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The Clorox Company

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Investment Thesis: CLX is a defensive consumer-products staple facing a near-term profit reset but with modest upside from here. We rate CLX **Hold** with a 12-month target of ~\$100 (implying only ~5% price upside; ~10% total return including dividend) due to limited catalysts. Recent results showed **flat revenues** and continued margin pressure: Q3 FY2026 net sales were \$1.67B (essentially flat year-over-year) with **organic sales down ~1%** (investors.thecloroxcompany.com). Gross margins **contracted ~140 bps** (to 43.2%) on higher manufacturing/logistics costs (investors.thecloroxcompany.com). While GAAP EPS (\$1.54) modestly beat prior-year (\$1.50) thanks to absence of last year's one-off insurance recovery (investors.thecloroxcompany.com), this reflects largely cost-cutting and lapping of non-recurring gains. Key takeaways:

- **Flat sales, contraction in volume/mix** – Q3 net sales were flat Y/Y (\$1.67B) with volume gains offset by shipment timing; organic volume declined ~1% (investors.thecloroxcompany.com). Housewares/category shipments were mixed (e.g. Household segment +3% volume, Lifestyle -9% due to inventory drawdowns (www.streetinsider.com)).
- **Margin headwinds intensifying** – Gross margin fell 140 bps from a year ago (43.2% vs. 44.6%) (investors.thecloroxcompany.com). Management cites higher input cost inflation (manufacturing and energy) and mix/drivers; center-store categories lost pricing power, and an inventory step-up (Q4 FY2025 one-time headwind) added ~150 bps drag (www.stockinsights.ai) (investors.thecloroxcompany.com). SG&A leverage was poor, offsetting gross margin declines.
- **Earnings beat via one-offs** – GAAP EPS \$1.54 beat last year's \$1.50 (+3%) (investors.thecloroxcompany.com), but this reflects lapping \$0.04 of prior-year insurance income and the absence of digital/transformation costs taken earlier. Adjusting out these items and ~\$0.03 of GOJO acquisition costs (new) shows underlying EPS roughly flat.
- **Operating cadence and outlook** – Management confirms the U.S. ERP rollout is complete and service levels have stabilized (www.stockinsights.ai), enabling smoother supply. However, the pipeline is weak: the firm now expects FY2026 net sales down ~6% and full-year GAAP EPS only ~\$4.78-4.98 (24-27% lower) (investors.thecloroxcompany.com), reflecting temporary ERP destocking (-90¢EPS drag) and integration costs from the \$2.25B GOJO acquisition (investors.thecloroxcompany.com). Incremental factors (energy costs, Middle East conflict) are expected to pressure margins into year end (investors.thecloroxcompany.com).

Valuation Snapshot: - Current Price: \$95.1 (as of 05/22/2026)

- Target Price: \$100.00

- Implied Upside: +5%

- Implied Total Return†: +10% (≈+5% price + ~5% dividend yield)

† Based on a forward dividend of \$4.96 (5.2% yield) (www.streetinsider.com) and modest price appreciation.

Company Deep Dive & Business Model

Business Segmentation: Clorox is a diversified consumer-and-professional products company organized into four segments. *Health & Wellness* (cleaning/disinfectant products such as Clorox bleach, Pine-Sol, professional cleaning) generates roughly one-third of sales; *Household* (Glad bags/wraps, Fresh Step/Scoop Away cat litter, Kingsford charcoal grill products) another third; *Lifestyle* (consumer goods like Hidden Valley dressings, Brita water filters, Burt's Bees personal care) the remaining U.S. portion; and *International* (all product sales outside the U.S.) contributes the rest (www.streetinsider.com) (www.streetinsider.com). Each segment has well-known brands ("Clorox," "Glad," "Burt's Bees," etc.), broad retail distribution, and products that tend to be repeat purchases. Revenue is chiefly retail-driven (e.g. grocery chains, mass merchandisers, drug stores) with no single customer dominance (Walmart/Kroger/Costco are large but fragmented customers). Recent divestitures (e.g. sold Better Health vitamins/minerals business in FY2025) have focused Clorox on core cleaning/household items.

