

Initiating Coverage:

The Clorox Company

Bleaching Out the Fluff: Clorox Focuses on Core for a Brighter Future

Key Take-away: Clorox's divestiture of non-core businesses, such as the Better Health VMS segment and its operations in Argentina, reflects a strategic move to focus on higher-growth and more profitable core brands. By steering away from less predictable or lower-margin segments, Clorox aims to stabilize revenue and drive more consistent growth in key product areas. This divestiture aligns with their broader IGNITE strategy, positioning the company for improved operational performance and profitability in its primary markets.

Exit From Argentina Market: In March of 2024, Clorox exited the Argentina market and sold its operations, which consisted of its production plants in Argentina as well as the rights to the company's brands in Argentina, Uruguay and Paraguay. This decision was in support of the company's IGNITE strategy and goal to evolve its portfolio to reduce volatility and deliver more consistent growth. Clorox's Argentina segment represented approximately 2% of the company's fiscal year 2024 net sales outlook. This exit resulted in a one-time, after-tax charge of \$233 million in the third quarter of fiscal year.

Divestiture from Better Health VMS: In September of 2024, Clorox completed the divestiture from Better Health VMS, marking a significant step in its portfolio transformation aimed at reducing volatility and enhancing sales growth. This move resulted in a \$118 million after-tax charge but is expected to structurally improve Clorox's margin profile. The divestiture contributed to a 4-point decline in net sales this quarter; however, it is part of a broader strategy to streamline operations. Clorox experienced its eighth consecutive quarter of gross margin expansion, reaching 45.8%, a 740 basis point increase from the prior year. This growth was attributed to cost absorption from strong shipment growth and ongoing margin management efforts, emphasizing the positive financial impact of focusing on core, high-margin products.

Valuation: We initiate coverage with a \$177.50 PT.

Stock Rating: Overweight

Price Target: \$177.50

Price: \$164.47

Potential Upside/Downside: 7.9%

Ticker(s): SCLX

Market Cap: \$20.43b
Shares Outstanding: 123.8mm
Free Float (%): 87.64%
Dividend Yield: 2.96%

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Peer Comparisons

Comparable Companies						
\$mm						
Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM	
Church & Dwight Co., Inc. (NYSE:CHD)	\$ 26,982	\$ 28,642	49.4x	\$ 6,053	\$ 1,330	
Colgate-Palmolive Company (NYSE:CL)	\$ 78,948	\$ 86,291	27.8x	\$ 20,106	\$ 4,894	
The Procter & Gamble Company (NYSE:PG)	\$ 422,165	\$ 447,253	30.9x	\$ 83,905	\$ 24,040	
Kimberly-Clark Corporation (NYSE:KMB)	\$ 46,471	\$ 52,996	18.0x	\$ 20,100	\$ 3,898	
The Clorox Company	\$ 20,693	\$ 23,463	58.0x	\$ 7,469	\$ 1,371	

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	1 Yr Rev Growth Rate LF
Church & Dwight Co., Inc. (NYSE:CHD)	21.5x	45.7%	22.0%	18.6%	4.8%
Colgate-Palmolive Company (NYSE:CL)	17.6x	60.4%	24.3%	21.3%	5.1%
The Procter & Gamble Company (NYSE:PG)	18.6x	51.8%	28.7%	25.2%	0.8%
Kimberly-Clark Corporation (NYSE:KMB)	13.6x	36.4%	19.4%	15.7%	(1.6%)
The Clorox Company	17.1x	44.6%	18.4%	15.4%	6.2%
High	21.53x	60.4%	28.7%	25.2%	6.2%
75th Percentile	18.60x	51.8%	24.3%	21.3%	5.1%
Average	17.70x	47.8%	22.6%	19.2%	3.0%
Median	17.63x	45.7%	22.0%	18.6%	4.8%
25th Percentile	17.11x	44.6%	19.4%	15.7%	0.8%
Low	13.60x	36.4%	18.4%	15.4%	-1.6%

