

Long Crocs. Inc (NASDAQ: CROX)

Current Price: \$111.25 (03/12/2024)

Target Price: \$170.40 (53% upside)

Time Horizon: 12 Months

C&R Team: Asta, Ivan, Lonny, Ling Ya, Shawn



crocstm

Pitch Summary

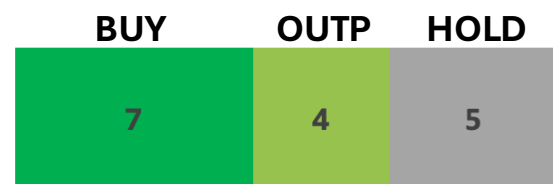
Does the shoe fit?



Narrative Summary...

- Crocs, Inc. (NASDAQ: CROX) is a global leader in innovative casual footwear for men, women, and children, offering products under the Crocs and HEYDUDE brands, sold in over 80 countries through wholesale and DTC channels.
- CROX has **faced slowing revenue growth in NA**. Bears see Crocs' falling rankings in Piper Sandler's Taking Stock with Teens (TSWT) survey as a sign that the brand is facing declining popularity. However, we believe the market is hyper-fixated on NA performance, and **missing CROX's strong growth internationally**.
- CROX acquired HEYDUDE in Feb 22. The acquisition was costly at \$2.5B, 13x LTM EV/EBITDA. **CROX took on \$2.0B of debt** to finance the deal. **HEYDUDE has persistently underperformed** since the acquisition.
- The **stock dropped 30%** since 29 Oct 24, after the release of Q3 Earnings. This was due to weakness in the HEYDUDE brand, driven by a grey market issue.
- We thus believe this presents a **compelling mispricing opportunity**. HEYDUDE has had **2 consecutive quarters of positive revenue growth**, indicating that a turnaround is imminent. This is further supported by **a new marketing strategy and management team**.
- CROX is **undervalued**, with a LTM EV/EBITDA of 6.04x compared to an Industry mean of 15.30x. This is despite CROX having **best-in-class financials** of a 20.5% net margin compared to an Industry mean of 4.7%. A multiple re-rating is inevitable. Therefore, this is a **highly asymmetric trade** with high upside.

Sell-Side Consensus



- Sell-side consensus is an Outperform. Multiple analysts have downrated CROX to a hold. However, we believe at current valuations CROX should be a strong buy.

Bears think...

CROX is facing declining popularity, evidenced by slowing North-America sales

- CROX is a pandemic darling with its best growth behind it
- Slowing NA growth and falling rankings in Piper Sandler TSWT.

HEYDUDE was a poor acquisition and will continue to underperform

- HEYDUDE's declining revenues is evidence that it was a bad acquisition. Structural issues, little hope for a turnaround.

Upcoming tariffs will hurt margins due to China-concentrated supply chains

- Due to CROX's high concentration of manufacturing in China, it will be greatly impacted by tariffs, hurting margins and long-term profitability.

But in reality...

CROX's popularity is peaking in many countries worldwide, with big growth drivers being China and India

- Trends that emerge in the US have a time-lagged ripple effect worldwide. CROX's popularity is peaking internationally, especially in China and India.

HEYDUDE's recent underperformance was not due to structural issues, and a new marketing strategy will revitalise the brand

- HEYDUDE's underperformance in the past year was largely due to a Grey Market issue. A new management team and new marketing strategy signals a turnaround.

Trump's promised tariffs are unlikely to materialise, and even if they do CROX will be able to adapt swiftly

- CROX's manufacturing facilities outside of China is enough to cover US sales.
- Promised tariffs are unlikely to materialise, refer to 2016 as case study.
- CROX has moved supply chains nimbly in the past, simple manufacturing process.

Business Overview

Crocs: Iconic products and strong financials



crocs[™]

Business Overview: International USA

- Crocs is an American company which manufactures casual lifestyle footwear and accessories
- They possess a unique brand identity with differentiated collaborations



Balenciaga Lightning McQueen

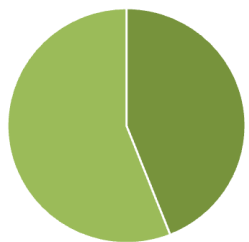
Drives popularity amongst Gen-Z

Renowned for **comfort** and **versatility**, Crocs are popular with both everyday consumers and workers in demanding fields (such as healthcare etc)

Famous for their **distinctive Clog design** and CrocsLite material (both patent protected)

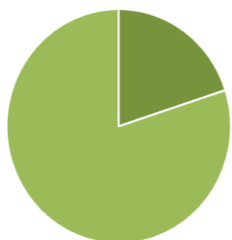
Revenue and Segment Breakdown

Q3 2024 Information

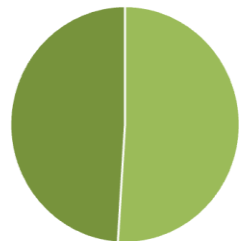


Majority of growth is currently USA led (44% vs 56%), yet still promising prospects in Asia

