

Crocs, Inc.

ICR preview: An intriguing setup to kick off the new year

Maintain Rating: BUY | PO: 128.00 USD | Price: 93.41 USD

History points to “good news” ahead of ICR conf

We maintain our Buy rating on CROX and think the risk/reward is skewed to the upside given the positive momentum at Crocs, a derisked HEYDUDE (HD) outlook through 1H24 and balance sheet optimization efforts ([see our Dec 12 initiation report here](#)). We expect CROX will preannounce 4Q results and provide an initial outlook for next year ahead of the ICR Conf (Jan 8-10th). Given the company's track record at the conf, we expect a positively biased preannouncement led by the core Crocs brand (see Exhibit 1 for history of recent ICR announcements). We expect mgmt will conservatively guide sales next year given the uncertainties around wholesale and HD. We would be surprised if initial 2024 sales outlook was below consensus expectations of 4% (in line with our estimate).

Sum of the parts looks intriguing

On a simple sum of the parts analysis, the stock looks attractively valued. CROX shares are trading at 7.3x P/E; with core Crocs representing 83% of YTD segment profits and HD representing the rest. The punchline here is paying anything north of 9x P/E for the core Crocs brand implies you are getting HD at no additional cost. Even at that multiple, we argue that an implied 9x P/E multiple for the core Crocs business is simply too low for a business with operating margins in the mid to high 20% and our conservative forecast for the brand to grow sales MSD in 2024.

Is Crocs resetting at a higher algo?

We remain encouraged by the prospects for the core Crocs brand in 2024 and see further opportunities in Asia, newness outside of the core clog and a continuous pipeline of collaborations driving brand heat. We think a catalyst to watch for is whether the core Crocs brand can maintain its above algo margin structure next year (YTD gross margins 60.4% compared to 58%+ algo). We think the Crocs brand can hold margins and see upside to CROX 2024 operating margins (we forecast 27.0% vs Street at 25.8%).

HEYDUDE: reset through 1H should be priced in

We are not calling for a near-term inflection in HD fundamentals but think management has derisked expectations for the next three quarters as the brand works through the wholesale market reset, Amazon grey market, and new logistics build out. Following two consecutive cuts to HD sales, we think it will be important for the market to gain confidence that turnaround plans are gaining traction. Any positive updates coupled with status quo on core Crocs should provide a jolt to sentiment.

| Estimates (Dec) (US\$) | 2021A | 2022A | 2023E | 2024E | 2025E |
|---------------------------|--------|-------|-------|-------|-------|
| EPS | 8.32 | 10.92 | 11.65 | 12.80 | 13.92 |
| EPS Change (YoY) | 158.4% | 31.3% | 6.7% | 9.9% | 8.8% |
| Consensus EPS (Bloomberg) | | | 11.67 | 12.17 | 13.44 |
| DPS | 0 | 0 | 0 | 0 | 0 |
| Valuation (Dec) | | | | | |
| P/E | 11.2x | 8.6x | 8.0x | 7.3x | 6.7x |
| EV / EBITDA* | 11.1x | 7.9x | 7.2x | 6.8x | 6.4x |
| Free Cash Flow Yield* | 9.0% | 8.8% | 12.6% | 13.5% | 14.8% |

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

02 January 2024

Equity

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Stock Data

| | |
|---------------------------------|------------------------|
| Price | 93.41 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 (mn) | 5,658 USD / 60.6 |
| Free Float | 96.4% |
| Average Daily Value (mn) | 127.51 USD |
| BofA Ticker / Exchange | CROX / NAS |
| Bloomberg / Reuters | CROX US / CROX.OQ |
| ROE (2023E) | 67.2% |
| Net Dbt to Eqty (Dec-2022A) | 260.5% |
| ESGMeter TM | Medium |

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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iQprofileSM Crocs, Inc.

iQmethodSM – Bus Performance*

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|----------------------------|--------|--------|-------|-------|-------|
| Return on Capital Employed | 55.0% | 31.1% | 21.7% | 20.7% | 18.7% |
| Return on Equity | 347.8% | 162.8% | 67.2% | 45.1% | 33.0% |
| Operating Margin | 30.1% | 27.7% | 27.1% | 27.0% | 27.1% |
| Free Cash Flow | 511 | 499 | 711 | 764 | 836 |

iQmethodSM – Quality of Earnings*

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|--------------------------|-------|--------|--------|-------|-------|
| Cash Realization Ratio | 1.1x | 0.9x | 1.2x | 1.2x | 1.2x |
| Asset Replacement Ratio | 1.7x | 2.7x | 2.3x | 2.0x | 1.6x |
| Tax Rate | 21.6% | 20.7% | 19.9% | 20.0% | 20.0% |
| Net Debt-to-Equity Ratio | NM | 260.5% | 121.2% | 45.0% | 7.3% |
| Interest Cover | 32.1x | 7.2x | 6.6x | 8.1x | 9.2x |

