

Birkenstock

A strong quarter and solid outlook justify premium multiple

Reiterate Rating: NEUTRAL | PO: 50.00 USD | Price: 46.12 USD

4Q sales, adj. EBITDA beat expectations

We retain our Neutral rating; we think the company's best-in-class growth and margin profile is fairly reflected in the stock's premium valuation at 17x EV/EBITDA. BIRK reported 4Q (Sept) adj EBITDA of €96mn (vs our €88mn est). Higher sales growth (+22% ccy) and a stronger GM (65.4% vs our 59.8%) were somewhat offset by higher SG&A (€230mn vs our €168mn), partially due to a incentive compensation timing shift and IPO costs. Mgmt provided an initial F24 outlook of 17-18% ccy (constant currency) sales growth and 30% adj EBITDA margin. We increase our F24 adj EBITDA estimate slightly to €524mn (from €519mn) and increase our PO to \$50 (from \$44) to reflect the higher estimate and rerating in market multiples (PO based on 18x EV/EBITDA compared to 17x previously).

Americas region leads 4Q growth (+40% ccy)

Mgmt had a positive tone when discussing the outlook for F1Q (Dec) results despite no quantitative guidance given. The strongest region in F4Q was the Americas, with sales +40% ccy. Despite a cautious macro outlook, retailers and consumers are shifting spending toward higher performing brands like Birkenstock. Outside of continued product newness, one key initiative for BIRK is to penetrate further US specialty run to capture the "recovery" market. We forecast F24 reported sales growth of 17% and expect continued price increases to be accepted by customers.

Growth to be led by APMA and DTC

We continue to expect outsized growth in APMA (Asia Pacific, Middle East, Africa, currently 10% of total sales) and direct to consumer (DTC). Both should be aided by expanded capacity with the new factory opening in Pasewalk and other expansion efforts at existing factories in Gorlitz (Germany) and Arouca (Portugal). Ramping manufacturing capabilities will double production capacity over the next few years. It will be key for BIRK to maintain its scarcity model playbook in spite of the new production.

F24 margins impacted by inflationary costs

We slightly reduced our F24 adj EBITDA margin forecast to 30% (vs 30.3% prior and 30% guidance). This implies a 240bp decline y/y, which is driven by continued inflationary pressures (labor, raw material costs) and planned ramp-up costs and initial under-absorption in the Pasewalk manufacturing facility. We expect BIRK to raise prices on select products to help offset these inflationary pressures in F25.

Estimates (Sep) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.93	1.10	1.20	1.60	2.06
GAAP EPS	1.00	0.40	1.16	1.60	2.06
EPS Change (YoY)	12.0%	18.3%	9.1%	33.3%	28.8%
Consensus EPS (Bloomberg)			1.31	1.70	2.18
DPS	0	0	0	0	0
Valuation (Sep)					
P/E	49.6x	41.9x	38.4x	28.8x	22.4x
GAAP P/E	46.1x	115.3x	39.8x	28.8x	22.4x
EV / EBITDA*	23.1x	20.8x	19.2x	16.1x	13.5x
Free Cash Flow Yield*	1.9%	3.0%	3.3%	6.6%	7.2%

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

18 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	44.00	50.00
2024E Rev (m)	1,712.3	1,745.6
2025E Rev (m)	1,993.0	2,024.7
2026E Rev (m)	2,353.9	2,390.5
2024E EPS	1.24	1.20
2025E EPS	1.54	1.60
2026E EPS	1.99	2.06

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Stock Data

Price	46.12 USD
Price Objective	50.00 USD
Date Established	18-Jan-2024
Investment Opinion	C-2-9
52-Week Range	35.83 USD - 52.12 USD
Mrkt Val (mn) / Shares Out (mn)	8,663 USD / 187.8
Free Float	11.7%
Average Daily Value (mn)	37.82 USD
BofA Ticker / Exchange	BIRK / NYS
Bloomberg / Reuters	BIRK US / BIRK.N
ROE (2024E)	8.6%
Net Dbt to Eqty (Sep-2023A)	62.8%

