

The Clorox Company

NASDAQ:CLX

Analyst: Brandon Casey

Sector: Consumer Disc.

BUY

Price Target: \$129.04

Key Statistics as of 12/08/2016

| | |
|----------------|-----------------------------|
| Market Price: | \$114.63 |
| Industry: | Consumer household products |
| Market Cap: | \$14.76B |
| 52-Week Range: | \$111.24-140.47 |
| Beta: | 0.12 |

Catalysts:

- Product Innovation
- Expansion/Acquisitions

Company Description:

The Clorox Company was founded over 100 years ago with its initial brand Clorox liquid bleach. Ever since then it has expanded into a household name. It has a very diverse portfolio of acquisitions and name brands that assist in revenue growth. CLX is a leading manufacturer of cleaning, household, and lifestyle products. They primarily sell products through grocers and retailers, as well as e-commerce, wholesale contributors, and medical supply distributors. More than 80% of CLX's sales come from brands that hold the No. 1 or No. 2 market share positions in their categories. The company CEO Benno Dorer who has been with the company since 2013. Management makes implications that they continue to diversify their portfolio by acquiring leading brands with high margins.



Thesis

The Clorox Company is trading low compared to its 52 week range. CLX is a reliable company since it generates growth every year. They are top manufacturers of products that there will always be a need for. Management has a yearly goal of 3-5% sales growth. This means that CLX will have to innovate as well as increase their customer base. Clorox has a strong history of acquiring efficient and successful brands to ensure their growth strategy is met. In addition to management strategies, CLX has impressive financials. With WACC well below the industry average as well as ROIC above the industry average CLX is operating more efficiently than its industry. Lastly, The Clorox Company has a strong history of dividend growth. Every year since 1977 they have increased dividend yields. Also, they have a high dividend payout ratio of more than 60%. Overall, CLX is a BUY at the current market price \$114.63 with a one year upside potential of 14.16% gains.

| | Kd | |
|-------------|---------|------|
| | History | LFY |
| CLX | 4.4% | 3.8% |
| Competitors | 4.3% | 4.1% |

| | ROIC | |
|-------------|---------|-------|
| | History | LFY |
| CLX | 24.4% | 25.2% |
| Competitors | 12.1% | 14.7% |

| | ROIC W/O GW | |
|-------------|-------------|-------|
| | History | LFY |
| CLX | 43.5% | 46.4% |
| Competitors | 25.4% | 29% |

| | ROC /WACC | |
|-------------|-----------|------|
| | History | LFY |
| CLX | 2.53 | 2.59 |
| Competitors | 1.17 | 1.46 |

| | Premium over capital GW | |
|-------------|-------------------------|-------|
| | History | LFY |
| CLX | 43.7% | 45.7% |
| Competitors | 48.9% | 47.0% |

| | WACC | |
|-------------|---------|-------|
| | History | LFY |
| CLX | 9.8% | 9.7% |
| Competitors | 10.1% | 10.0% |

| | Kc | |
|-------------|---------|-------|
| | History | LFY |
| CLX | 11.4% | 10.7% |
| Competitors | 11.2% | 11.0% |

Above are more financial data drawn from the proforma created for CLX. At first glance I noticed an impressive ROC/WACC ratio of 2.59. In comparison to its competitors of 1.46, this drastically outperforms. In addition, both the cost of equity and cost of debt for CLX are lower than the competitors' averages.

Financials

Clorox has made itself a dominant player in the household products industry. With margins above industry averages, excluding gross margins, this is proven. In addition, Bloomberg shows that CLX's ROIC of 28.25% and its WACC of 5.92% are both substantially better than the industry averages of 14.76% and 7.07%, respectively. This leads me to believe that Clorox is highly levered.

| | FY 2011 | FY 2012 | FY 2013 | FY 2014 | FY 2015 | FY 2016 |
|--------------------------------|---------|---------|---------|---------|---------|---------|
| Total Assets | 4,163.0 | 4,355.0 | 4,311.0 | 4,258.0 | 4,164.0 | 4,518.0 |
| + Cash, Cash Equivalents & STI | 6.2% | 6.1% | 6.9% | 7.7% | 9.2% | 8.9% |
| + Cash & Cash Equivalents | 6.2% | 6.1% | 6.9% | 7.7% | 9.2% | 8.9% |
| + ST Investments | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |

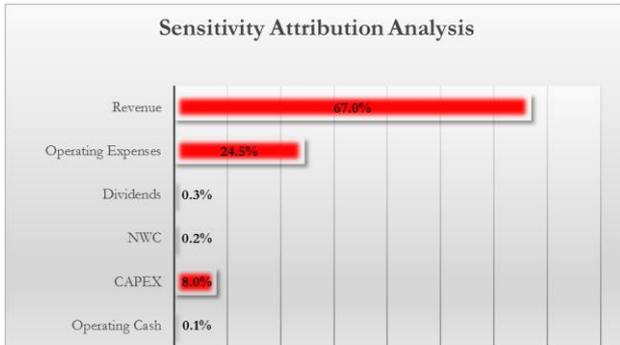
Using the above table I noticed that CLX holds about 9% of its assets in cash. Since 2011 this percentage has increased from 6.2%. In order to stay efficient and competitive, Clorox is realizing that they have to be willing to acquire companies. Having more cash on hand helps CLX's ability to do so.

| Comp Source | Analyst Curated (BI) | Name | BI NA HHP Mfg Val | Curr | USD |
|------------------------|----------------------|--------|-------------------|--------|--------|
| Average | | | | | |
| CLOROX COMPANY | | CLX US | 14.77B | 12.40% | 19.47% |
| CHURCH & DWIGHT CO | | CHD US | 11.32B | 14.24% | 22.51% |
| PROCTER & GAMBLE CO | | PG US | 223.45B | 16.43% | 22.83% |
| COLGATE-PALMOLIVE CO | | CL US | 58.40B | 18.15% | 27.70% |
| AVON PRODUCTS INC | | AVP US | 2.42B | 2.56% | 7.95% |
| EDGEWELL PERSONAL CARE | | EPH US | 4.29B | 8.55% | 13.72% |
| REVLON INC-CLASS A | | REV US | 1.52B | -0.78% | 6.89% |
| ESTEE LAUDER COMPANIES | | EL US | 29.06B | 10.26% | 14.59% |

during the market crash of 2008 shows that its business model is resistant to recessions.

| CLX US \$ | C 115.73 | +1.46 | N115.71/115.72 | 31 x31 |
|-----------|-------------|-----------|----------------|-----------|
| On 07 Dec | Vol 883,451 | 0 114.26N | H 115.88D | L 113.95T |
| Val | 101.921M | | | |

| CLX US \$ | ↑ 114.69 | -1.04 | N114.63/114.64N | 139 x14 |
|------------|-------------|-----------|-----------------|-----------|
| At 17:05 d | Vol 763,268 | 0 115.00N | H 115.215D | L 114.40N |
| Val | 87.611M | | | |



Looking at the Clorox Company's Net Income and Revenue over the last couple of years we can see that the growth is positive. From fiscal year 2015 to fiscal year 2016 net income increased about 12%. However, this productivity was not met in the previous years. Management has acknowledged that and is fixing the problem. 2014 advertising expenses were \$503 million, in 2016 they increased to \$587 million. By advertising products more frequently, CLX will be able to achieve their yearly growth goal of 3-5% in sales.

| Additional | | | | | |
|-------------------------|-------|-------|--------|--------|--------|
| Effective Tax Rate | 31.35 | 32.71 | 34.50 | 34.20 | 34.08 |
| Dvd Payout Ratio | 58.80 | 60.06 | 64.22 | 64.29 | 61.42 |
| Sustainable Growth Rate | - | - | 133.10 | 152.27 | 120.48 |

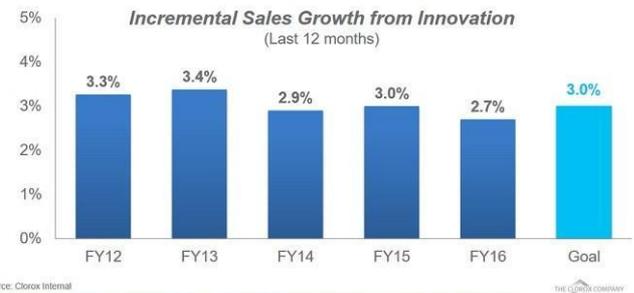
The Clorox Company is proven to be a safe stock since its ability to give shareholders returns is outstanding. As stated before, CLX has increased dividends every year since 1977. Additionally, their dividend payout ratio has increased since 2012, from 58.8% to 61.42%. Clorox is also a safe bet because of its ability to defend against a volatile market. With the Presidential election behind us, we do not know what to expect for the future of the American economy. Clorox has proven, through EPS, that it is able to withstand a market crash. In 2007, 2008, 2009, and 2010 Clorox had earnings per share of \$3.23, \$3.24, \$3.81, and \$4.24, respectively. Its ability to grow

Innovation

| CLX US \$ | ↑ 114.69 | -1.04 | N114.63/114.64N | 139 x14 |
|------------|-------------|-----------|-----------------|-----------|
| At 18:40 d | Vol 763,268 | 0 115.00N | H 115.215D | L 114.40N |
| Val | 87.611M | | | |

Since fiscal year 2014, Clorox has been increasing R&D expenses. R&D rose by 13% since 2014 and it is paying off for CLX.

