

The Clorox Company (CLX)

\$163.62 (As of 02/04/20)

Price Target (6-12 Months): **\$172.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/09/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: A

Summary

Clorox's shares have risen and outperformed the industry in the past three months. The stock received a boost from the strong second-quarter fiscal 2020 results. Clorox's earnings and sales beat the Zacks Consensus Estimate in the reported quarter. Earnings benefited from gross margin expansion on gains from cost savings and price increases. Further, the company provided robust earnings and gross margin outlook for fiscal 2020. However, the company's sales declined on a year over year basis due to persistent headwinds in Grilling, and Bags and Wraps businesses as well as currency headwinds. Elevated costs also keep us on the sidelines. Further, Clorox cut its organic sales view for fiscal 2020 as it expects competitive price reductions and higher promotional activities to continue in the back half for fiscal year.

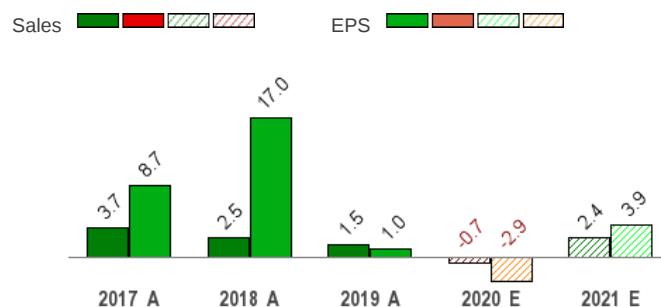
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$166.90 - \$144.12
20 Day Average Volume (sh)	1,063,892
Market Cap	\$20.5 B
YTD Price Change	6.6%
Beta	0.40
Dividend / Div Yld	\$4.24 / 2.6%
Industry	Soap and Cleaning Materials
Zacks Industry Rank	Bottom 10% (229 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	11.5%
Last Sales Surprise	1.4%
EPS F1 Est- 4 week change	-0.1%
Expected Report Date	05/06/2020
Earnings ESP	0.0%
P/E TTM	25.7
P/E F1	26.7
PEG F1	4.9
P/S TTM	3.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,549 E	1,485 E	1,609 E	1,715 E	6,316 E
2020	1,506 A	1,449 A	1,558 E	1,668 E	6,170 E
2019	1,563 A	1,473 A	1,551 A	1,627 A	6,214 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.62 E	\$1.38 E	\$1.50 E	\$1.88 E	\$6.38 E
2020	\$1.59 A	\$1.46 A	\$1.43 E	\$1.79 E	\$6.14 E
2019	\$1.62 A	\$1.40 A	\$1.44 A	\$1.88 A	\$6.32 A

*Quarterly figures may not add up to annual.

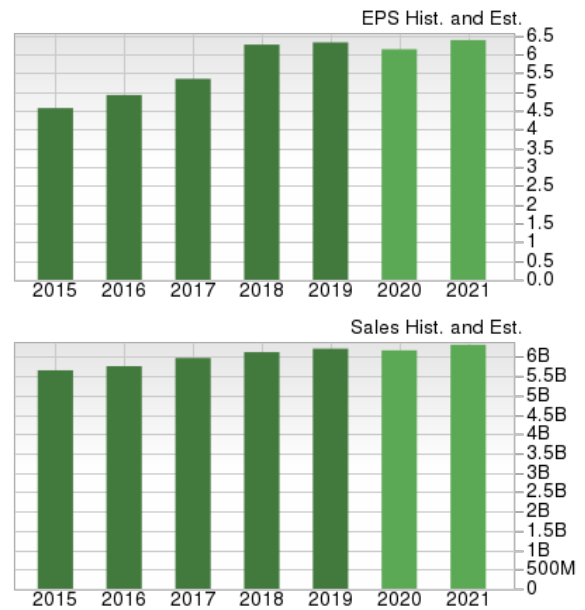
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/04/2020. The reports text is as of 02/05/2020.

Overview

Headquartered in Oakland, CA, The Clorox Company is engaged in the production, marketing and sale of consumer products in the U.S. and international markets. The company sells its products primarily through mass merchandisers, grocery stores and other retail outlets. Clorox markets some of the most trusted and recognized brands, including its namesake bleach and cleaning products, Green Works natural cleaners and laundry products, Poett and Mistolin cleaning products, Armor All and STP auto-care products, Fresh Step and Scoop Away cat litter, Kingsford charcoal, Hidden Valley and K C Masterpiece dressings and sauces, Brita water-filtration systems, Glad bags, wraps and containers, and Burt's Bees natural personal care products. The company manufactures products in over 24 countries and markets them in more than 100 countries.