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iQprofileSM Birkenstock

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	6.3%	2.9%	6.1%	7.4%	8.1%
Return on Equity	7.9%	8.7%	8.6%	9.6%	10.3%
Operating Margin	29.2%	17.5%	22.9%	24.7%	25.9%
Free Cash Flow	165	257	287	572	625

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.3x	1.7x	1.9x	2.2x	1.8x
Asset Replacement Ratio	0.8x	1.2x	1.3x	0.6x	0.6x
Tax Rate	25.3%	51.2%	30.2%	27.1%	27.1%
Net Debt-to-Equity Ratio	70.4%	62.8%	32.0%	12.6%	-2.6%
Interest Cover	3.2x	2.4x	4.5x	5.7x	7.0x

Income Statement Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	1,243	1,492	1,746	2,025	2,391
% Change	29.2%	20.0%	17.0%	16.0%	18.1%
Gross Profit	493	566	690	793	922
% Change	-6.1%	14.8%	21.9%	14.9%	16.2%
EBITDA	435	483	524	624	743
% Change	48.6%	11.1%	8.6%	19.1%	19.1%
Net Interest & Other Income	(113)	(107)	(88)	(88)	(88)
Net Income (Adjusted)	175	207	225	300	387
% Change	11.6%	18.6%	8.6%	33.5%	28.9%

Free Cash Flow Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	187	75	217	300	387
Depreciation & Amortization	81	83	115	124	124
Change in Working Capital	(145)	(80)	(47)	(129)	(195)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	111	281	154	357	389
Capital Expenditure	(69)	(102)	(151)	(80)	(80)
Free Cash Flow	165	257	287	572	625
% Change	1.8%	55.2%	11.9%	99.3%	9.2%
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(105)	(199)	(648)	(90)	(90)

Balance Sheet Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	307	344	429	912	1,446
Trade Receivables	66	92	102	119	164
Other Current Assets	587	644	707	831	995
Property, Plant & Equipment	205	286	322	279	235
Other Non-Current Assets	3,624	3,461	3,461	3,461	3,461
Total Assets	4,789	4,827	5,022	5,601	6,301
Short-Term Debt	47	37	37	37	37
Other Current Liabilities	277	341	367	379	393
Long-Term Debt	1,920	1,816	1,304	1,304	1,304
Other Non-Current Liabilities	187	233	465	465	465
Total Liabilities	2,431	2,427	2,173	2,185	2,199
Total Equity	2,358	2,401	2,849	3,416	4,102
Total Equity & Liabilities	4,789	4,827	5,022	5,601	6,301

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

Company Sector

Footwear

Company Description

Birkenstock is a global footwear brand founded in 1774, anchored by its core sandals offering. The company is known for its unique footbed, which is embedded in all products, and owns its manufacturing process (mostly in Germany). The company generates a little over half of its revenues from the Americas.

Investment Rationale

Our Neutral rating on Birkenstock (BIRK) reflects our view that the risk/reward is balanced at the stock's current valuation. We view Birkenstock as a strong brand with unique attributes, but think outsized growth on top of the robust recent trends will be difficult.