Competitive Moat: Clorox competes in mature, low-growth categories with strong brand recognition and wide distribution. Its moat derives from scale and shelf presence (management highlights improved "on-shelf presence" and promotion execution (www.stockinsights.ai)) and

consumer trust in staple brands (e.g. Clorox bleach for sanitation). Management touts ongoing product innovation and “value superiority” across the portfolio (www.stockinsights.ai) to fend off competitors. However, barriers to entry in household goods are modest: private-label alternatives and peers (P&G, Kimberly-Clark, Church & Dwight, Reckitt) apply pricing pressure. Clorox’s pricing power is limited in a downshifting consumer market, so it relies on cost cuts and operating efficiency. Recent acquisitions (Juglan, Sept 2023) like GOJO (Purell hand sanitizer) suggest seeking growth adjacency, but also dilute near-term margins.

Management & Governance: Chair/CEO Linda Rendle (CEO since 2020) and CFO Luc Bellet have led Clorox’s multi-year transformation – implementing an ERP and digital upgrade at high upfront cost. Rendle’s tenure emphasizes dividends and share repurchases (48-year dividend growth streak) (www.streetinsider.com). However, recently management has considerably leveraged the balance sheet: acquiring GOJO (\$2.25B cash) and buying out a Glad JV partner, pushing net leverage to the mid-3x range (www.spglobal.com). Credit agencies remain investment-grade but loath to downgrade: Moody’s affirmed Clorox at Baa1 (negative outlook) post-GOJO (app.researchpool.com), and S&P recently cut CLX to BBB (stable outlook) on higher debt. There is little insider ownership ($\approx 0.25\%$ held by executives) and no controlling shareholder; 84% of stock is held by institutions (www.advn.com). Management’s incentives are aligned with near-term financial targets (EPS guidance, cost savings); shareholders currently benefit more from yield than from promised growth. There are no apparent governance red flags, though the huge capital spend (and dividend payout) raises questions on capital discipline.

Sentiment Analysis: Market sentiment toward CLX is muted. Retail investors appear cautious despite the high $\sim 5\%$ yield, while institutions dominate ownership (www.advn.com). Analysts have mostly rate it “Hold” (consensus price targets near \$100–110, $\sim 5\text{--}15\%$ above current) reflecting valuation concerns. Over the last year, CLX has **underperformed** the market ($\approx -32\%$ vs. $+31\%$ for S&P 500) (www.alphaspread.com), trading near its 52-week low ($\sim \$85$) (stockanalysis.com). Direct peers (CHD, KMB) have outperformed CLX modestly, as investors fret over margin headwinds and earnings declines in all US consumer staples after \$ elevated COVID-era demand. On the flip side, episodic events (e.g. heightened sanitation avoid a large downside, credit risk has already priced-in) could spark short-covering rallies. Overall, sentiment is tepid – few buy recommendations and above-average short interest (for staples) – suggesting CLX is under pressure absent a clear catalyst.

Market Dynamics & Recent Events

Key News Flow: The biggest recent development was the **Jan 2026 announcement of Clorox’s acquisition of GOJO Industries (Purell and related skin-health) for $\sim \$2.25$ billion in cash** (www.axios.com). This makes Clorox a major player in hand sanitizer/business hygiene (adding $\sim \$800$ M sales, 80% sanitizer) at a time of sustained cleaning awareness. The transaction closed in April 2026; integration is underway with projected cost synergies in years 2–3 (www.stockinsights.ai). Other news: Q3 FY2026 earnings (4/30/26) confirmed the shipment normalization from the ERP (revenues flat but real demand muted) and trimmed full-year outlook. There have been no other significant acquisitions/sales in 2025–26 aside from GOJO. No material regulatory issues emerged; any consumer-safety/ESG questions (e.g. plastic packaging waste, volatile chemicals) have not swayed public narrative. The company did complete a sale-leaseback of a warehouse in Dec 2023 (gain $\$16$ M), but that is a minor one-time funding event.

