

Birkenstock

Sales off to a strong start

Reiterate Rating: NEUTRAL | PO: 54.00 USD | Price: 50.01 USD

BIRK reported in line 1Q (Dec) EPS

We maintain our Neutral rating as we think the stock's premium valuation fairly reflects a stronger sales/margin profile relative to peers. BIRK reported 1Q24 (Dec) adj EPS of 0.09 EUR, in line with our estimate as stronger sales (led by Europe/APMA) offset a weaker gross margin. Mgmt reaffirmed its F24 guidance provided last month, which includes 17-18% sales growth (ccy) and 30% adj EBITDA margins. We are raising our F24 EBITDA by 1% to 532mn, and our PO from \$50 to \$54, now 20x EV/EBITDA (was 18x) to reflect peer multiple expansion.

Sales growth led by Europe and Asia

Total sales of 303mn EUR beat our 292mn EUR estimate driven by better-than-expected results in Europe (+33% ccy) and APMA (+51% ccy); Americas sales growth of 19% was in line. Closed-toe shoe penetration during the quarter increased to 53% of total DTC sales driven by strong sell-through of clogs and boots. Half of the top 10 styles in the quarter were closed-toe, which gives us confidence on the product expansion strategy and provides a boost to average selling prices. We forecast total sales growth of 18% in 2024.

Margins temporarily impacted by factory expansion

1Q adjusted EBITDA margin declined 230bp y/y to 26.9%, driven by 110bp negative FX translation and 50bp headwind from the factory expansion inefficiencies. We expect the inefficiencies to persist through 2024. Going forward, management expects MSD-HSD growth from higher average selling prices (led by product mix and geographic mix) and LSD-MSD cost inflation due primarily to higher wages and product costs.

Medium term algorithm remains best-in-class

Management expressed confidence in its medium-term plan of 60%+ gross margin and low 30s adj EBITDA margin (compared to our 59.1%/30.2% forecast in F24). This includes plans to double production capacity over the next three years. So far, increased production at factories in both Germany and Portugal is on track. We expect the increased capacity will help the company grow all facets of the business, particularly Asia, but acknowledge that maintaining a scarcity model is a key risk to watch.

Estimates (Sep) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.93	1.15	1.20	1.62	2.08
GAAP EPS	1.00	0.48	1.05	1.62	2.08
EPS Change (YoY)	12.0%	23.7%	4.3%	35.0%	28.4%
Consensus EPS (Bloomberg)			1.30	1.74	2.24
DPS	0	0	0	0	0
Valuation (Sep)					
P/E	53.8x	43.5x	41.7x	30.9x	24.0x
GAAP P/E	50.0x	104.2x	47.6x	30.9x	24.0x
EV / EBITDA*	25.2x	22.8x	20.6x	17.5x	14.7x
Free Cash Flow Yield*	1.8%	2.7%	2.2%	6.1%	6.7%

* For full definitions of *IQmethod*SM measures, see page 7.

01 March 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	50.00	54.00
2024E Rev (m)	1,745.6	1,759.4
2025E Rev (m)	2,024.7	2,038.1
2026E Rev (m)	2,390.5	2,407.0
2025E EPS	1.60	1.62
2026E EPS	2.06	2.08

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Stock Data

Price	50.01 USD
Price Objective	54.00 USD
Date Established	1-Mar-2024
Investment Opinion	C-2-9
52-Week Range	35.83 USD - 55.00 USD
Mkt Val (mn) / Shares Out (mn)	9,393 USD / 187.8
Free Float	13.4%
Average Daily Value (mn)	40.89 USD
BofA Ticker / Exchange	BIRK / NYS
Bloomberg / Reuters	BIRK US / BIRK.N
ROE (2024E)	8.8%
Net Dbt to Eqty (Sep-2023A)	62.8%

APMA: Asia-Pacific, Middle East, Africa

DTC: direct to consumer

HSD: high single digit

LSD: low single digit

MSD: mid single digit

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Refer to important disclosures on page 8 to 10. Analyst Certification on page 6. Price Objective Basis/Risk on page 6.

