

THE CLOROX COMPANY

(NYSE: CLX)



BUY. HOLD. AND PROSPER.®

(as at May 31, 2020)

Business Description:

The Clorox Company is a leading multinational manufacturer and marketer of consumer and professional products. Clorox markets some of the most trusted and recognized consumer brand names, including its namesake bleach and cleaning products; Pine-Sol cleaners; Liquid-Plumr clog removers; Poett home care products; Fresh Step cat litter; Glad bags, wraps and containers; Kingsford charcoal; Hidden Valley dressings and sauces; Brita water-filtration products; and Burt's Bees natural personal care products. The company also markets brands for professional services, including Clorox Healthcare and Clorox Commercial Solutions. More than 80% of the company's sales are generated from brands that hold the number 1 or 2 market share positions in their respective categories.

Investment Thesis:

- **Clorox is a highly trusted brand with a large industry presence.** Clorox bleach and cleaning products are recognized among consumers so much that the Clorox brand has become synonymous with anti-bacterial disinfectants. With nearly 80% of the global portfolio holding #1 or #2 industry positions, Clorox has a wide global reach.
- **With global concerns about COVID-19, strong financial results expected to continue.** Clorox has outperformed both the S&P 500® and its peers at a shareholder return of 91% compared to 66% and 50%, respectively. The novel coronavirus is a cause for global concern for hygiene and disinfectants, and Clorox is positioned well to meet this wave of sales demand and expects to continue strong financial performance throughout 2020.
- **Strong track record of returning capital to investors and dividend growth.** Clorox has more than doubled annual cash returned to shareholders from fiscal years 2014 to 2019. Clorox has consistently grown the dividends per share and initiated a \$2 billion share buyback program in 2018.

Industry Drivers/Trends

Household Cleaning Materials & Consumer Packaged Goods:

- Businesses are growing more and more conscious of the need to drastically cut down the amount of non-biodegradable waste put into landfills, and plastic bottles, cloths and cleaning equipment are going to be some of the predominant targets of these campaigns.
- A driver of growth is the changing demographic,

specifically strong millennial growth. Companies will look to capture on this growth through cleaning products that have been staples in households all their lives.

- Within the commercial markets, growth will be strongly correlated with the hotel and restaurant industry. As disposable income and foot traffic rise, this will be a growing source of demand for cleaning and soap products.

Competitive Advantages:

- Large global portfolio of brands
- Economies of scale leading to lower SG&A (Selling, General & Administrative Expense) costs as percentage of revenue
- Well-known brands as hygiene staples in households

Competitors:

- Reckitt Benckiser Group PLC, Beiersdorf AG, Unilever PLC, The Procter & Gamble Company

Customers:

- Supermarkets, distributors, end consumers, enterprises & businesses

Barriers to Entry:

- **Branded Portfolio:** Existing brands have a distinct advantage as branded products are sold and recognized worldwide. A new entrant would not be able gain enough market share from brand-loyal consumers to compete and survive.
- **Large Start-Up Costs:** Existing buildings and plant machinery make up a large part of an incumbent's assets. Financial costs that large are a sure barrier to a start-up company attempting to enter the Personal & Household Products industry.
- **Economies of Scale:** Large companies in this space have an operating advantage as they have been able to operate at a large volume for a prolonged period of time. This operating cost advantage will discourage new entrants.

Officers and Directors:

Benno Dorer, Chairman & Chief Executive Officer; **Kevin Jacobsen**, EVP & Chief Financial Officer; **Kristen Marriner**, EVP & Chief People Officer; **Linda Rendle**, EVP of Cleaning, International, Strategy & Operations; **Eric Reynolds**, EVP of Household & Lifestyle.

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Financial Summary:

Income Statement (USD millions, years ended December 31st)

	2015	2016	2017	2018	2019
Revenue	5,655.0	5,761.0	5,973.0	6,124.0	6,214.0
COGS	(3,190.0)	(3,163.0)	(3,302.0)	(3,449.0)	(3,486.0)
Gross Profit	2,465.0	2,598.0	2,671.0	2,675.0	2,728.0
Profit before Tax	921.0	983.0	1,033.0	1,054.0	1,024.0
Net Profit	580.0	648.0	701.0	823.0	820.0
EPS (Diluted)	4.37	4.92	5.33	6.26	6.32
Dividends per Share	2.99	3.11	3.24	3.60	3.94

Balance Sheet

Total Assets	4,154.0	4,510.0	4,573.0	5,060.0	5,116.0
Long-Term Debt	1,796.0	1,789.0	1,391.0	2,284.0	2,287.0
Total Equity	118.0	297.0	542.0	726.0	559.0

Statement of Cash Flow

Cash Flows from Operations	874.0	778.0	868.0	976.0	992.0
Cash Flows from Investing	(106.0)	(430.0)	(205.0)	(859.0)	(196.0)
Cash Flows from Financing	(696.0)	(316.0)	(645.0)	(399.0)	(815.0)

Key Ratios and Figures (%)

Operating Margin, EBIT	43.6%	45.1%	44.7%	43.7%	43.9%
FCF as % of Revenue	12.0%	13.0%	10.0%	11.0%	13.0%

Source: Clorox 2019 Annual Report



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PIC3246-E(06/20)