The company operates through strategic business units, which are aggregated into 4 reportable segments:

- **Cleaning** (34.6% of 2Q20 Net Sales) consists of laundry, home-care, professional products and auto-care products, marketed and sold domestically.
- **Household** (24.8%) consists of charcoal, cat litter and plastic bags, wraps and containers, marketed and sold in the United States.
- **Lifestyle** (23.9%) consists of food products and water-filtration systems and filters, marketed and sold in the United States, along with all natural personal care products.
- **International** (16.7%) consists of products sold outside the United States.



Reasons To Buy:

▲ **Strong Q2 Performance, Stock Outperforms:** Shares of Clorox have gained 10.1% in the past three months, compared with the industry's growth of 3.3%. The stock got a significant boost after reporting better-than-expected earnings and sales in second-quarter fiscal 2020. Clorox's bottom line beat the Zacks Consensus Estimate for the third straight quarter. Earnings mainly benefited from gross margin expansion on gains from cost savings and price increases. Clorox updated its outlook for fiscal 2020. Management now anticipates earnings per share of \$6.10-\$6.25 for fiscal 2020, compared with \$6.05-\$6.25 expected earlier. Gross margin is now estimated to be slightly up driven by lower input costs. The company had earlier projected gross margin decline for fiscal 2020.

Clorox witnessed gross margin expansion of 40 bps in second-quarter fiscal 2020, driven by price increases and cost savings. This marked the fifth straight quarter of gross margin expansion.

▲ **IGNITE Strategy:** Clorox recently introduced IGNITE, its latest and integrated strategy, formulated on a sturdy foundation of its 2020 Strategy. This new initiative mainly focuses on the expansion of the key elements under the 2020 Strategy to pace up innovation in each area of business. As a result, the company will be able to boost overall growth and reinforce competitive advantage, hence boost shareholder value. The IGNITE strategy mainly binds Clorox on four strategic areas namely, fuel growth through brand reinvestments, innovate to deliver enhanced customer experience, develop product portfolio, and re-imagine the company's operations. IGNITE's main principle is 'Innovating for Good Growth', delivering sustainable and responsible growth. IGNITE strategy encompasses the long-term financial targets of achieving net sales growth of 2-4%, EBIT margin expansion of 25-50 basis points (bps) and free cash flow generation of 11-13% of sales.

▲ **Strategic Innovations:** Clorox's diversified brand portfolio positions it well ahead of peers to generate above-average industry growth and sustain it in the currently challenging environment. Further, it remains committed to investing in innovative products and platforms to deliver frictionless shopping experiences. In second-quarter fiscal 2020, the company witnessed significant top-line gains through innovations in various categories including professional products (Clorox Hydrogen Peroxide and Clorox Fuzion innovation platforms), Cat Litter (Fresh Step Clean Paws innovation platform), and Lip Care (introduction of watermelon lip balm). Based on its IGNITE Strategy, the company has a strong innovation plan with investments in bigger and enduring multi-year innovation platforms that differentiate its products and brands. This is supported by a robust innovation pipeline in the second half of fiscal 2020.

Notably, Clorox's innovation pipeline is led by the Compaction of Clorox Liquid Bleach as well as the launch of Clorox Compostable Cleaning Wipes, Clorox Fabric Sanitizer and Kingsford Pellets, and several innovations in Bags and Wraps and Natural Personal Care, in fiscal 2020. Further, the company plans to invest in expanding innovation platforms such as Clorox Scentiva, Fresh Step Clean Paws, Brita Filtering Water Bottles and Hidden Valley Ready-to-Eat Dips.

▲ **Cost Saving & Productivity Initiatives:** Clorox remains on track with its cost-saving and productivity initiatives. Backed by the IGNITE strategy, Clorox aims at higher cost savings annually by emphasizing more on technology and integrated design. With this, it expects to achieve EBIT margin expansion of 175 basis points annually. Further, the company's cost-based pricing strategy has enabled it to address the inflationary environment that has persisted for over three years. These cost-saving and pricing actions should continue to support its investment in long-term brands and category growth. In the fiscal second quarter, Clorox witnessed gross margin expansion of 40 bps, driven by recent price increases and cost savings. Notably, the cost-savings program has meaningfully contributed in generating year-over-year gross margin expansion for the fifth consecutive quarter. By the end of fiscal 2020, the company expects to surpass its annual cost savings target of 150 bps, supported by meaningful productivity improvements.