The core Crocs brand makes up 80% of the enterprise and enterprise growth



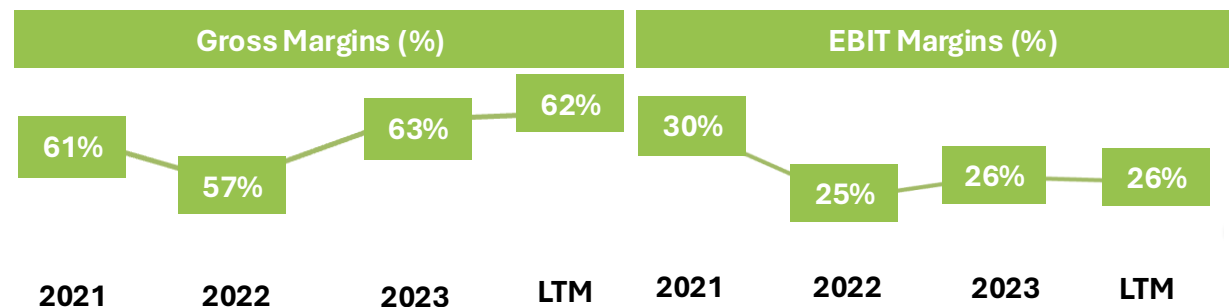
■ Heydude ■ Crocs



■ Wholesale ■ Direct to Consumer

Sales are roughly even split between wholesale and DTC (49% vs 51%)

Historical Financials



Despite fall in margins post HEYDUDE Acquisition, CROX has best-in-class margins that have climbed in the past year.

	Gross %	EBITDA %	Net Income %	EBIT %
Crocs	62	27.7	20.50	26.2
Skechers	53.1	12.3	7.20	9.97
Deckers	54.4	22.9	17.60	21.6
Wolverine	38.9	2.9	(1.77)	1.3

HEYDUDE Acquisition

Crocs acquired HEYDUDE for **\$2.5 billion** in 2022



Strategic rationale behind Acquisition:

- Allowed Crocs to have a diversified multi product portfolio
- Adds a more semi-formal shoe into the crocs' range

Acquisition details:

- Financed with \$2.0B of **debt financing (term loan B)**
- **\$450M shares issuance** to seller, \$50M drawn from Crocs' RCF
- HEYDUDE purchased at **13x EV/EBITDA**
- Immediately **accretive** to EPS and margins
- After the acquisition Crocs' net debt was **3x 2021 EBITDA** (currently at **1.38x EBITDA**)

Management Deep Dive

Driving value from the top



Executives' incentives aligned with company performance

Name	Title	FY23 Cash Comp	FY23 Equity Comp	% Equity + Performance-based Comp
Andrew Rees	Chief Executive Officer	\$3,368,200	\$7,249,993	89.1%
Anne Mehlman	Chief Financial Officer	\$669,231	\$1,319,936	74.4%
Adam Michaels	Chief Digital Officer	\$594,231	\$989,889	72.2%

Strategic new hires bring expertise in marketing and design

Terrence Reiley, President of HEYDUDE

Former CMO (2013-2020)



- Was instrumental in turning Crocs around as a high-fashion footwear

Former CEO (2020-2024)



- Reshaped the century-old insulated drinkware brand into a coveted bottle of current culture

Steven Smith, Head of Creative Innovation

- Brings over 40 years of disruptive sneaker imagination to Crocs
- Revolutionised the dad-shoe trend

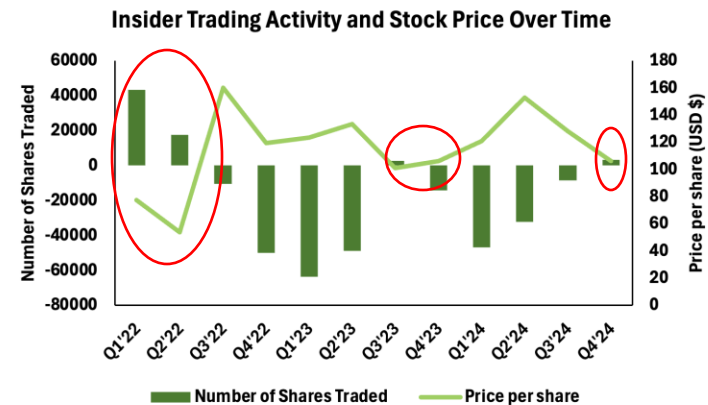


New Balance 574, 997, 1500 (1988-1989)

Adidas Yeezy 700 Boost (2016-2024)



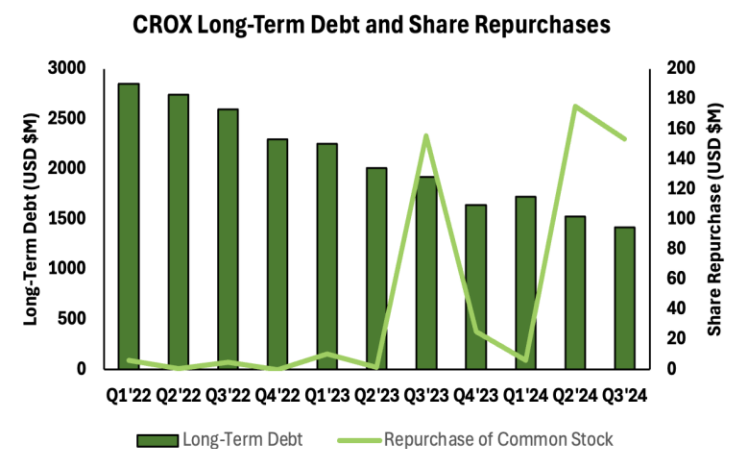
Insider buying highlights confidence in future success



