



Position Close Update: The Clorox Company (CLX)

The Clorox Company (CLX: \$148/share) – Closing Long Position – up 13% vs. S&P up 17%

The Clorox Company (CLX) was originally selected as a [Long Idea on 9/21/17](#). At the time of the initial report, the stock received a Very Attractive rating. Our long thesis highlighted superior corporate governance, improving ROIC, and an undervalued stock.

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During the 592-day holding period, CLX underperformed as a long position, gaining 13% compared to a 17% gain for the S&P 500.

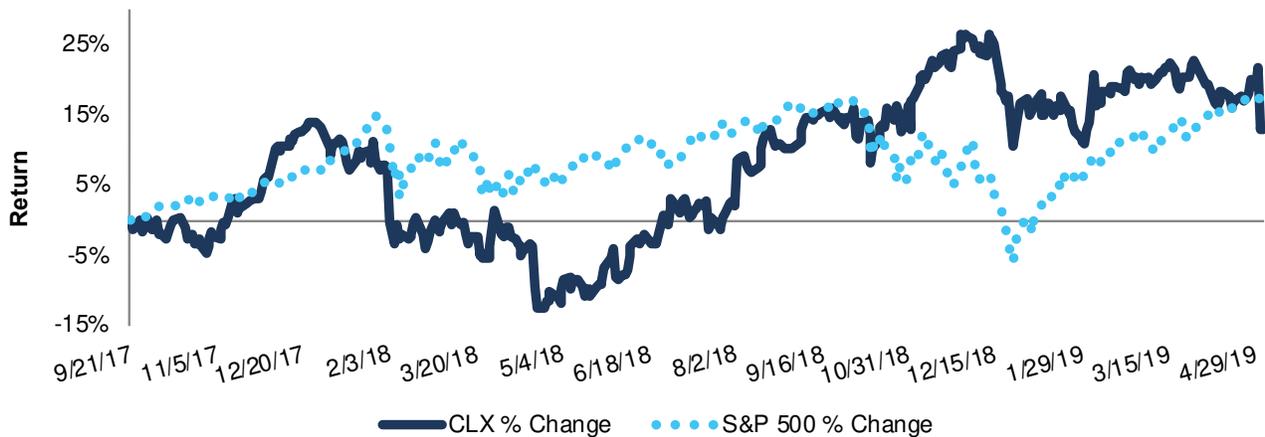
CLX was downgraded to Neutral on 11/1/18. CLX is now more expensive (1.1 [price-to-economic book value](#) ratio in 2017 vs. 1.5 TTM) than when we wrote our original report and its fundamentals have deteriorated, even if slightly. The company's return on invested capital ([ROIC](#)) is down from 12% in 2017 to 11% TTM.

In addition, Clorox faces increased competition in the consumer goods industry. E-commerce empowers start-ups and smaller firms while also diminishing the importance of shelf-space, as consumers can browse, compare, and purchase regardless of which product is displayed at the front of store. These shifts have eroded what was previously one of CLX's, and other consumer goods giants', competitive advantages.

The combination of deteriorating fundamentals, rising competition, and a more expensive stock price means CLX no longer presents the same risk/reward profile it once did. As a result, we are closing this position.

Figure 1: CLX vs. S&P 500 – Price Return

CLX Performance During Holding Period



Sources: New Constructs, LLC and company filings

Note: Gain/Deduction performance analysis excludes transaction costs and dividends.

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Disclosure: David Trainer, Kyle Guske II, and Sam McBride receive no compensation to write about any specific stock, style, or theme.

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