Income Statement Data (Dec)

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|------------------------------|---------------|--------------|-------------|-------------|-------------|
| Sales | 2,313 | 3,555 | 3,927 | 4,087 | 4,310 |
| % Change | 66.9% | 53.7% | 10.5% | 4.1% | 5.5% |
| Gross Profit | 1,426 | 1,935 | 2,201 | 2,315 | 2,463 |
| % Change | 88.5% | 35.7% | 13.7% | 5.2% | 6.4% |
| EBITDA | 727 | 1,026 | 1,121 | 1,185 | 1,268 |
| % Change | 150.6% | 41.0% | 9.3% | 5.6% | 7.1% |
| Net Interest & Other Income | (19) | (132) | (160) | (130) | (121) |
| Net Income (Adjusted) | 530 | 677 | 723 | 779 | 836 |
| % Change | 140.3% | 27.8% | 6.7% | 7.7% | 7.4% |

Free Cash Flow Data (Dec)

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|--|---------------|--------------|--------------|-------------|-------------|
| Net Income from Cont Operations (GAAP) | 530 | 677 | 723 | 779 | 836 |
| Depreciation & Amortization | 32 | 39 | 58 | 81 | 101 |
| Change in Working Capital | (45) | (92) | (1) | (41) | (46) |
| Deferred Taxation Charge | (241) | (5) | 0 | 0 | 0 |
| Other Adjustments, Net | 291 | (17) | 62 | 104 | 104 |
| Capital Expenditure | (56) | (104) | (131) | (160) | (160) |
| Free Cash Flow | 511 | 499 | 711 | 764 | 836 |
| % Change | 127.4% | -2.4% | 42.5% | 7.4% | 9.5% |
| Share / Issue Repurchase | (1,020) | (11) | (192) | (100) | (100) |
| Cost of Dividends Paid | 0 | 0 | 0 | 0 | 0 |
| Change in Debt | 605 | 1,595 | (489) | (200) | 0 |

Balance Sheet Data (Dec)

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Cash & Equivalents | 213 | 192 | 223 | 686 | 1,422 |
| Trade Receivables | 183 | 296 | 327 | 340 | 358 |
| Other Current Assets | 271 | 539 | 509 | 518 | 567 |
| Property, Plant & Equipment | 137 | 1,982 | 2,044 | 2,123 | 2,182 |
| Other Non-Current Assets | 741 | 1,494 | 1,582 | 1,582 | 1,582 |
| Total Assets | 1,545 | 4,502 | 4,684 | 5,250 | 6,112 |
| Short-Term Debt | 0 | 24 | 20 | 20 | 20 |
| Other Current Liabilities | 388 | 617 | 697 | 679 | 701 |
| Long-Term Debt | 771 | 2,298 | 1,819 | 1,619 | 1,619 |
| Other Non-Current Liabilities | 371 | 745 | 815 | 815 | 815 |
| Total Liabilities | 1,531 | 3,684 | 3,350 | 3,132 | 3,154 |
| Total Equity | 14 | 818 | 1,334 | 2,117 | 2,958 |
| Total Equity & Liabilities | 1,545 | 4,502 | 4,684 | 5,249 | 6,112 |

* 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, 21% from Asia Pacific, and 19% 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 1,329,248

Quarterly Earnings Estimates

| | 2022 | 2023 |
|----|-------|-------|
| Q1 | 2.05A | 2.61A |
| Q2 | 3.24A | 3.59A |
| Q3 | 2.97A | 3.25A |
| Q4 | 2.65A | 2.19E |



History of CROX ICR preannouncements

2023: 4Q/FY sales beat expectations. Out year sales guidance expected to hit lower end of original range due to cuts to Heydude this year.

2022: 4Q/FY sales and margins beat expectations. Out year sales guidance for core Crocs brand slightly missed original expectations.

2021: 4Q/FY sales beat expectations. Out year sales guidance proved to be very conservative.

2020: 4Q/FY sales beat expectations, margins in line. Out year sales guidance proved to be in line with original expectations.

2019: 4Q/FY sales and margins beat expectations. Out year sales guide proved to be conservative.