Innovation is Delivering Growth



Shown above is a bar chart depicting how innovation is increasing sales. As you can see, since FY 2012 Clorox has been hovering around their goal of 3% growth.

Product innovation is a key component for Clorox's success. Some innovations include the following: "Connected" Brita water filters that automatically re-order new filters using Wi-Fi, Glad trash bags with anti-microbial lining to reduce the spread of germs, Glad OdorShield trash bags that neutralizes odors while leaving behind a fresh scent, and Clorox Wipes with Microscubbers that get rid of greasy messes as well as 99.9% of germs. Clorox already has a competitive advantage in its industry because of its focus on product innovation. If CLX keeps focusing on R&D and product innovation, they will meet their 3-5% sales growth goal and continue to succeed financially.

Short Interest/Debt



CLX has a low short interest ratio of 4.73%. At the beginning of September Clorox had a short interest ratio of 9.44%. Investors became confident in CLX because of their recent success, diversified brand portfolio, and among other things their 2020 Strategy of 3-5% growth. This strategy seems more and more feasible as Clorox continues its rigorous R&D strategies and financial success.

CLX US \$ ↑ 114.69 -1.04
At 17:05 d Vol 763,268 0 115.00

CLX US Equity Company Tree Ratio

Clorox Co/The

| | |
|-----------------------------|--------|
| Moody's | |
| 1) Outlook | STABLE |
| 2) Long Term Rating | Baa1 |
| 3) Senior Unsecured Debt | Baa1 |
| 4) Short Term | P-2 |
| 5) Standard & Poor's | SP |
| 6) Outlook | STABLE |
| 7) LT Foreign Issuer Credit | A- |
| 8) LT Local Issuer Credit | A- |
| 9) ST Foreign Issuer Credit | A-2 |
| 10) ST Local Issuer Credit | A-2 |

With all the potential seen in Clorox it is no surprise both Moody's and Standard & Poor's rated Clorox Stable with solid ratings of Baa1 and A-, respectively. This shows strong investor confidence in CLX's ability to pay off its debts.

Acquisitions

One big catalyst for Clorox in the long term will be their ability to expand into different product markets.



As of fiscal year 2016, Clorox generated \$5.8B of sales. 33% of sales came from cleaning products, 33% from household products, 17% from lifestyle and 17% from international brands. So it is fair to assume

Clorox is diversified looking at its sales composition. They have already been able to expand into different product markets. Brands names like Burt's Bees, Hidden Valley, Brita, Glad, and Kingsford all account for 43% of Clorox's overall sales. Having a history of financially rewarding brand acquisition leads me to believe that management will continue to acquire top brand names.

Renew Life Acquisition

- Closed May 2, 2016
- Purchase Price – \$290M (2.5x Sales)
- Calendar 2015 Sales – About \$115M
- Leading brand in the natural channel



One major acquisition for Clorox was Renew Life. The health-and-wellness company was acquired in May 2016 and is expected to contribute to Clorox sales in the future. Analysts believe that the probiotics industry will grow 15% annually in the future. Clorox realize this is a cheap way to get involved in the up-and-coming industry. According to a study done by Clorox, two-thirds of Americans suffer from intestinal health issues. Acquiring a company that can make an impact on two-thirds of Americans will help implement the 2020 Strategy Clorox wishes to achieve.

Conclusion

In conclusion, Clorox is a low risk/high reward investment. Their ability to innovate shows that Clorox is willing and able to attract more customers. The 2020 Strategy shows how management believes this company can continue to grow. CLX has strong and impressive financials, with margins above industry averages and ROE/WACC almost double than that of its competitors. A big part of why CLX is a safe investment is because of their dividend history. Almost 40 years of increasing dividends and a dividend payout ratio shows they aim to return profits top investors. Lastly, Clorox has one of the most diversified brand portfolios in its industry. This, among many other reasons, is why investors believe it will outgrow competitors because they acquire strong and efficient brand name companies.

