Rising Demand, Strong Profits, and a Discounted Stock Price

Humans have been wearing shoes for thousands of years. Today, the quality and type of shoes available for purchase are staggering, with thousands of brands competing for consumer dollars. With casual footwear gaining popularity, love them or hate them, this footwear company is poised to continue growing for the foreseeable future.

The best news for investors? This company is one of the most profitable in the retail footwear space, yet its stock is down nearly 10% year to date and trades at a steep discount. Crocs Inc. (CROX: $102/share) is this week's Long Idea.

CROX offers favorable Risk/Reward based on the company's:

- position to benefit from the rising demand for casual fashion,
- ability to take market share across its addressable markets,
- steadily increasing Crocs brand sales,
- best in class profitability, and
- cheap stock valuation.

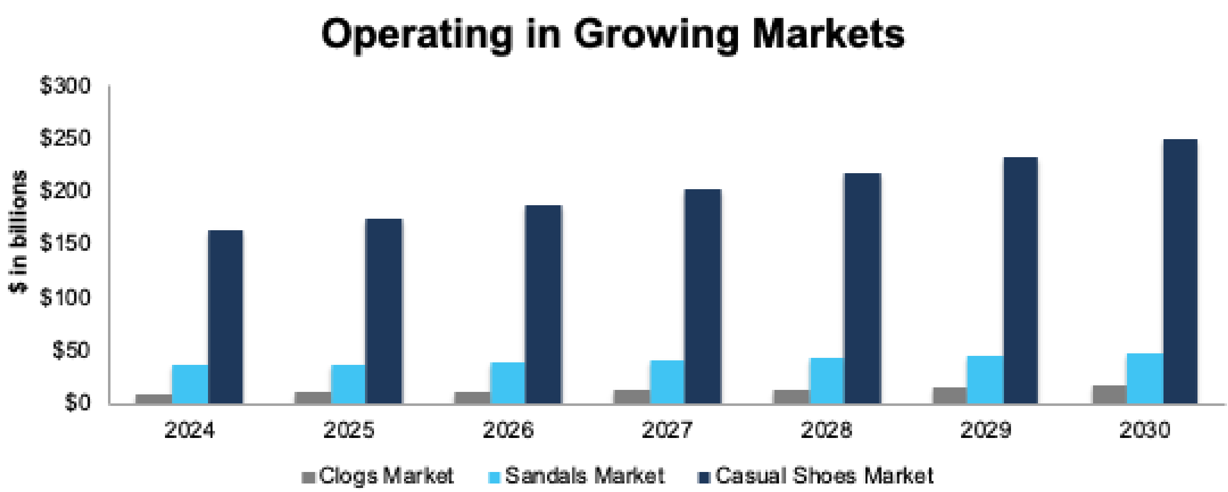
Consumers Need Shoes

One kind of footwear, specifically clogs, have been grabbing consumers' attention and money. Long gone are the days of clogs being overlooked, as even high fashion/luxury brands such as Gucci and Balenciaga have introduced clogs in their collections in recent years.

As the innovator of clog-style shoes, Crocs is in a great position to take advantage of the growing footwear demand. Crocs defines its total addressable market (TAM) in three markets, all of which are forecasted to grow globally through 2030.

- Casual footwear market: forecasted to grow 7.4% compounded annually through 2030,
- Clogs market: forecasted to grow 11.4% compounded annually through 2030, and
- Sandals market: forecasted to grow 6.2% compounded annually through 2033.

