

Crocs, Inc.

Expect international to drive upside; Reiterate Buy

Reiterate Rating: **BUY** | PO: 140.00 USD | Price: 122.34 USD

F24 EPS guide seems conservative

We reiterate our Buy rating and continue to view the risk/reward as favorable as we think current EPS guidance could prove conservative and think 8x EV/EBITDA is compelling. 4Q23 adj EPS of \$2.58 beat our est by 4% driven by a stronger GM; sales were in line with the ICR preannouncement ([see here](#)). Management reiterated its F24 sales growth/op. margin outlook of 3-5%/25% and guided EPS to \$12.05-12.50, ahead of consensus due to a lower tax rate. We are increasing our F24 EPS by 4% to \$12.63 to reflect a slightly higher margin and the lower tax rate; we are increasing our PO to \$140 to reflect 9x EV/EBITDA (from \$128, 8.5x) given more comfort with the F24 outlook.

Crocs strength prevails; remains most important for stock

We were encouraged by the “reverse hockey stick” sales guide at Crocs, with management forecasting 6-8% growth in 1Q and 4-6% for the full year. We expect growth will continue to be driven by the international business (41% of sales). We were encouraged by the momentum building in key markets such as China, South Korea, and Australia. We expect North America/International to grow 2%/12%, respectively in F24. This equates to 6.2% total growth at Crocs, at the top end of the current 4-6% guide.

Heydude (HD) remains a manageable risk

Mgmt reiterated its F24 guidance for flat to slightly higher revenues at HD and provided expectations for 1Q sales down 20-23%. We are encouraged by the strategic initiatives underway at HD: wholesale channel product segmentation, slowly building out an outlet business (30 new stores this year), Amazon marketplace clean up (expected by end of 1H24) and improving full price selling in digital. We are encouraged by the strong sell out trends but acknowledge there is some risk to the 2H sales improvement; will be partially dependent on the wholesale environment. This is not our base case, but we estimate a 10% miss on full year HD sales would have less than a 5% impact on our F24E EPS.

Don't forget about the balance sheet optimization tailwind

Net leverage is now squarely in line with the medium-term target of 1-1.5x; we see opportunity for leverage to continue to drift lower. We conservatively forecast debt paydown of \$50mn/qtr in F24. Paying down the entire Term Loan B debt (\$1.7bn) would be 6% accretive to F24 EPS (although some paydown is already included in guidance). CROX also has \$875mn left on its buyback authorization. CROX's best-in-class FCF profile should continue to support the combination of debt paydown and buybacks.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	10.92	12.03	12.63	13.56	14.50
EPS Change (YoY)	31.3%	10.2%	5.0%	7.4%	6.9%
Consensus EPS (Bloomberg)			11.90	13.19	15.10
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	9.9x	9.0x	8.6x	8.0x	7.5x
EV / EBITDA*	8.1x	7.2x	7.4x	7.1x	6.7x
Free Cash Flow Yield*	7.6%	12.4%	11.6%	12.2%	12.8%

* For full definitions of *IQmethod*SM measures, see page 6.

15 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	128.00	140.00
2024E Rev (m)	4,137.9	4,134.9
2025E Rev (m)	4,344.9	4,350.7
2026E Rev (m)	NA	4,556.0
2024E EPS	12.10	12.63
2025E EPS	13.18	13.56
2026E EPS	NA	14.50

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Stock Data

Price	122.34 USD
Price Objective	140.00 USD
Date Established	15-Feb-2024
Investment Opinion	C-1-9
52-Week Range	74.00 USD - 151.32 USD
Mrkt Val (mn) / Shares Out (mn)	7,410 USD / 60.6
Free Float	96.4%
Average Daily Value (mn)	211.69 USD
BofA Ticker / Exchange	CROX / NAS
Bloomberg / Reuters	CROX US / CROX.OQ
ROE (2024E)	41.5%
Net Dbt to Eqty (Dec-2023A)	104.2%
ESGMeter™	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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Timestamp: 15 February 2024 04:04PM EST

iQprofileSM Crocs, Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	31.1%	22.3%	20.1%	18.3%	16.8%
Return on Equity	162.8%	65.6%	41.5%	30.7%	24.6%
Operating Margin	27.7%	27.7%	25.2%	24.9%	24.6%
Free Cash Flow	499	815	764	801	841