Exhibit 1: History of ICR preannouncements

The company tends to beat on 4Q sales and out year sales guidance has a mixed history of hitting original expectations

| ICR 2023 (1/10/23) 4Q22 | ICR 2022 (1/10/22) 4Q21 | ICR 2021 (1/11/21) 4Q20 | ICR 2020 (1/13/20) 4Q19 | ICR 2019 (1/14/19) 4Q18 |
|---|---|--|---------------------------------------|--|
| Sales 60% growth | Sales 42% growth | Sales 55% | Sales \$260-262mn | Sales \$211-214mn |
| 2022 | Operating margin approx. 28% | Prev. guide 20-30% | Prev. guide \$245-255mn | Prev. guide \$195-205mn |
| Sales 53% | 2021 | 2020 | 2019 | 2018 |
| Prev. guide 49-52% | Sales 67% | Sales 12%+ | Sales 13% | Sales 6% |
| Operating margin approx. 27% | Prev. guide 62-65% | Prev. guide 5-7% | Prev. guide 11-12% | Prev. guide 4-5% |
| Prev. guide approx. 27% | Operating margin nearly 30% | 2021 prelim guide | Operating margin 11% | Operating Income \$60mn+ |
| 2023 prelim guide | Prev. guide approx 28% | Total sales 20-25% | Prev. guide 11% | Prev. guide Slightly under \$60mn |
| Sales 10-13% | 2022 prelim guide | Beat/hit/miss target? Beat: 67% | 2020 prelim guide | 2019 prelim guide |
| Cons (1/9/23) 10.8% | Crocs sales 20%+ | | Total sales 12-14% | Total sales +MSD |
| Beat/hit/miss target? Cons at low end: 10% | Prev. guide (3Q EPS) 20%+ | | Beat/hit/miss target? Hit: 13% | Beat/hit/miss target? Beat: 13% |
| | Beat/hit/miss target? Slight miss: 19% ccy | | | |

Source: BofA Global Research, Company filings

Note: 2019 and 2020 ICR guides included gross margin and SG&A (not included in table)

BofA GLOBAL RESEARCH

Price objective basis & risk

Crocs, Inc. (CROX)

Our \$128 PO is based on 8x 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 |

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

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

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

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

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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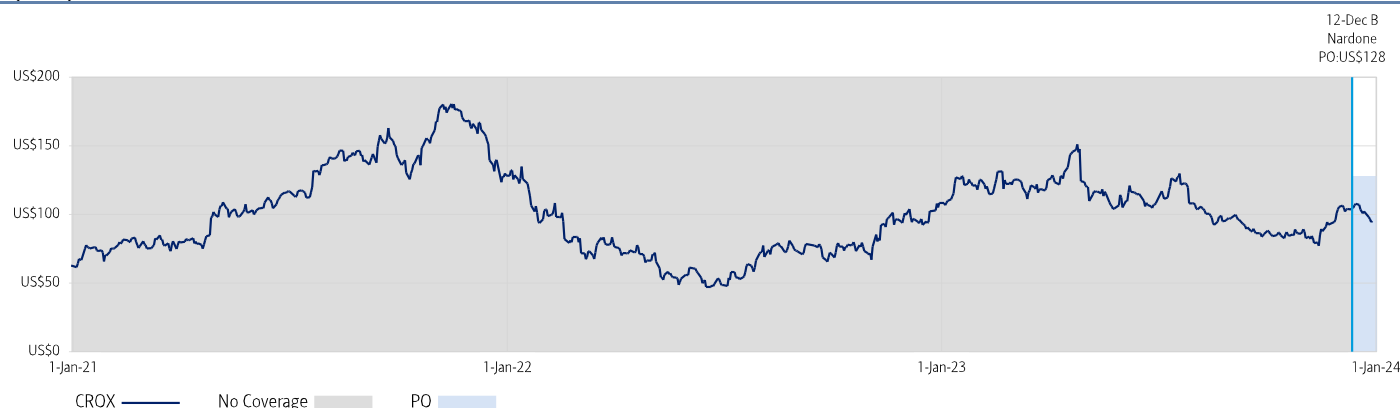
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Crocs (CROX) Price Chart



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 30 Sep 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships ^{R1} | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy | 13 | 56.52% | Buy | 7 | 53.85% |
| Hold | 4 | 17.39% | Hold | 3 | 75.00% |
| Sell | 6 | 26.09% | Sell | 2 | 33.33% |

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships ^{R1} | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy | 1869 | 53.48% | Buy | 1046 | 55.97% |
| Hold | 828 | 23.69% | Hold | 461 | 55.68% |
| Sell | 798 | 22.83% | Sell | 370 | 46.37% |

^{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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