- Periods of insider buying has generally been followed by stock price appreciation

“Insiders might sell their shares for any number of reasons, but they buy them for only one: they think the price will rise.” - Peter Lynch

Prudent capital allocation that enhances shareholder value



Balanced capital allocation strategy

- Disciplined approach to deleveraging by paying back debt taken on to finance HEYDUDE acquisition
- Conducting share repurchases to boost EPS, returning capital to shareholders

Industry Overview

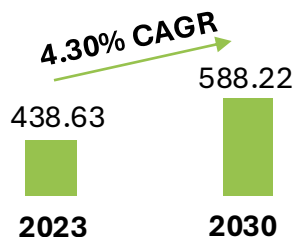
Key Market Trends, Competitive Forces, and Opportunities in the Footwear Industry



crocs[™]

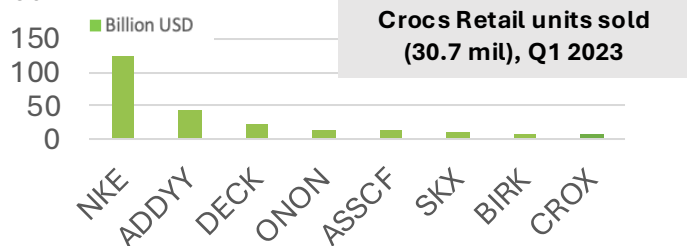
Competition & Key Players

Global Footwear Market (USB Billion)



Key competitors and market share

The footwear industry is highly competitive, relying on brand differentiation, innovation, and strategic use of design, technology, and marketing to stand out.



Porter's 5 Forces

Threat of substitution (High)
Numerous alternative comfort footwear options pose a high substitution threat for Crocs.

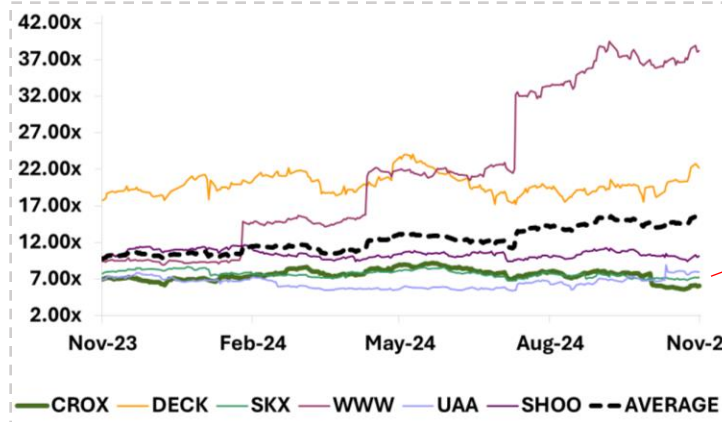
Threat of new entrants (Low)
Brand loyalty and economies of scale protect Crocs, but simple production allows potential new entrants.

Buyers' bargaining power (Moderate)
Buyers have many alternatives, but Crocs' strong brand loyalty helps maintain pricing power.

Rivalry (High)
Crocs faces strong competition in the casual footwear market, requiring differentiation.

Sellers' bargaining power (Low)
Crocs' access to a wide range of basic materials and its diversified supplier network limits supplier leverage.

Comparative Valuation (LTM TEV/ EBITDA)



- CVNA has been consistently trading at **steep valuation multiples** relative to peers, currently at a **low historically and comparatively**.
- Current LTM TEV/EBITDA for CROX of **6.04x** is less than half of industry mean of **15.30x**. There is a compelling indicator for multiple re-rating.

Headwinds & Tailwinds

Tailwinds

E-commerce Growth: Expanding online shopping is increasing market reach.

Casual Footwear Trend: Growing demand for casual, comfort-driven shoes post-pandemic.

Sustainability: Rising consumer interest in eco-friendly products benefits brands like Crocs.

Headwinds

Supply Chain Disruptions: Ongoing global supply issues affect inventory and costs.

Rising Material Costs: Increasing raw material prices pressure profit margins.

Trump's Tariffs: Potential new tariffs could increase production costs for footwear brands reliant on Chinese manufacturing.

