



# Clorox Company (CLX)

Updated May 20<sup>th</sup>, 2022, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$138	<b>5 Year CAGR Estimate:</b>	7.1%	<b>Market Cap:</b>	\$18 B
<b>Fair Value Price:</b>	\$95	<b>5 Year Growth Estimate:</b>	12.0%	<b>Ex-Dividend Date:</b>	07/25/22 <sup>1</sup>
<b>% Fair Value:</b>	145%	<b>5 Year Valuation Multiple Estimate:</b>	-7.1%	<b>Dividend Payment Date:</b>	08/11/22
<b>Dividend Yield:</b>	3.4%	<b>5 Year Price Target</b>	\$168	<b>Years Of Dividend Growth:</b>	44
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	Hold

## 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 third quarter earnings on May 2<sup>nd</sup>, 2022, and results were better than expected on both the top and bottom lines. However, the company's guidance and commentary on inflationary pressures sent the stock lower following the report.

Adjusted earnings-per-share came to \$1.31, which was 35 cents ahead of expectations. Revenue was up fractionally year-over-year at \$1.8 billion, about \$10 million ahead of estimates. Net sales growth reflected higher shipments across all reporting segments, while organic sales rose 2%. The company noted the three-year average growth rate for net sales was up 5%, but this period encompasses the surge in revenue from COVID.

Gross margins plummeted 760 basis points to 35.9% of revenue, due mainly to higher manufacturing and logistics costs, as well as commodity costs. These were partially offset by the benefits of pricing increases and cost savings initiatives.

Adjusted earnings-per-share were down 19% year-over-year, due primarily to lower gross margin, and partially offset by lower advertising spending and higher net revenue.

The company reduced guidance for earnings to \$4.05 to \$4.30 per share for this year, which only has one quarter to go, down from \$4.25 to \$4.50. We've reduced our estimate accordingly, and we now stand at \$4.15.

## 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>\$4.15</b>	<b>\$7.31</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>2</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 have all three reported quarters for 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 YTD 2022 results were very weak on the margin front.

We see Clorox producing 12% 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

<sup>1</sup> Estimated date

<sup>2</sup> Share count in millions

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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. We note that the current growth rate estimate is elevated only because of the very low base of earnings for this year.

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	33.3	23.0
Avg. Yld.	3.6%	3.4%	3.3%	2.9%	2.5%	2.5%	2.4%	2.5%	2.5%	2.2%	3.4%	3.4%

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 33 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. We see the yield remaining about where it is today at 3.4%.

