

Crocs, Inc.

Reiterate Buy: 4Q results better than expected

Maintain Rating: BUY | PO: 128.00 USD | Price: 86.46 USD

Maintain Buy: another 4Q beat announced at ICR

We reiterate our Buy rating as we continue to think valuation remains attractive at 7x P/E given the momentum at the core Crocs brand (>80% of company profits) and what we expect to be a gradually improving narrative at Heydude (HD). CROX preannounced 4Q sales growth of >1% (beating prior guidance of down 1-4%) as Crocs sales increased roughly 10% (prior guidance 4-7%) and HD sales were down 19%, slightly beating prior expectations of down 20-25%. This translates to full year sales growth up over 11%, slightly above prior guidance of 10-11%. Operating margins for 2023 are now expected to be in excess of 27%, ahead of guidance of 27% previously. CROX paid down \$277mn of net debt during the quarter and repurchased \$25mn in stock. The company still has roughly \$875mn left in its share repurchase program; we expect a continued balance of debt paydown and share buybacks in 2024.

Preliminary 2024 outlook: better sales, lower margins

CROX expects revenue growth of 3-5% in 2024, comprised of 4-6% growth in the Crocs brand and flat to slightly up for the HD brand. The total sales growth expectation of 4% at the midpoint is aligned with both our expectations and Visible Alpha consensus estimates. Mgmt expects gross margin improvement in 2024 and plans to reinvest these dollars back into brand accretive and strategic SG&A investments. CROX expects 2024 operating margins of 25%, lower than our/cons 27%/25.9% expectations. We expect to revisit our estimates after we receive more details from the company at the 9am ET ICR presentation and our investor meeting this afternoon.

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)			11.69	12.20	13.39
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	10.4x	7.9x	7.4x	6.8x	6.2x
EV / EBITDA*	10.5x	7.5x	6.8x	6.5x	6.0x
Free Cash Flow Yield*	9.8%	9.5%	13.6%	14.6%	16.0%

* For full definitions of *IQmethod*SM measures, see page 4.

08 January 2024

Equity

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Stock Data

Price	86.46 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)	5,236 USD / 60.6
Free Float	96.4%
Average Daily Value (mn)	121.54 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

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Timestamp: 08 January 2024 07:59AM EST

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 4.

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 1,465,268

Quarterly Earnings Estimates

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

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

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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



US - Softline Retailing and Dept Stores Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	V F Corp	VFC	VFC US	Lorraine Hutchinson, CFA

iQ^{method}™ 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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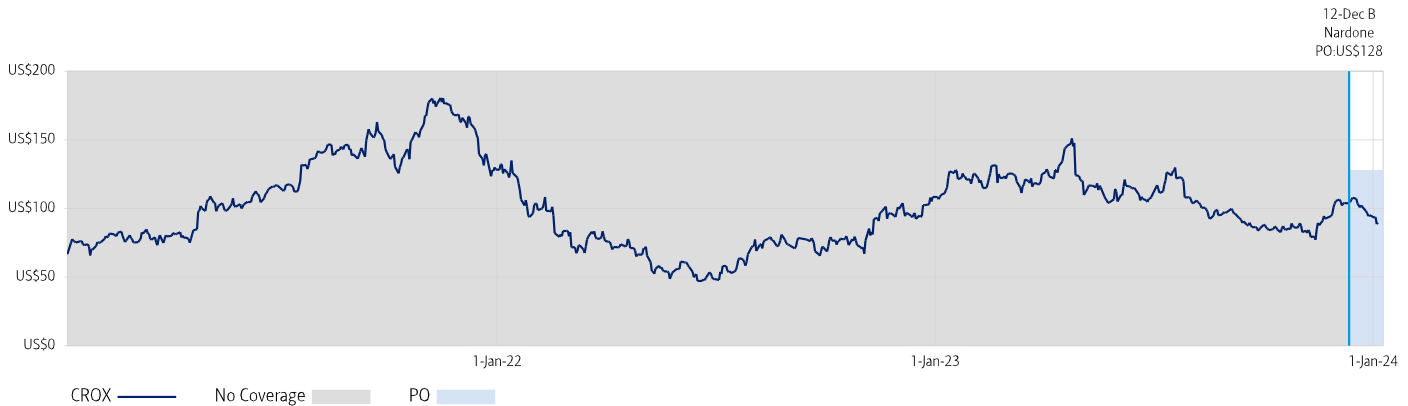
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Crocs (CROX) Price Chart



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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