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Timestamp: 01 March 2024 12:01AM EST

iQprofileSM Birkenstock

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	6.3%	3.3%	5.9%	7.5%	8.2%
Return on Equity	7.9%	9.1%	8.8%	10.2%	10.9%
Operating Margin	29.2%	17.6%	21.9%	24.6%	25.8%
Free Cash Flow	165	257	208	574	626

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.3x	1.7x	1.6x	2.2x	1.8x
Asset Replacement Ratio	0.8x	1.2x	1.4x	0.6x	0.6x
Tax Rate	25.3%	42.6%	30.9%	27.1%	27.1%
Net Debt-to-Equity Ratio	70.4%	62.8%	36.1%	14.9%	-1.3%
Interest Cover	3.2x	2.5x	3.8x	5.8x	7.2x

Income Statement Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	1,243	1,494	1,759	2,038	2,407
% Change	29.2%	20.2%	17.8%	15.8%	18.1%
Gross Profit	493	572	719	817	950
% Change	-6.1%	16.1%	25.7%	13.6%	16.3%
EBITDA	435	480	532	626	745
% Change	48.6%	10.4%	10.9%	17.6%	19.0%
Net Interest & Other Income	(113)	(107)	(101)	(86)	(86)
Net Income (Adjusted)	175	216	224	303	390
% Change	11.6%	23.9%	3.4%	35.3%	28.6%

Free Cash Flow Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	187	89	197	303	390
Depreciation & Amortization	81	83	109	124	124
Change in Working Capital	(145)	(80)	(95)	(129)	(195)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	111	267	147	356	388
Capital Expenditure	(69)	(102)	(150)	(80)	(80)
Free Cash Flow	165	257	208	574	626
% Change	1.8%	55.2%	-18.9%	175.9%	9.1%
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(105)	(199)	(662)	(90)	(90)

Balance Sheet Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	307	344	348	832	1,368
Trade Receivables	66	92	102	119	164
Other Current Assets	587	644	706	830	994
Property, Plant & Equipment	205	286	341	297	254
Other Non-Current Assets	3,624	3,461	3,426	3,426	3,426
Total Assets	4,789	4,827	4,924	5,505	6,206
Short-Term Debt	47	37	23	23	23
Other Current Liabilities	277	341	313	325	339
Long-Term Debt	1,920	1,816	1,293	1,293	1,293
Other Non-Current Liabilities	187	233	590	590	590
Total Liabilities	2,431	2,427	2,218	2,230	2,244
Total Equity	2,358	2,401	2,679	3,248	3,935
Total Equity & Liabilities	4,789	4,827	4,897	5,478	6,179

* For full definitions of iQmethodSM measures, see page 7.

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

817,557

Quarterly Earnings Estimates

	2023	2024
Q1	0.15A	0.09A
Q2	0.46A	0.29E
Q3	0.42A	0.46E
Q4	0.13A	0.36E







Price objective basis & risk

Birkenstock (BIRK)

We base our \$54 PO on 20x 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				
	Amer Sports Inc	AS	AS US	Lorraine Hutchinson, CFA
	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
	V F Corp	VFC	VFC US	Lorraine Hutchinson, CFA
RSTR				
	Macy's	M	M 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

Basic EBIT + Depreciation + Amortization

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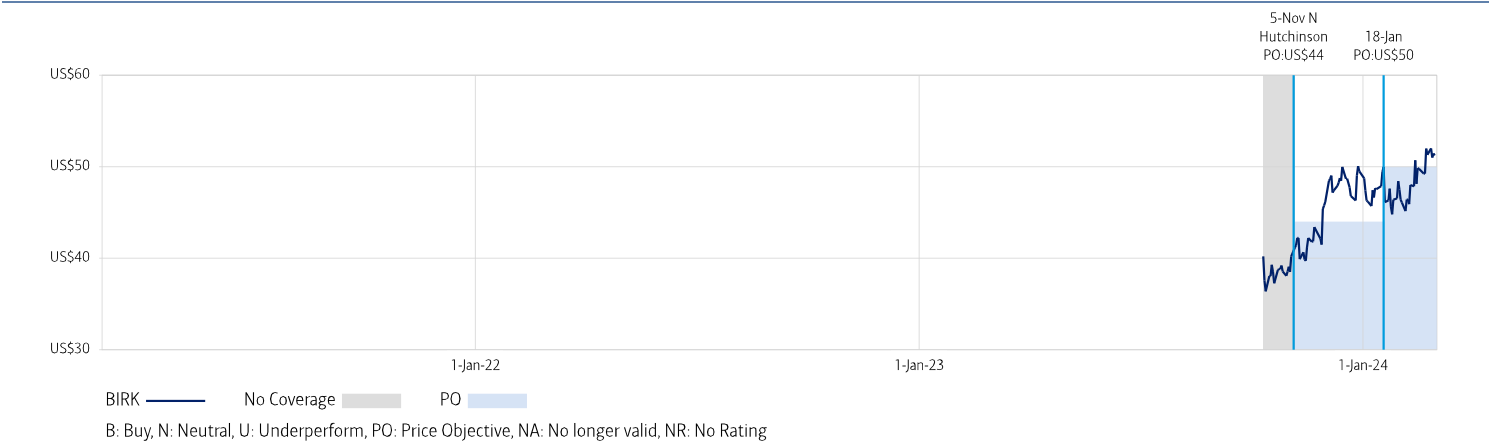
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Birkenstock (BIRK) Price Chart



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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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