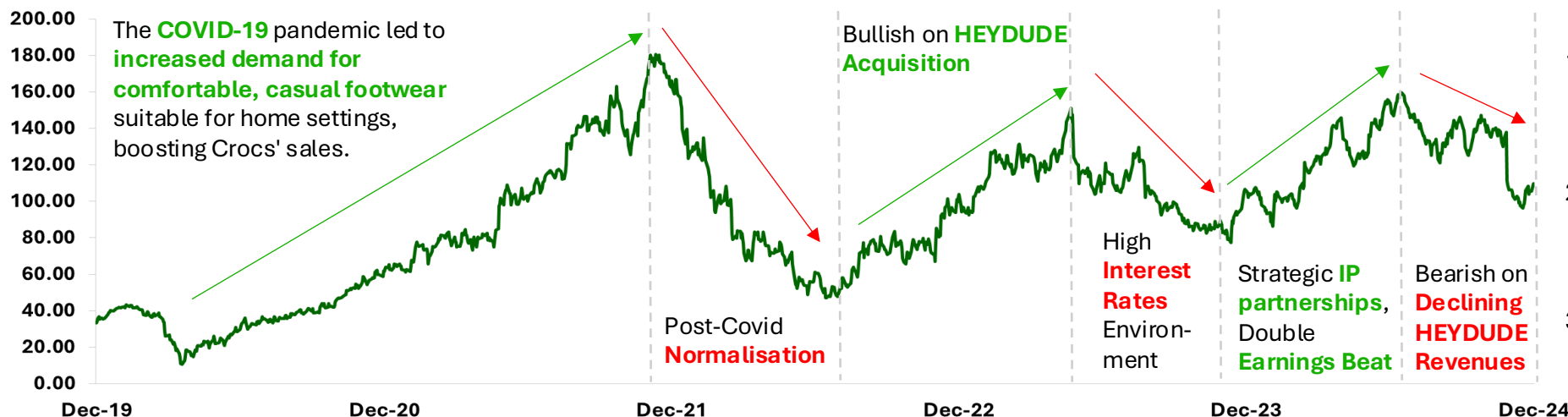
What does the market think?

Market is tripping over CROX's real potential



crocs[™]

CROX 5-Year Share Price Chart



Key Insights

1. CROX is a **highly cyclical stock**, sensitive to rate movement. A positive interest rate environment should stimulate a cyclical uptrend.
2. Bull runs align with **periods of product innovation**, effective collaborations, and marketing strategies that resonate with younger demographics.
3. CROX trades **heavily on HEYDUDE performance**, despite the segment comprising 20% of revenues. A turnaround in HEYDUDE will prompt overall re-rating of the stock.

...but the implied Revenue Growth and Margins from our Reverse DCF are unsustainable.

Reverse DCF	2023A	2024E	2025E	2026E	2027E	2028E
Implied Revenue (m)	3,962	4,109	4,260	4,418	4,581	4,750
Implied Revenue Growth	11.5%	3.7%	3.7%	3.7%	3.7%	3.7%
EBIT (m)	1,098	1,044	1,027	1,029	985	1,007
EBIT Margin	27.70%	25.40%	24.10%	23.30%	21.50%	21.20%
Free Cash Flows (m)	648	630	592	596	549	563
Free Cash Flows Margin	16.34%	15.33%	13.90%	13.50%	11.98%	11.85%

Numbers are unjustified by historical figures...

- ➡ Revenues are projected to growth at low-single digits despite international upside.
- ➡ Margins are projected to decrease because of tariffs but fears are unfounded.
- ➡ FCFs are projected to decrease despite FCF margins increasing for the past 3 years.

Thesis 1: The Asia Growth Engine

From Shanghai to Mumbai: Crocs is unlocking untapped potential in Asia



Bears are worried about the slowing revenue growth in China...

"Gains may moderate as a more cautious consumer environment in China weigh in on its international business."

Weak consumer confidence...

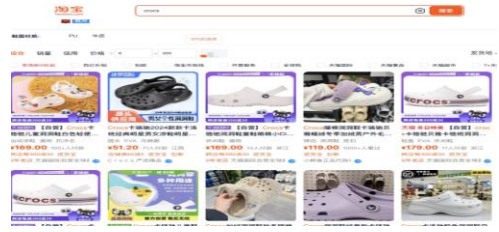
Consumer Confidence Index



- Poor spending outlook as consumers delay discretionary spending.

...and the rise of counterfeits

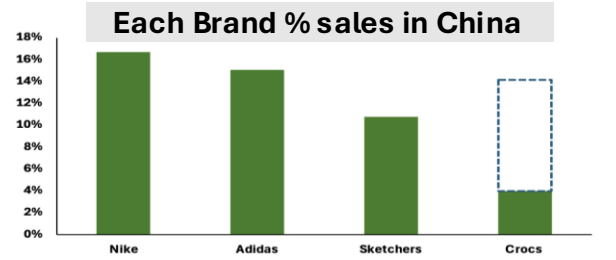
- 30% of all Crocs listings on Taobao are underpriced, with prices below 203RMB (~\$28USD), less than 50% of ASP of \$60USD for genuine Crocs.



...but China remains significantly underpenetrated.

Cyclical macro trend with significant whitespace to capture

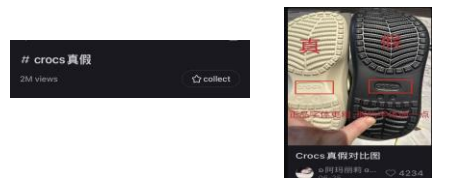
Each Brand % sales in China



- Using other similar footwear brands as benchmarks, CROX has a substantial growth opportunity in China.

