



# Clorox Company (CLX)

Updated August 11<sup>th</sup>, 2024, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$143	<b>5 Year CAGR Estimate:</b>	10.6%	<b>Market Cap:</b>	\$17.7 B
<b>Fair Value Price:</b>	\$153	<b>5 Year Growth Estimate:</b>	6.5%	<b>Ex-Dividend Date:</b>	08/14/24
<b>% Fair Value:</b>	93%	<b>5 Year Valuation Multiple Estimate:</b>	1.4%	<b>Dividend Payment Date:</b>	08/30/24
<b>Dividend Yield:</b>	3.4%	<b>5 Year Price Target</b>	\$210	<b>Years Of Dividend Growth:</b>	47
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Buy

## 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 \$17.7 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. The company also boasts an outstanding dividend increase streak of 47 consecutive years.

Clorox posted fourth quarter and full-year earnings on August 1<sup>st</sup>, 2024, and results were mixed. Adjusted earnings-per-share came to \$1.82, which was 27 cents ahead of estimates. Revenue, however, was off 6% year-over-year to \$1.9 billion. That also missed expectations by \$50 million. The decline in revenue was due largely to the divestment of the business in Argentina, as well as unfavorable price mix and lower volumes. Organic sales were down 3%, which excludes the impact of acquisitions and divestitures.

Gross margin was up 380 basis points to 46.5% of revenue, which was primarily attributable to lower manufacturing and logistics costs, the benefit of cost savings, and favorable commodity costs. This was partially offset by the impact of higher trade promotion costs.

Clorox boosted its dividend once again, this time by 1.7% to a new payout of \$4.88 per share annually. This is also the 47<sup>th</sup> consecutive year of rising dividends.

We start the year with \$6.65 in earnings-per-share, which would mark a nice rise from 2024 should it be achieved.

## Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
<b>EPS</b>	\$4.59	\$4.92	\$5.33	\$6.26	\$6.32	\$7.36	\$7.25	\$4.10	\$5.78	\$6.17	<b>\$6.65</b>	<b>\$9.11</b>
<b>DPS</b>	\$2.99	\$3.11	\$3.24	\$3.36	\$3.84	\$4.24	\$4.44	\$4.64	\$4.74	\$4.80	<b>\$4.88</b>	<b>\$5.94</b>
<b>Shares<sup>1</sup></b>	129	129	129	128	128	128	127	123	124	124	<b>124</b>	<b>124</b>

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. We note margins began to turn higher in early-2023, and ended the year on an extremely high note, continuing that strength throughout 2024.

We see Clorox producing 6.5% 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. Margins finished last year very strongly, with pricing increases and

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

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cost savings combining to boost profitability. Organic sales were off the charts in the second quarter of 2024, but have since moderated significantly.

We expect Clorox to raise its dividend from the current \$4.88, to somewhere around \$5.94 per share by fiscal 2030.

## Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	22.3	25.1	24.0	22.3	24.0	23.5	27.7	39.1	27.5	22.1	<b>21.5</b>	<b>23.0</b>
Avg. Yld.	2.9%	2.5%	2.5%	2.4%	2.5%	2.5%	2.2%	2.9%	3.0%	3.5%	<b>3.4%</b>	<b>2.8%</b>

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 and shares now trade for 21.5 times this year's earnings estimate given current earnings estimates for 2025. We think the valuation could be a tailwind for shareholders in the coming years as a result. We see the yield potentially declining from the elevated 3.4% where it sits today to something under 3%, the result of rising earnings and a rising valuation.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	64%	61%	59%	54%	61%	58%	61%	88%	82%	78%	<b>73%</b>	<b>65%</b>

