



crocstm

\$CROX
December 2021
Target Price: \$188.98



Company Overview.....Slides 4-6



Industry Analysis.....Slides 7-9



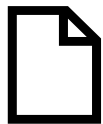
Investment Thesis.....Slides 10-13



Risk and Mitigants.....Slides 14-15



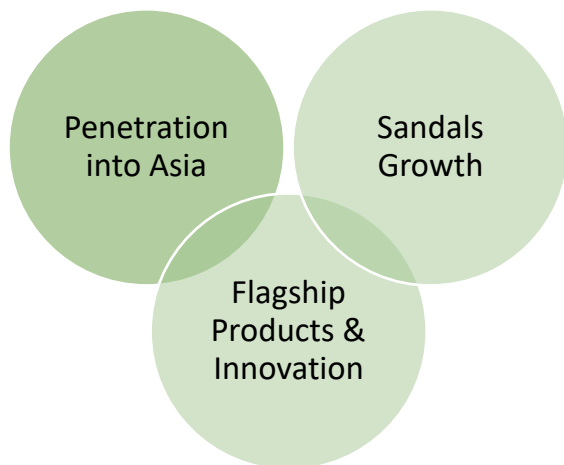
Valuation.....Slides 16-19



Appendix.....Slides 20-23

Recommending a BUY on Crocs at a target price of \$189.72 representing an upside of 16.3%

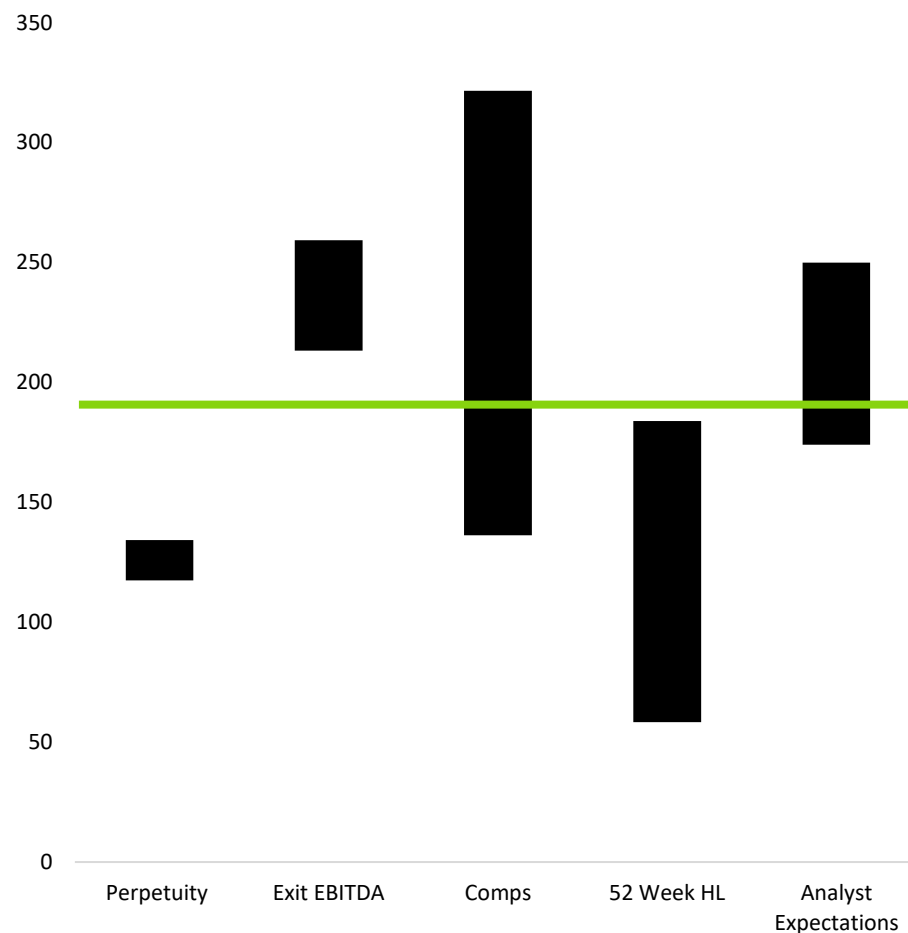
Investment Thesis



Implied Share Price

	Perpetuity	Exit EBITDA	Comps
Bear Case	117.46	213.23	128.02
Base Case	126.65	235.29	159.70
Bull Case	134.32	259.27	187.86
Weighting	25%	50%	25%
Base Case	126.65	235.29	159.70
Implied Price			\$188.98
<i>Implied Upside</i>			16.3%

Valuation Football Field



Company Overview

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Investment Thesis

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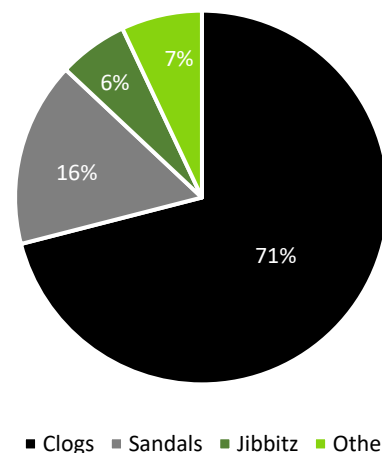
Appendix

Company Overview

Company Highlights

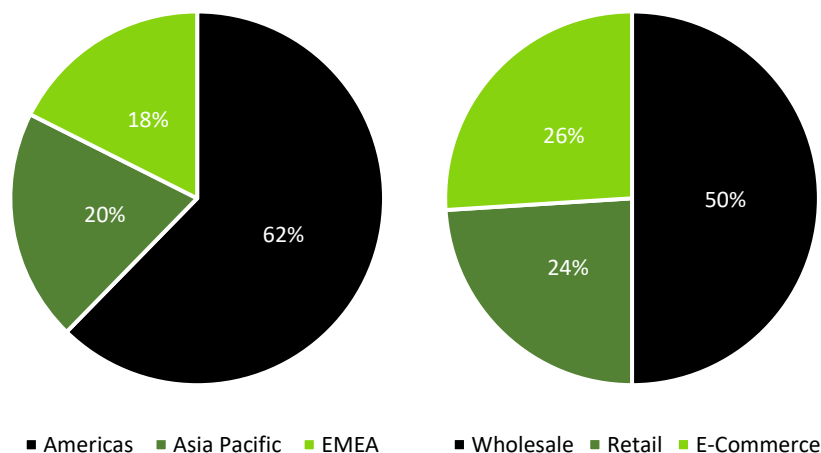
- Crocs designs, develops, manufactures, markets and distributes casual lifestyle footwear and accessories for men, women and children
- Footwear products include sandals, wedges, flips, slides, clogs and Jibbitz charms
- The company sells its products in approximately 80 countries through wholesalers, retail stores, e-commerce sites and third-party marketplaces
- As of December 31, 2020, Crocs had 186 outlet stores, 100 retail stores, 65 store-in-stores and 13 company-operated e-commerce sites

