



Clorox Company (CLX)

Updated February 4th, 2023, by Josh Arnold

Key Metrics

Current Price:	\$155	5 Year CAGR Estimate:	4.9%	Market Cap:	\$19 B
Fair Value Price:	\$97	5 Year Growth Estimate:	12.0%	Ex-Dividend Date:	04/24/23 ¹
% Fair Value:	160%	5 Year Valuation Multiple Estimate:	-9.0%	Dividend Payment Date:	05/10/23
Dividend Yield:	3.0%	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 \$19 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 2nd, 2023, and results were better than expected on both the top and bottom lines. Adjusted earnings-per-share came to 98 cents, which was well ahead of estimates. Revenue was \$1.72 billion, up 1.8% year-over-year, and beating estimates by \$60 million. The gain in sales was driven largely by favorable price mix, partially offset by lower volume. Organic sales were up 4%.

Gross margin was up 320 basis points to 36.2% of revenue, from 33% in the year-ago quarter. This was due mostly to pricing actions.

The company expects organic sales to be flat to up 3% this year, while reported sales are expected to be between -2% and +1%. The company boosted guidance for earnings-per-share as well, and we've added a dime to our estimate, which is now \$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 had grown steadily throughout the past decade as Clorox had grown both organically as well as through acquisitions. However, earnings declined sharply in 2022, and should remain low through at least 2023. 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. We note margins began to turn higher in early-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 inflation for the foreseeable future, which will create an uphill battle for margins, but 2023 is off to a good start. We note that the current growth rate estimate is elevated only because of the very low base of earnings for this year.

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.



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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	36.9	23.0
Avg. Yld.	3.4%	3.3%	2.9%	2.5%	2.5%	2.4%	2.5%	2.5%	2.2%	2.9%	3.0%	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 nearly 37 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 rising somewhat over time, from 3.0% today to 3.4%.

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%

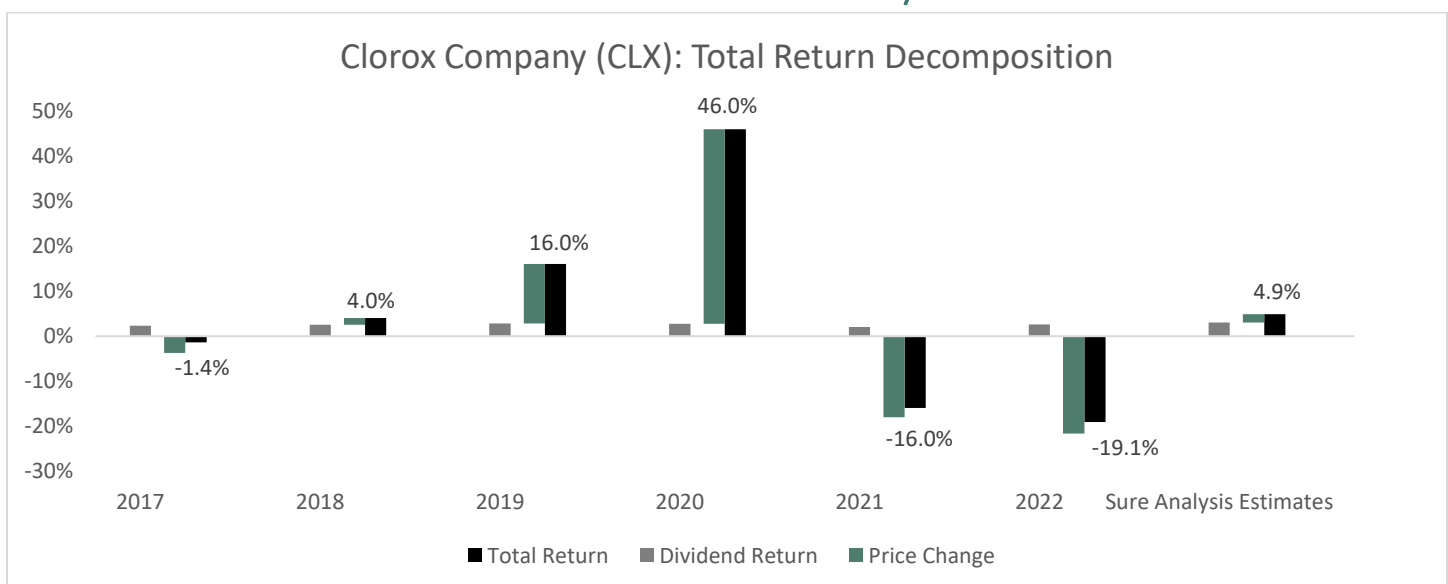
Clorox's payout ratio is 112% today, however, that is because of the very low guidance given for this year. The company's usually highly stable earnings base generally makes for a safe payout. Even during a recession, shareholders can count on Clorox maintaining (and likely slightly increasing) its dividend 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 4.9% annually, comprised of the 3% yield, 12% earnings growth and a 9% headwind from the valuation. The stock is quite overvalued in our view, but it performs well during recessions and sports a nice yield. Given 4.9% 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
Revenue	5,533	5,514	5,655	5,761	5,973	6,124	6,214	6,721	7,341	7,107
Gross Profit	2,391	2,356	2,465	2,598	2,671	2,675	2,728	3,063	3,199	2,545
Gross Margin	43.2%	42.7%	43.6%	45.1%	44.7%	43.7%	43.9%	45.6%	43.6%	35.8%
SG&A Exp.	1,291	1,254	1,321	1,393	1,409	1,407	1,468	1,644	1,794	1,663
D&A Exp.	180	177	169	165	163	166	180	180	211	224
Operating Profit	964	969	1,000	1,056	1,117	1,125	1,107	1,274	1,256	719
Operating Margin	17.4%	17.6%	17.7%	18.3%	18.7%	18.4%	17.8%	19.0%	17.1%	10.1%
Net Profit	572	558	580	648	701	823	820	939	710	462
Net Margin	10.3%	10.1%	10.3%	11.2%	11.7%	13.4%	13.2%	14.0%	9.7%	6.5%
Free Cash Flow	585	630	749	606	634	782	786	1,292	945	535
Income Tax	279	305	315	335	330	231	204	246	181	136

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	4,311	4,258	4,164	4,510	4,573	5,060	5,116	6,213	6,334	6,158
Cash & Equivalents	299	329	382	401	418	131	111	871	319	183
Inventories	580	546	519	569	565	600	631	648	752	755
Goodwill & Int. Ass.	394	386	385	443	459	506	512	454	2,493	2,442
Total Liabilities	1,732	1,712	1,652	1,932	1,918	2,531	2,503	2,471	5,742	5,429
Accounts Payable	4,165	4,104	4,046	4,213	4,031	4,334	4,557	5,305	930	960
Long-Term Debt	413	440	431	490	501	507	507	1,329	2,784	2,711
Shareholder's Equity	2,372	2,313	2,191	2,312	2,195	2,483	2,683	2,780	411	556
D/E Ratio	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
Return on Assets	13.2%	13.0%	13.8%	14.9%	15.4%	17.1%	16.1%	16.6%	11.3%	7.4%
Return on Equity	---	372%	427%	312%	167%	130%	128%	128%	108%	95.6%
ROIC	22.4%	22.4%	24.3%	26.4%	26.2%	27.7%	25.4%	27.1%	20.1%	13.6%
Shares Out.	130	130	129	129	129	128	128	128	127	124
Revenue/Share	41.61	41.85	42.59	43.74	45.40	46.54	47.88	52.64	57.67	57.36
FCF/Share	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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