



Clorox Company (CLX)

Updated February 9th, 2024, by Josh Arnold

Key Metrics

Current Price:	\$154	5 Year CAGR Estimate:	6.7%	Market Cap:	\$19 B
Fair Value Price:	\$127	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	04/24/24 ¹
% Fair Value:	122%	5 Year Valuation Multiple Estimate:	-3.9%	Dividend Payment Date:	05/09/24
Dividend Yield:	3.1%	5 Year Price Target	\$186	Years Of Dividend Growth:	46
Dividend Risk Score:	B	Retirement Suitability Score:	B	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 posted second quarter earnings on February 1st, 2024, and results were better than expected, along with strong guidance. The stock flew higher following the report as expectations going in were quite low. Adjusted earnings-per-share smashed estimates of \$1.06, coming in at better than double that level at \$2.16. Revenue soared 16% year-over-year to \$1.99 billion, and beat estimates by a massive \$190 million.

Organic sales were up 20% during the quarter, which it said was due to favorable pricing and mix, as well as customers rebuilding their inventory levels. That suggests the level of sales growth from Q2 is likely not repeatable.

Gross margin soared 730 basis points higher year-over-year to 43.5% of revenue, which was due to the benefits of pricing and cost saving initiatives. Forex rates were a slight headwind.

Clorox now guides for net sales to be down low single digits rather than down mid- to high single digits. Adjusted earnings-per-share is now forecast to be almost a dollar more than prior guidance.

We start the third quarter with an estimate of \$5.50 in earnings-per-share for this fiscal year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$4.26	\$4.59	\$4.92	\$5.33	\$6.26	\$6.32	\$7.36	\$7.25	\$4.10	\$5.78	\$5.50	\$8.08
DPS	\$2.87	\$2.99	\$3.11	\$3.24	\$3.36	\$3.84	\$4.24	\$4.44	\$4.64	\$4.74	\$4.80	\$5.84
Shares²	130	129	129	129	128	128	128	127	123	124	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, before rebounding in 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, and ended the year on an extremely high note, continuing that strength into the first half of 2024. The cyberattack has been overcome and is a thing of the past. We see Clorox producing 8% 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. We've boosted our estimate of earnings but only because the base for

¹ Estimated date

² Share count in millions

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2024 is now lower. Margins finished 2023 very strongly, with pricing increases and cost savings combining to boost profitability. Organic sales were off the charts in the second quarter of 2024, likely unsustainably so.

We expect Clorox to raise its dividend from the current \$4.80, to somewhere around \$5.84 per share by fiscal 2029.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	20.7	22.3	25.1	24.0	22.3	24.0	23.5	27.7	39.1	27.5	28.0	23.0
Avg. Yld.	3.3%	2.9%	2.5%	2.5%	2.4%	2.5%	2.5%	2.2%	2.9%	3.0%	3.1%	3.1%

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 28 times this year's earnings estimate given current earnings estimates for 2024. We think the valuation could be a headwind for shareholders in the coming years as a result. We see the yield remaining where it is today at 3.1%, still about double that of the S&P 500.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	65%	64%	61%	59%	54%	61%	58%	61%	88%	82%	87%	72%