Figure 1: Projected Casual Footwear, Clogs, and Sandals Market Growth: 2024 – 2030



Sources: Value Market Research, IndustryARC, Grand View Research, and New Constructs

Taking Market Share in Growing Markets

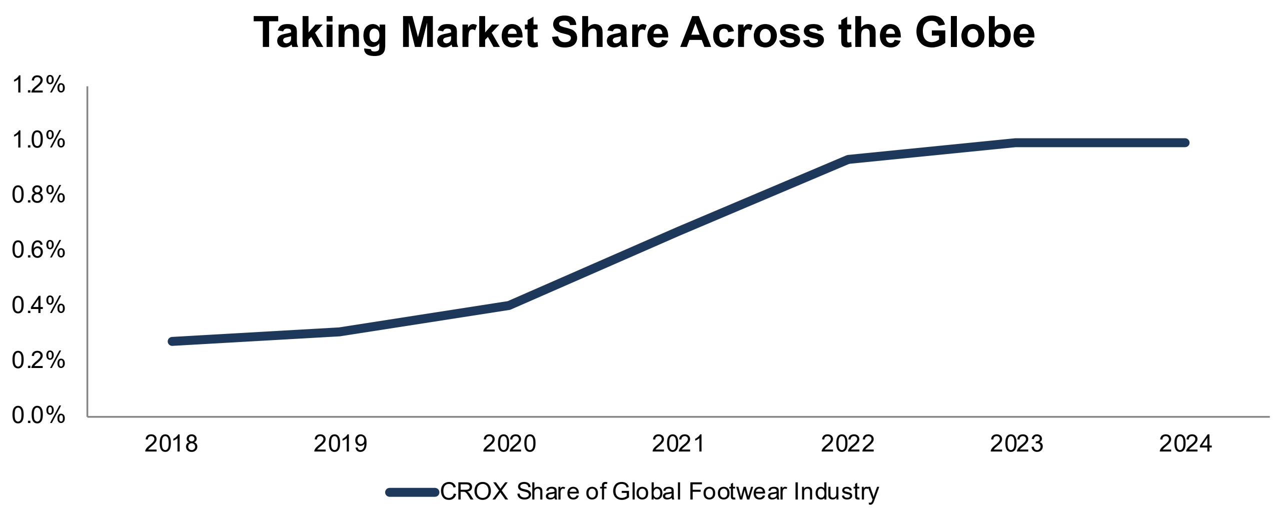
From its IPO in 2006 to its resurgence in the late 2010's, Crocs has consistently increased it brand awareness and popularity across the globe. The company aims to expand in what the company calls "Tier 1 Markets", which include The United States, West Europe, India, China, Japan, and South Korea. According to management, these regions present the best opportunities to take market share.

In 2024, Crocs reported market share in its targeted markets in three categories:

- Growing markets: less than 1% share in China, France, and Japan.
- Emerging markets: between 1% and 2% share in Germany and India.
- Established markets: greater than 2% share in the U.K., the U.S., and South Korea.

When we look at the entire global footwear market, Crocs' ability to take market share (as measured by revenue as a % of overall industry sales) in a highly fragmented market shines. Crocs has grown its share of the global footwear industry from 0.3% in 2018 to 1.0% in 2024. See Figure 2.