General Dynamics Valuation	
Implied Enterprise Value (25th Percentile)	\$ 23,463
Implied Enterprise Value (Median)	\$ 24,173
Implied Enterprise Value (75th Percentile)	\$ 25,507
Implied Share Price (25th Percentile)	\$ 168.49
Implied Share Price (Median)	\$ 174.24
Implied Share Price (75th Percentile)	\$ 185.01

Source: (CapIQ)

Company Overview

Company Description: The Clorox Company is an American-based consumer goods company, founded in Oakland, California, and headquartered in Pleasanton, California. Clorox is known primarily for its namesake bleach and cleaning products, but it has diversified into a wide range of household and personal care brands. These include Glad (trash bags and food storage), Burt's Bees (natural personal care products), and Kingsford (charcoal and grilling products). Clorox operates globally, though the majority of its revenue is generated in North America, and its products are sold in over 100 countries worldwide. In 2024, its revenue streams are split approximately 80% from household and lifestyle products, with the remaining 20% from personal care and international markets.

Product Innovation in Health and Hygiene: Clorox has leaned heavily into health and hygiene as core business drivers, aligning with their IGNITE strategy, especially after COVID-19 heightened demand for disinfecting and sanitizing products. They have strategically invested in R&D to develop products that meet rising consumer preferences for "germ-killing" products in both residential and commercial settings. Clorox's Total 360 System, a revolutionary disinfecting system designed for schools, hospitals, and offices, has been a standout in this regard. This focus has allowed Clorox to expand its reach in health-

related markets, helping to differentiate the company from competitors that do not emphasize this niche as strongly, and re-emphasizing their commitment to strengthening their core business and driving more consistent and profitable growth over time.

Sustainability and Green Initiative: Clorox has had a long-standing commitment to sustainability, including ambitious goals to reduce its carbon footprint, plastic usage, and water consumption across operations. Not only does Clorox encourage sustainability in their products, but also in their production processes: Clorox has achieved 100% renewable electricity in U.S. operations and plans to reduce plastic packaging by 50% and incorporate regenerative agriculture in supplier practices by 2030. It also introduced the Green Works line, one of the first eco-friendly cleaning product lines from a major brand, shaping the early market for sustainable household products and positioning Clorox as a leader in corporate responsibility and sustainability.

Industry Overview

Competitive Landscape: Clorox operates in a competitive consumer staples industry dominated by a few major players. Key publicly traded companies include Procter & Gamble (\$PG), Colgate-Palmolive (\$CL), and Unilever (\$UL), each with distinct focuses across categories like cleaning, hygiene, and personal care. Clorox's core strengths lie in household cleaning and disinfectant products, where it has built a leading market position, especially within the U.S. However, Clorox faces strong competition from these larger players, each competing for market share with differentiated products and marketing approaches. PG leads with a vast reach of household care, Colgate holds significant strength in oral care, and Unilever captures a unique niche through global food and personal care products. This competitive landscape requires Clorox to leverage brand loyalty and product innovation, particularly in areas where it holds core market strength.

Inflation and Raw Material Costs: Since 2022, inflation and rising raw material costs have been major challenges in the consumer staples industry, with effects still lingering into 2024. Companies such as Clorox and Procter & Gamble continue to face increased production costs for essential raw materials, such as chemicals, packaging materials, and transportation, necessary inputs in their production process. While inflationary pressures have started to ease, supply chain resilience remains a significant industry priority, particularly as companies grapple with sporadic disruptions in sourcing and logistics. Clorox and its competitors have responded with price adjustments and cost-management strategies, but they are now cautious about further price hikes as consumers become more price-sensitive.

