WESTPEAK RESEARCH ASSOCIATION

Crocs, Inc. (NASDAQ:CROX)

Consumer Discretionary - Footwear

Cooking up the Croc Pot?

May 3rd, 2018

Crocs, Inc. is engaged in designing, developing, manufacturing, marketing, distributing, and the selling of its casual lifestyle footwear and accessories.

Management team has been adjusting aspects of the company

Crocs has been implementing many changes to the company including recent adjustments to management, marketing, management of their retail store portfolio and a move to e-commerce. However, the company is still facing challenges in comparison to its competitor's with unattractively priced products, a wide-ranging product line and a lacking brand reputation.

Improved marketing and management

The company has been moving away from their traditional brick-and-mortar stores and developing their e-commerce channel. By announcing the closure of over 160 retail stores, the company's SG&A expenses are expected to decrease in the long term, while operating margins will also improve. They have also recognized that consumer spending preferences have shifted toward e-commerce and taken appropriate measures to capitalize on this trend. Furthermore, Crocs, Inc. is improving its brand reputation through its increased marketing as its footwear has suffered declining popularity from consumers for several years.

Valuation

We arrived at a valuation of Crocs, Inc. by using a Comparable Company Analysis and a Discounted Cash Flow Analysis. The target share price of $17.00 is weighted 50% on our 5-year DCF assuming a 10.4% WACC and 50% on our EV/EBITDA multiple of 12x derived from the Comparable Company Analysis. Given this valuation, we have assigned this company a **HOLD** rating as we believe that although the company is currently implementing new strategies, it will take time to realize large growth.

Analyst: Parm Sidhu, BCom. '21
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Equity Research	Canada
Price Target	**CAD$17.00**
Rating	**Hold**
Share Price (May 3 Close)	CAD$15.99
Total Return	6.3%

Key Statistics	
52 Week H/L	$17.44/$5.93
Market Capitalization	$1.06B
Average Daily Trading Volume	1.37M
Net Debt	$177.1M
Enterprise Value	$984.2M
Net Debt/EBITDA	4.1x
Diluted Shares Outstanding	72.3M
Free Float	4.8%
Dividend Yield	N/A

WestPeak's Forecast

	2018E	2019E	2020E
Revenue	$1.01B	$1.02B	$1.03M
EBITDA	$72.9M	$62.8M	$77.6M
Net Income	$42.2M	$49.3M	$55.2M
EPS	$0.58	$0.68	$0.76
P/E	25.9x	22.1x	19.7x
EV/EBITDA	13.5x	12.8x	12.7x

1-Year Price Performance

Business Overview/Fundamentals

Company Overview

Crocs, Inc. has three reportable operating segments: The Americas, Asia Pacific and Europe. Its main activities include the designing, development, manufacturing, marketing, distribution and selling of its products. The company was founded in 2002 in Colorado, USA. and became recognized for their "Classic Clogs" shoe – selling over 300 million pairs as of December 31st, 2017, according to the company's website. Its products use a patented material, "Croslite", which allows its footwear to remain non-marking and odor-resistant. It has over 5,000 employees worldwide and its products are sold in over 90 countries through its retail and outlet stores, e-commerce websites, and kiosks.

source: Crocs.com

Products

Crocs, Inc. has greatly expanded its product line since the introduction of its classic single-style clog in 2002. The brand is most recognized for its Classic and Clogbrand clogs, responsible for ~50% of their revenues and remains the most popular product for adults and kids. However, since 2002 it has broadened its product line to include sandals, flips, slides, heels, shoes and boots. These new products have still not proven to be nearly as successful as their Classic style. Products pricing varies but an adult's classic crog currently retails for C$48 and a child's retails for C$35. This is priced much higher compared to similar footwear products which can be quite concerning, especially considering the relatively low brand popularity that Crocs bears. The differentiating feature of Crocs footwear is their proprietary closed-cell resin Croslite material. Furthermore, the company also holds multiple licensing partnerships with several large firms including Disney, Marvel, Nickelodeon, Warner Bros, etc.

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Revenue Segmentation

Sales Channels

Wholesale

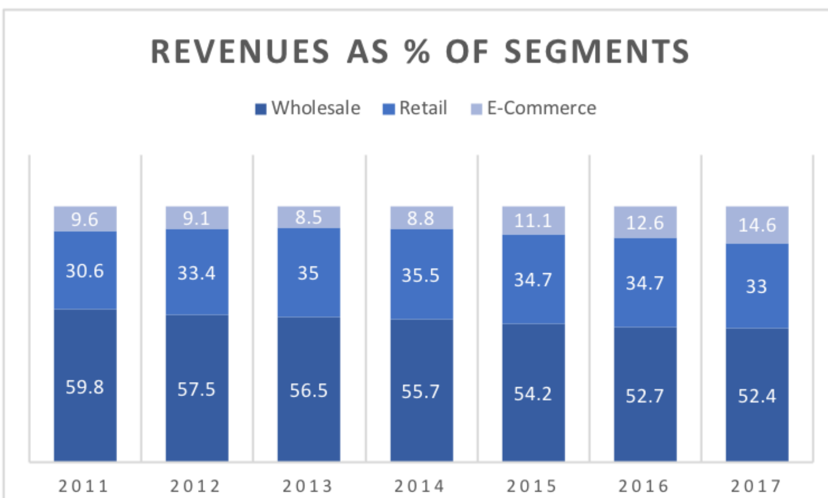
The wholesale channel includes third-party retailers as well as distributors. Wholesale customers consist of family footwear retailers, national and regional retail chains, sporting good stores, independent footwear retailers and e-tailers.

Retail

Crocs, Inc. recognizes the worldwide consumer shift in shopping patterns out of traditional retail stores into e-commerce. In that respect, the company is managing and reducing their physical retail portfolio. In FY17, the company closed 111 stores which was ~20% of their portfolio. They plan to reduce a further 30 retail stores in 2018 – a majority of which are underperforming or closed as their leases expire, according to the company filings. Their intent is currently to moderate their expansion pace and enhance the profitability of its existing locations. The retail channel is operated through three platforms: full price retail locations, outlet locations, and kiosk and in-store locations.