The Clorox Company (CLX)

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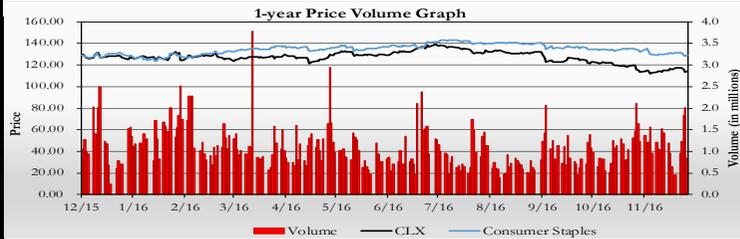
NEUTRAL

Analysis by Brandon Casey
12/8/2016

Current Price: \$115.73
Divident Yield: 2.7%

Intrinsic Value: \$121.26
Target Price: \$129.04

Target 1 year Return: 14.16%
Probability of Price Increase: 84%



| Description | |
|---|--------------------|
| The Clorox Company manufactures and markets consumer and professional products worldwide. | |
| General Information | |
| Sector | Consumer Staples |
| Industry | Household Products |
| Last Guidance | November 3, 2015 |
| Next earnings date | February 1, 2017 |
| Estimated Country Risk Premium | 6.93% |
| Effective Tax rate | 38% |
| Effective Operating Tax rate | 38% |

| Market Data | |
|---------------------------------------|-------------|
| Market Capitalization | \$14,899.51 |
| Daily volume (mil) | 0.88 |
| Shares outstanding (mil) | 128.74 |
| Diluted shares outstanding (mil) | 131.96 |
| % shares held by institutions | 73% |
| % shares held by investments Managers | 60% |
| % shares held by hedge funds | 3% |
| % shares held by insiders | 0.15% |
| Short interest | 4.96% |
| Days to cover short interest | 5.97 |
| 52 week high | \$140.47 |
| 52-week low | \$111.24 |
| Levered Beta | 0.28 |
| Volatility | 13.04% |

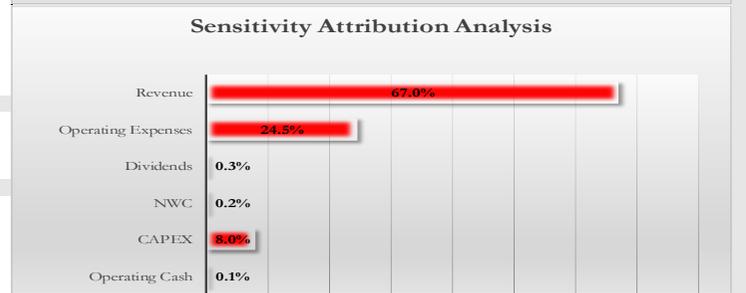
| Past Earning Surprises | | |
|------------------------|---------|---------|
| Quarter ending | Revenue | EBITDA |
| 9/30/2015 | -1.07% | 0.92% |
| 12/31/2015 | -2.31% | -3.01% |
| 3/31/2016 | 0.48% | -0.66% |
| 6/30/2016 | -0.37% | -17.94% |
| 9/30/2016 | -0.35% | -6.57% |
| Mean | -0.72% | -5.45% |
| Standard error | 0.5% | 3.4% |

| Peers | |
|---------------------------------|--|
| Colgate-Palmolive Company | |
| Church & Dwight Co., Inc. | |
| Spectrum Brands Holdings, Inc. | |
| The Procter & Gamble Company | |
| Dr Pepper Snapple Group, Inc. | |
| The Estée Lauder Companies Inc. | |
| Kimberly-Clark Corporation | |
| Campbell Soup Company | |



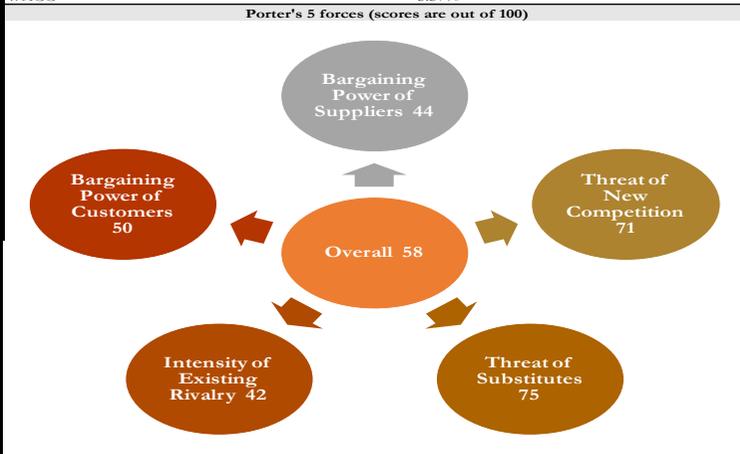
| Management | |
|------------------|------------------------------|
| Dorer, Benno | Chairman and Chief Executive |
| Robb, Stephen | Chief Financial Officer and |
| Stein, Laura | Executive Vice President of |
| Willoughby, Dawn | Chief Operating Officer of C |
| Vlahos, Nikolaos | Chief Operating Officer of H |
| Johnson, Thomas | Chief Accounting Officer and |