Stock Performance: CLX stock has been under pressure. From a 52-week high around \$132, it trades near \$95. It is now just above its 52-week low of $\sim \$84$ (stockanalysis.com). Over 1 year, CLX’s total return is $\approx -32\%$, vastly underperforming the broad market (www.alphaspread.com). Part of this reflects earnings declines: FY2026 EPS guidance ($\sim \$4.9$) is down $\sim 25\%$ YOY (investors.thecloroxcompany.com), compressing P/E. Relative to peers, CLX trades at a similar multiple ($\sim 17\times$ forward EPS) but with much slower growth. Key valuation multiples (EV/EBITDA, P/S, P/FCF) are near 5–20% below historical averages for stable staples. The shares are moderately volatile (beta ~ 0.6), responding more to cyclical winds than you’d expect for a “defensive” name. On technicals, CLX is slightly oversold in the short term (RSI ~ 40 , slight bounce off 200-

day moving average) but remains range-bound. The merger arbitrage post-GOJO acquisition lifted the stock briefly in Q1 2026, but that resolved after closing.

Macro Impact: The consumer staples pocket is not immune to macro pressures. Elevated interest rates and slowing housing/earnings growth have tightened consumers' belts, causing trade-downs to private-label and discount brands. For Clorox, this means volume headwinds in even bedroom-cleaning categories (volumes are soft as seen in Lifestyle (-9%) (www.streetinsider.com)). Inflation remains a mixed bag: commodity and energy costs have eased from 2022 peaks, but recent events (Middle East conflict) rekindled **higher energy prices**, squeezing gross margins (investors.thecloroxcompany.com). Labor and logistics costs, while off peak, stay historically high. To maintain margins, Clorox has shifted price/mix: pricing contributes little growth ($\approx 1\%$ headwind in Household segment (www.streetinsider.com)), so nearly all sales growth must come from volume or capacity. A potential U.S. recession or slump in consumer spending would likely hit Clorox harder than some staples (people can temporarily dirtier less, etc.). Currency effects are modest (favorable FX inflated Q3 Int'l sales by +8% (www.streetinsider.com)). Long-term macro: persistent hygiene awareness (post-COVID sanitization habits) and environmental megatrends (e.g. moves away from chemicals) create latent upside if Clorox innovates with greener products or health-focused brands. But in the medium term, the stock is driven by U.S. consumer sentiment, commodity price swings, and Fed policy. We do not expect near-term Fed cuts to significantly uplift CLX's industrial earnings, but a broad stock-market rally or staple rerating could lift the shares somewhat.

Financial Statement Analysis (Forensic Detail)

Revenue & Earnings Quality: Clorox's reported results have been distorted by one-offs. In **Q1 FY2026**, net sales plunged 19% (to \$1.43B) **purely due to an ERP-related inventory drawdown** from the prior year (www.prnewswire.com). Organic sales were actually down $\sim 17\%$ as lower realized volume from disruption hit hard (www.prnewswire.com). Q1 gross margin collapsed ~ 410 bps to 41.7% (www.prnewswire.com), reflecting both fixed-cost absorption issues and mix shift (prior-season front-loading cost savings are lapped). By Q2-Q3, the ERP effects normalized (Q3 sales flat), but cost pressures remained: Q2 gross margin $\approx 43.2\%$ (-60 bps) (investors.thecloroxcompany.com) and Q3 43.2% (-140 bps) (investors.thecloroxcompany.com). Management indicates most price/mix in Household has run down (only $\sim +1\%$ volume vs 0% price), with the rest of growth from trade-backs and prior shipments (www.streetinsider.com).

