

Crocs, Inc.

Why you haven't missed it; Reiterate Buy

Reiterate Rating: BUY | PO: 128.00 USD | Price: 104.03 USD

Lower F24 EPS driven by investments for the long term

We maintain our Buy rating following our investor meeting at ICR with CEO Andrew Rees, CFO Anne Mehlman, and Head of Strategy and IR Erinn Murphy. We continue to see an attractive risk/reward with the stock trading at 7x 24E EV/EBITDA (8.6x P/E); a valuation we think is purely too low for a mid-20% operating margin business that's growing and improving its balance sheet. We think 4Q results provided a proof point that the Crocs brand still has momentum and profitability remains best-in-class. We are increasing our 4Q EPS by 13% to \$2.48 to reflect better than expected sales at both Crocs and HD ([see here for more info](#)). We are lowering our F24E EPS by \$0.70 to \$12.10 to reflect the updated EBIT margin outlook of 25%, driven by higher SG&A. No change to our \$128 PO, now based on 8.5x EV/EBITDA (prev 8x) to reflect increased confidence in our growth outlook.

5 key takeaways from ICR

1) Shifting to offense: It was clear that the lower operating margin target in '24 (25% compared to 27%+ in 2023) is driven by a targeted pull forward in investment spend to drive long term sustainable growth. This includes a higher GM (led by HD sequentially improving throughout the year); this is more than offset by higher SG&A including investments in marketing, talent, and DTC. Given peer-leading operating and free cash flow margins, we think Crocs is in a prime position to step up investments to drive growth. If the investments pay off (time will tell), we argue the stock could see multiple expansion as the market gets more confident in the potential for both brands to grow.

2) Excited about product innovation: Management was excited about the pipeline and frequency of product newness coming to the market. Crocs is capitalizing on the ability to quickly bring new product, collabs, licenses, and celebrity relationships to market to drive brand heat. We expect 2024 newness at Crocs will be driven by Street, sandals, and height. Over time, we expect management will further expand the collab/licensing model with Heydude. We see international as another longer opportunity for the brand beyond '24.

3) APAC is the clear growth driver in 2024: China continues to have momentum; with sales up roughly 90% in 2023. The business still represents less than 5% of total sales at the core Crocs brand and is a material long term growth opportunity for the company. Mgmt struck a very bullish tone on the ability to drive continued outsized growth in its APAC business (20% of Crocs brand sales) in '24 and beyond. Other key growth markets in APAC include Australia, South Korea, and India. **See page 3 for Heydude, balance sheet takeaways....**

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	8.32	10.92	11.93	12.10	13.18
EPS Change (YoY)	158.4%	31.3%	9.2%	1.4%	8.9%
Consensus EPS (Bloomberg)			11.69	12.19	13.41
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	12.5x	9.5x	8.7x	8.6x	7.9x
EV / EBITDA*	12.0x	8.5x	7.7x	7.8x	7.3x
Free Cash Flow Yield*	8.1%	7.9%	11.4%	11.4%	12.5%

* For full definitions of *IQmethod*SM measures, see page 5.

09 January 2024

Equity

Key Changes

(US\$)	Previous	Current
2023E Rev (m)	3,927.3	3,962.1
2024E Rev (m)	4,086.8	4,137.9
2025E Rev (m)	4,310.2	4,344.9
2023E EPS	11.65	11.93
2024E EPS	12.80	12.10
2025E EPS	13.92	13.18

Christopher Nardone

Research Analyst

BofA

+1 646 743 2016

christopher.nardone@bofa.com

Lorraine Hutchinson, CFA

Research Analyst

BofA

+1 646 855 0951

lorraine.hutchinson@bofa.com

Stock Data

Price	104.03 USD
Price Objective	128.00 USD
Date Established	12-Dec-2023
Investment Opinion	C-1-9
52-Week Range	74.00 USD - 151.32 USD
Mrkt Val (mn) / Shares Out	6,301 USD / 60.6 (mn)
Free Float	96.4%
Average Daily Value (mn)	152.43 USD
BofA Ticker / Exchange	CROX / NAS
Bloomberg / Reuters	CROX US / CROX.OQ
ROE (2023E)	68.3%
Net Dbt to Eqty (Dec-2022A)	260.5%
ESGMeter™	Medium

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Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 09 January 2024 07:51AM EST

iQprofileSM Crocs, Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	55.0%	31.1%	22.5%	20.2%	18.4%
Return on Equity	347.8%	162.8%	68.3%	42.7%	31.8%
Operating Margin	30.1%	27.7%	27.3%	25.0%	25.2%
Free Cash Flow	511	499	720	716	786