Consumer sentiment: genuine > fake

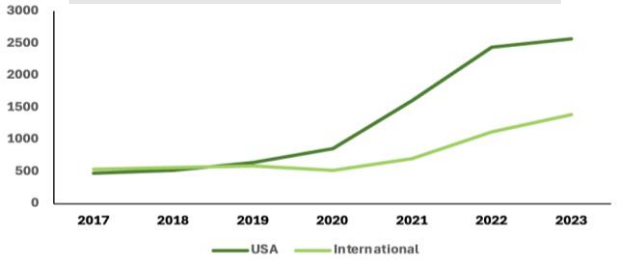
- ~2M posts highlighting differences between real and fakes under #crocs真假 (real vs fake) on Xiaohongshu.



Other countries are following China's growth trajectory...

Time-lag in US-originated trends

CROX Revenues by Geography



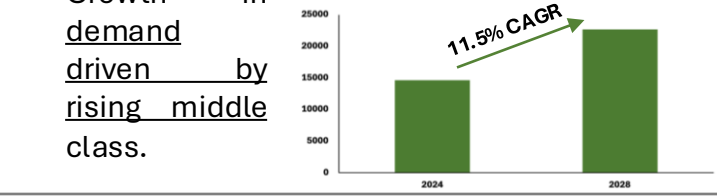
- 2024: CROX was found to be the most popular fashion brand in 23 countries.

Especially India with favourable regulation and a large footwear market

BIS CERTIFICATION

- Localisation of production in India positions CROX to bypass costly BIS compliance processes.

Growth driven by rising middle class



Expansion of retail channels, distribution and logistic facilities

- China: Opened 150 monobrand stores in 2023, with a target of 400 by end of 2024.
- India: Signed retail agreements with Metro Brands (Mar 2024) and Apparel Group (Jul 2024).
- Utilised third-party operated distribution centres in China and India, reducing lead time.

Country-specific collaborations

- India: #SplashYourStyle – Tapped into monsoon season to feature local influencers personalising Crocs. ~48M social media coverage and buzz.

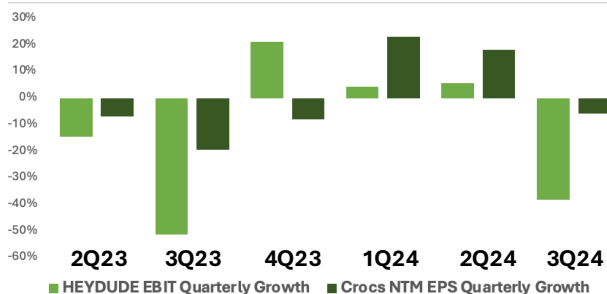
Thesis 2: HEYDUDE Turnaround Potential



crocs[™]

HEYDUDE is lacing up for a strong turnaround...

Market trades on HEYDUDE performance...



Investors are fixated on HEYDUDE

- Investors are hyper-fixated on HEYDUDE performance. The stock price fell post 3Q24, due to HEYDUDE underperformance, despite an overall earnings beat.
- A HEYDUDE turnaround may unlock a multiple re-rating of the stock.

3Q24 Review: HEYDUDE... It's a Drag
--- Title of Barclays ER Report

NTM EPS growth is correlated with HEYDUDE's EBIT growth

...despite HEYDUDE's issues being non-structural.

Grey Market Issues

- First flagged in 2Q23 earnings call, **HEYDUDE oversupplied retailers** which could not be sold due to poor consumer sentiment brought on by a high interest-rate environment.
- Retailers were forced to clear inventory by selling HEYDUDE products at a discount on Amazon. As a result, **HEYDUDE was forced to match this lowered ASP** for their DTC sales.
- This issue had been resolved by 2Q24, however had **caused declining revenues** for the 1-year period.

Ineffective Marketing

So that's ad dollars, Google Search...initial marketing activities were ineffective...weren't focused at the right consumer



Andrew Rees, CEO
- On HEYDUDE Marketing

With new management and a promising strategy...

TikTok Marketing

- HEYDUDE have successfully expanded into **TikTok stores**.
- The brand is engaging in **TikTok influencer marketing**, with high ROI.

HEYDUDE's TikTok shop is **ranked 4th** in footwear, with total revenues over **\$3.4 million to date**

Focused target audience - Younger Females

- HEYDUDE management have adopted **new marketing efforts**, with a particular emphasis on younger females.
- Collaborations (e.g. Sydney Sweeney) to **drive popularity** amongst younger female demographics.