E-Commerce

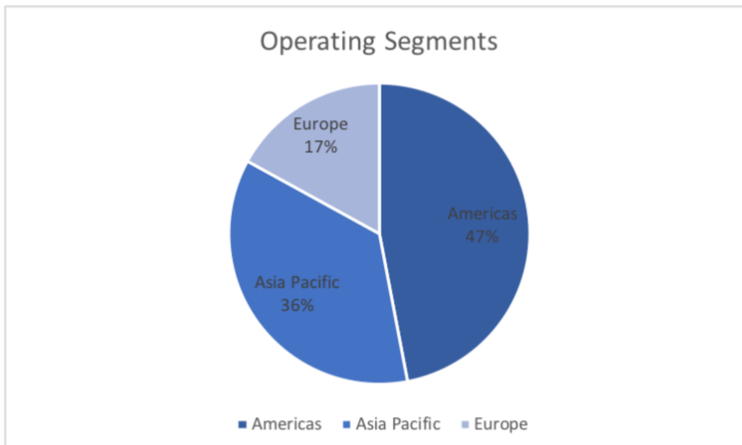
Improving their e-commerce capabilities is one of the company's key growth strategies. At the end of 2017, approximately 14.6% of the company's revenues came from their e-commerce channel – an improvement from 8.8% at the end of 2014. Compared to FY16, e-commerce revenues increased by $18.5 million, or ~14%. The company has not stated their target but this strategy makes sense as one of the company's key initiatives is to focus on growth in the Asian markets.



Source: Company Report

Geography

Crocs, Inc. has three reportable operating segments: The Americas, Asia Pacific, and Europe. The Americas is responsible for the most revenue amongst all segments and operates 174 retail stores within the region after store closures in FY17 . There are 186 company-operated retail stores in Asia Pacific and 86 in Europe. Since 2015, revenues attributable to each operating segment have experienced a growth of +3.2% in the Americas and a decline of -2.9% in Asia Pacific. This is a relatively significant growth considering the stablility of the industry it is in. The company plans to grow it's Asia Pacific channel which will positively impact this figure in the near future. We believe that this is a sensible decision as the company can capitalize upon growth within the region and experience an increase in revenues.



Source: Company Report

Future Outlook

Looking to the future, the company aims to drive growth through a number of initiatives. Their main objectives, however, are to increase brand awareness and their e-commerce channel. The company plans to improve brand relevance through their "Come as You Are" marketing campaign where they have brought on celebrity spokespeople such as John Cena, Drew Barrymore, and South Korean singers, Yoona and Henry Lau. By using these international stars as ambassadors for the brand, it can potentially increase international exposure to the Asia markets. They also aim to improve the brand relevance by placing a greater focus on e-commerce which they hope will assist in adjusting to changing consumer trends. As Crocs continues to close underperforming and unprofitable stores and significantly reduce their overall SG&A expenses, they are relocating that capital to marketing. Marketing tactics such as bringing on celebrity spokespeople to increase the brand reputation may not have the amount of success that the company expected. It is hard to pinpoint the demographic that Crocs is attempting to capture using John Cena, Drew Barrymore, Henry Lau and Yoona as it varies heavily between children, adults, and the millenial audience in Asian countries. This can lead to a confusing marketing campaign and have little effect upon increasing the brand reputation amongst consumers. Also, although the company has touted the "Come as You Are" campaign to be a key intiative in their future outlook, it has not been developed extensively enough. The campaign emerged in late March – early April of 2017 and has seen little improvement upon or recognition in the media since then. Despite attempts to increase marketing and brand relevance, the company has not achieved a large amount of success thus far.

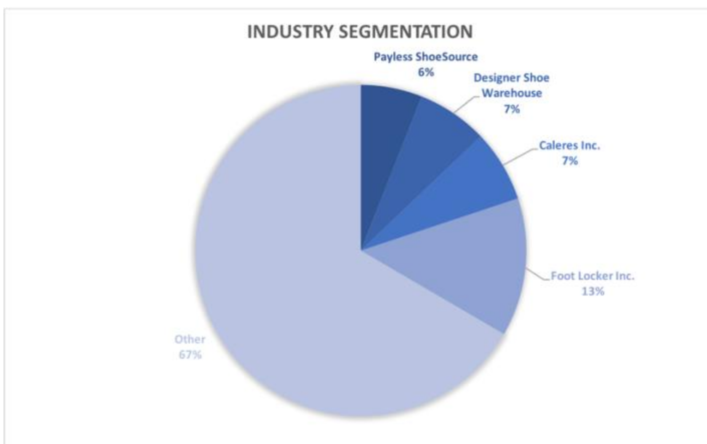
Although the new strategies that management has planned for the company appear sensible on first glance, it seems that little has been done to implement these initiatives and if it has, the execution has been ineffective.

Industry Analysis

The footwear industry is known to be very competitive with low barriers to entry. Within the industry, the casual, athletic and fashion footwear markets are the most competitive in nature. In order to compete with one another, companies rely on brand awareness, design, comfort, pricing, quality and product functionality. Furthermore, it appears the market is fragmented with a few large companies and many smaller ones.