Revenue Segmentation (LTM Q2'21) and Key Figures

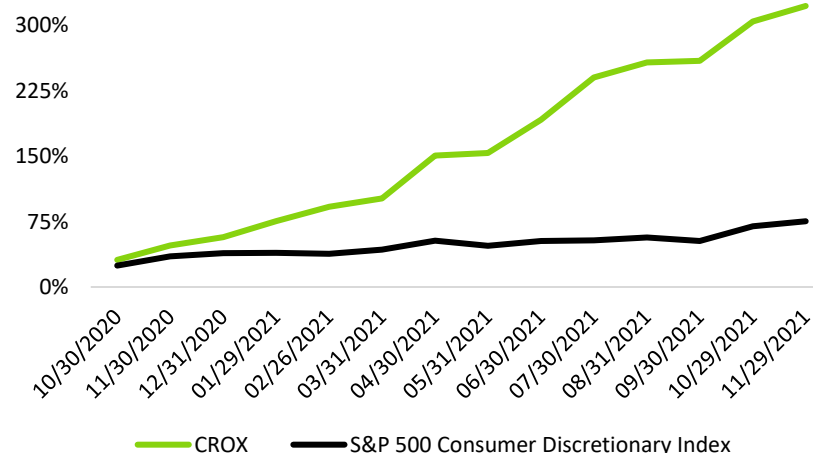


Current Share Price (\$USD)	168.04
Enterprise Value (\$B)	10.34
Market Cap (\$B)	9.89
P/E	23.29
EV/EBITDA	13.38
Shares Outstanding (M)	61.5

Regional and Channel Segmentation



Stock Performance



Senior Management



Andrew Rees - CEO & Director

- Became CEO of Crocs in 2017
- Formerly the Managing Director of L.E.K Consulting
- Prior to L.E.K Consulting, held various executive positions at Reebok International
- Helped to build the sustainability and profitability of Reebok's retail channel



Michelle Poole - President

- President of Crocs since 2020
- Held several executive roles at Crocs since 2014
- Three decades of brand-building experience at Sperry Top-Sider, Timberland and Converse

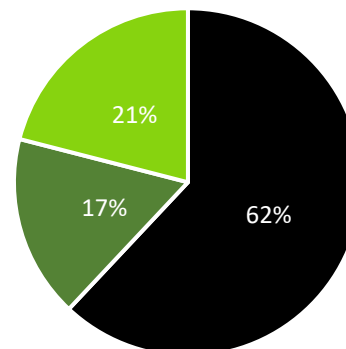


Anne Mehlman - Executive VP & CFO

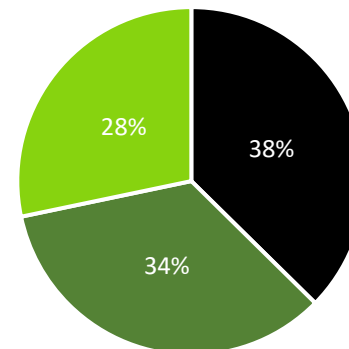
- Executive VP and CFO of Crocs since 2018
- VP of Corporate Finance at Crocs from 2011-2016
- Previously the CFO of Zappos.com

Compensation Structure

Andrew Rees' Compensation

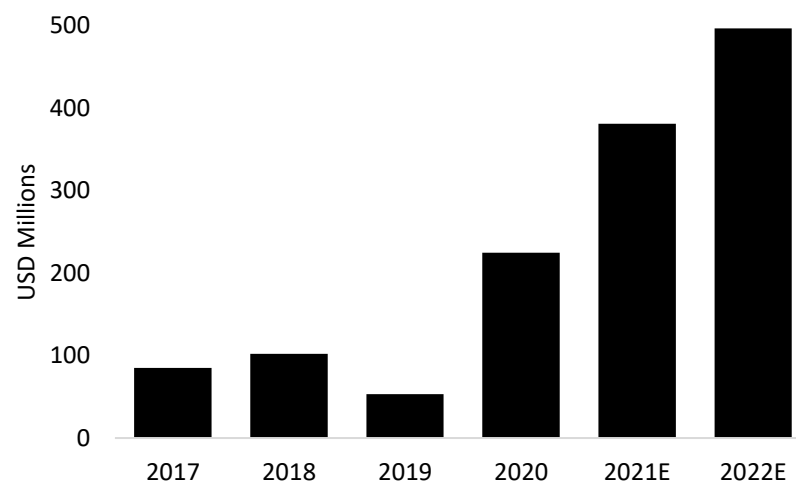


Other Executive Compensation



■ Target Equity Award ■ Base Salary ■ Target Annual Incentive

Free Cash Flows since 2017



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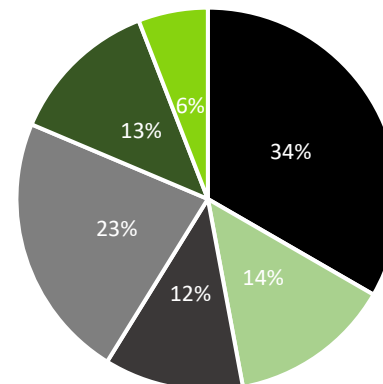
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Industry Analysis

Footwear Industry Market Share and Outlook

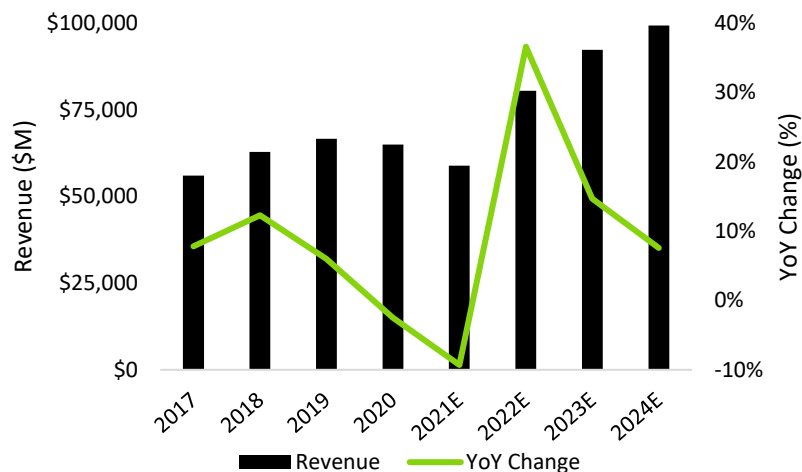
- Crocs has a 20% market share in the \$6 billion global clogs industry that has outpaced casual footwear growth
- Economic recovery from COVID-19, increased consumer spending and growth in global footwear demand is favorable towards Crocs' future growth
- China is the 2nd largest footwear market in the world, contributing about 20% of global footwear revenues
- China's footwear industry is expected to grow at a CAGR of 16% from 2021-2025, as increased wages, overall buying power and population will support footwear demand