▲ **International Business Strength:** Clorox is witnessing strong progress in the core International business as it continues to build on the success of the segment's Go Lean strategy. These efforts will help in accelerating profitable growth for the segment. Organic sales for the International segment grew 6% driven by favorable price mix. Driven by its IGNITE Strategy, which aims to improve profitability in International business, the company expects to invest selectively in profitable platforms. These investments are likely to result in improved returns from businesses like Burt's Bees and Cat Litter.

Reasons To Sell:

▼ **Valuation Looks Stretched:** Considering Price-to-Earnings (P/E) ratio, Clorox looks pretty overvalued when compared with the industry and the S&P 500. The stock has a trailing 12-month P/E of 25.9x compared with 20.9x for the industry and 20.4x for the S&P 500. Its trailing 12-month P/E ratio is above the median level of 24.8x and below the high level of 26.7x, scaled in the past year.

▼ **Headwinds in Grilling, Bags and Wraps Businesses:** Clorox has been witnessing operational headwinds in the Grilling (earlier known as Charcoal), and Bags and Wraps businesses, which are hurting the top line of the Household segment as well as the overall company. Notably, the Household segment reported sales decline of 8% in second-quarter fiscal 2020, while the company's net sales fell 2%. Sales for the Bags and Wraps declined owing to increased competitive activity as well as distribution losses in certain portions of the portfolio. Meanwhile, the Grilling business delivered soft sales due to lower shipments in order to finish working through elevated retail inventory from a weak 2019 grilling season. Moreover, sales for the Household segment were hurt by slight decline in Cat Litter business due to higher trade spending and recording strong double-digit sales in the year-ago quarter on price increases.

Clorox slashed the organic sales view for fiscal 2020 as it expects competitive price reductions and higher promotional activities to continue in the second half for fiscal year.

The company expects the headwinds in the Grilling, and Bags and Wraps businesses to persist through the second half of fiscal 2020. It anticipates the aforementioned competitive price reductions and higher promotional activities to continue in the back half for fiscal year. Further, retail inventory levels for the grilling business are expected to return to normal by the start of the next grilling season. Nonetheless, the company expects to witness continued sequential improvement in these businesses in the second half.

▼ **Sales Outlook Soft:** Although Clorox's top line beat the Zacks Consensus Estimate, it declined year over year ongoing headwinds in the Household segment and unfavorable currency rates. For fiscal 2020, the company reaffirmed its net sales expectation of between low-single digits decline and up 1% in fiscal 2020. It expects increased promotional spending to combat competitive activity in select categories, including bags and wraps and wipes, to hurt sales. Further, it lowered organic sales guidance to flat to up 2%, compared with 1-3% growth mentioned earlier.

▼ **Higher Costs to Linger:** Unlike most of its peers, Clorox continued to witness gross margin expansion in the fiscal second quarter. However, growth was partly negated by elevated trade promotion spending and increased manufacturing and logistics costs. Further, selling and administrative expenses, as a percentage of sales, increased 20 basis points (bps) to 14.5% due to reduced operating leverage. Advertising and sales promotion investments, as a percentage of sales, were nearly flat in the fiscal second quarter, while spending for the U.S. retail business was 11% of sales. In fiscal 2020, advertising and sales promotion spending is now anticipated to be more than 10% of sales, due to increased investments and support for robust innovation pipeline in the second half of the fiscal year. Selling and administrative expenses are projected to be nearly 14% of sales.

▼ **Currency Headwinds:** Clorox's significant international presence exposes it to major foreign currency risks, which have been weighing on the company's performance. Apparently, net sales for the fiscal second quarter included 2 percentage points of negative impacts of foreign currency translations, mainly due to the devaluation of Argentine peso. Additionally, unfavorable currency effects of 8 percentage points marred sales for the International segment, resulting in a 2% decline year over year. The company now expects a slightly favorable impact from currency due to projections for lower devaluations of the Argentina peso. It now projects devaluation of Argentina peso over the course of the year of nearly 40%, compared with 50% devaluation expected earlier. However, currency will continue to be a slight headwind to sales.

Last Earnings Report

Clorox Beats Q2 Earnings & Sales Estimates

Clorox reported second-quarter fiscal 2020 results, wherein both earnings and sales beat estimates. Further, the company updated its view for fiscal 2020.