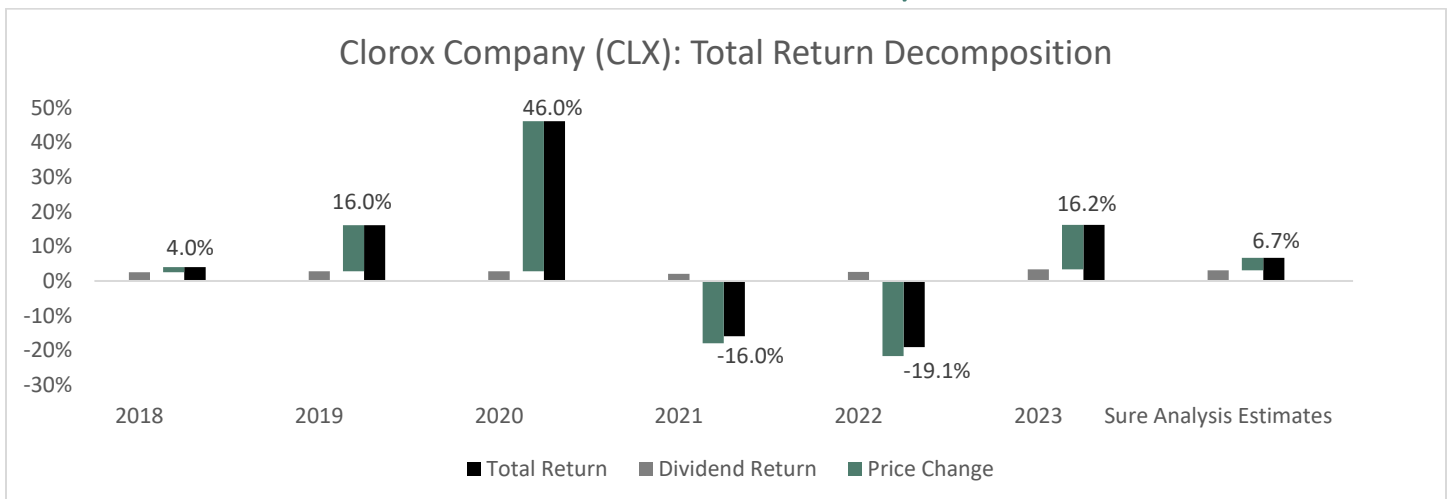
Clorox's payout ratio is 87% today, however, that is because of the guidance given for this year. The company's usually highly stable earnings base generally makes for a safe payout. Even during a recession, shareholders can count on Clorox maintaining (and likely slightly increasing) its dividend payment. 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 6.7% annually, comprised of the 3.1% yield, 8% earnings growth and a 3.9% headwind from the valuation. The stock is quite overvalued in our view, but it performs well during recessions and sports a nice yield. Given 6.7% total expected returns, we're reiterating Clorox at a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	5,514	5,655	5,761	5,973	6,124	6,214	6,721	7,341	7,107	7,389
Gross Profit	2,356	2,465	2,598	2,671	2,675	2,728	3,063	3,199	2,545	2,908
Gross Margin	42.7%	43.6%	45.1%	44.7%	43.7%	43.9%	45.6%	43.6%	35.8%	39.4%
SG&A Exp.	1,254	1,321	1,393	1,409	1,407	1,468	1,644	1,794	1,663	1,917
D&A Exp.	177	169	165	163	166	180	180	211	224	236
Operating Profit	969	1,000	1,056	1,117	1,125	1,107	1,274	1,256	719	823
Operating Margin	17.6%	17.7%	18.3%	18.7%	18.4%	17.8%	19.0%	17.1%	10.1%	11.1%
Net Profit	558	580	648	701	823	820	939	710	462	149
Net Margin	10.1%	10.3%	11.2%	11.7%	13.4%	13.2%	14.0%	9.7%	6.5%	2.0%
Free Cash Flow	630	749	606	634	782	786	1,292	945	535	930
Income Tax	305	315	335	330	231	204	246	181	136	77

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	4,258	4,164	4,510	4,573	5,060	5,116	6,213	6,334	6,158	5,945
Cash & Equivalents	329	382	401	418	131	111	871	319	183	367
Inventories	546	519	569	565	600	631	648	752	755	696
Goodwill & Int. Ass.	386	385	443	459	506	512	454	2,493	2,442	1,964
Total Liabilities	1,712	1,652	1,932	1,918	2,531	2,503	2,471	5,742	5,429	5,557
Accounts Payable	4,104	4,046	4,213	4,031	4,334	4,557	5,305	930	960	1,021
Long-Term Debt	440	431	490	501	507	507	1,329	2,784	2,711	2,527
Shareholder's Equity	2,313	2,191	2,312	2,195	2,483	2,683	2,780	411	556	220
D/E Ratio	154	118	297	542	726	559	908	6.8	4.9	11.49

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	13.0%	13.8%	14.9%	15.4%	17.1%	16.1%	16.6%	11.3%	7.4%	2.5%
Return on Equity	372%	427%	312%	167%	130%	128%	128%	108%	95.6%	38.4%
ROIC	22.4%	24.3%	26.4%	26.2%	27.7%	25.4%	27.1%	20.1%	13.6%	4.7%
Shares Out.	130	129	129	129	128	128	128	127	124	124
Revenue/Share	41.85	42.59	43.74	45.40	46.54	47.88	52.64	57.67	57.36	59.50
FCF/Share	4.78	5.64	4.60	4.82	5.94	6.06	10.12	7.42	4.32	7.49

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

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