

CUSP managers add Crocs Inc. in March 2023  
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Crocs is the second largest casual footwear retailer in the world. A recent acquisition of HEYDUDE shoes further solidifies Crocs' market share and expands its product offerings. Crocs is projected to leverage its significant international presence and its logistics network to increase HEYDUDE's revenues by 20%, with an operating margin around 25%. Moving forward, the firm is expected to maintain and expand industry-leading operating and net profit margins, generating favorable returns for the CUSP. The CUSP managers voted to add the stock to the portfolio in March 2023.

Crocs has experienced a meteoric rise since 2020, and management has continued to stoke the fire by adding casual footwear brand, HEYDUDE, to its product offerings. Since the purchase of HEYDUDE finalized in early 2022, the brand has outperformed expectations. At acquisition, the Crocs management team believed that revenues for HEYDUDE would total \$700-750 million in 2022. Actual revenues exceeded \$890 million. HEYDUDE is projected to generate consistent revenue growth in the mid-20 percent range moving forward. The CUSP managers believe that Crocs will be able to smoothly transition the HEYDUDE brand into its existing logistical network and digital marketing presence. Expanding HEYDUDE's brand recognition and introducing the brand to international markets will continue to drive industry-leading profitability, generating exceptional share price appreciation.

While the HEYDUDE acquisition fortifies Crocs' market share, the brand has generated impressive organic growth. Crocs boasts a remarkable brand recognition of 92%. Furthermore, the firm operates in an omni-channel environment with a strengthening digital and international presence. International revenues have grown 91% since 2020, while digital sales have increased its portion of total revenues from 36.7% in 2021 to 37.8% in 2022. Crocs total revenues for 2022 increased 15%, while generating a net margin of 15%. In addition to strong operating and net profit margins, Crocs also generates consistent free cash flow growth. The CUSP managers believe the consistent growth of free cash flow provides the firm with ample opportunity to continue to acquire cohesive brands, which would further cement Crocs' market share. In addition to potential acquisitions, the strong free cash flow generation creates an opportunity to return wealth to shareholders in the form of dividends and share repurchases.

Our analysis suggests Crocs was reasonably valued at the time of purchase with meaningful upside potential. The firm was also trading at a favorable discount on a relative basis. Taken together, we believe Crocs will generate favorable share price appreciation while concurrently returning value to shareholders via share repurchases and dividends. Given Crocs' remarkable organic growth, its strategic acquisition of HEYDUDE and its strong free cash flow generation, the CUSP managers believe this addition will help bolster the Consumer Discretionary sector of the portfolio.