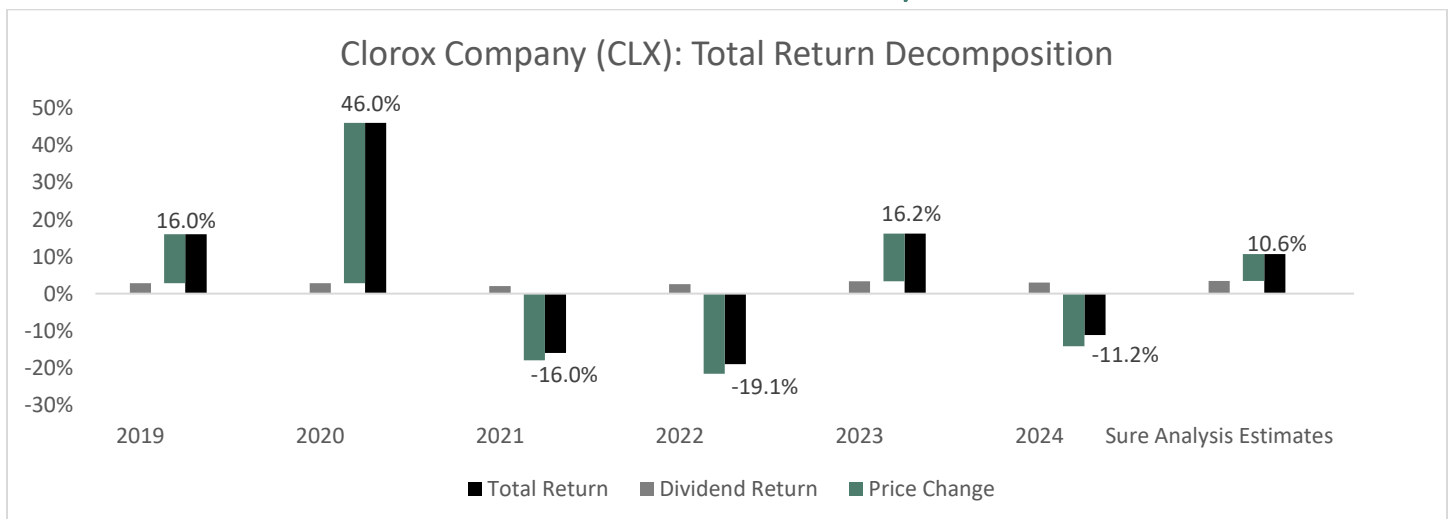
Clorox's payout ratio is 73% today, however, that is because of the guidance given for this year. The company's usually highly stable earnings base generally makes for a safe payout. Even during a recession, shareholders can count on Clorox maintaining (and likely slightly increasing) its dividend payment. 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 has passed, but during a normal recession, Clorox still delivers.

## Final Thoughts & Recommendation

Overall, we are expecting five-year total returns of 10.6% annually, comprised of the 3.4% yield, 6.5% earnings growth and a 1.4% tailwind from the valuation. The stock is undervalued in our view, but it performs well during recessions and sports a nice yield. Given 10.6% total expected returns, we're boosting Clorox from hold to buy.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Revenue</b>	5,655	5,761	5,973	6,124	6,214	6,721	7,341	7,107	7,389	7,093
<b>Gross Profit</b>	2,465	2,598	2,671	2,675	2,728	3,063	3,199	2,545	2,908	3,048
<b>Gross Margin</b>	43.6%	45.1%	44.7%	43.7%	43.9%	45.6%	43.6%	35.8%	39.4%	43.0%
<b>SG&amp;A Exp.</b>	1,321	1,393	1,409	1,407	1,468	1,644	1,794	1,663	1,917	1,999
<b>D&amp;A Exp.</b>	169	165	163	166	180	180	211	224	236	235
<b>Operating Profit</b>	1,000	1,056	1,117	1,125	1,107	1,274	1,256	719	823	894
<b>Operating Margin</b>	17.7%	18.3%	18.7%	18.4%	17.8%	19.0%	17.1%	10.1%	11.1%	12.6%
<b>Net Profit</b>	580	648	701	823	820	939	710	462	149	280
<b>Net Margin</b>	10.3%	11.2%	11.7%	13.4%	13.2%	14.0%	9.7%	6.5%	2.0%	3.9%
<b>Free Cash Flow</b>	749	606	634	782	786	1,292	945	535	930	483
<b>Income Tax</b>	315	335	330	231	204	246	181	136	77	106

## Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Total Assets</b>	4,164	4,510	4,573	5,060	5,116	6,213	6,334	6,158	5,945	5,751
<b>Cash &amp; Equivalents</b>	382	401	418	131	111	871	319	183	367	202
<b>Inventories</b>	519	569	565	600	631	648	752	755	696	637
<b>Goodwill &amp; Int. Ass.</b>	385	443	459	506	512	454	2,493	2,442	1,964	1,909
<b>Total Liabilities</b>	1,652	1,932	1,918	2,531	2,503	2,471	5,742	5,429	5,557	5,259
<b>Accounts Payable</b>	4,046	4,213	4,031	4,334	4,557	5,305	930	960	1,021	950
<b>Long-Term Debt</b>	431	490	501	507	507	1,329	2,784	2,711	2,527	2,485
<b>Shareholder's Equity</b>	2,191	2,312	2,195	2,483	2,683	2,780	411	556	220	328
<b>D/E Ratio</b>	118	297	542	726	559	908	6.8	4.9	11.49	7.58

## Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Return on Assets</b>	13.8%	14.9%	15.4%	17.1%	16.1%	16.6%	11.3%	7.4%	2.5%	4.8%
<b>Return on Equity</b>	427%	312%	167%	130%	128%	128%	108%	95.6%	38.4%	63.6%
<b>ROIC</b>	24.3%	26.4%	26.2%	27.7%	25.4%	27.1%	20.1%	13.6%	4.7%	9.5%
<b>Shares Out.</b>	129	129	129	128	128	128	127	124	124	125
<b>Revenue/Share</b>	42.59	43.74	45.40	46.54	47.88	52.64	57.67	57.36	59.50	56.83
<b>FCF/Share</b>	5.64	4.60	4.82	5.94	6.06	10.12	7.42	4.32	7.49	3.87

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

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