U.S. Footwear Market Segmentation

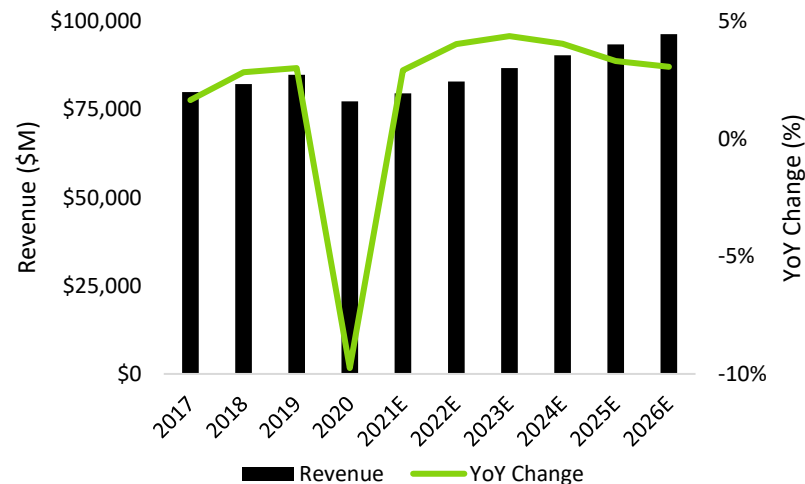


■ Women's Non-Athletic ■ Women's Athletic ■ Men's Non-Athletic
 ■ Men's Athletic ■ Children ■ Other

China Footwear Revenue

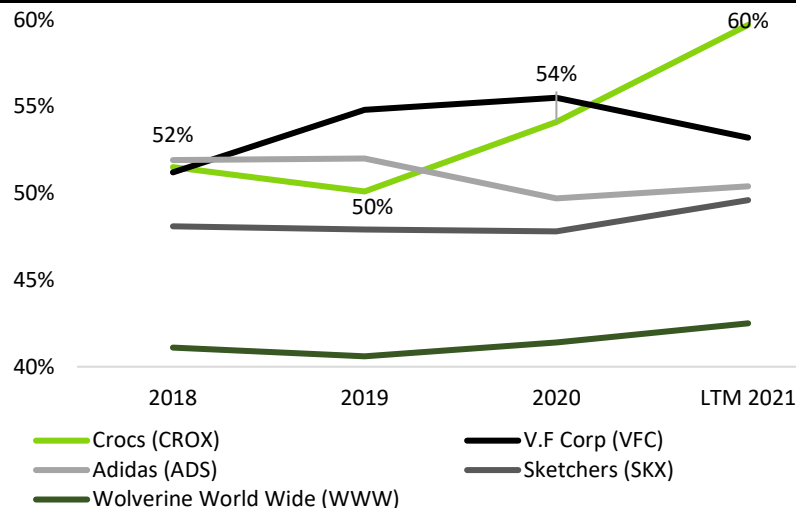


U.S. Footwear Revenue

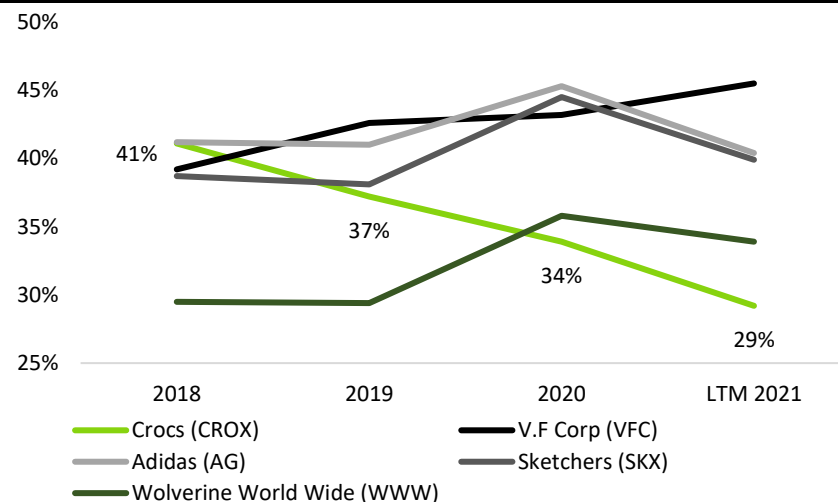


Competitive Analysis

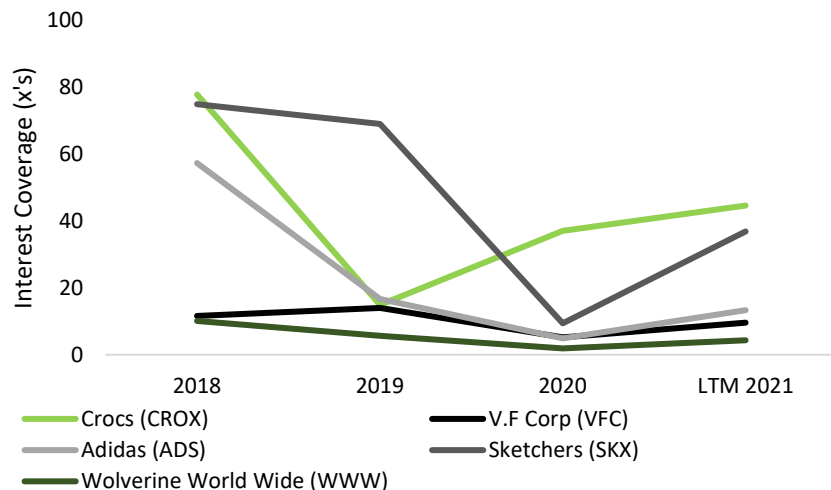
Gross Margin % Excellence



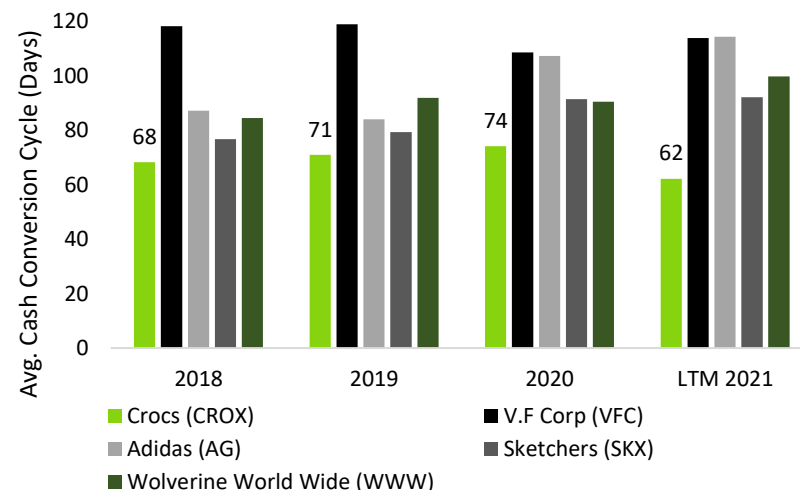
Consistent Decline in SG&A Margin %



Strong Interest Coverage



Fast Cash Conversion Cycle



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Investment Thesis I – Penetration into Asia