Stock Data

Average Daily Volume

820,079

Quarterly Earnings Estimates

	2023	2024
Q1	0.09A	0.09E
Q2	0.46A	0.29E
Q3	0.42A	0.46E
Q4	0.13A	0.36E

**Exhibit 1: BIRK Income Statement**

We forecast 30% adj EBITDA margin in F24E

Birkenstock P&L	F22	1Q23	2Q23	3Q23	4Q23	F23	1Q24E	2Q24E	3Q24E	4Q24E	F24E	1Q25E	2Q25E	3Q25E	4Q25E	F25E	F26E
€000s	Sept '22	Dec '22	Mar '23	Jun '23	Sept '23	Sept '23	Dec '23	Mar '24	Jun '24	Sept '24	Sept '24	Dec '24	Mar '25	Jun '25	Sept '25	Sept '25	Sept '26
Americas	667,387	157,388	215,962	244,102	187,238	804,690	180,490	248,503	283,592	221,122	933,707	204,002	284,892	323,294	252,079	1,064,268	1,226,508
Europe	449,131	60,792	143,978	181,273	143,464	529,508	75,990	164,135	210,277	164,984	615,386	88,149	187,190	243,921	193,031	712,291	833,773
APMA	123,033	26,913	36,409	46,720	42,382	152,424	35,572	50,529	58,400	51,706	196,207	44,127	60,947	76,489	65,243	246,805	327,842
Other	3,282	1,212	1,518	1,099	1,459	5,289	80	80	80	80	320	325	325	325	325	1,300	2,400
Net Sales	1,242,833	246,306	397,867	473,195	374,543	1,491,911	292,133	463,247	552,349	437,892	1,745,620	336,603	533,354	644,030	510,678	2,024,664	2,390,523
Cost of Sales	493,031	89,103	166,300	181,129	129,585	566,117	110,064	210,767	221,094	148,437	690,362	126,482	240,531	255,215	171,068	793,295	921,973
Gross Profit	749,802	157,202	231,568	292,066	244,958	925,794	182,069	252,480	331,255	289,454	1,055,259	210,121	292,823	388,814	339,610	1,231,369	1,468,550
Selling and Distribution Expenses	347,371	86,403	86,269	136,849	146,330	455,851	103,683	103,523	153,271	143,403	503,880	122,346	122,157	180,860	169,216	594,579	701,603
General Administrative Expenses	86,589	24,784	29,740	32,313	84,552	171,388	47,089	49,071	30,374	25,366	151,900	42,380	44,164	27,337	22,829	136,710	147,646
Foreign Exchange Loss (Gain)	(45,516)	35,557	12,196	3,596	(15,294)	36,056	0	0	0	0	0	0	0	0	0	0	0
Other Income and Expenses	(1,670)	(1,974)	(1,970)	1,491	4,263	1,811	0	0	0	0	0	0	0	0	0	0	0
Profit (Loss) from Operations	363,028	12,432	105,332	117,817	25,107	260,688	31,297	99,886	147,610	120,685	399,479	45,395	126,502	180,618	147,565	500,080	619,300
Finance Income (Cost), net	(112,503)	(25,142)	(29,870)	(26,346)	(25,678)	(107,036)	(22,062)	(22,062)	(22,062)	(22,062)	(88,247)	(22,062)	(22,062)	(22,062)	(22,062)	(88,247)	(88,247)
Profit (Loss) before tax	250,525	(12,709)	75,462	91,471	(571)	153,652	9,235	77,824	125,549	98,624	311,232	23,333	104,440	158,556	125,504	411,833	531,054
Income Tax Expense	63,413	10,715	11,938	28,261	27,716	78,630	(2,494)	24,904	40,176	31,560	94,145	6,322	28,295	42,957	34,002	111,576	143,876
Implied Tax Rate	25.3%	(84.3)%	15.8%	30.9%	(4,853.9)%	51.2%	(27.0)%	32.0%	32.0%	32.0%	30.2%	27.1%	27.1%	27.1%	27.1%	27.1%	27.1%
Net Profit (Loss)	187,112	(23,424)	63,524	63,210	(28,287)	75,023	11,729	52,920	85,373	67,064	217,087	17,012	76,145	115,599	91,502	300,257	387,178
Adjusted Net Profit (Loss)	174,682	17,173	85,672	79,175	25,134	207,153	16,729	54,920	86,273	67,064	224,987	17,012	76,145	115,599	91,502	300,257	387,178
EPS (GAAP)	\$1.00	(\$0.12)	\$0.34	\$0.34	(\$0.15)	\$0.40	\$0.06	\$0.28	\$0.45	\$0.36	\$1.16	\$0.09	\$0.41	\$0.62	\$0.49	\$1.60	\$2.06
EPS (Adjusted)	\$0.93	\$0.09	\$0.46	\$0.42	\$0.13	\$1.10	\$0.09	\$0.29	\$0.46	\$0.36	\$1.20	\$0.09	\$0.41	\$0.62	\$0.49	\$1.60	\$2.06