## 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%	112%	77%

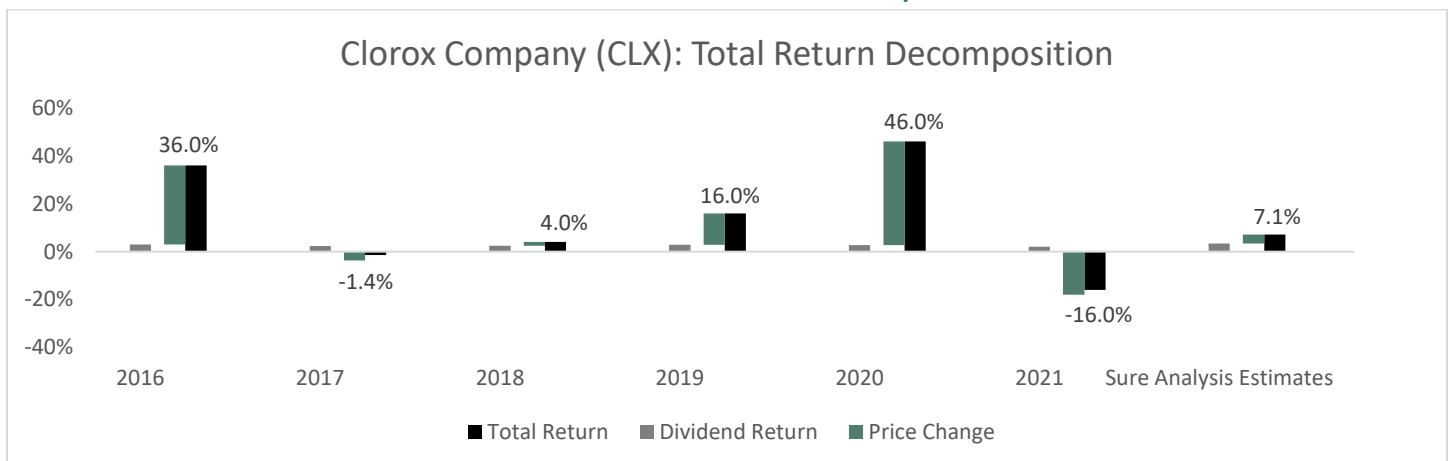
Clorox's payout ratio is 112% today, however, that is because of the very low guidance given for this year. The company's usually highly stable earnings base generally makes for a safe payout. Even during a recession, shareholders can count on Clorox maintaining (and likely slightly increasing) its dividend 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 7.1% annually, comprised of the 3.4% yield, 12% 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. Given the move higher in total expected returns, we're upgrading Clorox from sell to hold.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	5,468	5,533	5,514	5,655	5,761	5,973	6,124	6,214	6,721	7,341
<b>Gross Profit</b>	2,304	2,391	2,356	2,465	2,598	2,671	2,675	2,728	3,063	3,199
<b>Gross Margin</b>	42.1%	43.2%	42.7%	43.6%	45.1%	44.7%	43.7%	43.9%	45.6%	43.6%
<b>SG&amp;A Exp.</b>	1,280	1,291	1,254	1,321	1,393	1,409	1,407	1,468	1,644	1,794
<b>D&amp;A Exp.</b>	178	180	177	169	165	163	166	180	180	211
<b>Operating Profit</b>	900	964	969	1,000	1,056	1,117	1,125	1,107	1,274	1,256
<b>Operating Margin</b>	16.5%	17.4%	17.6%	17.7%	18.3%	18.7%	18.4%	17.8%	19.0%	17.1%
<b>Net Profit</b>	541	572	558	580	648	701	823	820	939	710
<b>Net Margin</b>	9.9%	10.3%	10.1%	10.3%	11.2%	11.7%	13.4%	13.2%	14.0%	9.7%
<b>Free Cash Flow</b>	420	585	630	749	606	634	782	786	1,292	945
<b>Income Tax</b>	248	279	305	315	335	330	231	204	246	181

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	4,355	4,311	4,258	4,164	4,510	4,573	5,060	5,116	6,213	6,334
<b>Cash &amp; Equivalents</b>	267	299	329	382	401	418	131	111	871	319
<b>Inventories</b>	576	580	546	519	569	565	600	631	648	604
<b>Goodwill &amp; Int. Ass.</b>	384	394	386	385	443	459	506	512	454	752
<b>Total Liabilities</b>	1,754	1,732	1,712	1,652	1,932	1,918	2,531	2,503	2,471	2,493
<b>Accounts Payable</b>	4,490	4,165	4,104	4,046	4,213	4,031	4,334	4,557	5,305	5,742
<b>Long-Term Debt</b>	412	413	440	431	490	501	507	507	1,329	1,675
<b>Shareholder's Equity</b>	2,721	2,372	2,313	2,191	2,312	2,195	2,483	2,683	2,780	2,784
<b>D/E Ratio</b>	(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
<b>Return on Assets</b>	12.7%	13.2%	13.0%	13.8%	14.9%	15.4%	17.1%	16.1%	16.6%	11.3%
<b>Return on Equity</b>	---	---	372%	427%	312%	167%	130%	128%	128%	108%
<b>ROIC</b>	21.3%	22.4%	22.4%	24.3%	26.4%	26.2%	27.7%	25.4%	27.1%	20.1%
<b>Shares Out.</b>	131	130	130	129	129	129	128	128	128	127
<b>Revenue/Share</b>	41.33	41.61	41.85	42.59	43.74	45.40	46.54	47.88	52.64	57.67
<b>FCF/Share</b>	3.17	4.40	4.78	5.64	4.60	4.82	5.94	6.06	10.12	7.42

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

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