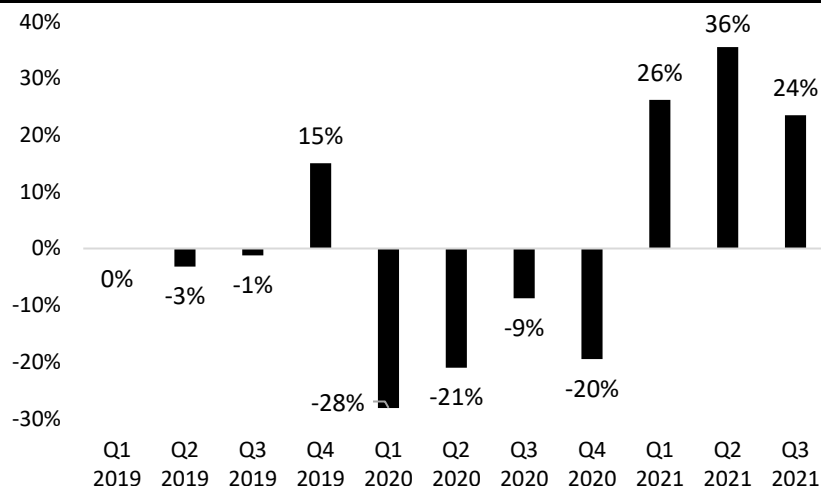
Growth in Asian Markets

- Crocs sees Asia as the company's greatest long-term potential with large markets available, such as China, India and Southeast Asia
- Currently, Mainland China reflects only 5% of total revenue, compared to the company's competitors with 20%, making Crocs underpenetrated in the region
- Crocs is estimating 10% of total revenue to come from Mainland China and 25% from Asia by 2026 (30% CAGR) by utilizing its brand, digital and marketing capabilities
- Vast majority of store openings in Asia have been in China (the most future store openings out of all of Crocs' geographical regions)

Sourcing and Manufacturing

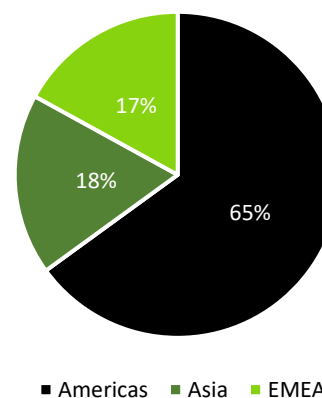
- Major partner groups in Asia have significant resources that are pivotal to Crocs' growth
- Opening 2 distribution centres in Indonesia that will be operating by end of 2021
- Signed an agreement to open a major distribution facility in India in a year
- Confidence in Asia's partner base and optimistic about penetrating new regions for manufacturing

Crocs Asia Revenue Growth

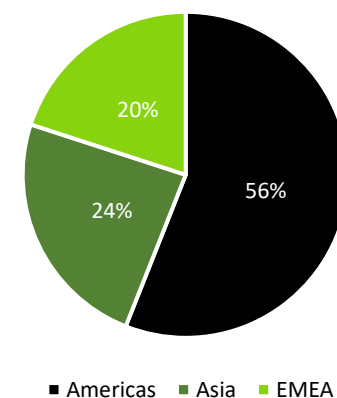


Future Geographical Segmentation

Current Segmentation



2026 Segmentation



Investment Thesis II – Sandals Opportunity

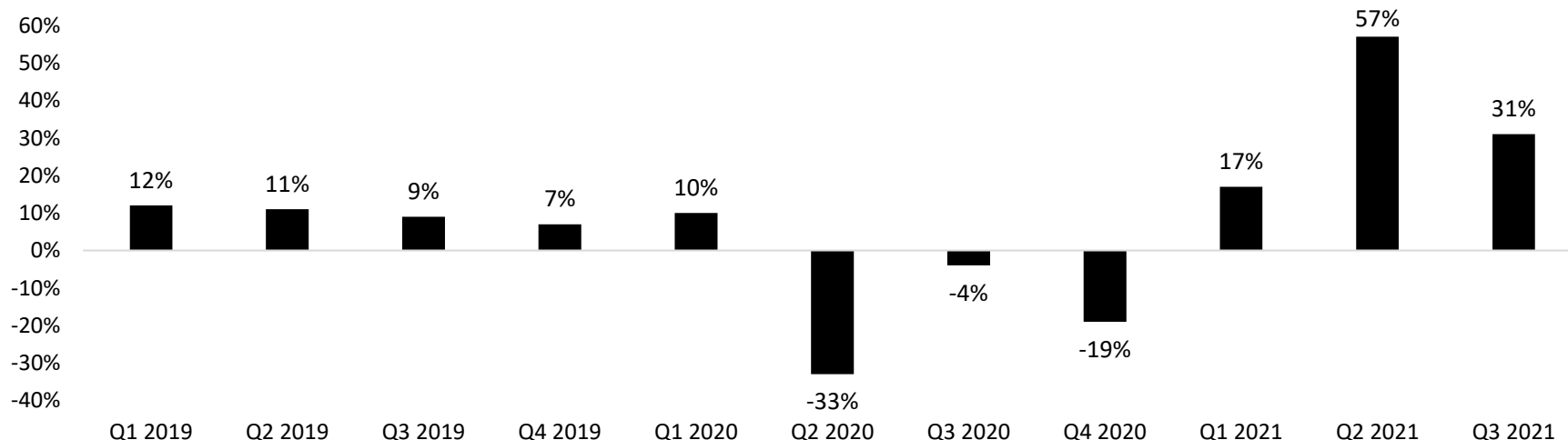
Outlook

- The sandals market (\$30+ billion total addressable market) is seen as fragmented with no clear leader, and Crocs can grow market share in the category
- No major player concentrates on the sandals industry and smaller players are not equipped with marketing and investment capacity
- Women make up two-thirds of the sandal market making them a major and high buying-frequency consumer
- Crocs' sandals revenue had a 10% CAGR from 2017-2019 (pre-COVID)

Strategy

- Crocs expects to grow their sandals category 4x by 2026
- Sell and market with 4 sub-categories: icon, style, comfort and adventure
- Crocs appeals and covers all types of consumers in the sandals market whereas other competitors focus on only one sub-category (allows the company to successfully penetrate the market)
- Framework: drive sandal awareness, convert existing clog customers and utilize Crocs' marketing channels