Health and Sustainability: Despite the increase in raw material costs, there has been a positive and growing consumer preference for health-conscious and eco-friendly products, especially with younger customers. This shift has spurred many companies, like Clorox and Unilever to expand its product lines with more sustainable, plant-based, and health-forward options, such as Clorox Green Works or Unilever's Seventh Generation line, and has pushed competitors to introduce similar alternatives. As consumers become more eco-conscious, demand for environmentally friendly products and transparent sourcing practices has created both opportunities and pressures on companies to align product innovation with sustainable practices, marking a shift in the industry's eco-consciousness.

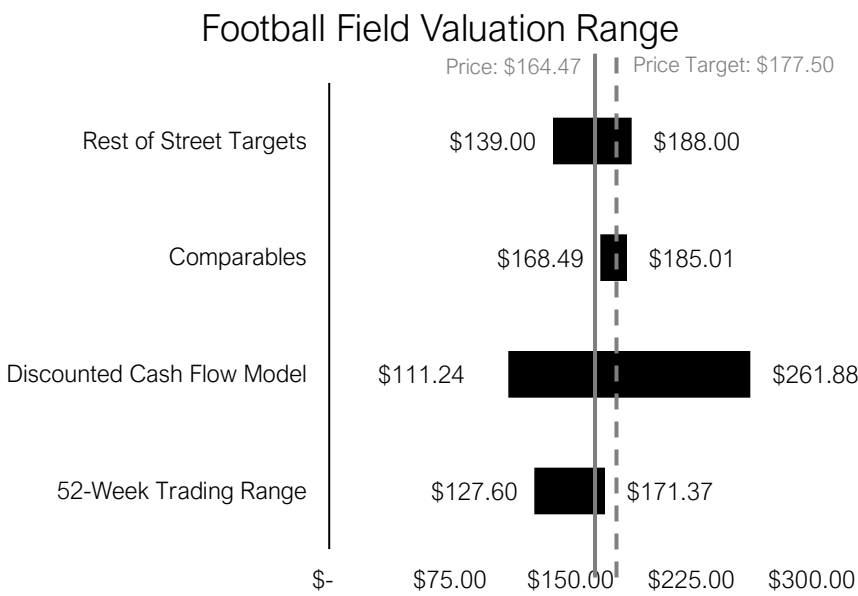
Enterprise Resource Planning (ERP) Implementation: Clorox is advancing its digital infrastructure with a five-year, \$500 million investment in technology, including a new enterprise resource planning (ERP) system. This system, now active in Canada and set for U.S. implementation by 2026, will centralize data and streamline decision-making across supply chain, finance, and other functions. This technology-driven approach aims to make Clorox more agile, enabling quicker responses to consumer demands and more strategic, data-driven innovation—a critical capability in today's dynamic market environment.

Digital Transformation for E-commerce Growth: By strengthening its digital and e-commerce capabilities, Clorox aims to capitalize on the growing trend of online shopping for household essentials. Enhanced digital marketing and data analytics support personalized consumer engagement and optimized product distribution. For example, Clorox's personalization strategy with Walmart focuses on creating tailored, seamless shopping experiences. Using Walmart's off-site media capabilities near stores, Clorox leverages prominent in-store product displays and Walmart search targeting to reach specific audiences. This approach is data-driven, relying on purchase insights to segment audiences and deliver relevant ads.

Sustainability and ESG Initiatives: Clorox has a strong commitment to sustainability, aiming to reduce plastic waste and set ambitious net-zero emissions goals. This aligns with the increasing demand from consumers and investors for environmentally responsible companies. The company's focus on recyclable packaging and reduced environmental impact might not only enhance brand loyalty but also appeal to younger, eco-conscious consumers.

Price Target & Valuation

Our analysis gives \$CLX a price target of \$177.50 and an overweight rating.



Potential Downsides to Our Rating

Demand Normalization: Clorox benefited significantly from increased demand for cleaning and disinfecting products during the pandemic. However, as consumer purchasing patterns revert to pre-pandemic levels, there is a risk of declining revenue growth, particularly in its cleaning segment. This normalization, coupled with increased competition in the cleaning space, could limit Clorox’s ability to maintain its recent market share gains and revenue momentum.