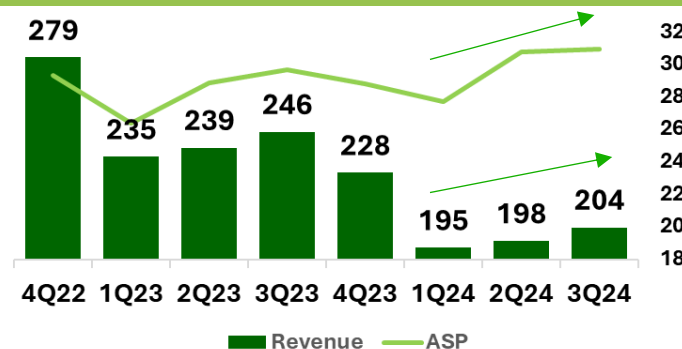


32%

Brand awareness as of Q1 2023

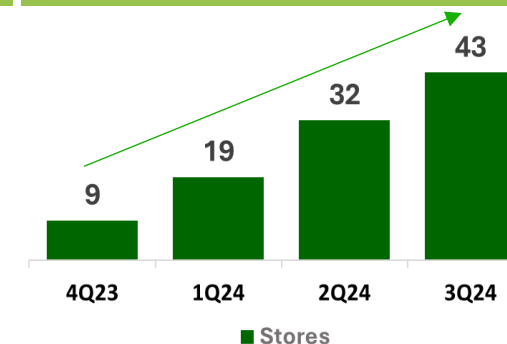
...HEYDUDE has shown first signs of turnaround potential.

HEYDUDE Revenue and ASP Uptrend



- Market fixated on 3Q23 vs 3Q24 revenue decline, rather than **quarter-on-quarter uptick**.

HEYDUDE Stores



- Demand supported by **aggressive stores growth YTD**.

Thesis 3: Trump's Tariffs are a Manageable Challenge



Tariffs can't sink Crocs—they're built to stay afloat!

Bears think tariffs are an existential issue for CROX...

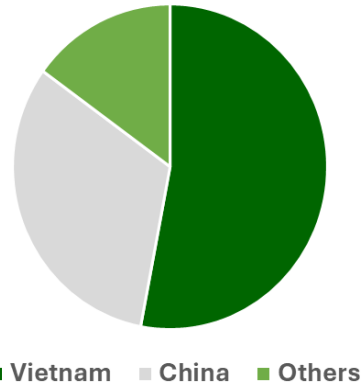
Trump has proposed 60% tariffs on goods from China, and 10-20% on all other imports.

Goldman Sachs tells investors Trump's tariffs pose a major event risk and to expect growth to slow.

Forbes identifies Crocs among the retailers likely to be most impacted by Trump's proposed tariffs while **CNB** calls them "the big Trump losers".

Trump's proposed tariffs could add between \$6.4 billion and \$10.7 billion in costs to the U.S. footwear industry, leading to price increases of 18% to 29%.

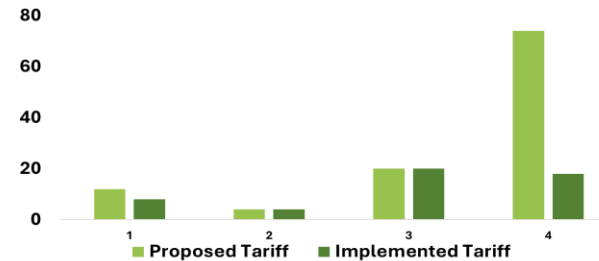
Manufacturing by Geography %



...but tariff fears are overstated.

Comparison of Proposed vs Implemented Tariff 2019

2019 shows that Trump overpromises on Tariffs. 60% tariffs would violate WTO laws and cripple the global economy.



China Wants to Avoid a Trade War

Recently, China has indicated that it wants to **avoid escalating trade conflicts** with the U.S. According to Liu Pengyu, spokesperson for the Chinese Embassy, both nations should focus on cooperation, and a trade war would not benefit either side. This means the **tit-for-tat tariff retaliation of 2019 is unlikely.**

CROX's nimble supply chain will soften the blow...

Active Risk Mitigation

Reduced Dependence on China: Crocs has significantly diversified away from China, starting in 2019.

Ability to Cover U.S. Sales: The production in Vietnam is enough to completely meet U.S. demand, ensuring that even if tariffs are imposed on Chinese imports, Crocs' core business in the U.S. remains largely unaffected.

Nimble Supply Chain Management:

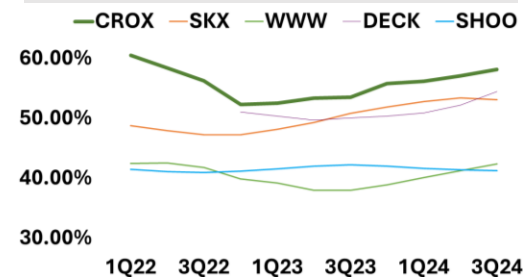
Agile Production Shifts: Crocs has demonstrated strong flexibility by swiftly shifting production during disruptions, such as during the pandemic when Vietnam factories closed.

Simple Manufacturing Process: Crocs' production involves just three components moulded together, making it easy to relocate manufacturing lines and adapt to changes with minimal disruption.

...and CROX is tough enough to take a hit.