Competition

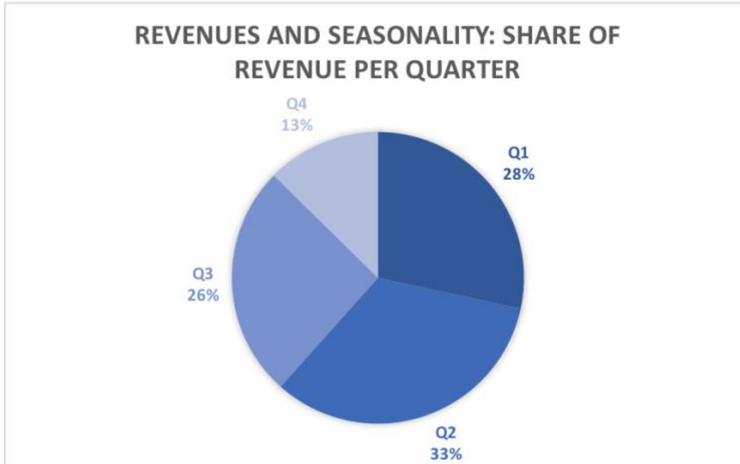
The footwear industry is highly competitive. As growth in the market for casual footwear has increased, it has encouraged the entrance of many new competitors into the marketplace. With mid-level barriers to entry and many companies in the space, Crocs faces many larger competitors with access to greater financial resources at their disposal, long operating histories, substantial amounts of money to spend on marketing, and high brand reputations. With a highly segmented industry and many competitors, it appears difficult for Crocs to capture a large market share without significant investment into marketing, R&D, and their growth strategies.



Source: IBIS World

Seasonality

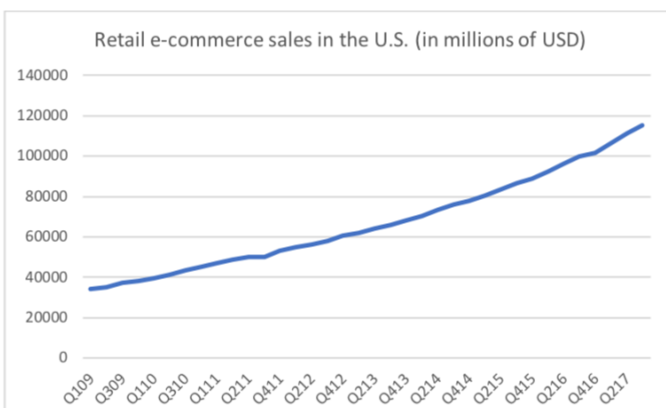
In the consumer discretionary industry, a substantial portion of revenues are generally attributable to Q4 sales due to the holiday season and greater consumer spending trends. In the case of Crocs, Inc., only 13% of revenues came from Q417, whereas 33% of revenues were from Q217. This is atypical for the industry but it has consistently been the case for the company. This variation from the industry norm is due to Crocs' products and styles being geared towards warmer weather, as stated by the company filings. To capitalize on this, the company has been reducing many of their less popular, winter styled shoes and re-focusing on their core products.



Source: Company Filings

A Shift towards E-Commerce

Consumer spending preferences are shifting drastically as more people are deciding to make purchases online rather than at brick-and-mortar stores. This has resulted in declining foot traffic in many retail stores and in turn, the closure of many brick-and-mortar locations. The largest consumer e-commerce category is clothing, which includes footwear. Asia Pacific contributes to ~36% of Crocs' revenues, with China accounting for approximately one-third of all e-commerce sales globally. In the third quarter of 2017 alone, U.S. retail e-commerce sales were over $115 billion and accounted for 10% of total retail revenues and 5% of annual e-commerce revenue in the country. In comparison, e-commerce spending accounted for only $37 billion at the same quarter in 2009 (Statista). With a 210% CAGR between 2009 - 2017, it is clear that e-commerce is growing at a rapid pace.



Source: Statista.com

Catalysts

Expanding the Asia Pacific Segment

The Asia Pacific segment made up ~36% of revenues for the company in FY17 which is substantial in terms of driving growth for the company in the long term. In FY17, revenues decreased -6.4% y/y in this segment. This decrease was due in part to the sale of their Taiwan business in the fourth quarter of 2016 and the closure of 58 stores within the region. These were temporary losses in revenues and in that same time, the company's e-commerce revenues increased by 17.8%. They have increased 20% from FY16 to FY17 and the company aims to continue growing e-commerce in the future as well as focusing time and investment on driving growth in Asia. Given time, the expected growth in e-commerce and expansion within the segment will produce a significant increase in revenues for the company in the future.

Change in Strategy

Crocs aims to implement many changes to its business including reducing their line of products and investment in their marketing to increase brand awareness – something of importance to a company in the footwear industry. With Crocs' current broad range of products, management plans to reduce non-core products and streamline their portfolio of footwear rather than continuing to discount their products as they've done in the past. This idea is well founded and sensible as the Classic Clogs style is responsible for the largest portion of sales; there are also many products such as their heels, boots, and loafers that do not fit well with the company's brand and its main product offering. Additionally, current revenue contribution is minimal. Combined with an improvement in the company's marketing, the strategy could increase the brand's reputation amongst consumers. With this in mind, we believe that this change in the company's strategy could be beneficial for Crocs in the long term.

Management Team

Andrew Rees – President, CEO and Director

Andrew Rees joined Crocs as President in June 2014 and became CEO in June 2017. He has over 25 years of experience in the footwear and retail industry. Prior to joining Crocs, he served as Managing Director of L.E.K. Consulting for 13 years, the Vice President of Strategic Planning and Retail Operations for Reebok International, and held numerous positions at Laura Ashley. Rees currently owns ~1.6% of shares outstanding and his compensation structure was based 62.5% on stock awards as of 2016 which can be advantageous as it further reinforces the link between his financial interests and those of the shareholders'.

Carrie Teffner – Executive Vice President and Chief Financial Officer

Carrie Teffner has over 27 years of financial and operational experience in the footwear, consumer goods and retail industries. She joined the company in December 2015 after serving on the Crocs Board of Directors for six months. However, prior to that she spent much of her career at Sara Lee Corporation and then went on to serve as the CFO for Weber-Stephen Products and Executive Vice President and CFO for PetSmart. Futhermore, Teffner has experience with turning companies around. She was the CFO of Timberland from 2009-2011 which was then acquired by VF Corporation in June of 2011 at $43 per share at a total value of approxiametely $2 billion. As of 2016, 53.6% of Teffner's compensation structure was based on stock awards and she owns ~1.44% of shares outstanding.