Quarterly earnings from continuing operations of \$1.46 per share increased around 4% year over year and beat the Zacks Consensus Estimate of \$1.31. The bottom-line beat was mainly driven by increase in gross margin.

The company posted net sales of \$1,449 million, which declined nearly 2% year over year but surpassed the Zacks Consensus Estimate of \$1,429 million. Further, sales remained flat on an organic basis. The soft top-line result was caused by unfavorable currency. Currency headwinds hurt sales by nearly 2 percentage points.

Driven by the recent price increases and cost savings, Clorox witnessed gross margin expansion of 40 bps to 44.1% in the fiscal second quarter. This marked the company's fifth straight quarter of gross margin expansion. The rise in gross margin was driven by gains from cost savings and price increases. However, the gains were marred by higher trade promotion spending as well as increased manufacturing and logistics costs.

Segmental Discussion

Sales of the **Cleaning** segment remained flat at \$501 million on decline in Laundry and unfavorable mix from strong growth in non-tracked channels. However, this was offset by growth in Professional Products and Home Care businesses.

The **Household** segment's sales declined around 8% to \$360 million mainly due to declines in Grilling, and Bags and Wraps businesses. Bags and Wraps sales were impacted by increased competitive activity as well as distribution losses. Further, the Grilling business delivered soft sales due to lower shipments in order to finish working through elevated retail inventory from the prior year. This was partially offset by sturdy consumption growth.

Sales at the **Lifestyle** segment rose 4% to \$347 million. Results were aided by growth in the Natural Personal Care business, driven by innovation in Burt's Bees Lip Care and Face Care categories. Also, the Food and Water Filtration businesses contributed to segment sales growth.

At the **International** segment, sales decreased 2% to \$241 million from the year-ago quarter. The segment sales were negatively impacted by adverse currency fluctuations to the tune of 8 percentage points mainly from Argentina, partly offset by gains of favorable price mix. Organic sales for the segment rose 6%.

Financials

Clorox ended the fiscal second quarter with cash and cash equivalents of \$168 million, and long-term debt of \$2,288 million. For the first six months of fiscal 2020, the company generated \$498 million of net cash from continuing operations.

Fiscal 2020 Guidance

Clorox updated its outlook for fiscal 2020. It continues to project sales between low-single digits decline and up 1% in fiscal 2020. This indicates a slightly more favorable foreign exchange impact, offset by improved promotional spending.

However, it now expects organic sales growth of flat to 2%, compared 1-3% growth mentioned earlier.

Gross margin is now estimated to be slightly up driven by lower input costs. The company had earlier projected gross margin decline for fiscal 2020. Advertising and sales promotion spending is now anticipated to be more than 10% of sales. Selling and administrative expenses are still projected to be nearly 14% of sales. The company continues to envision effective tax rate of 22-23% for fiscal 2020.

Management now anticipates earnings per share of \$6.10-\$6.25 for fiscal 2020, compared with \$6.05-\$6.25 expected earlier.

Quarter Ending **12/2019**

Report Date	Feb 04, 2020
Sales Surprise	1.39%
EPS Surprise	11.45%
Quarterly EPS	1.46
Annual EPS (TTM)	6.37

Recent News

Clorox Declares Dividend – Nov 20, 2019

Clorox announced a quarterly cash dividend of \$1.06 per share, payable Feb 20, 2020 to its shareholders of record as of Jan 29.

Valuation

Clorox shares are up 6.6% in the year-to-date period and 6.4% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 2.6% and the Zacks Consumer Staples sector is down 0.3% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 19% and 11.1%, respectively.

The S&P 500 index is up 2.3% in the year-to-date period and 19.7% in the past year.

The stock is currently trading at 26.03X forward 12-month earnings, which compares to 22.88X for the Zacks sub-industry, 19.51X for the Zacks sector and 18.89X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.41X and as low as 18.27X, with a 5-year median of 23.57X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$172 price target reflects 27.36X forward 12-month earnings.

