



Clorox Company (CLX)

Updated February 5th, 2022, by Josh Arnold

Key Metrics

Current Price:	\$141	5 Year CAGR Estimate:	3.0%	Market Cap:	\$18 B
Fair Value Price:	\$102	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	04/25/22 ¹
% Fair Value:	138%	5 Year Valuation Multiple Estimate:	-6.2%	Dividend Payment Date:	05/11/22
Dividend Yield:	3.3%	5 Year Price Target	\$137	Years Of Dividend Growth:	44
Dividend Risk Score:	C	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 \$18 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 second quarter earnings on February 3rd, 2022, and results were very weak, and the stock fell more than 14% on the release. Total sales declined -8% to \$1.7 billion, but the quarter followed a 27% year-over-year increase in the comparable period a year ago. Clorox pointed out sales on a two-year basis were up 19% as a result. The decline year-over-year was from a -10% decline in volume, partially offset by a 2% gain from favorable price mix. Forex translation had no impact on sales, so organic sales were down -8%. Gross margin plummeted 1240 basis points to 33% of revenue. This was driven primarily by higher manufacturing, logistics, and commodity costs.

Adjusted earnings-per-share fell 67% to 66 cents. The company said it faces a challenging cost environment, but that the company is driving cost savings and pricing to help, but as Q2 results showed, it isn't nearly enough at the moment. Management said they expect to see cost pressures continue through this fiscal year, which indicates margins will also likely be very weak.

Our updated estimate for this year is now just \$4.45 in earnings-per-share as margins have fallen off a cliff for Clorox.

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	\$4.45	\$5.96
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, second half 2021 margins were well off the mark, as were Q1 and Q2 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 first half 2022 results were quite weak on the margin front.

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 extremely weak margin performance. We see Clorox struggling to overcome cost inflation for the foreseeable future, which will create an uphill battle for margins.

¹ Estimated date

² 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 February 5th, 2022, by Josh Arnold

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	31.7	23.0
Avg. Yld.	3.6%	3.4%	3.3%	2.9%	2.5%	2.5%	2.4%	2.5%	2.5%	2.2%	3.3%	4.1%

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 31 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 4.1%.

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%	104%	95%

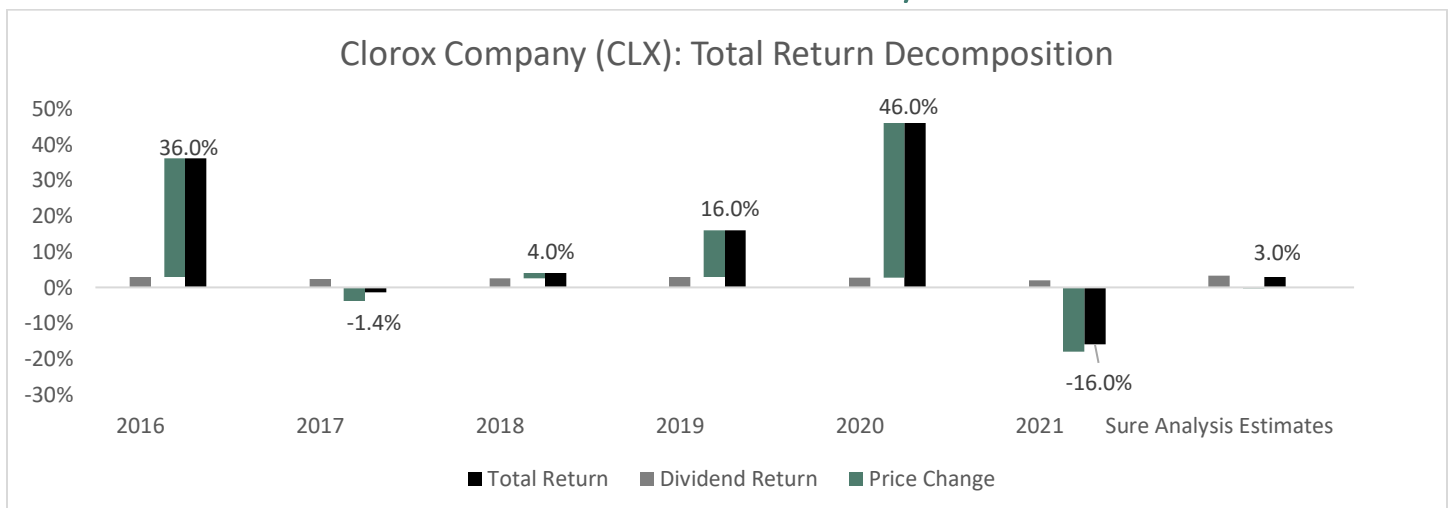
Clorox's payout ratio is 104% today, however, that is because of the very low guidance given for this year. The company's usually highly stable earnings base generally makes for a safe payout. Even during a recession, shareholders can count on Clorox maintaining (and likely slightly increasing) its dividend payment. We think Clorox can continue to raise its dividend for the foreseeable future, despite its elevated payout ratio.

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 3.0% annually, comprised of the 3.3% 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 reiterating the stock at a sell rating, noting that the company faces significant margin headwinds, and that revenue is in question as well.

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 February 5th, 2022, by Josh Arnold

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.

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.