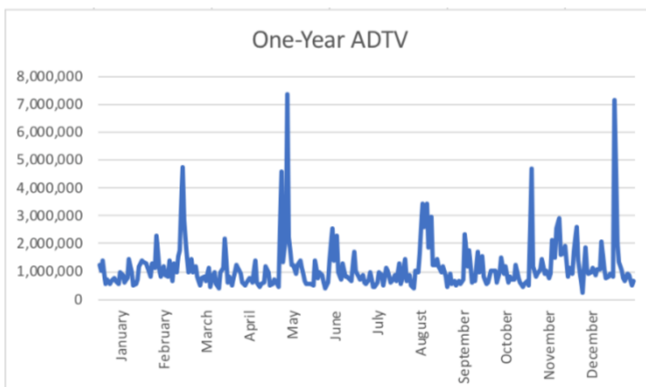
Summary

After reviewing the Crocs management team's incentives, performance, and experience on an individual level, we believe that the team is qualified and diverse in terms of the knowledge and experience that they each bring to the company. With the CEO, Andrew Rees' success thus far, new strategies, and other changes that are being implemented to Crocs', it is our belief that the company's management team is competent, well-structured and diversified well.

Shareholder Base and Liquidity

Liquidity

In terms of liquidity, CROX's average daily trading volume was 1.37MM, indicating solid liquidity. The spikes in daily volume throughout the year can be attributed towards the quarterly earnings reports from the company.



Source: Nasdaq.com

Shareholder Summary

There are currently 72.3MM shares outstanding and institutional ownership makes up 94.5% (remainder is held by insiders). The largest shareholders are BlackRock, Inc. (13.3% of total shares outstanding), AllianceBernstein (10.5%) and Vanguard (9.4%).

Shareholders	Shares Owned	% Outstanding Shares	Filing Date
(Name)	*(mm shares)*	*(%)*	*(Date)*
BlackRock	9.2	13.29	30-Sep-17
Alliance Bernstein	7.3	10.50	30-Sep-17
Vanguard Group	6.5	9.36	30-Sep-17
Dimensional Fund Advisors LP	3.9	5.70	30-Sep-17
Rennaissance Technologies LLC	2.9	4.22	30-Sep-17
Two Sigma	2.1	3.13	30-Sep-17
T Rowe Price Group	2.1	3.04	30-Sep-17
Citadel Advisors	1.8	2.70	30-Sep-17

Source: Bloomberg

Valuation

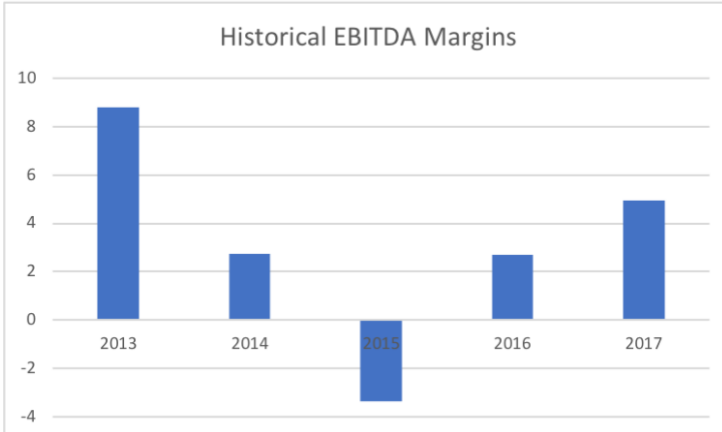
Discounted Cash Flow Assumptions

Revenue Assumptions

Due to the closing of many underperforming stores paired and a shift towards e-commerce, we expect revenue to decrease in the coming time ahead. Despite this anticipated decrease in FY18, we believe revenues will return in the year following. The average revenue per company-operated store was calculated to be approximately $756K in FY17 and $644K in FY16. This is an increase of 17.4% due to this change in company strategy. The company plans to continue closing other underperforming stores in 2018 while still focusing on driving growth in their e-commerce s egment which experienced an increase of 14% from FY16. Driving e-commerce sales and further increasing wholesale growth will continue to be emphasized in the future. Reviewing management guidance, the company is also moving away from their previous strategy of discounting products to focus more on increasing their core products. The company has already removed nearly 400 items from its seasonal collections that were purchased less.

Margin Assumptions

Thus far, it appears that the company's strategies to cut costs and increase efficiencies will prove effective in significantly expanding margins. Much like the revenue assumptions, we expect overall SG&A to continue decreasing in the near future as there are further reductions planned in their retail store portfolio. EBIDTA margins have been increasing in the last two years and are expected to continue improving. With plans to close an additional 50 retail stores through 2018, Crocs management has predicted reductions in SG&A to generate an additional ~$10 million improvement in EBIT by 2019, which will fully realize their anticipated savings. By closing these underperforming stores, the company is improving their operating margins as both occupancy and personnel expenses are being reduced. Also, as the company has been removing many items from its product line, the gross margins have improved from a five-year low.



Source: Company Filings

Weighted Average Cost of Capital (WACC)

We calculated a weighted average cost of capital (WACC) of 10.4%. We used a cost of equity at 10.5% and a levered beta value of 1.06 which were taken from Bloomberg. In determining the cost of debt, we used Prof. Aswath Damodaran's datasets and found it to be 3.91%. The risk-free rate used was 2.9% with a market risk premium of 7.1% - both of which were taken from Bloomberg. We calculated a terminal value using a perpertual growth rate of 2% which we determined to be a reliable value. By using the DCF, we arrived at a share price for Crocs of approximately $16.00.

Comparable Company Analysis

For our comparable analysis, we chose well-established companies that were relatively close to the market size of Crocs and had similar product offerings.

Deckers Outdoor Corp.

Deckers is engaged in designing, marketing and distributing footwear, apparel and accessories for both everyday casual lifestyle use and high performance activities. The Company's segments include operations of its brands, such as UGG, Teva, Sanuk and other brands

Skechers USA, Inc.