Sandals Revenue Growth



Investment Thesis III – Flagship Products and Innovation

Margin Stability and Growth



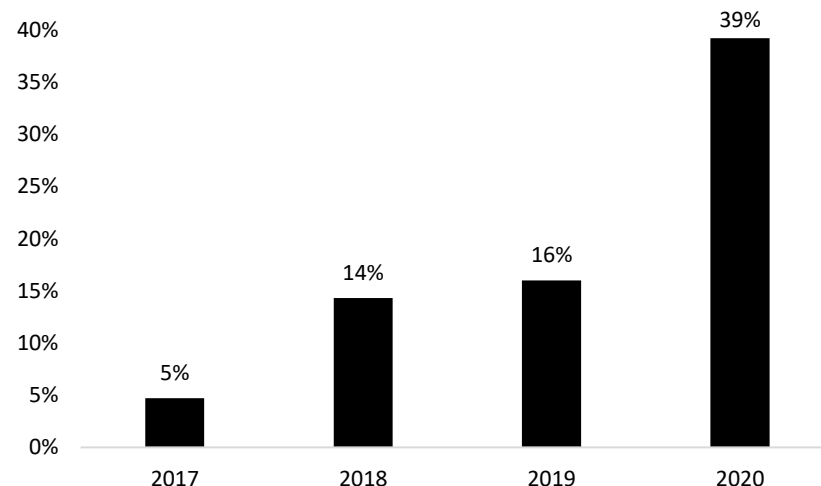
Clogs and Innovation

- Crocs is the market leader in clogs and continues to grow the category and the company's brand
- Clog revenues increased 101% in Q2 2021 to represent nearly 75% of footwear sales
- Prudent investments to support long-term growth (building, automating and expanding distribution centres in EMEA and U.S.)
- Top quality marketing with collaborations and influencers, such as Foot Locker, Balenciaga and Justin Bieber, and social media engagements, such as TikTok challenges

Jibbitz Charms

- Personalization is a global megatrend and Jibbitz charms drives relevance for the brand
- Revenues more than tripled in Q2 2021, more than doubled in Q3 compared to the previous year and make up 6% of the overall business
- Jibbitz customers have 2x the average lifetime value of Crocs customers who do not buy Jibbitz (also have higher average order values)
- Continue to grow the Jibbitz business through assortments of partnerships with top tier celebrities
- Shifted from selling single charms to packages/bundles, resulting in higher margins

DTC Same-Store Sales Growth



Company Overview

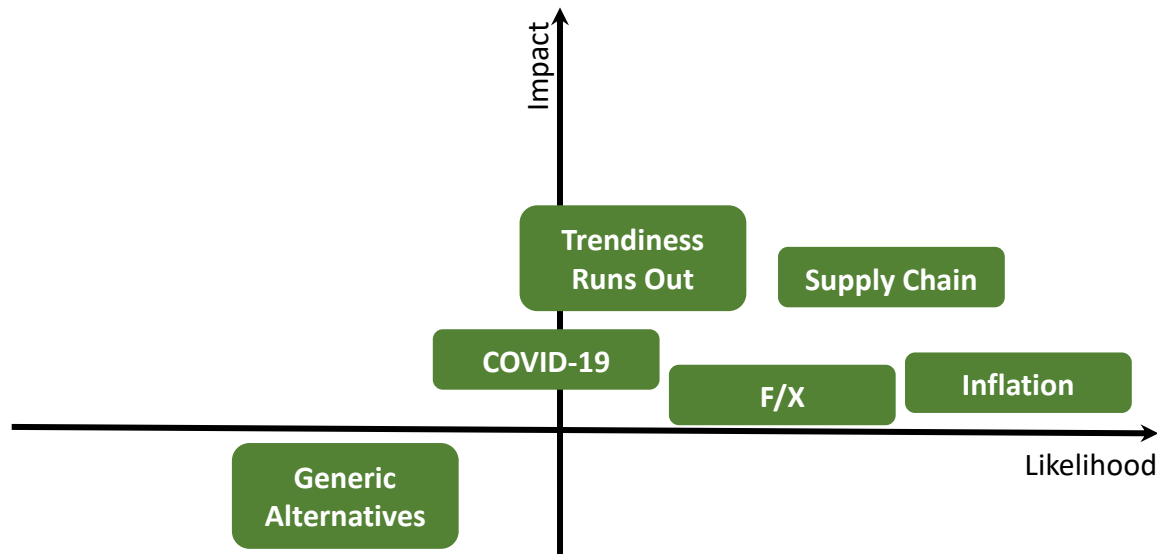
Industry Analysis

Investment Thesis

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Supply Chain	Inflation	Trendiness Runs Out	COVID-19	Generic Alternatives	F/X
<ul style="list-style-type: none"> Shifting production to countries with less COVID-19 cases/outbreaks to smooth production. Supply chain is intrinsically simple, making the firm more resistant to external shocks. Production for the clog is only 3 components, 2/3 are made on-site. 	<ul style="list-style-type: none"> Affordable positioning means firm still maintains competitive advantage despite price increases. Discounts to wholesale and digital customers work to incentivize purchasing regardless of inflationary conditions. 	<ul style="list-style-type: none"> Management has laid out substantial framework for SG&A, marketing especially. Crocs had used the explosive popularity of the clogs to gain market share but has since diversified. Clogs are now touted as timeless classics in the fashion industry. 	<ul style="list-style-type: none"> E-commerce growth has more than made up for lockdown-related physical retail sales slowdown. Management leads the charge, setting the goal of doubling online sales' share of top line, to over 50%. 	<ul style="list-style-type: none"> Consumers seek out the brand specifically for its namesake, and recent collaborations with highly visible celebrities has grown brand equity from obscurity into the spotlight. Collaboration with Balenciaga further displays brand evolution. 	<ul style="list-style-type: none"> Affordable positioning means firm still maintains competitive advantage despite price increases. Discounts to wholesale and digital customers work to incentivize purchasing regardless of inflationary conditions.