Commodity Price Inflation: Clorox’s profitability as a business is highly sensitive to changes in raw material costs, including resin, pulp, and chemicals. Recent trends in commodity price inflation have placed pressure on gross margins. Although Clorox has implemented price increases to offset these cost challenges, sustained inflation or consumer pushback to higher prices could materially impact the company’s financial performance.

Our Price Target: **\$177.50**

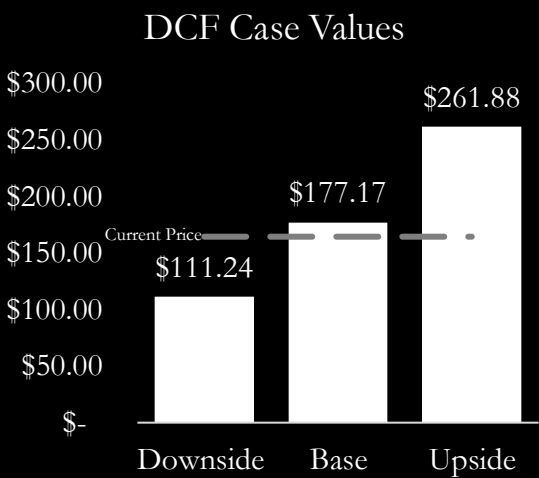
Our PT assumes that Clorox achieves moderate revenue growth driven by successful digital transformation, ERP implementation, and a strengthened e-commerce strategy. Sustainability initiatives and partnerships with retailers like Walmart enhance consumer engagement and loyalty, supporting steady profit margins.

Our Upside Case: **\$261.75**

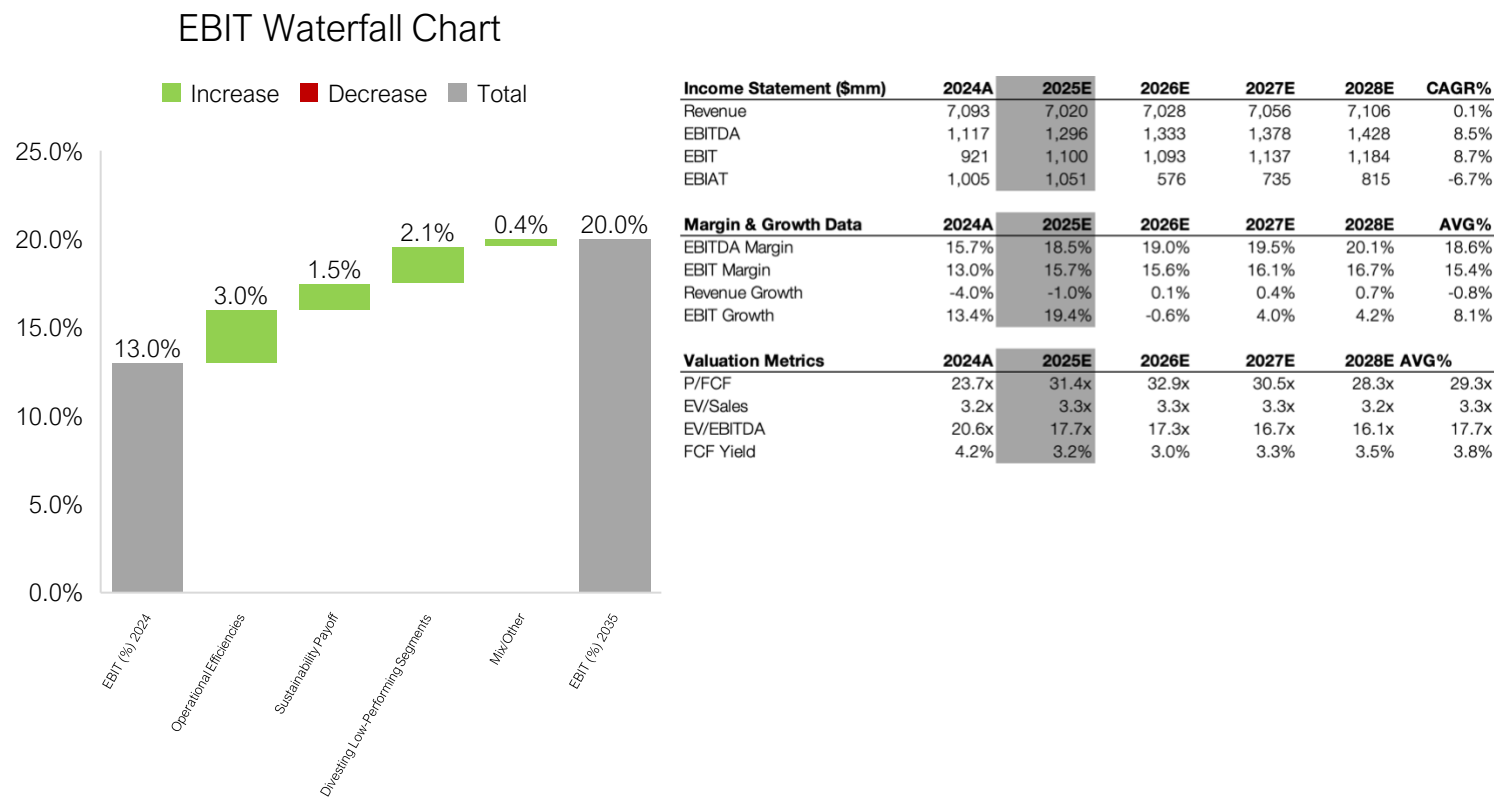
Our upside case assumes that ERP and digital initiatives lead to a substantial boost in operational efficiency, allowing it to capture more market share in the wellness and eco-friendly segments. Stronger-than-expected demand for its sustainable products, coupled with personalized marketing through Walmart’s platforms, accelerates growth and pushes revenue and profit margins above projections.