Critically, several items artificially inflate or deflate trends: for example, Q3 FY2025 had a $\sim \$0.04$ /share cyber-security insurance recovery boosting EPS; Q4 FY2025 incurred a one-time \$16M inventory step-up loss (~ 150 bps gross margin hit) which won't recur (www.stockinsights.ai). The Better Health VMS divestiture in 2024 also skews year-on-year organic comparisons. Excluding these, core sales growth in the U.S. cleaning category is essentially flat-to-down, and earnings are breaking even, so the legacy business is mature at best. In short, **core earnings quality is weak**: underlying operating income is minimal (OpInc unreported due to transition noise) and Clorox has had to lean heavily on cost savings, restructuring, and price increases just to tread water. Inventory shifts have no lasting sales lift – they simply repriced quarter-to-quarter results.

Balance Sheet Health & Leverage: Clorox's balance sheet is solid but leveraged. As of 12/31/25, total debt was $\sim \$2.48$ B (mostly unsecured, at investment-grade coupons); cash+short-term investments were under \$0.2B (investors.thecloroxcompany.com). Net Debt/EBITDA on a pro-forma GOJO basis is ~ 3.6 x (www.spglobal.com) – significantly higher than historical ~ 2.5 x. Long-term debt maturities are spread (no single looming wall as of FY26); interest coverage remains comfortable (single-digit interest rates and EBITDA cushion). The company's credit rating (mid-BBB) limits refinancing risk, and Clorox has access to revolving credit ($\sim \$1$ B facility) for liquidity. Off-balance-sheet: Clorox has modest lease liabilities ($\sim \$360$ M ROU assets) and no material unconsolidated vehicles. Pension and other liabilities are immaterial. Overall, **leverage is elevated** due to GOJO financing and prior share repurchases, but still within covenants. S&P specifically downgraded CLX's rating in Feb '26 on this increased leverage (app.researchpool.com).

Cash Flow & Capital Allocation: Free cash generation has deteriorated. In FY2025, FCF was only about **\$100M** despite ~\$7.4B in sales (FCF margin ~1.4%) (investors.thecloroxcompany.com) (www.sec.gov). This resulted from the combination of earnings near breakeven and high working capital drag (inventory/receivables tied up). By contrast, in 2022-23 FCF was \$0.9-1.3B. In Q1 FY2026, operating cash was only \$93M vs \$221M Y/Y (www.prnewswire.com), mainly because retailers paid less (destocking ended the ERP cycle). Clorox has had to tap balance sheet flexibility or asset sales (e.g. a Dec 2023 sale-leaseback provided \$19M proceeds) to cover capital needs.

On allocation, Clorox has historically returned ~100% of earnings via dividends and buybacks. In FY2025 the dividend was \$3.60/sh (≈\$450M) (www.sec.gov), far outstripping net income and FCF. The company renewed a \$1.2B buyback plan in 2023, but repurchases have been paused in FY2026 (no shares bought in Q1/Q2) (www.sec.gov). Given the slump in profits, dividend payout ratio is now well above 100% of earnings, clearly unsustainable long-term. We view the high dividend (yield ~5.2% (www.streetinsider.com)) as generous but fundamentally funded by financing until profitability recovers. The pace of capex is modest (~1-2% of sales); product development spend (R&D) is limited (typical for CPG). In summary, free cash flow is weak and dividends currently absorb all of it – meaning further deleveraging or earnings improvement is needed for capital returns to normalize.