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Investment Thesis

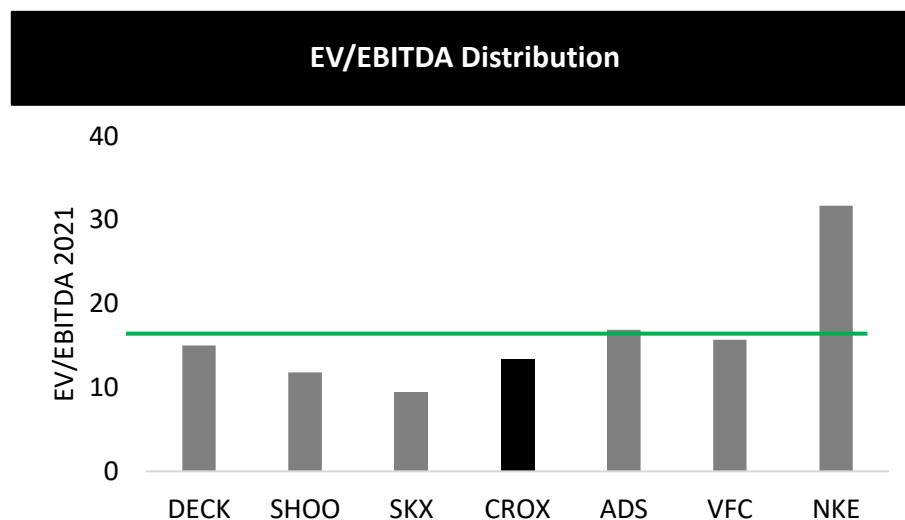
Risks and Mitigations

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Name	Ticker	Share Price	Market Cap (\$M)	EV (\$M)	P/E	EV/Revenue 2021	EV/EBITDA 2021	Debt/Equity	Gross Margin
Crocs Inc.	CROX	162.74	9,888.70	10,341.20	23.3x	4.4x	13.4x	1.29	59.7%
Deckers Outdoor Corp.	DECK	414.53	11,378.10	10,862.80	25.9x	3.3x	15.0x	0.15	53.7%
Steve Madden Ltd.	SHOO	47.44	3,861.30	3,727.10	24.1x	1.9x	11.8x	0.17	40.5%
Wolverine World Wide	WWW	32.04	2,564.20	3,572.50	-	1.6x	11.4x	3.18	42.5%
Skechers U.S.A.	SKX	46	7,168.70	7,968.00	18.3x	1.3x	9.5x	0.74	49.6%
adidas AG	ADS	286.69	55,070.70	56,342.60	33.5x	2.5x	16.9x	0.88	50.4%
V.F. Corp	VFC	73.98	29,058.00	34,538.80	28.2x	3.0x	15.7x	2.41	54.6%
Nike Inc.	NKE	168.02	265,945.00	265,040.00	43.4x	5.6x	31.7x	1.00	45.4%
Bear (First Quartile)		46.36	4688.2	4787.3	23.3x	1.7x	11.5x	0.31	43.2%
Base (Median)		121.00	10633.4	10602.0	25.9x	2.8x	14.2x	0.94	50.0%
Bull (Third Quartile)		257.03	48567.5	50891.7	33.5x	4.1x	16.6x	2.13	54.4%

	EV/EBITDA		
	Bear	Base	Bull
EBITDA 2021E	690.0	690.0	690.0
EV/EBITDA 2021E	11.5x	14.2x	16.6x
Enterprise Value	7,934.6	9,797.5	11,453.4
Less: Debt	(843.8)	(843.8)	(843.8)
Add: Cash	436.6	436.6	436.6
Equity Value	7,527.4	9,390.3	11,046.2
Shares Outstanding	58.8	58.8	58.8
Equity Value per Share	\$ 128.02	\$ 159.70	\$ 187.86
Market Premium to Fair Value	(21.3%)	(1.9%)	15.4%



Valuation

Discounted Free Cash Flow Model

In Thousands of USD	FY 2018	FY 2019	FY 2020	FY 2021E	FY 2022E	FY 2023E	FY 2024E	FY 2025E	FY 2026E
12 Months Ending	2018-12-31	2019-12-31	2020-12-31	2021-12-31	2022-12-31	2023-12-31	2024-12-31	2025-12-31	2026-12-31
EBITDA	92,194.0	152,862.0	241,743.0	689,965.3	857,820.1	1,025,778.0	1,208,373.6	1,399,075.1	1,600,705.1
EBIT	62,944.0	128,649.0	214,124.0	640,309.4	802,444.8	959,945.4	1,130,776.5	1,309,179.4	1,497,472.8
Tax Rate				23.0%	25.0%	25.0%	25.0%	25.0%	25.0%
EBIAT (NOPAT)				493,038.2	601,833.6	719,959.0	848,082.4	981,884.6	1,123,104.6
(+) Depreciation				49,655.9	55,375.2	65,832.6	77,597.1	89,895.7	103,232.3
(+) Stock-Based Compensation				26,995.7	32,664.7	38,544.4	45,096.9	51,861.5	59,122.1
(+) Deferred Income Taxes				35,104.9	42,476.9	50,122.8	58,643.6	67,440.2	76,881.8
Unlevered CFO				604,794.7	732,350.5	874,458.8	1,029,420.1	1,191,081.9	1,362,340.8
(-) Changes in Net Working Capital				2,620.1	28,829.4	516.2	18,512.6	17,660.3	19,835.2
(-) Capital Expenditures				(75,000.0)	(83,011.5)	(97,953.6)	(114,605.7)	(131,796.6)	(150,248.1)
Unlevered FCF				532,414.8	678,168.4	777,021.3	933,327.0	1,076,945.6	1,231,927.9
Discount Factor				9.6%	109.6%	209.6%	309.9%	409.9%	509.9%
PV of Unlevered FCF				525,012.1	577,886.3	572,167.9	593,658.0	591,945.8	585,139.2

Perpetuity Approach	
FCF in Last	1,231,927.9
FCF t+1	1,256,566.5
Long term growth rate	2.0%
Terminal Value	9,157,601.2
Present Value of Terminal Value	4,349,663.0
Present Value of Stage 1 CF	3,445,809.4
Enterprise Value	7,795,472.4
Less: Net Debt	(407,228.0)
Equity Value	7,388,244.4
Diluted Shares	58,800.0
Equity Value per Share	\$ 125.65
Current Share Price	\$ 162.74
<i>Implied Premium (Discount)</i>	<i>(22.6%)</i>

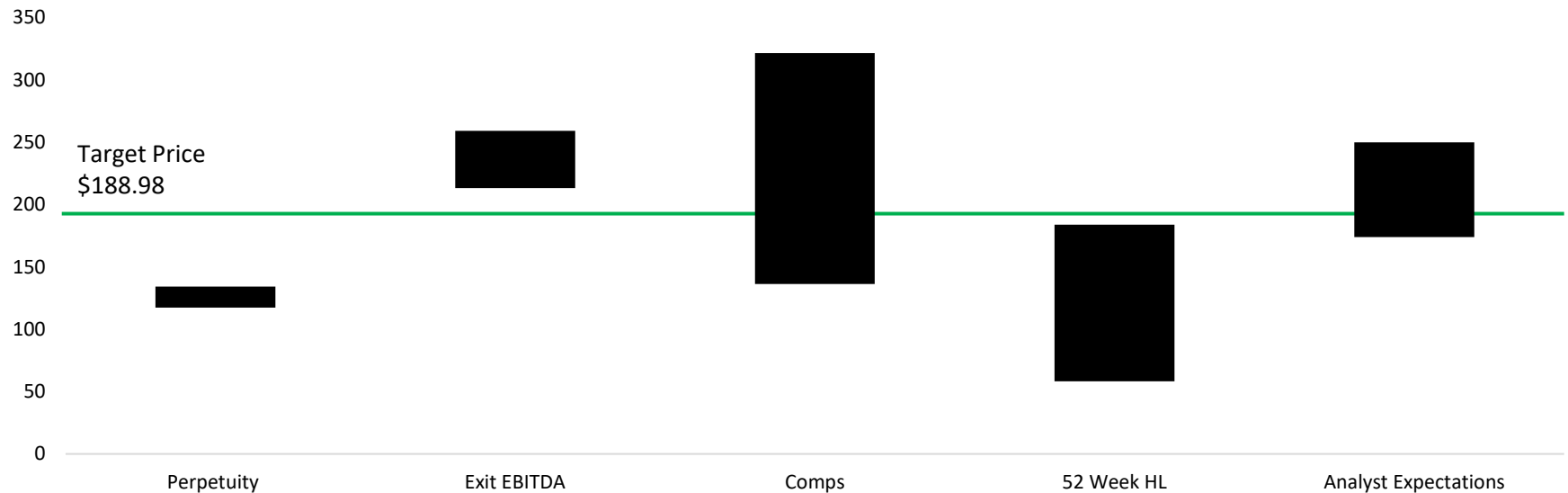
Exit EBITDA Multiple Approach	
Terminal Year EBITDA	1,600,705.1
Terminal Value EBITDA Multiple	14.2x
Terminal Value	22,730,012.5
Present Value of Terminal Value	10,796,265.7
Present Value of Stage 1 CF	3,445,809.4
Enterprise Value	14,242,075.0
Less: Net Debt	(407,228.0)
Equity Value	13,834,847.0
Diluted Shares	58,800.0
Equity Value per Share	\$ 235.29
Current Share Price	\$ 162.74
<i>Implied Premium (Discount)</i>	<i>44.7%</i>