Our Downside Case: **\$111.25**

Our downside case is that there are delays or challenges with the ERP system disrupt operations, leading to increased costs and supply chain inefficiencies. Competitive pressures from Procter & Gamble or Colgate-Palmolive, along with economic challenges, result in slower e-commerce growth, while higher sustainability costs strain margins, limiting revenue growth below expectations.



Projections



About \$CLX

Clorox Company (CLX), founded in 1913 and headquartered in Oakland, California, is a leading multinational manufacturer of consumer and professional products. The company operates globally, with its primary business segments including Cleaning, Household, Lifestyle, and International, offering a broad range of products such as disinfectants, bleach, and personal care items. Clorox’s key purpose is to deliver innovative, high-quality products that promote health and well-being while maintaining a strong commitment to sustainability. Through its extensive portfolio, the company serves both individual consumers and commercial markets, positioning itself as a trusted brand in everyday household cleaning and wellness.

Disclosures & Ratings

Consortium Equity Research does not hold any professional relationships with any reported equities. **Overweight** means the analyst team believes the stock price will outperform the coverage industry (TMT, Healthcare, Industrial, Consumer, FIG, Energy & Sustainability) in the next 6-12 months. **Equal Weight** means the team expects performance in line with the industry. **Underweight** means the team expects underperformance relative to the industry.

