



# Clorox Company (CLX)

Updated November 19<sup>th</sup>, 2021, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$166	<b>5 Year CAGR Estimate:</b>	3.3%	<b>Market Cap:</b>	\$21 B
<b>Fair Value Price:</b>	\$127	<b>5 Year Growth Estimate:</b>	6.0%	<b>Ex-Dividend Date:</b>	01/25/22
<b>% Fair Value:</b>	131%	<b>5 Year Valuation Multiple Estimate:</b>	-5.3%	<b>Dividend Payment Date:</b>	02/11/22
<b>Dividend Yield:</b>	2.8%	<b>5 Year Price Target</b>	\$169	<b>Years Of Dividend Growth:</b>	44
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	B	<b>Last Dividend Increase:</b>	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 \$21 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 1<sup>st</sup>, 2021, and results were better than expected, although expectations were quite subdued given the challenges the company has faced. Total revenue declined nearly -6% year-over-year to \$1.8 billion, as organic sales fell -5% during the quarter. The decline was due to unfavorable pricing and mix, a decline in volume, and forex translation. Cleaning and professional products were higher, but consumer products like vitamins and supplements posted strong declines.

Gross margins were down to 37% of revenue from 48% a year ago, with the massive decline coming from higher commodity, logistics, and manufacturing costs. Clorox says it is working through productivity improvements to help with its margin issues, including cost reductions and hiking prices where it can.

The company posted \$1.21 in earnings-per-share for Q3, which was ahead of estimates. However, we've cut a nickel off our estimate of earnings-per-share this year, which now stands at \$5.50. The cautious stance on earnings for this year stems primarily from very weak margins Clorox is grappling with.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$4.10	\$4.31	\$4.26	\$4.59	\$4.92	\$5.33	\$6.26	\$6.32	\$7.36	\$7.25	<b>\$5.50</b>	<b>\$7.36</b>
<b>DPS</b>	\$2.44	\$2.63	\$2.87	\$2.99	\$3.11	\$3.24	\$3.36	\$3.84	\$4.24	\$4.44	<b>\$4.64</b>	<b>\$5.65</b>
<b>Shares<sup>1</sup></b>	131	130	130	129	129	129	128	128	128	127	<b>127</b>	<b>126</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, second half 2021 margins were well off the mark, as were Q1 fiscal 2022 margins, which plummeted year-over-year. 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 last year, and Q1 results were quite weak on the margin front for this year.

We see Clorox producing 6% 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 considering the weak revenue outlook, and very weak margin performance. We see Clorox struggling to overcome currency headwinds and volume weakness for the foreseeable future, which will also create an uphill battle for margins.

<sup>1</sup> Share count in millions

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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	30.2	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%	3.3%

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 30 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 having the potential to rise to 3.3%.

## 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%	77%

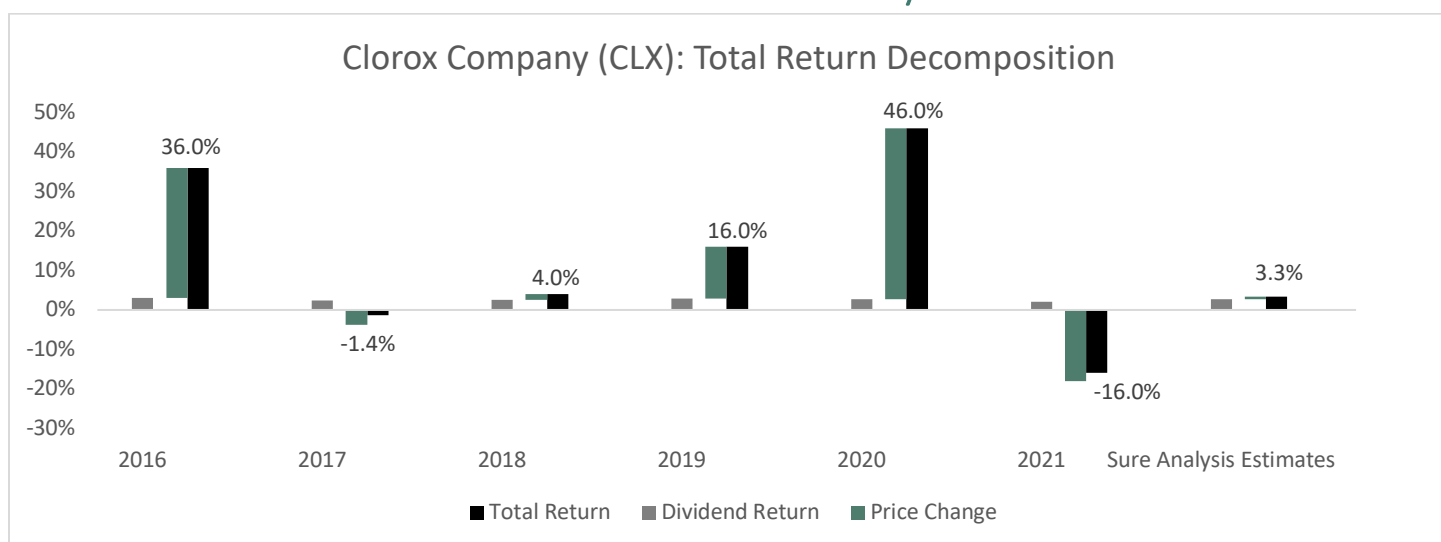
Clorox's payout ratio is 84% today, however, that is because of the very low guidance given for this year. The company's highly stable earnings base generally makes for a safe payout. Even during a recession, shareholders can count on Clorox maintaining (and likely slightly increasing) its dividend payment.

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 3.3% annually, comprised of the 2.8% yield, 6% earnings growth and a strong headwind from the valuation. The stock is quite overvalued in our view, but it performs well during recessions and sports a nice yield. We are downgrading the stock from hold to sell, noting 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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