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.9x	1.2x	1.2x	1.2x	1.2x
Asset Replacement Ratio	2.7x	2.1x	1.7x	1.9x	1.5x
Tax Rate	20.7%	20.5%	18.0%	18.0%	18.0%
Net Debt-to-Equity Ratio	260.5%	104.2%	38.0%	4.8%	-15.2%
Interest Cover	7.2x	6.8x	9.1x	10.8x	13.2x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	3,555	3,962	4,135	4,351	4,556
% Change	53.7%	11.5%	4.4%	5.2%	4.7%
Gross Profit	1,935	2,237	2,372	2,518	2,659
% Change	35.7%	15.6%	6.0%	6.1%	5.6%
EBITDA	1,026	1,153	1,112	1,167	1,226
% Change	41.0%	12.4%	-3.6%	5.0%	5.1%
Net Interest & Other Income	(132)	(160)	(111)	(94)	(79)
Net Income (Adjusted)	677	746	764	810	856
% Change	27.8%	10.1%	2.4%	6.0%	5.7%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	677	746	764	810	856
Depreciation & Amortization	39	54	69	85	103
Change in Working Capital	(92)	367	(57)	(42)	(67)
Deferred Taxation Charge	(5)	(410)	0	0	0
Other Adjustments, Net	(17)	174	109	109	109
Capital Expenditure	(104)	(116)	(120)	(160)	(160)
Free Cash Flow	499	815	764	801	841
% Change	-2.4%	63.3%	-6.2%	4.8%	5.0%
Share / Issue Repurchase	(11)	(192)	(100)	(100)	(100)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	1,595	(666)	(200)	(200)	(200)

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	192	149	618	1,119	1,660
Trade Receivables	296	306	319	336	352
Other Current Assets	539	456	479	526	560
Property, Plant & Equipment	1,982	2,031	2,082	2,156	2,213
Other Non-Current Assets	1,494	1,702	1,698	1,698	1,698
Total Assets	4,502	4,644	5,196	5,836	6,483
Short-Term Debt	24	23	23	23	23
Other Current Liabilities	617	675	655	676	658
Long-Term Debt	2,298	1,641	1,441	1,241	1,041
Other Non-Current Liabilities	745	851	851	851	851
Total Liabilities	3,684	3,190	2,970	2,791	2,573
Total Equity	818	1,454	2,226	3,045	3,909
Total Equity & Liabilities	4,502	4,644	5,196	5,836	6,483

* For full definitions of iQmethodSM measures, see page 6.

