



Clorox Company (CLX)

Updated August 8th, 2022, by Josh Arnold

Key Metrics

Current Price:	\$145	5 Year CAGR Estimate:	6.3%	Market Cap:	\$17 B
Fair Value Price:	\$97	5 Year Growth Estimate:	12.0%	Ex-Dividend Date:	10/25/22 ¹
% Fair Value:	150%	5 Year Valuation Multiple Estimate:	-7.8%	Dividend Payment Date:	11/12/22
Dividend Yield:	3.3%	5 Year Price Target	\$170	Years Of Dividend Growth:	45
Dividend Risk Score:	C	Retirement Suitability Score:	C	Rating:	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 \$17 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, 2022, and results were quite weak. Adjusted earnings-per-share came in line with expectations at 93 cents, but revenue was flat year-over-year at \$1.8 billion, missing estimates by \$80 million.

Gross margin came to 37.1% of revenue, flat year-over-year. This was primarily attributable to ongoing elevated commodity costs and manufacturing and logistics costs, which were offset by the benefits of both cost savings and pricing initiatives.

The company guided 2023 to a net sales decline of 4% to a gain of 2%, and organic sales are expected to be between -3% and +3%. Gross margin is expected to increase about 200 basis points, which would be due to the combined benefit of continued pricing initiatives, cost savings, and supply chain optimization. The company also expects cost inflation to continue well into this year.

Clorox guided for adjusted earnings-per-share of \$3.85 to \$4.22, and we've set our initial estimate at \$4.20.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$4.31	\$4.26	\$4.59	\$4.92	\$5.33	\$6.26	\$6.32	\$7.36	\$7.25	\$4.10	\$4.20	\$7.40
DPS	\$2.63	\$2.87	\$2.99	\$3.11	\$3.24	\$3.36	\$3.84	\$4.24	\$4.44	\$4.64	\$4.72	\$5.74
Shares²	130	130	129	129	129	128	128	128	127	123	120	110

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 all reported quarters for fiscal 2022 margins, weakening throughout the 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 2022 results were very weak on the margin front, with more forecast for 2023.

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 considering the weak revenue outlook, and extremely weak margin performance. We see Clorox struggling to overcome

¹ Estimated date

² Share count in millions

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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 \$4.72, to somewhere around \$5.74 per share by fiscal 2028.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	18.2	20.7	22.3	25.1	24.0	22.3	24.0	23.5	27.7	39.1	34.5	23.0
Avg. Yld.	3.4%	3.3%	2.9%	2.5%	2.5%	2.4%	2.5%	2.5%	2.2%	2.9%	3.3%	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 34 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 3.3%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	58%	65%	64%	61%	59%	54%	61%	58%	61%	88%	112%	78%

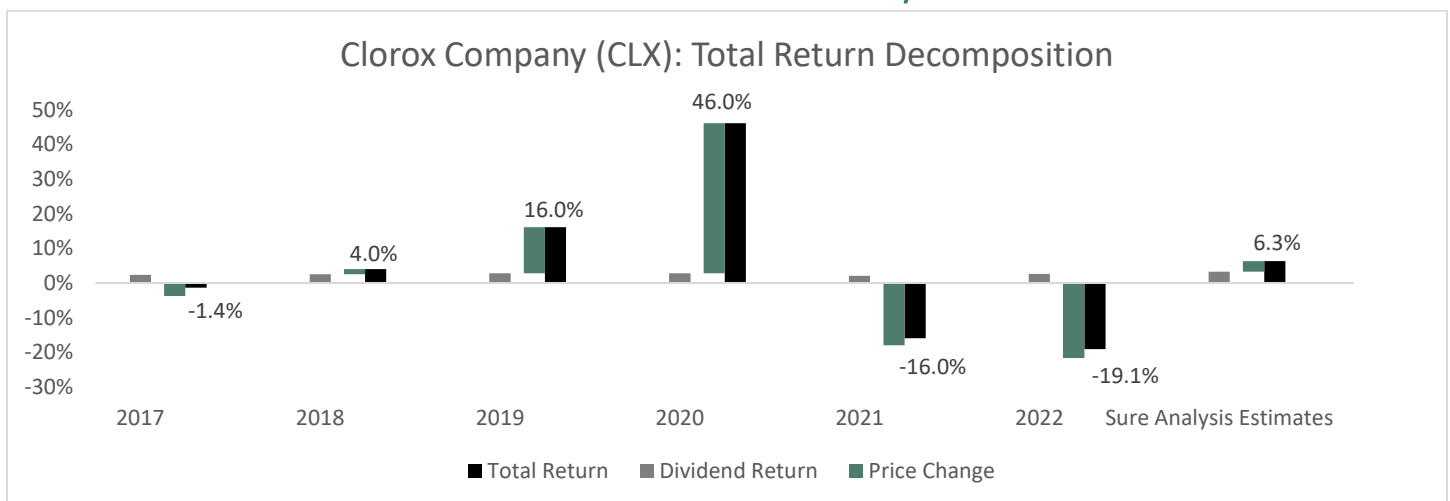
Clorox's payout ratio is 112% today, however, that is because of the very low guidance given for this year. The company's usually highly stable earnings base generally makes for a safe payout. Even during a recession, shareholders can count on Clorox maintaining (and likely slightly increasing) its dividend 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 6.3% annually, comprised of the 3.3% 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 higher total expected returns, we're reiterating Clorox at a hold.

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	211
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	945
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	7.42

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

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