Skechers USA, Inc. is a designer and marketer of Skechers-branded lifestyle footwear for men, women and children, and performance footwear for men and women. The company's lifestyle brands include Skechers USA, Skechers Sport, Skechers Active and Skechers Sport Active, Skechers Originals, BOBS from Skechers and Mark Nason. Its Performance Brands include Skechers Performance, Skechers Kids and Skechers Work.

VF Corporation

VF Corp. sells branded lifestyle apparel, footwear and related products. The company's segments include Outdoor & Action Sports, Jeanswear, Imagewear and Sportswear. It owns a portfolio of brands in the outerwear, footwear, denim, backpack, luggage, accessory, sportswear, occupational and performance apparel categories such as Timberland, The North Face, and JanSport.

Caleres, Inc.

Caleres, Inc. is a global footwear retailer and wholesaler. The Company operates through two segments: Famous Footwear and Brand Portfolio. It offers brands such as Dr. Scholl's, Naturalizer, and LifeStride.

Rocky Brands, Inc.

Rocky Brands, Inc. sells its footwear and apparel marketed under a portfolio of brand names, including Rocky, Georgia Boot, Durango, Lehigh and the licensed brand Michelin. The Company operates its business through three segments: wholesale, retail and military.

Comparable Company Analysis Summary

Ultimately, the comparable companies' analysis yielded a target share price of approximately $20.00 and we applied a 50% weighting of this method of analysis to our final valuation.

Recommendation

Crocs, Inc. has turned their company around through the implementation of various changes. They have a fairly new management team and new marketing strategies to aid in improving the company's level of brand awareness. The company is also continuing to close many of their underperforming stores which will expand their margins. Despite the closures of numerous underperforming retail stores, revenues are still on track to be relatively flat with FY17. We also anticipate steady growth due to the improvements in their e-commerce division and development of their Asia Pacific segment. Despite these adjustments, many of the companies identified in the comps analysis possess a stronger brand reputation and offer far more competitevly priced products than Crocs does, along with more universal styles. To improve brand awareness, the company implemented new marketing strategies but those have not resulted in large success as of yet because of little development to the proposed campaigns. Therefore, we believe there is room for further growth and long-term development. The company is on track to regain foothold in the industry in the future. However, at the moment, it is overvalued as current attempts to rebrand the company have not been successful. Furthermore, many of the initiatives the company announced have not been fully developed and their effectiveness remains to be seen. Management will need to show improvement in their revenues before the stock can be considered. If the stock's price falls below $12, we will need to reconsider CROX. Based on an equal weighting of our discounted cash flow and comparable company analysis, we determined a current target share price of $17.00 for Crocs. This places this company very closely to what price the market has arrived at as well. For these reasons, we recommend a **HOLD** rating on Crocs.

Risks

Foreign Currency Risk

Changes in foreign currency relative to the USD could have an impact on the company's reported financial results as a majority of its overseas third-party manufacturers in China and Vietnam are paid with local currency. Also, their ability to sell products in foreign markets and the USD value of the sales made in foreign currencies can be significantly influenced by changes in exchange rates. This is especially relevant to Crocs as the company is continuing to invest in expansion to the United States, Germany, China, South Korea, Japan and the U.K. By investing in these countries, it leaves the company open to exchange rate volatility which could result in lower revenues and other losses. It could also affect the third-party manufacturers that produce the company's products by making their purchases of raw materials more expensive and difficult to finance, as Crocs generally pays their overseas third-party manufacturers in USD.

Consumer Behaviour

Crocs, Inc.'s products are very polarizing as consumer opinions surrounding the particular styles offered by the company differ greatly. If consumer demand declines, the company may not be able to profitably establish or continue operating existing stores due to higher fixed costs of the retail business. Furthermore, slower consumer spending may result in an inability to sustain or increase sales to new or existing customers, cause reduced product orders, order cancellations from wholesalers, higher discounts, and lower product margins.

Seasonality

Unlike other footwear companies and competitors, many of Crocs footwear styles are more suitable for warm weather. Therefore, revenues generated during the fourth quarter are generally less than revenues generated during the second and third quarters, when the Americas segment experiences warmer weather. However, to reduce the seasonality of their revenues, Crocs plans to continue expanding their product line to include more winter oriented styles.