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.1x	0.9x	1.1x	1.2x	1.2x
Asset Replacement Ratio	1.7x	2.7x	2.1x	2.0x	1.6x
Tax Rate	21.6%	20.7%	19.8%	20.0%	20.0%
Net Debt-to-Equity Ratio	NM	260.5%	119.0%	47.4%	10.6%
Interest Cover	32.1x	7.2x	6.8x	8.6x	9.8x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	2,313	3,555	3,962	4,138	4,345
% Change	66.9%	53.7%	11.5%	4.4%	5.0%
Gross Profit	1,426	1,935	2,219	2,346	2,485
% Change	88.5%	35.7%	14.7%	5.7%	5.9%
EBITDA	727	1,026	1,140	1,112	1,193
% Change	150.6%	41.0%	11.2%	-2.5%	7.3%
Net Interest & Other Income	(19)	(132)	(159)	(114)	(106)
Net Income (Adjusted)	530	677	740	736	791
% Change	140.3%	27.8%	9.3%	-0.6%	7.5%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	530	677	740	736	791
Depreciation & Amortization	32	39	58	78	99
Change in Working Capital	(45)	(92)	(20)	(42)	(48)
Deferred Taxation Charge	(241)	(5)	0	0	0
Other Adjustments, Net	291	(17)	62	104	104
Capital Expenditure	(56)	(104)	(120)	(160)	(160)
Free Cash Flow	511	499	720	716	786
% Change	127.4%	-2.4%	44.3%	-0.5%	9.9%
Share / Issue Repurchase	(1,020)	(11)	(192)	(100)	(100)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	605	1,595	(666)	(200)	0

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	213	192	54	470	1,157
Trade Receivables	183	296	369	385	405
Other Current Assets	271	539	510	519	568
Property, Plant & Equipment	137	1,982	2,033	2,115	2,176
Other Non-Current Assets	741	1,494	1,582	1,582	1,582
Total Assets	1,545	4,502	4,548	5,072	5,887
Short-Term Debt	0	24	20	20	20
Other Current Liabilities	388	617	721	705	725
Long-Term Debt	771	2,298	1,642	1,442	1,442
Other Non-Current Liabilities	371	745	815	815	815
Total Liabilities	1,531	3,684	3,197	2,981	3,001
Total Equity	14	818	1,351	2,091	2,886
Total Equity & Liabilities	1,545	4,502	4,548	5,072	5,887

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Footwear

Company Description

CROX owns two leading global footwear brands, Crocs and Heydude. The company generates roughly 60% of sales from North America, 20% from Asia Pacific, and 20% from EMEA.

Investment Rationale

We are Buy-rated given our view that the Crocs business has strong momentum, incremental progress at Heydude will lead to multiple expansion, and the company's cash flow profile is undervalued.

Stock Data

Average Daily Volume 1,465,268

Quarterly Earnings Estimates

	2022	2023
Q1	2.05A	2.61A
Q2	3.24A	3.59A
Q3	2.97A	3.25A
Q4	2.65A	2.48E

4) Heydude fundamentals should improve throughout '24: Mgmt reiterated that 1Q should be the low watermark of the year for HD, with wholesale orders expected to be down in 1H and margins still recovering from the marketplace clean up and the lingering Amazon grey market issue. On the latter, mgmt said they are making great progress on remediating this issue as the recent price increase on their own Amazon product has helped increase sales volume for the grey market product (helping clear the inventory). We think margins for HD should start to materially inflect in 2H23. For context, 3Q HD operating margins were down over 700bp y/y to 20.1% (4Q not yet disclosed). Management sounded encouraged by strong sell through trends at key partners during the holidays and remained optimistic on efforts to improve product segmentation across key retailers.

5) Debt paydown and buybacks should help drive earnings: Our updated F24 EPS of \$12.10 includes \$716mn in free cash flow and modest assumptions on debt paydown (we forecast \$50mn/qtr) and buybacks (we forecast \$25mn/quarter). We see potential upside to our estimates on a quicker debt paydown (\$1.7bn of total debt including roughly \$800mn of Term Loan B on balance sheet at a roughly 8%+) or more buybacks (\$875mn remaining on repurchase authorization).



Price objective basis & risk

Crocs, Inc. (CROX)

Our \$128 PO is based on 8.5x 2024E EV/EBITDA, a discount to CROX's average EV/EBITDA multiple of 11x since '19 and lower than footwear peers (14x). We think this is unwarranted given the stock's robust operating margin and free cash flow profile.

Upside risks to our PO are a faster than expected rebound in Heydude and better than expected sales growth at Crocs.

Downside risks to our PO are continued guide downs at Heydude or a slowdown in footwear sales due to a weaker macro environment.