Share count ('000)	187,826	187,826	187,826	187,826	187,826	187,826	187,826	187,826	187,826	187,826	187,826	187,826	187,826	187,826	187,826	187,826	187,826
Reported EBITDA	444,289	33,138	126,426	137,824	46,713	344,101	59,931	128,520	176,244	149,319	514,015	76,375	157,482	211,598	178,545	624,000	743,220
Adjustments	F22	1Q23	2Q23	3Q23	4Q23	F23	1Q24E	2Q24E	3Q24E	4Q24E	F24E	1Q25E	2Q25E	3Q25E	4Q25E	F25E	F26E
Adjusted EBITDA	434,555	75,606	151,550	159,862	95,689	482,707	65,931	131,520	177,244	149,319	524,015	76,375	157,482	211,598	178,545	624,000	743,220
Adjusted Gross Profit	774,169	157,202	231,568	292,066	244,958	925,794	182,069	252,480	331,255	289,454	1,055,259	210,121	292,823	388,814	339,610	1,231,369	1,468,550
Adjusted SG&A	422,545	104,275	103,081	150,721	166,612	524,689	144,772	149,594	182,645	168,769	645,780	164,726	166,321	208,196	192,045	731,289	849,250
% change y/y																	
Total sales	29.2%	22.3%	16.6%	25.0%	16.5%	20.0%	18.6%	16.4%	16.7%	16.9%	17.0%	15.2%	15.1%	16.6%	16.6%	16.0%	18.1%
Total sales (ccy)	23.0%				22.0%	18.0%											
Margins	F22	1Q23	2Q23	3Q23	4Q23	F23	1Q24E	2Q24E	3Q24E	4Q24E	F24E	1Q25E	2Q25E	3Q25E	4Q25E	F25E	F26E
Gross profit (GAAP)	60.3%	63.8%	58.2%	61.7%	65.4%	62.1%	62.3%	54.5%	60.0%	66.1%	60.5%	62.4%	54.9%	60.4%	66.5%	60.8%	61.4%
bp change	1,489	1,363	(190)	(108)	140	172	(150)	(370)	(175)	70	(160)	10	40	40	40	37	61
Gross margin (adjusted)	62.3%	63.8%	58.2%	61.7%	65.4%	62.1%	62.3%	54.5%	60.0%	66.1%	60.5%	62.4%	54.9%	60.4%	66.5%	60.8%	61.4%
bp change	532	153	(190)	(108)	140	(24)	(150)	(370)	(175)	70	(160)	10	40	40	40	37	61
SG&A y/y growth (GAAP)																	
Selling and distribution	47.5%	40.7%	35.9%	21.2%	33.5%	31.2%	20.0%	20.0%	12.0%	-2.0%	10.5%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
General Administrative	3.5%	10.3%	47.1%	114.9%	192.8%	97.9%	90.0%	65.0%	-6.0%	-70.0%	-11.4%	-10.0%	-10.0%	-10.0%	-10.0%	-10.0%	8.0%
Adjusted EBITDA margin	35.0%	30.7%	38.1%	33.8%	25.5%	32.4%	22.6%	28.4%	32.1%	34.1%	30.0%	22.7%	29.5%	32.9%	35.0%	30.8%	31.1%
bp change y/y	458	25	(375)	(22)	(609)	(261)	(813)	(970)	(169)	855	(234)	12	114	77	86	80	27

Source: BofA Global Research, company reports

BofA GLOBAL RESEARCH

Price objective basis & risk

Birkenstock (BIRK)

We base our \$50 PO on 18x EV/EBITDA (C24E), a premium to the average athletic/footwear brands given the company's higher sales growth and margins, but a slight discount to the more premium athletic peers.

Upside risks are better than expected traction with new product releases, a better-than-expected lift from expanded capacity and a stronger USD (company reports in EUR).

Downside risks are a more promotional environment for footwear and slowing brand heat, and a potential ramp in marketing costs as the brand scales.

Analyst Certification

I, Lorraine Hutchinson, CFA, 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

US - Softline Retailing and Dept Stores Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Nordstrom	JWN	JWN US	Lorraine Hutchinson, CFA
	Revolve	RVLV	RVLV US	Alice Xiao
	V F 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

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase[®] is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

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Disclosures**Important Disclosures****Birkenstock (BIRK) 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%

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