Figure 2: Crocs' Global Market Share: 2018–2024



Sources: New Constructs, LLC and company filings

Building a Larger Footprint

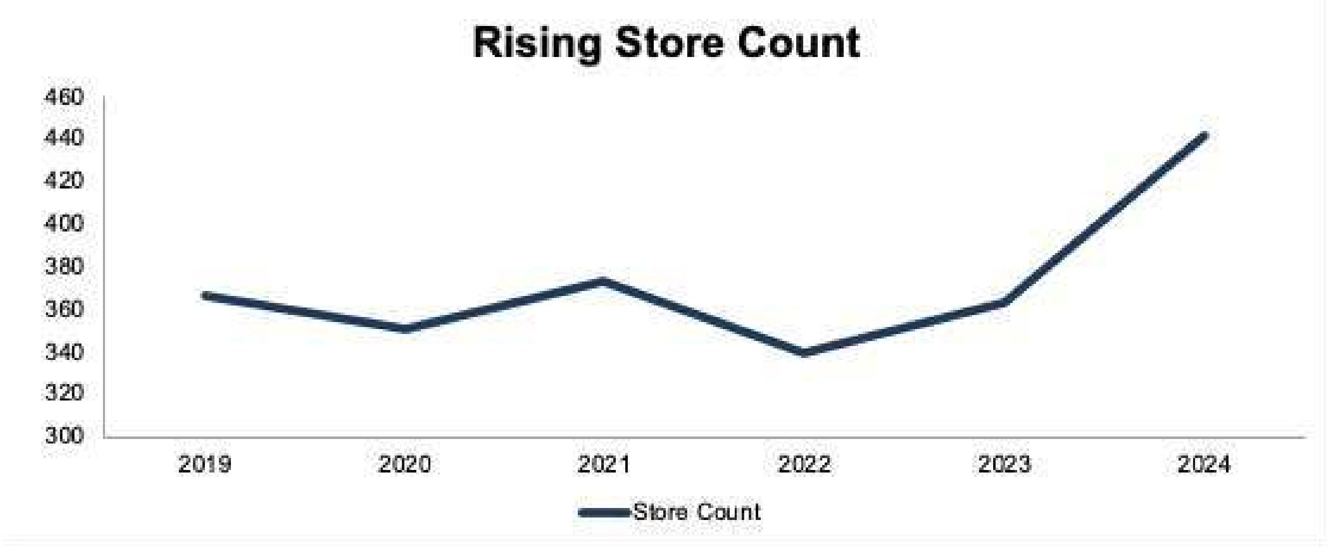
Crocs still generates most of its sales via its wholesale channel (selling to a retailer that sells to end users), though just barely. In 2024, wholesale sales represented 50.3% of revenue, down from 52% and 54.9% in 2023 and 2022, respectively.

Over that same time, the company has increased sales through its direct-to-consumer (DTC) channel, which includes both e-commerce and company owned retail stores. In 2022, DTC sales made up 45.1% of total revenue. In 2024, DTC made up 49.7% of total revenue.

Growing sales through its own retail channels allows the company to better control marketing, messaging, brand image, and even sell discontinued or discounted product through its outlet retail locations. To better serve customers, Crocs has grown its global store count (including both Crocs and Heydude brand stores) from 367 in 2019 to 442 in 2024. See Figure 3.

In the first quarter of 2025, the DTC revenues for Crocs and Heydude brands increased 1.1% and 8.3% YoY, respectively.

Figure 3: Crocs' Global Store Count: 2019 – 2024



Sources: New Constructs, LLC and company filings

Maintaining Pricing Power

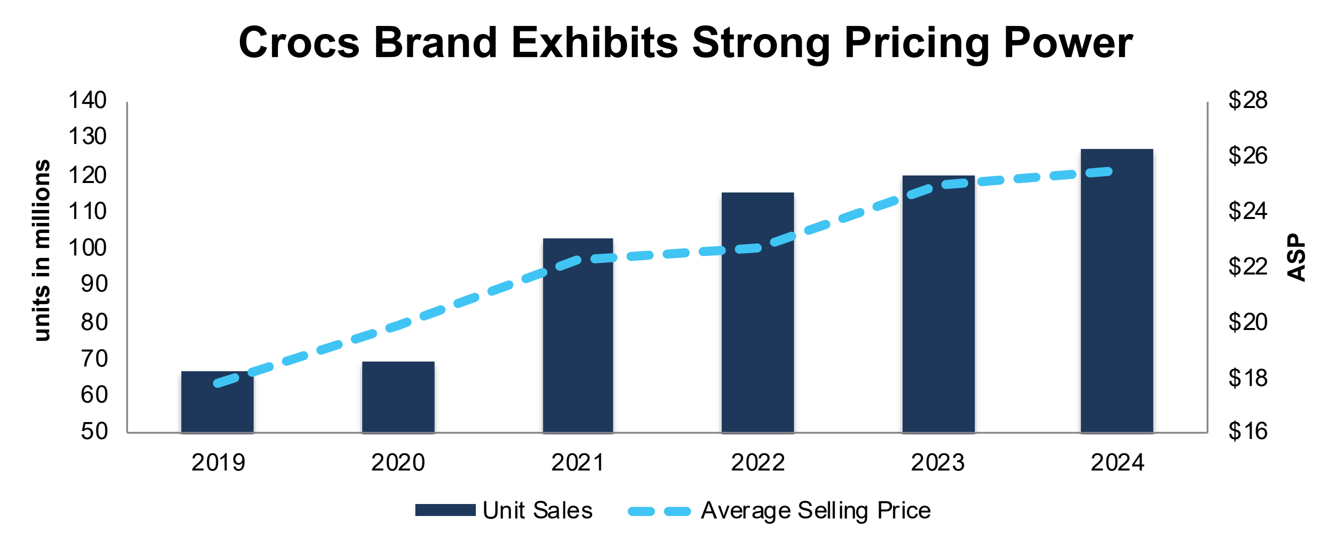
In 2024, the Crocs brand accounted for 80% of revenue while the Heydude brand accounted for 20% of revenue.