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Appendices

Exhibit 1: Pro Forma Income Statement

	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
	FY2013	**FY2014**	**FY2015**	**FY2016**	**FY2017**	**Q1-2018**	**Q2-2018**	**Q3-2018**	**Q4-2018**	**FY2018**	**FY2019**	**FY2020**	**FY2021**	**FY2022**
Income Statement														
Revenue	1192.68	1198.223	1090.63	1036.273	1023.513	**265.4**	**310.9**	**240.7**	**197.2**	**1,014.3**	**1,024.5**	**1,035.3**	**1,046.8**	**1,058.8**
COGS	528.0	566.5	543.8	502.1	473.2	119.4	139.9	108.3	88.8	**456.4**	461.0	465.9	471.0	476.5
Restructuring Charges	0	3.985	0	0	0									
Gross profit	**664.7**	**627.8**	**546.8**	**534.2**	**550.4**	**146.0**	**171.0**	**132.4**	**108.5**	**557.8**	**563.5**	**569.4**	**575.7**	**582.3**
SG&A	549.154	565.712	559.095	503.174	494.601	124.8	146.1	113.1	92.7	**476.7**	481.5	486.6	492.0	497.6
R&D	-	-	-	-	-	-	-	-	-	-	-	-	-	-
OPEX	10.9	29.4	24.0	3.1	**5.3**	1.3	1.6	2.4	3.0	**8.2**	5.1	5.2	5.2	5.3
Asset Impairments	10.949	8.827	15.306	3.144	5.284					-				
Restructuring Charges	-	20.532	8.728	-	-									
EBITDA	**104.6**	**32.7**	**(36.3)**	**27.9**	**50.5**	**19.9**	**23.3**	**16.9**	**12.8**	**72.9**	**76.8**	**77.6**	**78.5**	**79.4**
D&A	41.5	37.4	36.0	34.0	**33.1**	5.8	5.2	4.7	4.2	**20.0**	15.0	8.8	5.1	3.0
EBIT	**63.1**	**(4.7)**	**(72.3)**	**(6.2)**	**17.3**	**14.1**	**18.1**	**12.2**	**8.6**	**52.9**	**61.8**	**68.9**	**73.4**	**76.4**
Interest expense	1.016	0.806	0.969	0.836	0.869	0.0	0.0	0.0	0.0	**0.1**	0.1	0.1	0.1	0.1
Other income (net)	-0.126	-0.204	-0.914	-1.539	-0.28					-				
Foreign currency transaction losses, net	4.678	4.885	3.332	2.454	-0.563					-				
Interest income	-2.432	-1.664	-0.967	-0.692	-0.87					-				
Other expenses (income)														
EBT	**60.0**	**(8.5)**	**(74.7)**	**(7.2)**	**18.2**	**14.0**	**18.1**	**12.1**	**8.6**	**52.8**	**61.7**	**69.0**	**73.5**	**76.6**
Income taxes	49.539	-3.623	8.452	9.281	7.942	2.8	3.6	2.4	1.7	**10.6**	12.3	13.8	14.7	15.3
Net income	**10.4**	**(4.9)**	**(83.2)**	**(16.5)**	**10.2**	**11.2**	**14.4**	**9.7**	**6.9**	**42.2**	**49.3**	**55.2**	**58.8**	**61.2**
Shares outstanding, basic	87.989	85.14	75.604	73.371	72.255	72.3	72.3	72.3	72.3	72.3	72.3	72.3	72.3	72.3
Shares outstanding, diluted	89.089	85.14	75.604	73.371	72.255	72.3	72.3	72.3	72.3	72.3	72.3	72.3	72.3	72.3
Earnings per share, basic	**$ 0.12**	**$ (0.06)**	**$ (1.10)**	**$ (0.22)**	**$ 0.14**	**$ 0.16**	**$ 0.20**	**$ 0.13**	**$ 0.10**	**$ 0.58**	**$ 0.68**	**$ 0.76**	**$ 0.81**	**$ 0.85**
Earnings per share, diluted	**$ 0.12**	**$ (0.06)**	**$ (1.10)**	**$ (0.22)**	**$ 0.14**	**$ 0.16**	**$ 0.20**	**$ 0.13**	**$ 0.10**	**$ 0.58**	**$ 0.68**	**$ 0.76**	**$ 0.81**	**$ 0.85**

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Exhibit 2: Pro Forma Balance Sheet

	FY2013	FY2014	FY2015	FY2016	FY2017	Q1-2018	Q2-2018	Q3-2018	Q4-2018	FY2018	FY2019	FY2020	FY2021	FY2022
Balance Sheet														
Current assets														
Cash and cash equivalents	317.144	267.512	143.341	147.565	172.128	114.5	102.7	172.7	209.2	209.2	232.0	279.9	329.0	379.2
Accounts receivable	104.405	101.217	83.616	78.297	83.518	106.2	124.4	96.3	78.9	78.9	72.7	73.5	74.3	75.2
Inventories	162.341	171.012	168.192	147.029	130.347	159.3	186.5	144.4	118.3	118.3	153.7	155.3	157.0	158.8
Prepaid expenses	29.175	30.156	23.78	32.413	22.596	21.5	25.2	19.5	16.0	16.0	19.8	20.0	20.3	20.5
Income Tax Receivable	10.63	9.332	10.233	2.995	3.652	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7
Other receivables	11.942	11.989	14.233	14.642	10.664	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7
Restricted cash - current	0	0	2.554	2.534	2.144	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Deferred tax assets, net	4.44	4.19	0	0	0									
Total current assets	**640.1**	**595.4**	**445.9**	**425.5**	**425.0**	**417.9**	**455.2**	**449.4**	**438.9**	**438.9**	**494.7**	**545.2**	**597.1**	**650.2**
Non-current assets														
Property and equipment	86.971	68.288	49.49	44.09	35.032	31.4	28.1	25.2	22.6	22.6	13.2	7.7	4.5	2.6
Intangible assets, net	72.314	97.337	82.297	72.7	56.427	56.4	56.4	56.4	56.4	56.4	56.4	56.4	56.4	56.4
Goodwill	2.508	2.044	1.973	1.48	1.688	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Deferred tax assets, net	19.628	17.886	6.608	6.825	10.174	10.2	10.2	10.2	10.2	10.2	10.2	10.2	10.2	10.2
Other assets	53.661	25.968	18.152	13.273	12.542	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5
Restricted cash	0	0	3.551	2.547	2.783	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8
Total non-current assets	**235.1**	**211.5**	**162.1**	**140.9**	**118.6**	**115.0**	**111.7**	**108.8**	**106.2**	**106.2**	**96.8**	**91.3**	**88.1**	**86.2**
Total assets	**875.2**	**806.9**	**608.0**	**566.4**	**543.7**	**532.9**	**567.0**	**558.2**	**545.0**	**545.0**	**591.4**	**636.5**	**685.2**	**736.4**
Current liabilities														
Current portion of long-term debt	5.176	5.288	4.772	2.338	0.676	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Accounts payable	57.45	42.923	63.336	61.927	66.381	57.3	67.2	52.0	42.6	42.6	55.3	55.9	56.5	57.2
Accrued liabilities	97.111	80.216	92.573	78.282	84.446	74.3	87.0	86.7	78.9	78.9	74.8	75.6	76.4	77.3
Income taxes payable	15.992	9.078	6.416	6.593	5.515	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5
Deferred tax liabilities, net	11.199	11.869	0	0	0	-	-	-	-	-	-	-	-	-
Accrued restructuring	0	4.511	0	0	0	-	-	-	-	-	-	-	-	-
Total current liabilities	**186.9**	**153.9**	**167.1**	**149.1**	**157.0**	**137.8**	**160.4**	**144.9**	**127.7**	**127.7**	**136.3**	**137.7**	**139.1**	**140.7**
Non-current liabilities														
Long-term debt	11.67	6.381	1.627	0.04	0	-	-	-	-	-	-	-	-	-
Long-term income tax payable	36.616	8.843	4.547	4.464	6.081	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1
Long-term accrued restructuring	0	0.348	0	0	0	-	-	-	-	-	-	-	-	-
Other liabilities	15.201	12.277	13.12	13.462	12.298	12.3	12.3	12.3	12.3	12.3	12.3	12.3	12.3	12.3
Total non-current liabilities	**63.5**	**27.8**	**19.3**	**18.0**	**18.4**	**18.4**	**18.4**	**18.4**	**18.4**	**18.4**	**18.4**	**18.4**	**18.4**	**18.4**
Total liabilities	**250.4**	**181.7**	**186.4**	**167.1**	**175.4**	**156.2**	**178.8**	**163.2**	**146.1**	**146.1**	**154.7**	**156.1**	**157.5**	**159.0**
Shareholders' equity														
Common stock	0.092	0.092	0.094	0.094	0.095	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Additional paid-in capital	321.532	345.732	353.241	364.397	373.045	373.0	373.0	373.0	373.0	373.0	373.0	373.0	373.0	373.0
Retained earnings (accumulated deficit)	344.432	325.47	227.463	195.725	190.431	198.8	210.3	217.1	221.1	221.1	258.9	302.5	349.8	399.5
Treasury stock	-55.964	-200.424	-283.913	-284.237	-334.312	(334.3)	(334.3)	(334.3)	(334.3)	(334.3)	(334.3)	(334.3)	(334.3)	(334.3)
Accumulated other comprehensive income (loss)	14.652	-18.352	-50.913	-55.596	-43.394	(43.4)	(43.4)	(43.4)	(43.4)	(43.4)	(43.4)	(43.4)	(43.4)	(43.4)
Total shareholders' equity	**624.7**	**452.5**	**246.0**	**220.4**	**185.9**	**194.2**	**205.8**	**212.6**	**216.5**	**216.5**	**254.3**	**298.0**	**345.2**	**394.9**
Non-controlling interest	0	172.679	175.657	178.901	182.433	182.4	182.4	182.4	182.4	182.4	182.4	182.4	182.4	182.4
Total equity	**624.7**	**625.2**	**421.6**	**399.3**	**368.3**	**376.6**	**388.2**	**395.0**	**399.0**	**399.0**	**436.7**	**480.4**	**527.7**	**577.3**