The table below shows summary valuation data for CLX

Valuation Multiples - CLX					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	26.03	22.88	19.51	18.89
	5-Year High	26.41	23.53	22.38	19.34
	5-Year Low	18.27	17.89	16.66	15.18
	5-Year Median	23.57	21.06	19.74	17.46
P/S F12M	Current	3.28	2.72	9.97	3.5
	5-Year High	3.32	2.72	11.13	3.5
	5-Year Low	2.34	1.94	8.09	2.54
	5-Year Median	2.83	2.31	9.88	3
EV/EBITDA TTM	Current	17.2	13.25	39.52	11.95
	5-Year High	18.96	14.61	45.13	12.85
	5-Year Low	12.74	9.25	31.57	8.49
	5-Year Median	14.73	10.96	38.5	10.66

As of 02/04/2020

Industry Analysis Zacks Industry Rank: Bottom 10% (229 out of 255)



Top Peers

Procter & Gamble Company (The) (PG)	Outperform
Church & Dwight Co., Inc. (CHD)	Neutral
Colgate-Palmolive Company (CL)	Neutral
Johnson & Johnson (JNJ)	Neutral
Kimberly-Clark Corporation (KMB)	Neutral
Reckitt Benckiser Group PLC (RBGLY)	Neutral
Unilever PLC (UL)	Neutral
Henkel AG & Co. (HENKY)	Underperform

Industry Comparison Industry: Soap And Cleaning Materials				Industry Peers		
	CLX Neutral	X Industry	S&P 500	CHD Neutral	CL Neutral	PG Outperform
VGM Score	C	-	-	D	D	B
Market Cap	20.53 B	60.48 B	24.31 B	18.34 B	64.62 B	310.31 B
# of Analysts	6	7.5	13	11	8	9
Dividend Yield	2.59%	2.13%	1.78%	1.22%	2.28%	2.37%
Value Score	D	-	-	D	D	C
Cash/Price	0.01	0.04	0.04	0.01	0.01	0.02
EV/EBITDA	17.64	17.82	13.98	21.27	18.00	34.45
PEG Ratio	4.92	3.32	2.01	3.24	5.41	3.32
Price/Book (P/B)	37.00	6.45	3.29	6.88	115.81	6.90
Price/Cash Flow (P/CF)	20.57	16.37	13.58	22.93	21.84	21.44
P/E (F1)	26.84	22.80	18.82	27.94	25.29	25.17
Price/Sales (P/S)	3.35	3.74	2.66	4.21	4.12	4.46
Earnings Yield	3.75%	4.42%	5.30%	3.57%	3.95%	3.97%
Debt/Equity	4.63	0.68	0.71	0.68	13.70	0.42
Cash Flow (\$/share)	7.95	3.45	6.92	3.26	3.45	5.86
Growth Score	B	-	-	B	B	B
Hist. EPS Growth (3-5 yrs)	7.26%	6.74%	10.80%	11.40%	0.54%	3.75%
Proj. EPS Growth (F1/F0)	-2.90%	5.16%	7.40%	8.28%	5.35%	10.47%
Curr. Cash Flow Growth	1.11%	1.11%	10.22%	12.70%	-4.58%	4.72%
Hist. Cash Flow Growth (3-5 yrs)	5.39%	4.28%	8.55%	9.63%	-1.27%	-0.93%
Current Ratio	0.86	0.82	1.21	0.88	0.37	0.63
Debt/Capital	82.24%	40.42%	42.91%	40.42%	97.78%	29.26%
Net Margin	13.31%	12.14%	11.79%	14.13%	15.08%	6.92%
Return on Equity	133.50%	25.65%	17.24%	24.16%	1,906.25%	27.14%
Sales/Assets	1.16	0.89	0.55	0.67	1.12	0.60
Proj. Sales Growth (F1/F0)	-0.71%	3.34%	4.10%	6.30%	4.10%	4.14%
Momentum Score	A	-	-	F	D	A
Daily Price Chg	4.99%	0.22%	1.49%	-0.49%	0.63%	0.44%
1 Week Price Chg	-0.61%	1.36%	-2.60%	4.08%	4.95%	-0.42%
4 Week Price Chg	7.99%	6.49%	0.51%	6.99%	11.62%	3.01%
12 Week Price Chg	12.56%	5.36%	4.44%	11.47%	13.15%	5.36%
52 Week Price Chg	7.11%	9.06%	14.65%	23.62%	16.47%	28.96%
20 Day Average Volume	1,063,892	1,178,715	1,935,862	1,856,962	4,309,923	6,816,314
(F1) EPS Est 1 week change	0.22%	0.00%	0.00%	-0.30%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.11%	0.09%	0.00%	-0.41%	0.29%	1.01%
(F1) EPS Est 12 week change	-0.14%	-1.15%	-0.10%	-0.65%	0.12%	1.31%
(Q1) EPS Est Mthly Chg	-0.52%	-0.83%	0.00%	-3.92%	-1.14%	0.34%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	B
Momentum Score	A
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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