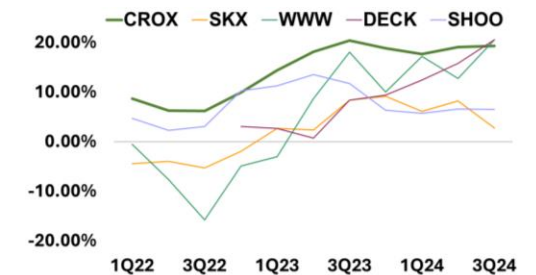
Top-Tier Margins: Crocs boasts industry-leading profit margins, allowing it to absorb cost increases.

Rolling 12 Month Gross Margin



Pricing Power: Historical best-in-class FCF margins give capital buffer.

Rolling 12 Month FCF Margin



Valuation

Step into Value: Why Crocs is Still Waiting to Be 'Cashed' In



crocs[™]

DCF and Sensitivity Analysis show significant upside

	Price	%	Return	WACC	Perpetuity Growth Rate				
						2.00%	2.50%	3.00%	3.50%
Bear	\$152	30%	\$170.4	8.48%	163	174	187	203	222
				8.88%	148	157	168	180	195
Base	\$170	50%		9.48%	136	143	152	162	174
				9.88%	125	131	138	146	156
Bull	\$199	20%		10.48%	115	120	126	133	141

Football Field



Summary of Assumptions

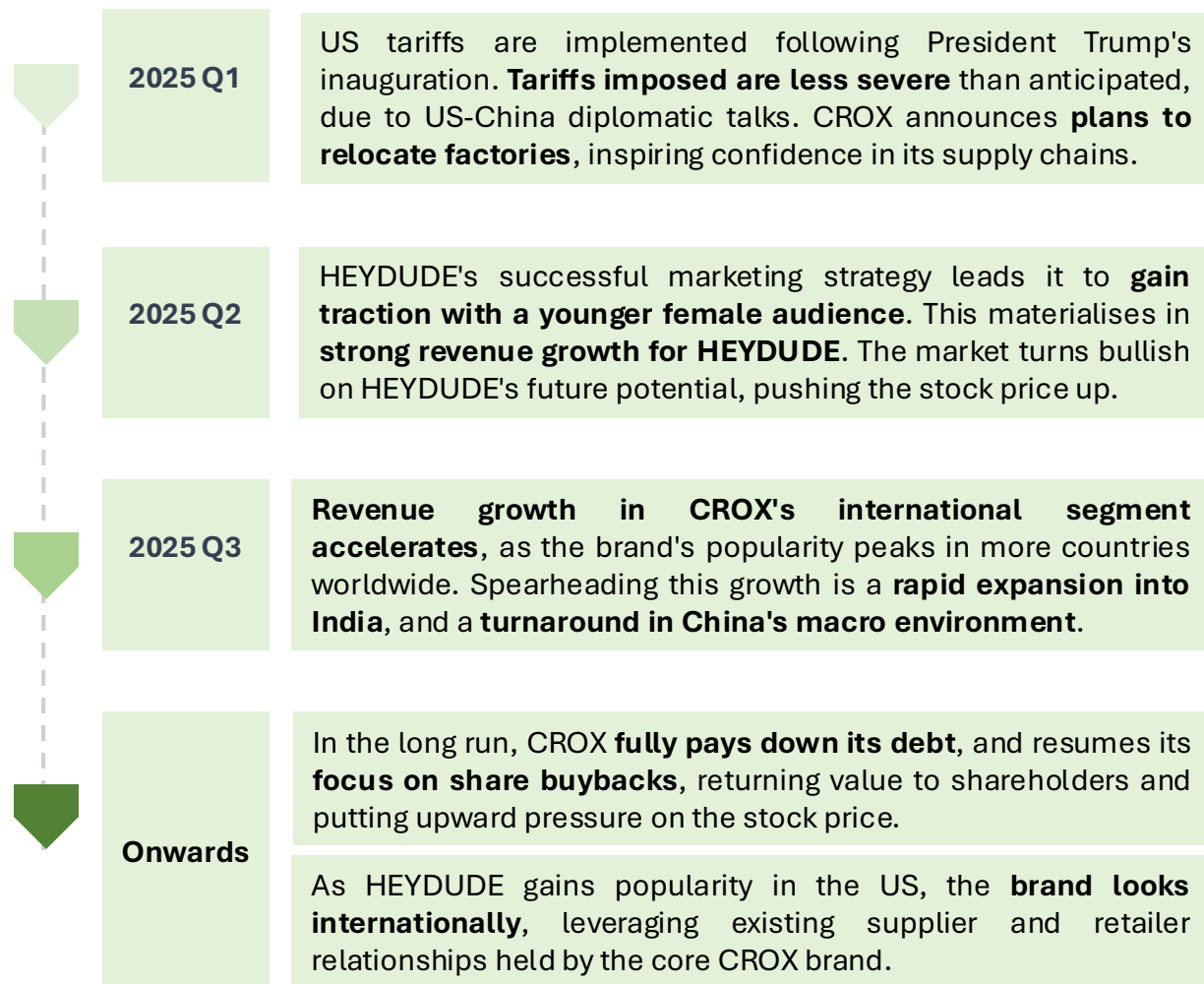
Case	Bear	Base	Bull	Commentary
Crocs International Revenue Growth (CAGR)	2.60%	4.99%	7.96%	<p>Bear: Revenue growth slowed by lower demand internationally</p> <p>Base: Revenue grows in line with past 2 quarters</p> <p>Bull: Captures larger share international market, especially in Asia</p>
HeyDude Revenue Growth	1.18%	1.79%	2.40%	<p>Bear: Revenue recovers slowly</p> <p>Base: Revenue grows strongly, driven by turnaround efforts</p> <p>Bull: Marketing and new management translates to strong revenue growth</p>
Gross profit margin	57.4%	58.4%	60.2%	<p>Bear: Increase in COGS because of Trump tariffs and inability to shift supply chain to keep costs low</p> <p>Base: Gross profit margin improves slightly due to better cost management</p> <p>Bull: Profit margin improves further due to strong marketing and brand advantages</p>