Exhibit 3: Revenue Analysis

	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
	FY2013	**FY2014**	**FY2015**	**FY2016**	**FY2017**	**Q1-2018**	**Q2-2018**	**Q3-2018**	**Q4-2018**	**FY2018**	**FY2019**	**FY2020**	**FY2021**	**FY2022**
Growth Analysis														
Americas revenue growth, %	0.5%	-1.7%	-2.8%	-1.9%	2.8%	-2.0%	-2.0%	-2.0%	-2.0%	3.0%	6.0%	6.0%	6.0%	6.0%
Asia Pacific revenue growth, %	4.4%	-0.8%	-10.4%	-6.9%	-6.4%	2.0%	2.0%	2.0%	2.0%	2.0%	10.0%	10.0%	10.0%	10.0%
Europe revenue growth, %	27.6%	8.0%	-19.2%	-8.1%	-0.4%	-4.0%	-4.0%	-4.0%	-4.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Other businesses revenue growth, %	-55.7%	212.6%	38.0%	-32.0%	16.8%	-14.0%	-14.0%	-14.0%	-14.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Total revenue growth, %	**6.2%**	**0.5%**	**-9.0%**	**-5.0%**	**-1.2%**	**-0.9%**	**-0.7%**	**-1.0%**	**-0.9%**	**-0.9%**	**6.8%**	**6.9%**	**7.0%**	**7.1%**
Segment Breakdown														
Americas revenue, mm	498.552	489.915	476.21	467.006	480.146	115.4	133.4	118.0	103.7	470.5	498.8	528.7	560.4	594.0
Asia Pacific revenue, mm	477.615	473.91	424.491	395.078	369.667	100.3	127.1	81.6	68.0	377.1	414.8	456.2	501.9	552.1
Europe revenue, mm	216.259	233.604	188.833	173.444	172.83	49.6	50.2	40.8	25.3	165.9	169.2	172.6	176.1	179.6
Other businesses revenue, mm	0.254	0.794	1.096	0.745	0.87	0.2	0.1	0.2	0.3	0.7	0.9	1.1	1.3	1.6
Total revenue, mm	**1,192.7**	**1,198.2**	**1,090.6**	**1,036.3**	**1,023.5**	**265.4**	**310.9**	**240.7**	**197.2**	**1,014.3**	**1,083.7**	**1,158.6**	**1,239.7**	**1,327.2**
Americas revenue, %	41.8%	40.9%	43.7%	45.1%	46.9%	43.5%	42.9%	49.0%	52.6%	46.4%	46.0%	45.6%	45.2%	44.8%
Asia Pacific revenue, %	40.0%	39.6%	38.9%	38.1%	36.1%	37.8%	40.9%	33.9%	34.5%	37.2%	38.3%	39.4%	40.5%	41.6%
Europe revenue, %	18.1%	19.5%	17.3%	16.7%	16.9%	18.7%	16.2%	17.0%	12.8%	16.4%	15.6%	14.9%	14.2%	13.5%
Other businesses revenue, %	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Total revenue, %	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Exhibit 4: WACC Calculation and Sensitivity Analysis

Cost of Equity	
Risk-free rate	2.9%
Expected market return	10.0%
Market risk premium	7.1%
Beta	1.06
Cost of equity	**10.5%**

Cost of Debt	
Pre-tax cost of debt	6.0%
Effective tax rate	35.0%
Cost of debt	**3.9%**