WACC	
Cost of Debt	4.1%
Tax Rate	23.0%
After-Tax Cost of Debt	3.2%
Risk-Free Rate	1.5%
Beta	1.8
Market Risk Premium	8.5%
Cost of Equity	16.8%
Market Value of Equity	9,880,752.0
Equity Weight	92.1%
Total Debt	843,829.0
Debt Weight	7.9%
WACC	15.7%

Valuation Summary

Target Price \$188.98

Valuation Football Field



Implied Share Price

	Perpetuity	Exit EBITDA	Comps
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Base Case	126.65	235.29	159.70
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Base Case	126.65	235.29	159.70
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<i>Implied Upside</i>			<i>16.3%</i>

RIG vs. Analyst Targets

B Reily Securities	\$174
Monnes Crespi Hardt & Co	\$180
Loop Capital Markets	\$180
Zacks	\$188
RIG	\$189
Piper Sandler & Co	\$215
Williams Trading LLC	\$220
Baird	\$250

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Perpetuity Approach

Long-term growth rate

WACC		1.25%	1.50%	1.75%	2.00%	2.25%	2.50%	2.75%
	14.2%	137.02	138.87	140.79	142.79	144.88	147.05	149.32
	14.7%	131.45	133.14	134.88	136.70	138.59	140.55	142.60
	15.2%	126.29	127.83	129.42	131.07	132.79	134.57	136.43
	15.7%	121.50	122.90	124.36	125.65	127.43	129.05	130.74
	16.2%	117.03	118.32	119.65	121.03	122.46	123.94	125.48
	16.7%	112.86	114.05	115.27	116.54	117.85	119.20	120.61
	17.2%	108.96	110.05	111.18	112.34	113.55	114.79	116.08

Exit EBITDA Approach

Exit EBITDA Multiple

WACC		12.7x	13.2x	13.7x	14.2x	14.7x	15.2x	15.7x
	14.2%	229.46	236.38	243.30	250.21	257.13	264.05	270.96
	14.7%	224.89	231.65	238.41	245.18	251.94	258.71	265.47
	15.2%	220.42	227.04	233.66	240.27	246.89	253.50	260.12
	15.7%	216.08	222.55	229.02	235.29	241.96	248.43	254.90
	16.2%	211.84	218.17	224.50	230.83	237.16	243.49	249.82
	16.7%	207.70	213.90	220.09	226.28	232.48	238.67	244.86
	17.2%	203.67	209.73	215.79	221.85	227.91	233.97	240.03

Income Statement

Crocs Inc. (\$CROX)								
In Thousands of USD except Per Share	FY 2019	FY 2020	FY 2021E	FY 2022E	FY 2023E	FY 2024E	FY 2025E	FY 2026E
12 Months Ending	12/31/2019	12/31/2020	12/31/2021	12/31/2022	12/31/2023	12/31/2024	12/31/2025	12/31/2026
Income Statement								
Revenue	1,230,593.0	1,385,951.0	2,286,819.2	2,767,051.2	3,265,120.4	3,820,190.8	4,393,219.5	5,008,270.2
- Cost of goods sold	(613,537.0)	(636,003.0)	(914,727.7)	(1,251,286.4)	(1,296,252.8)	(1,516,615.8)	(1,730,928.5)	(1,968,250.2)
Gross Profit	617,056.0	749,948.0	1,372,091.5	1,590,764.8	1,968,867.6	2,303,575.1	2,662,291.0	3,040,020.0
- Selling, general, & admin expense	(488,407.0)	(514,753.0)	(722,634.9)	(863,320.0)	(1,008,922.2)	(1,172,798.6)	(1,353,111.6)	(1,542,547.2)
- Asset impairment and restructuring	-	(21,071.0)	(9,147.3)	-	-	-	-	-
Operating Income (EBIT)	128,649.0	214,124.0	640,309.4	802,444.8	959,945.4	1,130,776.5	1,309,179.4	1,497,472.8
+ Foreign currency gains (losses)	(1,323.0)	(1,128.0)	(103.0)	(500.0)	(590.0)	(690.4)	(793.9)	(905.1)
+ Interest income	601.0	215.0	1,468.9	1,777.4	2,097.3	2,453.9	2,822.0	3,217.0
- Interest expense	(8,636.0)	(6,742.0)	(9,431.1)	(12,901.1)	(13,364.7)	(15,636.7)	(17,846.3)	(20,293.1)
+ Other income	31.0	510.0	698.3	844.9	997.0	1,166.5	1,341.5	1,529.3
Income Before Income Taxes	119,322.0	206,979.0	632,942.5	791,666.0	949,085.0	1,118,069.8	1,294,702.6	1,481,020.9
- Income tax (expense) benefit	175.0	105,882.0	(145,576.8)	(197,916.5)	(237,271.2)	(279,517.5)	(323,675.7)	(370,255.2)
Net Income	119,497.0	312,861.0	487,365.7	593,749.5	711,813.7	838,552.4	971,027.0	1,110,765.7
EBIT	128,649.0	214,124.0	640,309.4	802,444.8	959,945.4	1,130,776.5	1,309,179.4	1,497,472.8
+ Depreciation & amortization	24,213.0	27,619.0	49,655.9	55,375.2	65,832.6	77,597.1	89,895.7	103,232.3
EBITDA	152,862.0	241,743.0	689,965.3	857,820.1	1,025,778.0	1,208,373.6	1,399,075.1	1,600,705.1
+ Stock based compensation	14,412.0	16,361.0	26,995.7	32,664.7	38,544.4	45,096.9	51,861.5	59,122.1
Adjusted EBITDA	167,274.0	258,104.0	716,960.9	890,484.8	1,064,322.3	1,253,470.6	1,450,936.6	1,659,827.2