Often a business can grow market share by lowering prices to maximize quantity of sales. Crocs takes a different approach and has routinely taken market share by growing unit sales while its average selling price (ASP) rises.

On a yearly basis, Crocs brand unit sales almost doubled from 67 million in 2019 to 127 million in 2024, while its ASP increased from $18 to $26 over the same time. See Figure 4.

Both increasing unit sales and ASP drives Crocs brand's revenue up from $1.2 billion in 2019 to $3.3 billion in 2024.

Figure 4: Crocs Brand Unit Sales and Average Selling Price: 2019 – 2024



Sources: New Constructs, LLC and company filings

The Lagging Elephant in the Room

While the Crocs brand has achieved excellent sales growth, the same cannot be said for Heydude, the popular footwear brand Crocs acquired in 2022.

In 2024, both unit sales and revenue of the Heydude brand declined year-over-year (YoY). However, the brand remains nearly a billion-dollar segment (based on revenues), and signs of a turnaround are present.

As with the Crocs brand above, management has not resorted to price cuts simply to drive unit sales. Instead, Heydude's ASP grew YoY in 2024 and increased for the seventh consecutive quarter in 1Q25. It's clear that management values protecting margins, rather than chasing unit sales (more details later in report).

Despite the sales decline in 2024, Heydude remains popular across e-commerce platforms. For instance, the brand was ranked as a top 3 brand on TikTok Shop in December 2024 and had its first-ever TikTok Shop Super Brand Day in February 2025, where it ranked as the no. 1 footwear brand across the platform.

The number of TikTok shoppers in the U.S. grew an estimated 34% YoY in 2024, and the number of TikTok shoppers is estimated to grow 6% compounded annually through 2027. By leveraging a growing presence across social media, along with bringing in new "brand ambassadors", Crocs is positioning Heydude for future growth opportunities.

Improving Fundamentals

Despite the Heydude challenge, Crocs is growing top- and bottom-line.

The company has grown revenue by 14% and net operating profit after-tax (NOPAT) by 15% compounded annually since 2006 (earliest data available).

More recently, the company improved its NOPAT margin from 4% in 2014 to 21% in the TTM while invested capital turns fell from 1.3 to 1.0 over the same time. Rising NOPAT margins are enough to offset falling invested capital turns though, and drive return on invested capital (ROIC) from 5% in 2014 to 22% in the TTM.

Additionally, the company's Core Earnings grew 41% compounded annually from $23 million in 2014 to $777 million in in the TTM.

Figure 5: Crocs' Revenue and NOPAT Since 2014

Sources: New Constructs, LLC and company filings

Best-in-Class Profitability

Crocs not only has more global market share than peers such as Birkenstock (BIRK) and Steve Madden (SHOO), 0.5% and 0.6% market share in 2024, respectively, but it is also one of the most profitable companies in the casual footwear industry.

