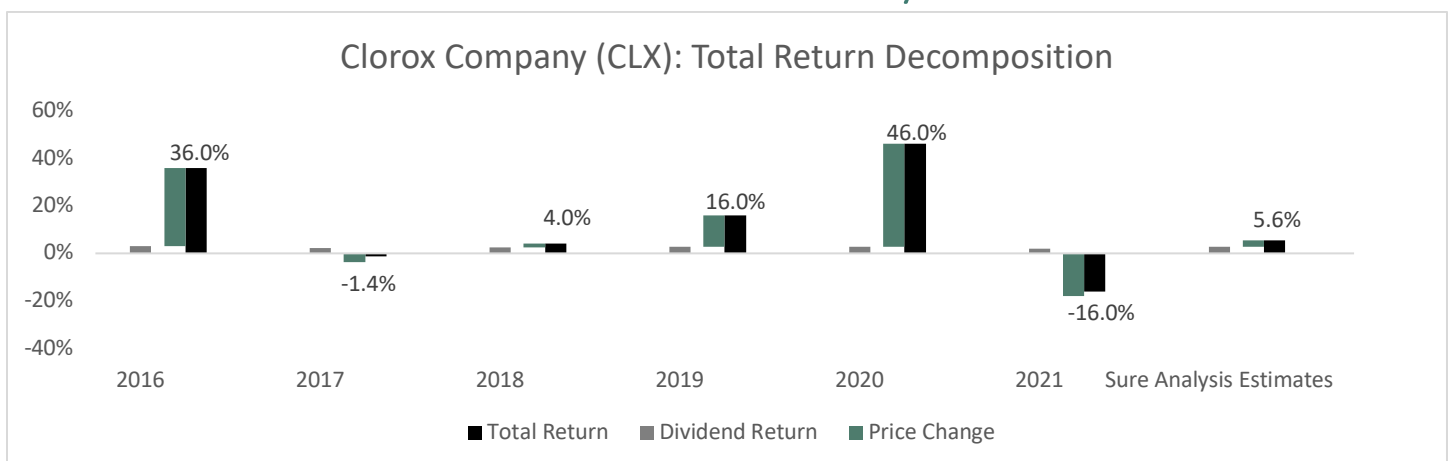
Clorox's payout ratio is 84% today, however, that is because of the very low guidance given for this year. The company's highly stable earnings base generally makes for a safe payout. Even during a recession, shareholders can count on Clorox maintaining (and likely slightly increasing) its dividend payment.

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. Pantry stocking appears to have passed, but during a normal recession, Clorox delivers.

Final Thoughts & Recommendation

Overall, we are expecting five-year total returns of 5.6% annually, comprised of the 2.8% yield, 8% earnings growth and a strong headwind from the valuation. The stock is fairly valued in our view, and it performs well during recessions and sports a nice yield. We are reiterating the stock at a hold rating, but note that the company faces significant margin headwinds, and that revenue is in question now as well.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	5,468	5,533	5,514	5,655	5,761	5,973	6,124	6,214	6,721	7,341
Gross Profit	2,304	2,391	2,356	2,465	2,598	2,671	2,675	2,728	3,063	3,199
Gross Margin	42.1%	43.2%	42.7%	43.6%	45.1%	44.7%	43.7%	43.9%	45.6%	43.6%
SG&A Exp.	1,280	1,291	1,254	1,321	1,393	1,409	1,407	1,468	1,644	1,794
D&A Exp.	178	180	177	169	165	163	166	180	180	---
Operating Profit	900	964	969	1,000	1,056	1,117	1,125	1,107	1,274	1,256
Operating Margin	16.5%	17.4%	17.6%	17.7%	18.3%	18.7%	18.4%	17.8%	19.0%	17.1%
Net Profit	541	572	558	580	648	701	823	820	939	710
Net Margin	9.9%	10.3%	10.1%	10.3%	11.2%	11.7%	13.4%	13.2%	14.0%	9.7%
Free Cash Flow	420	585	630	749	606	634	782	786	1,292	---
Income Tax	248	279	305	315	335	330	231	204	246	181

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	4,355	4,311	4,258	4,164	4,510	4,573	5,060	5,116	6,213	6,334
Cash & Equivalents	267	299	329	382	401	418	131	111	871	319
Inventories	576	580	546	519	569	565	600	631	648	604
Goodwill & Int. Ass.	384	394	386	385	443	459	506	512	454	752
Total Liabilities	1,754	1,732	1,712	1,652	1,932	1,918	2,531	2,503	2,471	2,493
Accounts Payable	4,490	4,165	4,104	4,046	4,213	4,031	4,334	4,557	5,305	5,742
Long-Term Debt	412	413	440	431	490	501	507	507	1,329	1,675
Shareholder's Equity	2,721	2,372	2,313	2,191	2,312	2,195	2,483	2,683	2,780	2,784
D/E Ratio	(135)	146	154	118	297	542	726	559	908	411

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	12.7%	13.2%	13.0%	13.8%	14.9%	15.4%	17.1%	16.1%	16.6%	11.3%
Return on Equity	---	---	372%	427%	312%	167%	130%	128%	128%	108%
ROIC	21.3%	22.4%	22.4%	24.3%	26.4%	26.2%	27.7%	25.4%	27.1%	20.1%
Shares Out.	131	130	130	129	129	129	128	128	128	127
Revenue/Share	41.33	41.61	41.85	42.59	43.74	45.40	46.54	47.88	52.64	57.67
FCF/Share	3.17	4.40	4.78	5.64	4.60	4.82	5.94	6.06	10.12	---

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

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