Assumptions	FY2021E	FY2022E	FY2023E	FY2024E	FY2025E	FY2026E
Revenue Growth						
Bear Case	66.5%	22.5%	19.5%	18.5%	16.5%	15.5%
Base Case	65.0%	21.0%	18.0%	17.0%	15.0%	14.0%
Bull Case	63.5%	19.5%	16.5%	15.5%	13.5%	12.5%
Gross Margin						
Bear Case	60.5%	58.0%	60.8%	60.8%	61.1%	61.2%
Base Case	60.0%	57.5%	60.3%	60.3%	60.6%	60.7%
Bull Case	59.5%	57.0%	59.8%	59.8%	60.1%	60.2%

Assumptions	FY2021E	FY2022E	FY2023E	FY2024E	FY2025E	FY2026E
Operating Margin						
Bear Case	28.5%	29.5%	29.9%	30.1%	30.3%	30.4%
Base Case	28.0%	29.0%	29.4%	29.6%	29.8%	29.9%
Bull Case	27.5%	28.5%	28.9%	29.1%	29.3%	29.4%
CapEx % of rev						
Bear Case	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Base Case	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Bull Case	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%

Income Statement (2021 Reported Quarters)

Crocs Inc. (\$CROX)							
In Thousands of USD except Per Share	FY 2019	FY 2020	FY 2021 Q1	FY 2021 Q2	FY 2021 Q3	FY 2021E	FY 2022E
12 Months Ending	12/31/2019	12/31/2020	03/31/2021	06/31/2022	09/31/2023	12/31/2025	12/31/2026
Income Statement							
Revenue	1,230,593.0	1,385,951.0	460,098.0	640,773.0	625,919.0	2,286,819.2	2,767,051.2
- Cost of goods sold	(613,537.0)	(636,003.0)	(206,879.0)	(245,592.0)	(226,123.0)	(914,727.7)	(1,251,286.4)
Gross Profit	617,056.0	749,948.0	253,219.0	395,181.0	399,796.0	1,372,091.5	1,590,764.8
- Selling, general, & admin expense	(488,407.0)	(514,753.0)	(128,533.0)	(199,859.0)	(196,723.0)	(722,634.9)	(863,320.0)
- Asset impairment and restructuring	-	(21,071.0)	-	-	-	(9,147.3)	-
Operating Income (EBIT)	128,649.0	214,124.0	124,686.0	195,322.0	203,068.0	640,309.4	802,444.8
+ Foreign currency gains (losses)	(1,323.0)	(1,128.0)	(504.0)	(117.0)	537.0	(103.0)	(500.0)
+ Interest income	601.0	215.0	27.0	71.0	615.0	1,468.9	1,777.4
- Interest expense	(8,636.0)	(6,742.0)	(1,623.0)	(4,712.0)	(6,486.0)	(9,431.1)	(12,901.1)
+ Other income	31.0	510.0	11.0	2.0	2.0	698.3	844.9
Income Before Income Taxes	119,322.0	206,979.0	122,588.0	190,566.0	197,736.0	632,942.5	791,666.0
- Income tax (expense) benefit	175.0	105,882.0	24,190.0	128,388.0	(44,247.0)	(145,576.8)	(197,916.5)
Net Income	119,497.0	312,861.0	98,398.0	318,954.0	153,489.0	487,365.7	593,749.5
EBIT	128,649.0	214,124.0	124,686.0	195,322.0	203,068.0	640,309.4	802,444.8
+ Depreciation & amortization	24,213.0	27,619.0	8,054.0	15,749.0	23,832.0	49,655.9	55,375.2
EBITDA	152,862.0	241,743.0	132,740.0	211,071.0	226,900.0	689,965.3	857,820.1

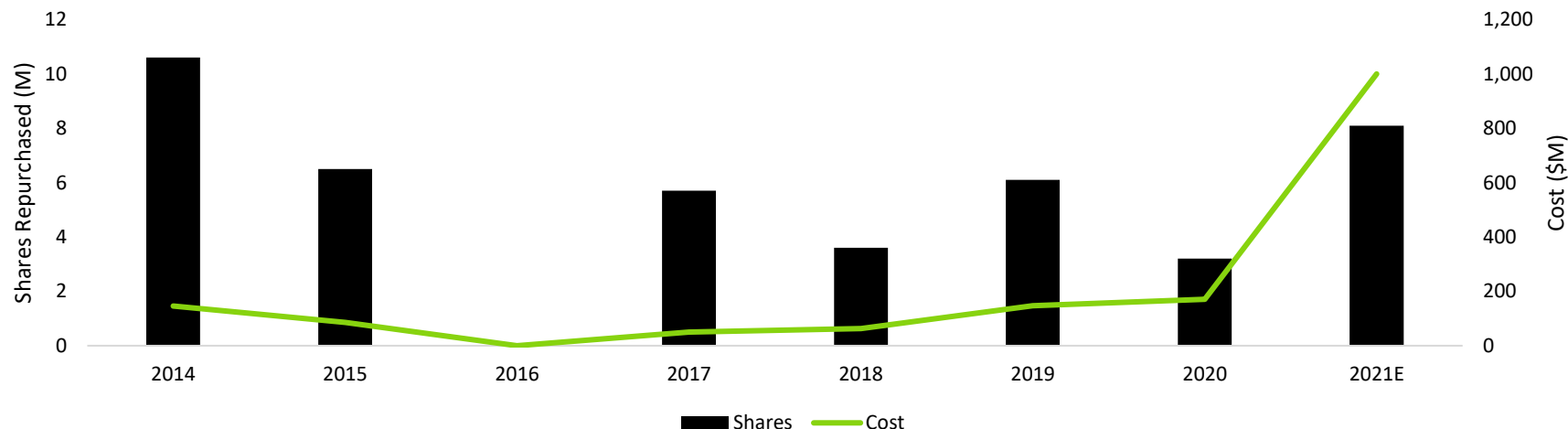
Notes

2021 YTD EBITDA currently sits at \$570,711 and we have forecasted a year end EBITDA of 689,965.3

First three quarters of revenue have already surpassed 2020 levels prompting management to up year end guidance by 3%

2021 reported quarters show increases in gross and operating profit margin reaching closer to year end guidance forecasts

Share Repurchases



Share Repurchases

- Management expects to purchase \$500 million of shares in Q4 2021 as part of their accelerated share repurchase (ASR) agreement
- The total 2021 share repurchases is expected to total \$1 billion
- Crocs will have an additional \$1 billion of share repurchase authorization left for future years after the current ASR is completed