



# Clorox Company (CLX)

Updated November 22<sup>nd</sup>, 2022, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$149	<b>5 Year CAGR Estimate:</b>	5.3%	<b>Market Cap:</b>	\$18 B
<b>Fair Value Price:</b>	\$94	<b>5 Year Growth Estimate:</b>	12.0%	<b>Ex-Dividend Date:</b>	01/24/23
<b>% Fair Value:</b>	158%	<b>5 Year Valuation Multiple Estimate:</b>	-8.7%	<b>Dividend Payment Date:</b>	02/10/23
<b>Dividend Yield:</b>	3.2%	<b>5 Year Price Target</b>	\$166	<b>Years Of Dividend Growth:</b>	45
<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 first quarter earnings on November 1<sup>st</sup>, 2022, and results were better than expected on both the top and bottom lines. The company reported adjusted earnings-per-share of 93 cents, which was 15 cents better than expected. Revenue was down 3.9% year-over-year to \$1.74 billion, but was \$40 million ahead of expectations.

Sales contraction of 4% compared to a 6% gain in the year-ago period. The decline was driven by lower sales volume, partially offset by favorable price mix. Organic sales declined 2%, although the three-year average growth rate for net sales was +5%.

Gross margin declined 110bps to 36% of revenue from 37.1% year-over-year. This was due to higher manufacturing and logistics costs, higher commodity costs, and lower volume. These were partially offset by the benefits of pricing and cost saving initiatives.

Adjusted earnings-per-share declined 23% because of lower gross margin, lower volume, and higher SG&A, partially offset by the benefits of pricing actions.

We now see \$4.10 in earnings-per-share for this fiscal year after Q1 results.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$4.31	\$4.26	\$4.59	\$4.92	\$5.33	\$6.26	\$6.32	\$7.36	\$7.25	\$4.10	<b>\$4.10</b>	<b>\$7.23</b>
<b>DPS</b>	\$2.63	\$2.87	\$2.99	\$3.11	\$3.24	\$3.36	\$3.84	\$4.24	\$4.44	\$4.64	<b>\$4.72</b>	<b>\$5.74</b>
<b>Shares<sup>1</sup></b>	130	130	129	129	129	128	128	128	127	123	<b>120</b>	<b>110</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 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 again for the start of fiscal 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 weak margin performance. We see Clorox struggling to overcome cost

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

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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	36.3	23.0
Avg. Yld.	3.4%	3.3%	2.9%	2.5%	2.5%	2.4%	2.5%	2.5%	2.2%	2.9%	3.2%	3.5%

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 36 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 3.2%.