Analyst Certification

I, Christopher Nardone, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Softline Retailing and Dept Stores Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Bath & Body Works Inc	BBWI	BBWI US	Lorraine Hutchinson, CFA
	Burlington Stores	BURL	BURL US	Lorraine Hutchinson, CFA
	Crocs, Inc.	CROX	CROX US	Christopher Nardone
	Deckers Outdoor Corp	DECK	DECK US	Christopher Nardone
	European Wax Center	EW CZ	EW CZ US	Lorraine Hutchinson, CFA
	Lululemon athletica Inc	LULU	LULU US	Lorraine Hutchinson, CFA
	Oddity Tech	ODD	ODD US	Lorraine Hutchinson, CFA
	PVH Corp	PVH	PVH US	Christopher Nardone
	Ralph Lauren	RL	RL US	Christopher Nardone
	Ross Stores Inc	ROST	ROST US	Lorraine Hutchinson, CFA
	Tapestry Inc.	TPR	TPR US	Lorraine Hutchinson, CFA
	TJX Companies	TJX	TJX US	Lorraine Hutchinson, CFA
	Urban Outfitters	URBN	URBN US	Lorraine Hutchinson, CFA
	Victoria's Secret & Co	VSCO	VSCO US	Alice Xiao
NEUTRAL				
	American Eagle	AEO	AEO US	Christopher Nardone
	Birkenstock	BIRK	BIRK US	Lorraine Hutchinson, CFA
	FIGS, Inc.	FIGS	FIGS US	Alice Xiao
	Foot Locker	FL	FL US	Lorraine Hutchinson, CFA
	Levi Strauss & Co.	LEVI	LEVI US	Christopher Nardone
	Nike	NKE	NKE US	Lorraine Hutchinson, CFA
	Signet Jewelers	SIG	SIG US	Lorraine Hutchinson, CFA
	Ulta Beauty	ULTA	ULTA US	Lorraine Hutchinson, CFA
	Under Armour Inc	UAA	UAA US	Lorraine Hutchinson, CFA
UNDERPERFORM				
	Aritzia	YATZ	ATZ CN	Alice Xiao
	Aritzia	ATZAF	ATZAF US	Alice Xiao
	Carter's Inc	CRI	CRI US	Christopher Nardone
	Gap Inc.	GPS	GPS US	Lorraine Hutchinson, CFA
	Kohl's	KSS	KSS US	Lorraine Hutchinson, CFA
	Nordstrom	JWN	JWN US	Lorraine Hutchinson, CFA
	Revolve	RVLV	RVLV US	Alice Xiao
	VF Corp	VFC	VFC US	Lorraine Hutchinson, CFA

IQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +
Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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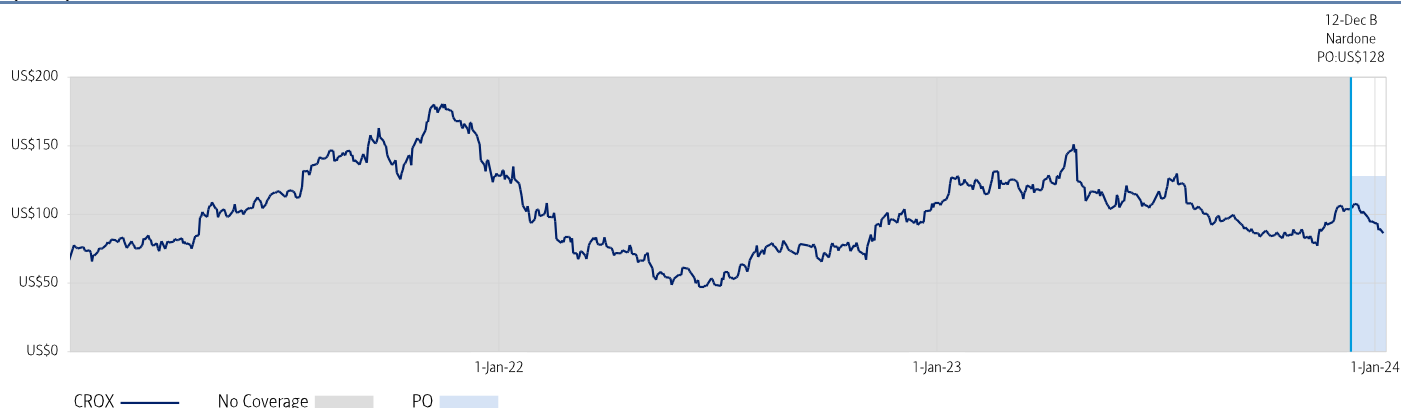
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Crocs (CROX) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Textiles/Apparel Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	13	52.00%	Buy	8	61.54%
Hold	6	24.00%	Hold	3	50.00%
Sell	6	24.00%	Sell	2	33.33%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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