Crocs has the highest NOPAT margin and second highest ROIC among publicly traded peers, which include Deckers Outdoor (DECK), Nike (NKE), Birkenstock (BIRK), Steve Madden (SHOO), VF Corporation (VFC), and more. See Figure 6.

Figure 6: Crocs' Profitability Vs. Peers: Trailing Twelve Months (TTM)

Ticker	Company Name	NOPAT Margin	IC Turns	ROIC
DECK	Deckers Outdoor Corp	18%	3.4	61%
CROX	**Crocs Inc.**	**21%**	**1.0**	**22%**
NKE	NIKE Inc.	9%	2.0	19%
SHOO	Steven Madden	8%	2.0	17%
SKX	Skechers USA	8%	1.6	13%
BIRK	Birkenstock Holding	18%	0.5	8%
WWW	Wolverine World Wide	5%	0.8	4%
VFC	VF Corporation	4%	0.7	3%
UAA	Under Armour	-1%	1.2	-1%

Sources: New Constructs, LLC and company filings

Repurchase Yield Could Reach 4% or More

Crocs has not paid and does not plan to pay dividends on its common stock.

However, the company does return capital to shareholders through share repurchases.

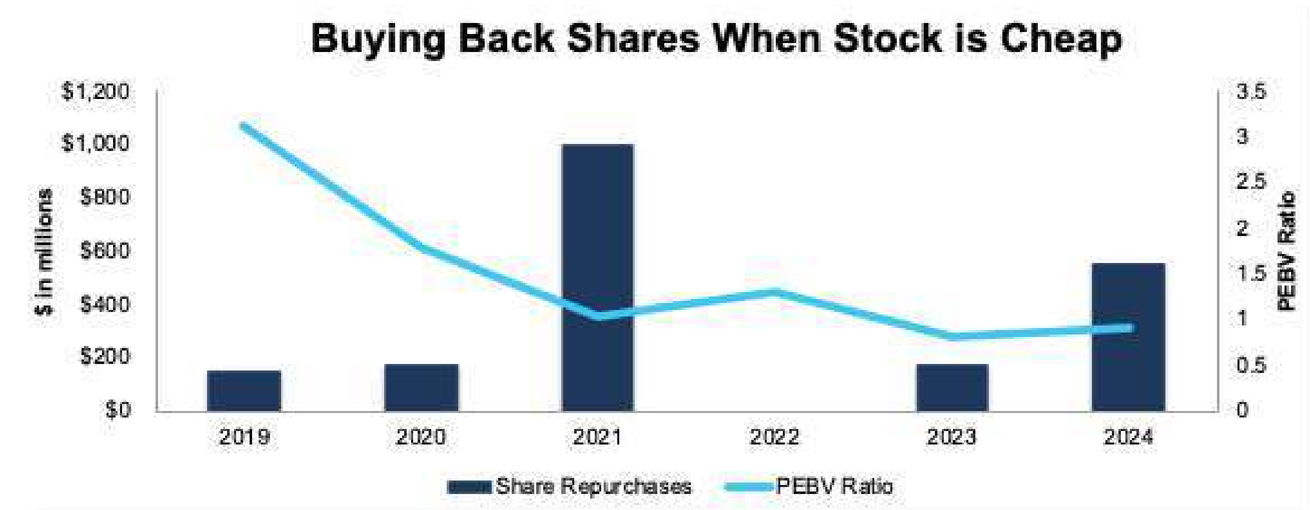
Crocs has repurchased $2.1 billion (37% of market cap) shares since 2019. In February 2025, Crocs' Board of Directors approved a $1 billion increase to the company's share repurchase authorization. As of March 31, 2025, the company has $1.3 billion remaining under this authorization.

If the company repurchases shares at the same rate as 2024, when it repurchased $552 million in shares, it would repurchase an additional $492 million worth of shares in 2025 (in addition to the $61 million repurchased in 1Q25). $492 million in share repurchases represents 8.6% of the company's current market cap.