Event Path & Risks

If You Ain't Crocin' You Ain't Rockin'



Event Path and Catalysts

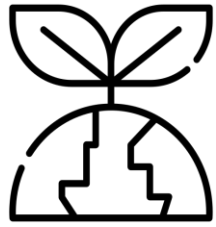


Risks and Mitigants

Risks	Mitigants
<ul style="list-style-type: none"> HEYDUDE's marketing strategy turns out to be less successful than anticipated. 	<ul style="list-style-type: none"> With a new, competent management team bringing a targeted marketing strategy leveraging celebrities and TikTok, at a target audience of a younger female consumer base, we believe the probability of success is high.
<ul style="list-style-type: none"> Revenue growth internationally slows down. China faces a persistently depressed consumer environment. 	<ul style="list-style-type: none"> Even if the marketing strategy is not as effective as anticipated, we believe there is an upside based purely on the HEYDUDE's recovery to pre-Grey Market revenue levels. As CROX has penetrated many countries worldwide, the risk of growth slowing in any one country is diversified. Additionally, CROX's proprietary material and unique product means it is not easily substitutable and will maintain popularity.
<ul style="list-style-type: none"> Trump follows through on high tariffs. 	<ul style="list-style-type: none"> High tariffs of up to 60% on Chinese goods are highly unlikely. As seen in 2016, promised tariffs of 45% ended up tapering down to 7.5% - 25% when implemented. Promised tariffs are a bargaining chip to push a hard stance, but Trump cannot follow through on them due to the economic repercussions and violation of World Trade Organisation (WTO) rules.

Environmental, Social, Governance

Stepping Lightly: CROX and the Footprint of Sustainability



3.9/5

Environmental Risk

- **Emissions Performance:** 2023 absolute emissions has been reduced by 16% compared to 2022
- **3 main types of reduction interventions:** a) demand reductions, b) efficiency improvements, c) shifts to less emissions intensive activities
- **Materials used in product design:** Bio-circular materials constitute 17% of all raw materials, but extensive use of plastic with limited end of life solution



3.9/5

Social Risk

- **Factory & Supplier Codes of Conduct and Global Human Rights policy:** Achieved 98% compliance among its global suppliers, no controversy has been found in relation to child labour, forced labour, occupational health and safety issues
- **Employee welfare support:** Generous healthcare benefits, parental leave policies and other community support
- **US-China trade war:** Future tariff retaliation, which has historically led to an approximate loss of \$5m in 2019. But Crocs has been diversifying to Vietnam (53% revenue) and Indonesia (10%)



4.6/5

Governance Risk

- **CSR Steering Committee:** Oversee sustainability-related policy of the group and assist the board on the identification and management of CSR topics
- **Diversified expertise in the Board:** Consumer retail, private equity, and digital technology, with an independent Chair and CEO with proper level of supervision
- **Crocs' Worldwide Codes of Conduct:** Contains policies in anti-bribery, fair competition and ethical business standards, with no significant controversy found

Disclaimer

Analyst and General Disclaimers



Analyst Disclaimer:

This communication is prepared by students at the LSE and UCL for the sole and educational purpose of Blackelm Equity. Blackelm Equity is not authorised, supervised, nor regulated by any financial authority in the world to provide financial services or advisory.

General Disclaimer:

This communication may contain an investment recommendation, however, Blackelm Equity and all members disclaim all liability for providing this investment recommendation and accept no liability whatsoever for any direct, indirect or consequential loss arising from its use. Not all investment strategies are appropriate at all times, and past performance is not necessarily a guide to future performance. You should consider yourself warned that following the investment recommendations of untrained University students is unlikely to be a profitable investment strategy. Any opinions or estimates expressed herein reflect the judgment of the author(s) as of the date the investment recommendation was prepared and are subject to change at any time without notice. Unless otherwise stated, the information or opinions presented, or the research or analysis upon which they are based, are valid at the point of publication, as they are not updated in real time to take account of changes in the financial markets or new news about the issuer or financial instruments. The author(s) may provide hyperlinks to websites of entities mentioned in this investment recommendation; however the inclusion of a link does not imply that Blackelm Equity endorses, recommends or approves any material on the linked page or accessible from it.