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 1,730,322

Quarterly Earnings Estimates

	2023	2024
Q1	2.61A	2.25E
Q2	3.59A	3.45E
Q3	3.25A	3.87E
Q4	2.58A	3.08E

**Exhibit 1: CROX Income Statement**

We are increasing our F24 EPS to \$12.63

Crocs Income statement	FY22	1Q23	2Q23	3Q23	4Q23	FY23	1Q24E	2Q24E	3Q24E	4Q24E	FY24E	1Q25E	2Q25E	3Q25E	4Q25E	FY25E	1Q26E	2Q26E	3Q26E	4Q26E	FY26E
Crocs	2,659.1	648.8	833.0	798.8	732.5	3,013.0	697.8	885.3	842.9	772.8	3,198.8	736.1	935.1	888.0	811.6	3,370.8	773.0	980.3	929.0	847.1	3,529.5
HEYDUDE	895.9	235.4	239.4	246.9	227.6	949.4	181.7	233.6	264.3	256.6	936.2	189.1	244.2	276.2	270.3	979.9	197.1	255.6	288.9	284.9	1,026.5
Net sales	3,555.0	884.2	1,072.4	1,045.7	960.1	3,962.3	879.4	1,118.9	1,107.3	1,029.3	4,134.9	925.2	1,179.4	1,164.2	1,081.8	4,350.7	970.1	1,235.9	1,217.9	1,132.0	4,556.0
Cost of sales	1,619.9	404.5	449.5	445.3	425.7	1,725.0	395.3	463.4	460.4	443.6	1,762.7	411.3	482.5	478.3	460.8	1,832.9	426.4	499.5	494.3	476.5	1,896.6
Gross profit	1,935.1	479.7	622.9	600.4	534.4	2,237.3	484.1	655.5	646.8	585.8	2,372.2	514.0	696.8	685.9	621.1	2,517.8	543.7	736.4	723.7	655.5	2,659.4
SG&A	948.8	232.6	298.3	304.5	303.3	1,138.7	288.4	372.9	335.0	333.6	1,329.9	311.5	402.7	361.8	360.3	1,436.3	333.3	430.9	387.1	385.5	1,536.8
Income from operations	986.3	247.0	324.6	295.9	231.1	1,098.6	195.7	282.6	311.9	252.2	1,042.4	202.4	294.1	324.2	260.8	1,081.5	210.4	305.5	336.6	270.0	1,122.5
FX gains (losses), net	3.2	(0.4)	0.6	(1.8)	0.4	(1.2)	0.5	0.5	0.5	0.5	2.0	0.5	0.5	0.5	0.5	2.0	0.5	0.5	0.5	0.5	2.0
Interest income	1.0	0.2	0.5	0.5	1.2	2.4	0.5	0.5	0.5	0.5	2.0	0.5	0.5	0.5	0.5	2.0	0.5	0.5	0.5	0.5	2.0
Interest expense	(136.2)	(42.6)	(43.1)	(39.2)	(36.4)	(161.4)	(30.2)	(29.2)	(28.3)	(27.3)	(114.9)	(26.4)	(25.4)	(24.5)	(23.5)	(99.8)	(22.6)	(21.7)	(20.7)	(19.8)	(84.7)
Other income (expense), net	(0.3)	(0.3)	0.7	0.0	(0.7)	(0.3)	0.0	0.0	0.0	0.0	0.0	0.5	0.5	0.5	0.5	2.0	0.5	0.5	0.5	0.5	2.0
Income before income taxes	854.1	203.9	283.3	255.5	195.5	938.2	166.5	254.4	284.6	225.9	931.4	177.6	270.2	301.2	238.7	987.7	189.3	285.3	317.4	251.7	1,043.8
Income tax expense	176.8	40.5	58.7	55.1	38.3	192.5	30.0	45.8	51.2	40.7	167.7	32.0	48.6	54.2	43.0	177.8	34.1	51.4	57.1	45.3	187.9
Tax rate	20.7%	19.9%	20.7%	21.6%	19.6%	20.5%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Net income	677.3	163.4	224.7	200.3	157.2	745.6	136.5	208.6	233.4	185.2	763.8	145.6	221.6	247.0	195.8	809.9	155.2	234.0	260.3	206.4	855.9
Dividends on preferred stock																					
Adjusted diluted EPS	\$10.92	\$2.61	\$3.59	\$3.25	\$2.58	\$12.03	\$2.25	\$3.45	\$3.87	\$3.08	\$12.63	\$2.43	\$3.70	\$4.14	\$3.29	\$13.56	\$2.62	\$3.96	\$4.42	\$3.51	\$14.50
Basic Shares	61.7	61.8	62.0	61.1	60.5	62.0	60.7	60.5	60.4	60.2	60.5	60.0	59.8	59.6	59.5	59.7	59.3	59.1	58.9	58.7	59.0
Diluted Shares	62.0	62.6	62.6	61.6	61.0	62.0	60.7	60.5	60.4	60.2	60.5	60.0	59.8	59.6	59.5	59.7	59.3	59.1	58.9	58.7	59.0
Repurchase price							\$110.00	\$121.00	\$133.10	\$140.00		\$140.00	\$140.00	\$140.00	\$140.00		\$140.00	\$140.00	\$140.00	\$140.00	
Margins																					
Gross margin	54.4%	54.2%	58.1%	57.4%	55.7%	56.5%	55.0%	58.6%	58.4%	56.9%	57.4%	55.5%	59.1%	58.9%	57.4%	57.9%	56.0%	59.6%	59.4%	57.9%	58.4%
bp change y/y	(721)	35	284	234	235	203	80	50	100	125	91	50	50	50	50	50	50	50	50	50	50
SG&A ratio	26.7%	26.3%	27.8%	29.1%	31.6%	28.7%	32.8%	33.3%	30.3%	32.4%	32.2%	33.7%	34.1%	31.1%	33.3%	33.0%	34.4%	34.9%	31.8%	34.1%	33.7%
bp change y/y	(490)	(102)	270	190	429	205	649	551	113	82	342	87	82	82	89	85	69	72	71	75	72
SG&A dollar growth	30%	29%	23%	14%	18%	20.0%	24.0%	25.0%	10.0%	10.0%	16.8%	8.0%	8.0%	8.0%	8.0%	8.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Operating margin	27.7%	27.9%	30.3%	28.3%	24.1%	27.7%	22.2%	25.3%	28.2%	24.5%	25.2%	21.9%	24.9%	27.8%	24.1%	24.9%	21.7%	24.7%	27.6%	23.9%	24.6%
bp change y/y	(231)	136	14	44	(193)	(2)	(569)	(501)	(13)	43	(252)	(37)	(32)	(32)	(39)	(35)	(19)	(22)	(21)	(25)	(22)
% change y/y																					
Crocs revenue growth	14.9%	19.0%	13.8%	11.6%	10.0%	13.3%	7.5%	6.3%	5.5%	5.5%	6.2%	5.5%	5.6%	5.3%	5.0%	5.4%	5.0%	4.8%	4.6%	4.4%	4.7%
Total revenue growth	53.7%	33.9%	11.2%	6.2%	1.6%	11.5%	-0.5%	4.3%	5.9%	7.2%	4.4%	5.2%	5.4%	5.1%	5.1%	5.2%	4.9%	4.8%	4.6%	4.6%	4.7%
Operating income growth	41.9%	40.8%	11.7%	7.8%	-6.0%	11.4%	-20.8%	-12.9%	5.4%	9.1%	-5.1%	3.5%	4.1%	3.9%	3.4%	3.8%	3.9%	3.9%	3.8%	3.5%	3.8%
Net income growth	27.8%	30.7%	11.6%	8.1%	-5.1%	10.1%	-16.4%	-7.1%	16.5%	17.8%	2.4%	6.6%	6.2%	5.8%	5.7%	6.0%	6.6%	5.6%	5.4%	5.4%	5.7%
EPS growth	31.4%	27.1%	10.9%	9.4%	-2.7%	10.2%	-13.9%	-4.0%	18.9%	19.4%	5.0%	8.0%	7.5%	7.1%	7.0%	7.3%	7.9%	6.9%	6.7%	6.7%	7.0%