If instead the company repurchases shares on par with its 1Q25 rate, it would repurchase $243 million worth of shares over the next 12 months, which represents 4.2% of the company's current market cap.

Crocs paused share repurchases while it completed its acquisition of Heydude, but outside of that year, management has consistently repurchased shares as the company's stock has gotten cheaper. Per Figure 7, share repurchases have risen as CROX's price-to-economic book value (PEBV) ratio has fallen.

Figure 7: Crocs' Share Repurchases and PEBV Ratio: 2019 – 2024



Sources: New Constructs, LLC and company filings

Cash Flow Picking Up Post Acquisition

Since 2019, Crocs has generated a cumulative $3.0 billion in free cash flow (FCF) excluding acquisitions, which equals 39% of its enterprise value.

When we include the acquisition of Heydude in 2022, Crocs' cumulative FCF is $309 million over the same time.

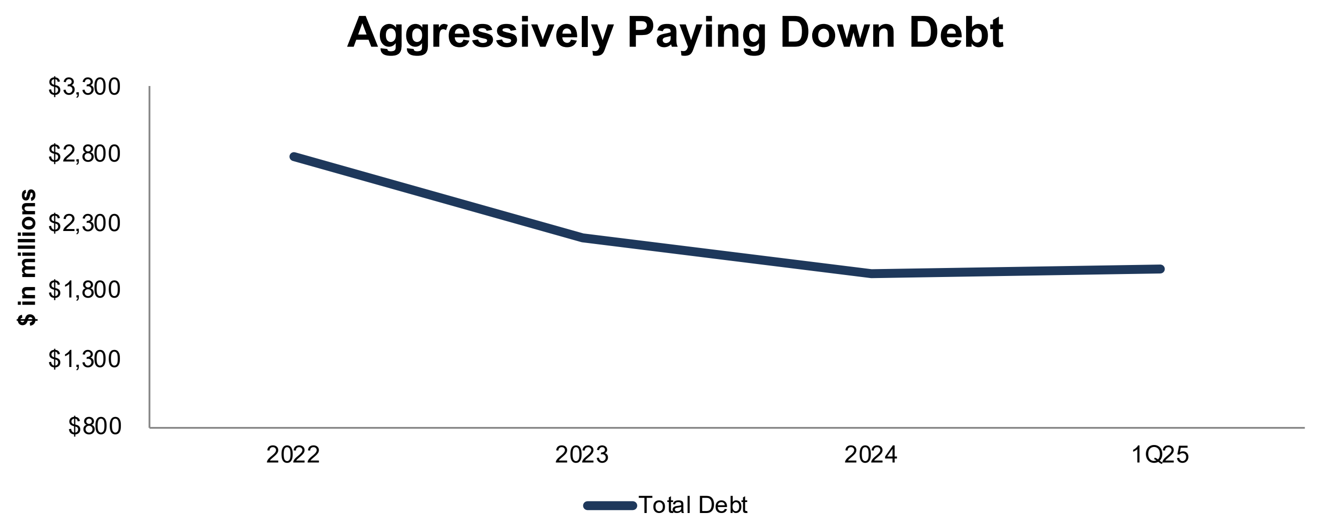
Perhaps most impressively, Crocs has rapidly improved FCF in the years since the acquisition. In 2023 and 2024, Crocs generated $1.8 billion in FCF. Crocs generated an additional $39 million in FCF in 1Q25.

Aggressively Paying Down Debt

Not only has Crocs used its strong free cash flow to repurchase shares, it is also paying down debt taken on for the acquisition of Heydude.

Per Figure 8, Crocs' total debt has declined from $2.8 billion in 2022 to $2.0 billion in 1Q25. We like companies that choose to return capital to shareholders and pay down debt, instead of spending it on exorbitant executive bonuses or more acquisitions.