Valuation & Price Target

We arrive at a 12-month target of **\$100** by triangulating several models:

- **DCF (Intrinsic):** With FY2026 sales ~\$7.0B (-6% guidance) and normalized EBIT margins ~10-12%, we project unlevered FCF of roughly \$0.5-0.7B by FY2027, growing ≈2% thereafter. Discounting at ~8% (WACC, reflecting ~4% risk-free + sector risk premium) yields an enterprise value on the order of \$9-10B. After net debt (~\$1.6B) and ~120M shares outstanding, this implies ~\$80-90 per share. Upside comes only if growth exceeds expectations or margins expand beyond ~12%.
- **Peer Multiples:** Consumer-personal-products peers (e.g. Church & Dwight, Kimberly-Clark) trade at ~15-20× forward EPS/EBITDA, but typically have steadier growth (and lower leverage). CLX's forward P/E (on expected ~\$5.50 adj. EPS) is ~17×, roughly in line with peers. Applying a mid-cycle ~18× P/E to our FY2026e EPS (~\$5.5 adj) suggests a fair value ~\$99. Likewise, an EV/EBITDA approach (Implied EBITDA ~ \$0.7-0.8B) with a target ~11× yields ~EV \$8-9B (\$80-90/sh). These analyses indicate limited upside without multiple expansion.
- **Dividend Discount Model:** Using the current annual dividend (\$4.96) growing at ~2% (in line with historical trend) and a required return ~8% (reflecting similar WACC), we get a value ~\$84-90. If we assume a slightly higher growth (3%) or lower discount (7.5%), the result approaches \$100. The relatively high yield anchors the valuation; investors demand a ~5%+ return just from dividends given the uncertainty in earnings recovery.

Blended Target: We weight DCF at 40%, P/E comps at 30%, and DDM at 30%. The midpoint of the valuation ranges centers around \$90-100. Given our cautious outlook (lack of near-term catalyst) we set **Target = \$100**. This allows a small premium for signs of stabilization (new product cycles, ERP completion) but incorporates a modest discount for CLX's elevated leverage and margin risk. At \$100, the forward P/E is ~18× and EV/EBITDA ~10×, roughly at the lower end of historical band. If growth were to surprise on the upside (e.g. a rebound in volumes or successful new segments), the stock could justify a premium, but such scenarios are reflected more in our bull forecast than base valuation.

Risk, Catalysts, and Scenario Analysis

Bear Case (Downside Risks): The worst case is that CLX's structural headwinds persist or worsen. A consumer pullback (recession or sustained rate hike environment) could further erode volumes as household spending tightens. CLX's high leverage amplifies risk: if earnings remain weak, another downgrade (or covenant pressure) could force asset sales or trimming of the dividend. Integration of GOJO may underperform: cost synergies might miss targets, and CLX might face inventory write-downs if sanitizer demand falls. On the accounting side, aggressive adjustments (e.g. pension or litigation reserves) could hit earnings quietly. Competition from private-label or nimble disruptors (e.g. new eco-brand cleaners) could take share in the Lifestyle and Household segments. Regulatory or legal developments (e.g. chemical safety bans) could force reformulations or recalls, adding costs. In a **bear scenario**, we assume revenue (organic) contracts ~5-10% beyond current outlook, gross margins plateau or decline (no recovery of the lost 4-6% point of margin from 2025), and the dividend is cut by 25-50% to preserve cash. Under those conditions, CLX's multiple would revert to single-digits. We estimate a 12-month **bear-case target around ~\$75** (-25% from current), reflecting the stock trading at ~8x earnings plus only a 3% yield if dividends were trimmed.

Bull Case (Upside Catalysts): In a best case, CLX overcomes its transition shocks. With ERP fully behind it and supply chain stabilized, operating efficiency could improve faster than expected. "Home" categories could see a modest rebound if people sustain cleaning habits (e.g. stronger demand for disinfectants each flu season), and international markets might recover in lockstep. The GOJO acquisition, if executed well, could be immediately accretive beyond initial projections (for example if organic hand-sanitizer demand continues growing). Additional cost-cutting beyond current plans (e.g. further SG&A savings or COGS synergies) could boost profit. On the macro side, falling inflation and a resumed Fed easing cycle might restore consumer confidence and allow more price increases. Equity markets might rotate back into defensive dividend payers, rerating CLX multiple higher. In a **bull scenario**, assume CLX delivers small organic sales growth (1-2%), gross margin trend reverses (+100-200bps over 12 months as input costs normalize), and full-year adjusted EPS steadies ~10% above the low guidance (say ~\$5.90 vs consensus \$5.5). Capital allocation improves (share buybacks resume after FY2026). This would justify a multiple expansion to 20-22x. Under these conditions, a 12-month target could reach **~\$120** (+26%), including the dividend.