Appendix

The Clorox Company
Discounted Cash Flow

Active Case: 2 Base
Current Share Price \$164.71

DCF Analysis (\$mm)	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034	FY2035
	6/30/20	6/30/21	6/30/22	6/30/23	6/30/24	6/30/25	6/30/26	6/30/27	6/30/28	6/30/29	6/30/30	6/30/31	6/30/32	6/30/33	6/30/34	6/30/35
Stub						0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Discount Period						0.02	0.55	1.55	2.55	3.55	4.55	5.55	6.55	7.55	8.55	9.55
Revenue	6,721.00	7,341.00	7,107.00	7,389.00	7,093.00	7,030.00	7,027.88	7,056.38	7,105.73	7,176.42	7,269.22	7,365.15	7,525.53	7,692.02	7,866.59	8,047.68
Revenue Growth	0%	9%	-3%	4%	-4%	-1%	0%	0%	1%	1%	1%	2%	2%	2%	3%	3%
Health and Wellness	2,755.61	3,009.81	2,629.59	2,807.82	2,695.34	2,667.60	2,676.49	2,694.34	2,721.28	2,757.56	2,803.52	2,859.59	2,926.32	3,004.35	3,094.48	3,187.32
Household	1,814.67	1,982.07	1,989.96	2,068.92	1,986.04	1,965.60	1,972.15	1,985.30	2,005.15	2,031.89	2,065.75	2,107.07	2,156.23	2,213.73	2,280.14	2,348.55
Lifestyle	1,142.57	1,174.66	1,279.26	1,330.02	1,276.74	1,263.60	1,257.28	1,257.28	1,263.57	1,276.20	1,295.35	1,321.26	1,354.29	1,394.91	1,443.74	1,494.27
EBIT	1,261.00	1,232.00	712.00	812.00	821.00	1,100.00	1,033.23	1,136.69	1,184.29	1,235.94	1,292.31	1,353.94	1,421.49	1,495.67	1,577.32	1,617.54
EBIT Margin	19%	17%	10%	11%	12%	16%	16%	16%	17%	18%	18%	18%	19%	19%	20%	20%
Tax Expense	246.00	181.00	136.00	77.00	106.00	200.00	251.44	261.48	272.39	284.27	297.23	311.41	326.94	344.00	362.78	372.03
Effective Tax Rate	20%	15%	19%	9%	12%	18%	23%	23%	23%	23%	23%	23%	23%	23%	23%	23%
NOPAT	1,006.00	1,051.00	576.00	735.00	815.00	900.00	841.78	875.38	911.90	951.67	995.08	1,042.54	1,094.55	1,151.67	1,214.54	1,245.50
D&A	161.00	173.00	185.00	196.00	196.00	196.00	239.65	241.33	243.73	246.87	250.79	255.53	261.14	267.68	275.24	283.07
Capex	254.00	331.00	251.00	228.00	212.00	200.00	194.67	193.34	192.57	192.33	192.63	193.49	194.91	195.92	199.53	202.19
Changes in NWC	(353.00)	43.00	239.00	(389.00)	267.00	200.00	267.06	254.03	241.59	229.65	218.06	206.78	195.66	184.61	173.51	161.75
UCF	398.00	783.00	564.00	118.00	800.00	642.00	619.70	669.34	721.47	776.57	835.15	897.79	965.11	1,037.82	1,116.74	1,184.63
PV of FCF						646.11	601.01	613.95	625.88	637.15	648.06	658.59	668.89	681.30	693.35	683.07

Terminal Value	
Perpetuity Growth Method	
2034 FCF	\$1,165
Growth	2.00%
Terminal Value	31194.31496
PV of Terminal Value	\$18,317
PV of Projection Period	\$7,161
PV of Terminal Value	\$18,317
Implied TEV	\$24,486
(-) Debt	\$2,884
(+) Cash	\$278
Implied Equity Value	\$21,880
Basic Shares Outstanding	124
Implied Share Price	176.7598537
Upside/Downside	7.32%

Implied BF EV/EBIT	22.26
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Weighted Average Cost of Capital (\$mm)	
Market Risk Premium	4.06%
Beta	0.41
Risk Free Rate	4.39%
Cost of Equity	5.29%
Weighted Average Cost of Debt	4.60%
Tax Rate	23.00%
Cost of Debt	0.44%
Total Equity	\$20,388
Total Debt	\$2,606
Equity/Total Capitalization	87.61%
Debt/Total Capitalization	12.39%
WACC	5.73%

Blended Share Price	
Perpetuity Growth Method	100%
Exit Multiple Method	0%
Blended Share Price	\$176.76
Upside/Downside	7.32%