Source: BofA Global Research estimates, company reports

BofA GLOBAL RESEARCH

Price objective basis & risk

Crocs, Inc. (CROX)

Our \$140 PO is based on 9x 2024E EV/EBITDA, a discount to CROX's average EV/EBITDA multiple of 11x since '19 and lower than footwear peers (14x). We think our target multiple reflects the stock's robust operating margin and free cash flow profile but with peers growing sales faster.

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
	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

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

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

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

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

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

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

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.

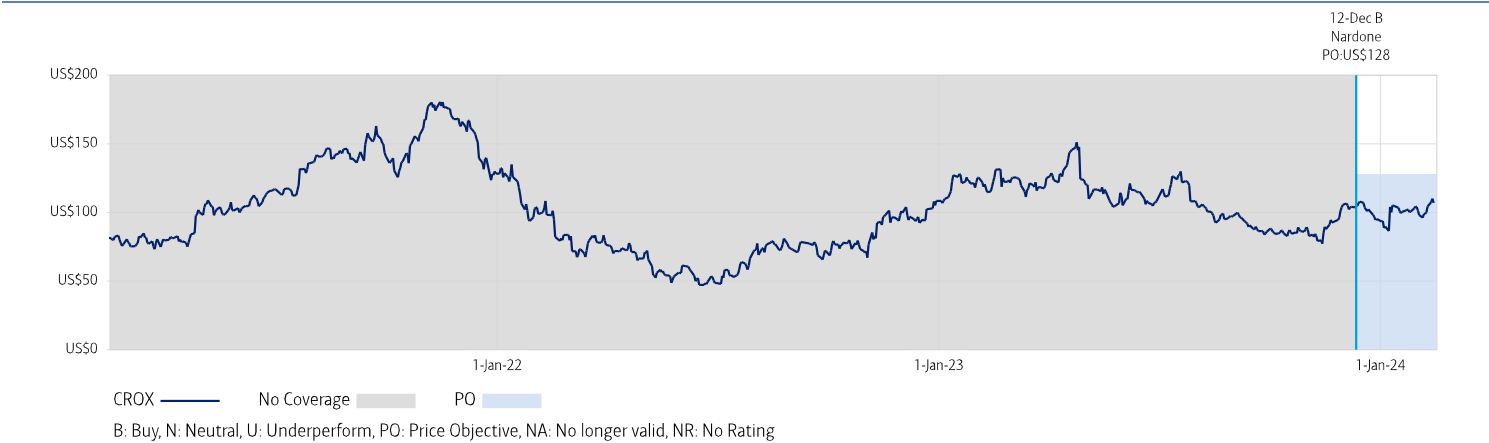
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Disclosures

Important Disclosures

Crocs (CROX) Price Chart



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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