## 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%	115%	80%

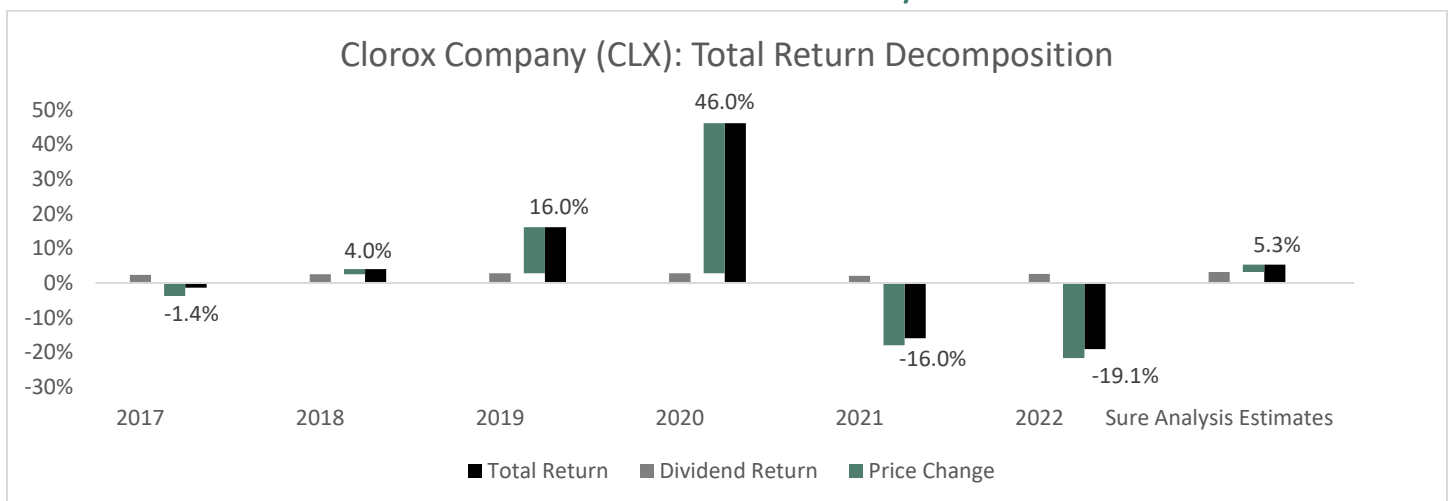
Clorox's payout ratio is 115% today, however, that is because of the very low guidance given for this year. The company's usually highly stable earnings base generally makes for a safe payout. Even during a recession, shareholders can count on Clorox maintaining (and likely slightly increasing) its dividend 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 5.3% annually, comprised of the 3.2% yield, 12% earnings growth and an 8.7% headwind from the valuation. The stock is quite overvalued in our view, but it performs well during recessions and sports a nice yield. Given 5.3% total expected returns, we're reiterating Clorox at a hold.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	5,533	5,514	5,655	5,761	5,973	6,124	6,214	6,721	7,341	7,107
<b>Gross Profit</b>	2,391	2,356	2,465	2,598	2,671	2,675	2,728	3,063	3,199	2,545
<b>Gross Margin</b>	43.2%	42.7%	43.6%	45.1%	44.7%	43.7%	43.9%	45.6%	43.6%	35.8%
<b>SG&amp;A Exp.</b>	1,291	1,254	1,321	1,393	1,409	1,407	1,468	1,644	1,794	1,663
<b>D&amp;A Exp.</b>	180	177	169	165	163	166	180	180	211	224
<b>Operating Profit</b>	964	969	1,000	1,056	1,117	1,125	1,107	1,274	1,256	719
<b>Operating Margin</b>	17.4%	17.6%	17.7%	18.3%	18.7%	18.4%	17.8%	19.0%	17.1%	10.1%
<b>Net Profit</b>	572	558	580	648	701	823	820	939	710	462
<b>Net Margin</b>	10.3%	10.1%	10.3%	11.2%	11.7%	13.4%	13.2%	14.0%	9.7%	6.5%
<b>Free Cash Flow</b>	585	630	749	606	634	782	786	1,292	945	535
<b>Income Tax</b>	279	305	315	335	330	231	204	246	181	136

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	4,311	4,258	4,164	4,510	4,573	5,060	5,116	6,213	6,334	6,158
<b>Cash &amp; Equivalents</b>	299	329	382	401	418	131	111	871	319	183
<b>Inventories</b>	580	546	519	569	565	600	631	648	752	755
<b>Goodwill &amp; Int. Ass.</b>	394	386	385	443	459	506	512	454	2,493	2,442
<b>Total Liabilities</b>	1,732	1,712	1,652	1,932	1,918	2,531	2,503	2,471	5,742	5,429
<b>Accounts Payable</b>	4,165	4,104	4,046	4,213	4,031	4,334	4,557	5,305	930	960
<b>Long-Term Debt</b>	413	440	431	490	501	507	507	1,329	2,784	2,711
<b>Shareholder's Equity</b>	2,372	2,313	2,191	2,312	2,195	2,483	2,683	2,780	411	556
<b>D/E Ratio</b>	146	154	118	297	542	726	559	908	6.8	4.9

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	13.2%	13.0%	13.8%	14.9%	15.4%	17.1%	16.1%	16.6%	11.3%	7.4%
<b>Return on Equity</b>	---	372%	427%	312%	167%	130%	128%	128%	108%	95.6%
<b>ROIC</b>	22.4%	22.4%	24.3%	26.4%	26.2%	27.7%	25.4%	27.1%	20.1%	13.6%
<b>Shares Out.</b>	130	130	129	129	129	128	128	128	127	124
<b>Revenue/Share</b>	41.61	41.85	42.59	43.74	45.40	46.54	47.88	52.64	57.67	57.36
<b>FCF/Share</b>	4.40	4.78	5.64	4.60	4.82	5.94	6.06	10.12	7.42	4.32

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

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