| Total compensations growth | | Total return to shareholders | |
|----------------------------|-------------------------|------------------------------|--------------------------|
| 60.9% per annum over 3y | 9.61% per annum over 3y | 6.11% per annum over 5y | 4.62% per annum over 5y |
| 6.11% per annum over 5y | 9.71% per annum over 6y | 9.71% per annum over 6y | 2.56% per annum over 6y |
| 9.71% per annum over 6y | N/M | N/M | -7.23% per annum over 1y |
| N/M | N/M | N/M | -7.23% per annum over 1y |
| N/M | N/M | N/M | N/M |



| Profitability | | Invested Funds | |
|------------------------------|---------|--|-------|
| ROIC | 35.9% | CLX (LTM) | 10.2% |
| NOPAT Margin | 13% | Estimated Operating Cash/Total Capital | 8.7% |
| Revenue/Invested Capital | 2.68 | Non-cash working Capital/Total Capital | 2.6% |
| ROE | -178.5% | Invested Capital/Total Capital | 50.6% |
| Adjusted net margin | 12% | | |
| Revenue/ Adjusted Book Value | -14.72 | | |

| Capital Structure | | Invested Funds | |
|---------------------------------|-------|--|-------|
| Total Debt/Common Equity (LTM) | 0.17 | CLX (LTM) | 9.4% |
| Cost of Existing Debt | 4.47% | Estimated Operating Cash/Total Capital | 8.6% |
| Estimated Cost of new Borrowing | 6.14% | Non-cash working Capital/Total Capital | 2.8% |
| CGFS Risk Rating | D | Invested Capital/Total Capital | 52.9% |
| Unlevered Beta (LTM) | 0.26 | | |
| WACC | 5.57% | | |



| Valuation | |
|-------------------|------------------|
| Period | Revenue growth |
| Base Year | 2.1% |
| 9/30/2017 | 2.7% |
| 9/30/2018 | 3.6% |
| 9/30/2019 | 3.3% |
| 9/30/2020 | 3.6% |
| 9/30/2021 | 3.2% |
| 9/30/2022 | 3.2% |
| 9/30/2023 | 3.2% |
| 9/30/2024 | 3.4% |
| 9/30/2025 | 3.6% |
| 9/30/2026 | 3.8% |
| Continuing Period | 4.0% |
| Period | Invested Capital |
| Base Year | \$1,807.13 |
| 9/30/2017 | \$1,940.56 |
| 9/30/2018 | \$2,048.40 |
| 9/30/2019 | \$2,013.95 |
| 9/30/2020 | \$2,167.03 |
| 9/30/2021 | \$2,020.43 |
| 9/30/2022 | \$2,129.87 |
| 9/30/2023 | \$2,297.04 |
| 9/30/2024 | \$2,366.93 |
| 9/30/2025 | \$2,476.95 |
| 9/30/2026 | \$2,575.31 |
| Continuing Period | |

| ROIC/WACC | |
|-------------------|-------------|
| 13.4% | 6.44 |
| 13.9% | 7.40 |
| 14.0% | 7.33 |
| 13.9% | 7.00 |
| 14.3% | 7.20 |
| 14.3% | 7.14 |
| 14.6% | 7.20 |
| 14.8% | 7.27 |
| 15.1% | 7.36 |
| 15.3% | 7.46 |
| 15.6% | 7.57 |
| 15.8% | 4.34 |
| Net Claims | |
| Base Year | \$2,862.64 |
| 9/30/2017 | \$2,121.79 |
| 9/30/2018 | \$1,761.11 |
| 9/30/2019 | \$1,317.34 |
| 9/30/2020 | \$885.52 |
| 9/30/2021 | \$435.53 |
| 9/30/2022 | -\$48.41 |
| 9/30/2023 | -\$738.64 |
| 9/30/2024 | -\$1,299.79 |
| 9/30/2025 | -\$1,913.93 |
| 9/30/2026 | -\$2,590.41 |
| Continuing Period | |
| Price per share | |
| \$121.43 | \$121.43 |
| \$129.52 | \$129.52 |
| \$135.03 | \$135.03 |
| \$140.40 | \$140.40 |
| \$145.68 | \$145.68 |
| \$150.85 | \$150.85 |
| \$156.02 | \$156.02 |
| \$162.49 | \$162.49 |
| \$167.68 | \$167.68 |
| \$172.92 | \$172.92 |
| \$178.23 | \$178.23 |