WACC	
Total shareholders' equity	234.1
Total outstanding debt	1.1
Total capitalization	235.2
Cost of equity	10.5%
Cost of debt	3.9%
WACC	**10.4%**

Terminal EV/EBITDA Multiple	WACC: 11.43%	10.93%	10.43%	9.93%	9.43%
9.0 x	$ 14.21	$ 14.46	$ 14.71	$ 14.97	$ 15.23
10.0 x	$ 15.21	$ 15.48	$ 15.76	$ 16.04	$ 16.33
11.0 x	$ 16.21	$ 16.51	$ 16.80	$ 17.11	$ 17.42
12.0 x	$ 17.22	$ 17.53	$ 17.85	$ 18.18	$ 18.52
13.0 x	$ 18.22	$ 18.55	$ 18.90	$ 19.25	$ 19.61

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Exhibit 6: DCF Analysis

	Dec-13	Dec-14	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
	FY2013	**FY2014**	**FY2015**	**Q1-2016**	**Q4-2016**	**Q4-2016**	**Q4-2016**	**FY2016**	**Q1-2017**	**Q2-2017**	**Q3-2017**	**Q4-2017**	**FY2017**	**FY2018**	**FY2019**	**FY2020**	**FY2021**	**FY2022**
Free Cash Flow																		
EBIT	63.1	(4.7)	(72.3)	14.2	20.6	(1.2)	(39.8)	(6.2)	15.6	29.4	2.7	(30.4)	17.3	73.2	87.9	101.3	112.6	123.1
Less: Tax expense	(22.1)	1.7	25.3	(5.0)	(7.2)	0.4	13.9	2.2	(5.5)	(10.3)	(0.9)	10.6	(6.1)	(25.6)	(30.8)	(35.5)	(39.4)	(43.1)
Add: Depreciation and amortization	41.5	37.4	36.0	8.6	8.4	8.4	8.6	34.0	8.4	8.4	7.9	8.4	33.1	20.0	15.0	8.8	5.1	3.0
Less: Capital expenditures	(40.4)	(16.0)	(12.8)	(3.2)	(7.1)	(2.4)	(0.6)	(13.2)	(3.2)	(1.7)	(1.6)	(6.6)	(13.1)	(7.5)	(5.6)	(3.3)	(1.9)	(1.1)
Less: Change in net working capital	(14.9)	(81.7)	(2.3)	(73.7)	48.1	1.5	38.1	14.0	(72.1)	62.4	24.2	30.4	44.9	(6.1)	(31.1)	(8.5)	(9.2)	(9.9)
Unlevered free cash flow	**27.2**	**(63.4)**	**(26.1)**	**(59.1)**	**62.9**	**6.8**	**20.2**	**30.8**	**(56.8)**	**88.2**	**32.2**	**12.6**	**76.2**	**54.0**	**35.4**	**62.8**	**67.2**	**72.0**
Discount factor														1.00	2.00	3.00	4.00	5.00
Present value of unlevered free cash flow														**46.5**	**29.0**	**46.7**	**45.2**	**43.8**

Exit Multiple Method		
Terminal EV/EBITDA multiple		**11.0 x**
PV sum of unlevered FCF		211.2
PV of terminal value		844.7
Enterprise value		**1,055.9**
Add: Cash		178.2
Less: Debt		1.1
Less: Other EV adjustments		
Equity value		**1,233.0**
Shares outstanding		73.4
Implied share price	**$**	**16.81**

Current price	$	15.99
Implied price	**$**	**16.81**
Total return		**5.1%**

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Exhibit 7: Comparable Company Analysis

Comparable Company Analysis

Company	Ticker	Equity Value	Enterprise Value	EV/EBITDA Multiple: NTM EV/EBITDA	EV/EBITDA Multiple: 2018E EV/EBITDA	EV/EBITDA Multiple: 2019E EV/EBITDA	P/E Multiple: NTM P/E	P/E Multiple: 2018E P/E	P/E Multiple: 2019E P/E
Deckers Outdoor Corp.	DECK	2,539.2	2,473.9	10.4 x	11.3 x	10.2 x	18.0 x	18.5 x	16.0 x
Sketchers USA, Inc.	SKX	6,138.7	5,536.5	10.1 x	9.8 x	8.7 x	18.4 x	22.6 x	18.1 x
VF Corporation	VFC	29,150.5	32,054.8	15.3 x	16.6 x	15.3 x	22.4 x	24.2 x	21.3 x
Caleres, Inc.	CAL	1,400.5	1,587.9	7.5 x	8.2 x	7.6 x	14.2 x	15.3 x	13.4 x
Rocky Brands, Inc.	RCKY	145.4	154.8	8.6 x	8.6 x	8.7 x	17.4 x	20.7 x	16.8 x
Crocs, Inc.		**1,114.5**	**937.4**	**13.4 x**	**9.7 x**	**7.2 x**	**61.5 x**	**24.6 x**	**13.1 x**
Median				**10.1 x**	**9.8 x**	**8.7 x**	**18.0 x**	**20.7 x**	**16.8 x**
Mean				**10.4 x**	**10.9 x**	**10.1 x**	**18.0 x**	**20.3 x**	**17.1 x**
High				**15.3 x**	**16.6 x**	**15.3 x**	**22.4 x**	**24.2 x**	**21.3 x**
Low				**7.5 x**	**8.2 x**	**7.6 x**	**14.2 x**	**15.3 x**	**13.4 x**

	EV/EBITDA Implied Price			P/E Implied Price		
Median	$ 12.73	$ 16.17	$ 18.80	$ 4.67	$ 13.44	$ 20.49
Mean	**$ 13.00**	**$ 17.63**	**$ 21.30**	**$ 4.69**	**$ 13.16**	**$ 20.88**
High	$ 17.93	$ 25.46	$ 30.91	$ 5.81	$ 15.72	$ 26.01
Low	$ 10.06	$ 13.91	$ 16.72	$ 3.68	$ 9.94	$ 16.35

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