Scenario Analysis (12-month price targets):

- *Base Case:* Our forecast (flat volumes, slight margin recovery, EPS ~\$5.5) yields \$100. This assumes no drastic change in outlays or demand – basically normalization of ERP effects and modest cost relief.
- *Bear Case:* Extended destocking or a downturn leads to EPS ~\$4.0 and multiple compression to ~9x. CLX would trade around **\$75** in this low-pandemic-demand, high-unemployment scenario (dividend likely cut).
- *Bull Case:* Successful turnaround (modest volume growth, margin expansion) brings EPS to ~\$6.5 and a market premium multiple ~18-20x. This implies a share price up near **\$120-125** (+25%), assuming the dividend is maintained.

Each scenario hinges on consumer demand and cost structure. We assume no other major M&A; a large distress event (e.g. plant fire or lawsuits) could skew outcomes further.

Red Team Analysis (Devil's Advocate)

Value Trap Argument: Even if CLX yields 5%, the risk is that this payout masks structural decline. This high yield looks tempting only if the dividend is secure; but as noted, the dividend far exceeds underlying cash earnings. If a recession hit, management may have to slash dividend or issue shares. CLX shares could stagnate or fall as investors realize future earnings can't sustain the yield. The "growth" components and acquisitions (GOJO, digital) may turn out marginal: GOJO was bought at a cyclical peak of sanitizer demand, and its synergies may fall short, dragging on combined margins. Meanwhile, all whitening/personal cleaning categories are highly commoditized – it's easy for consumers to switch to cheaper store brands. Private-label penetration could erode volumes quietly over time. In this view, CLX is a **value trap**: on paper the dividend and brands look healthy, but the business may never generate enough true cash to justify the valuation.

Investors holding CLX for yield could see 2010s Katco shares levels: safe returns until the dividend cuts one day. Relative to peers, CLX is arguably the weakest (highest leverage, lowest growth, lowest FCF). The stock could underperform like a staples contagion (as in 2022–24) if cost pressures worsen or management maims credibility by more downgrades.

Generational Turnaround Argument: Conversely, one could argue CLX is undervalued if an inflection occurs. Sanitation consciousness has only increased globally; the world “should” be cleaning more, not less. As unit volumes normalize, Clorox has strong pricing power (notice management still expects to take a bit of price/mix into 2027 (www.stockinsights.ai)). If management convincingly improves the supply chain (ERP era behind us) and effectively up-sells new products (e.g. cleaner versions, smart devices like UV buckets, etc.), market share could increase. The GOJO deal adds a cash-rich, high-margin business (previously family-owned, not fully commercialized) that could exceed projections. Clorox’s brands have global recognition – in emerging markets they can still grow. A new CEO or restructuring could unlock hidden assets (inactive patents, or breaking up the slow pieces like selling the food or home products lines to focus on sanitation). Historically, staples companies have had multi-decade runways (e.g. 3M, P&G); a generational turn might happen if CLX reinvents its R&D for next-gen cleaning tech (smart dispensers, biodegradable formulas, etc.). In such a upside rewrite, skeptics would see the stock as selling at a steal (the dividend was safe all along).

Each side highlights blind spots: Are industry headwinds permanent or shallow? Will CLX’s balance sheet strain or flex healthily? These opposing views suggest the base-case (Hold) stance remains prudent until clearer evidence emerges – hence our neutral rating pending outcome of these scenarios.