Figure 8: Crocs' Total Debt: 2022 – 1Q25



Sources: New Constructs, LLC and company filings

Tariffs Could Potentially Hurt

Crocs management withdrew its full year 2025 guidance due to the uncertain impact of tariffs. However, management provided investors with an expense framework when they reported 1Q25 earnings. Specifically, management outlined two potential scenarios:

1. "If we assume 10% incremental tariffs on all sourcing destinations into the US, this would translate to a cost of approximately $45 million on an annualized cash basis."
2. "If the incremental 145% tariff on China remains in place along with the 10% on all other sourcing destinations, this would imply a cost of approximately $130 million on an annualized cash basis based on our current sourcing mix."

To offset tariff costs, management noted in the 1Q25 earnings call that they have already identified $50 million in potential savings throughout 2025.

Additionally, the company is focused on maintaining margins, rather than chasing sales volume, no matter what happens with tariffs.

From the 1Q25 earnings call, CEO Andrew Rees noted:

> "I would rather increase prices, protect margin and have adequate room in the P&L to invest in marketing and consumer communication to drive consumers to our brand than take margin reductions and have no latitude to communicate effectively with consumers."

Protecting margins at the potential expense of sales supports a strong brand image and reputation.

Though tariffs could add costs to Crocs' business, the potential impact is already more than priced into the company's stock price as we'll show below.

Current Price Implies Profits Will Permanently Fall by 20%

At its current price, Crocs' price-to-economic book value (PEBV) ratio is 0.8. This ratio means the market expects the company's NOPAT to permanently decline 20% from TTM levels. This expectation seems overly pessimistic considering Crocs has grown NOPAT by 46% compounded annually over the last five years and 34% compounded annually over the last decade.

Below, we use our reverse discounted cash flow (DCF) model to analyze expectations for different stock price scenarios for CROX.

In the first scenario, we quantify the expectations baked into the current price. If we assume:

- NOPAT margin immediately falls to 15% (well below TTM NOPAT margin of 21%) through 2034, and
- revenue grows at 2.5% compounded annually through 2034 (equal to one-third of the forecasted casual footwear market CAGR of 7.4%) then

the stock is worth $102/share today – equal to the current stock price. In this scenario, Crocs' NOPAT would fall 1% compounded annually from 2025 – 2034.

For reference, if we add $130 million (equal to the higher tariff costs provided by management) to Crocs' operating expenses, the company's TTM NOPAT margin would fall to 18.7% from 21.4% over the TTM.

In other words, Crocs' current share price implies the company's margins will fall even further than management expects and not recover for the next decade.

Shares Could Go 20%+ Higher Even If Tariffs Cut Margins

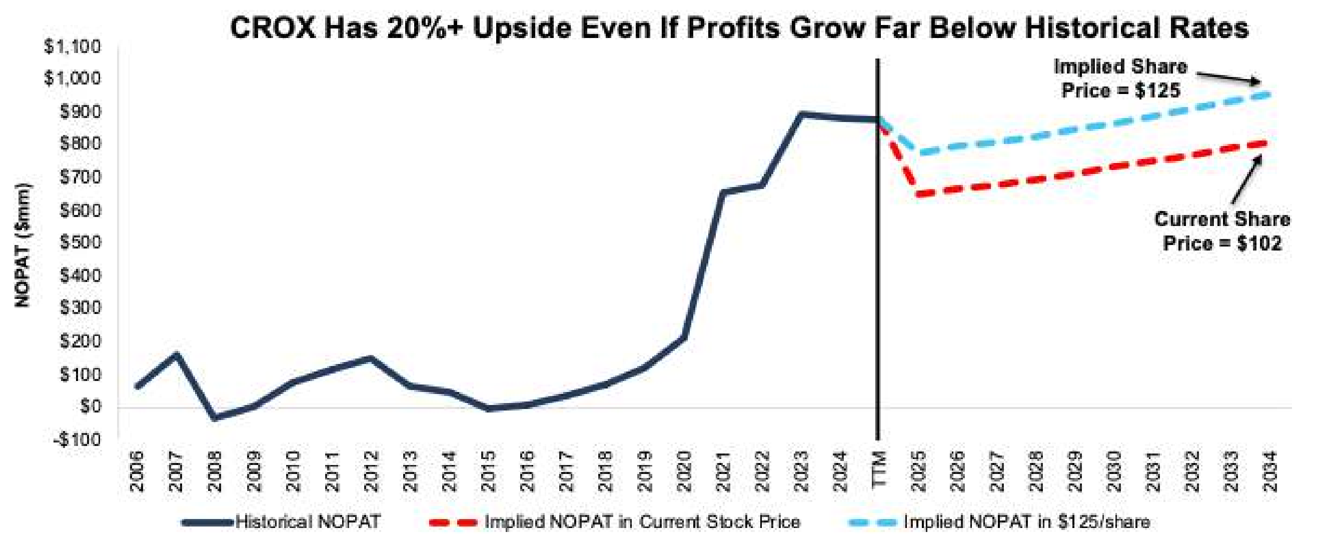
If we instead assume:

- NOPAT margin immediately falls to 18.7% (equal to implied margin in the worst tariff scenario outlined by management) through 2034,
- revenue grows at consensus estimates in 2025 (1%), 2026 (3%), and 2027 (1%), and
- revenue grows 2.5% each year thereafter through 2034 (equal to one-third of the forecasted casual footwear market CAGR of 7.4%), then

the stock would be worth $125/share today – a 23%+ upside to the current price. In this scenario, Crocs' NOPAT would grow just 1% compounded annually through 2034. Should the company's NOPAT grow more in line with historical levels, the stock has even more upside.

Figure 9 compares Crocs' implied future NOPAT in these scenarios to its historical NOPAT.

Figure 9: Crocs' Historical and Implied NOPAT: DCF Valuation Scenarios



Sources: New Constructs, LLC and company filings

Sustainable Competitive Advantages Will Drive Shareholder Value Creation

Here's a summary of why we think the moat around Crocs' business will enable it to continue to generate higher NOPAT than the current market valuation implies:

- consistently taking market share in a growing market,
- well-positioned in the casual shoes market around the world, and
- expanding point of sale and store footprint across the globe

What Noise Traders Miss with Crocs

These days, fewer investors focus on finding quality capital allocators with shareholder-aligned corporate governance. Due to the proliferation of noise traders, the focus is on short-term technical trading trends while more reliable fundamental research is overlooked. Here's a quick summary of what noise traders are missing:

- growing demand for comfortable and casual footwear,
- superior profitability compared to peers - both margins and ROIC, and
- valuation implies profits will permanently decline by 20%.

Tariff Certainty Could Send Shares Higher

The on-again, off-again tariffs have wreaked havoc on management teams' ability to reliably forecast sales and profits for 2025 and beyond. Should the market receive any certainty on tariffs, especially if they're lower than the worst-feared 145%, it could send many retail stocks, including CROX, higher.

Exec Comp Could Be Improved

Crocs' executives receive both annual incentives and long-term equity awards. The annual incentives are tied to adjusted earnings before interest and tax (EBIT), adjusted free cash flow, brand strategic initiative performance, and corporate responsibility and sustainability progress.

Long-term equity awards are tied to adjusted 3-year cumulative revenue and adjusted EBITDA operating margin.

We would prefer the company tie executive compensation to ROIC. Doing so ensures that executives' interests are more aligned with shareholders' interests as there is a strong correlation between improving ROIC and increasing shareholder value. Improving ROIC requires attention to all areas of the business, so including it in an executive compensation plan would incentivize executives to improve the entire business, not just one sales goal or earnings number.

Despite using revenue and EBIT goals in its executive pay, Crocs' management has grown economic earnings, the true cash flows of the business, 52% compounded annually over the last five years, from $53 million in 2019 to $472 million in the TTM ended 1Q25.

Insider Trading and Short Interest Trends

Over the past 12 months, insiders have purchased 326,529 shares and sold 151,063 shares for a net effect of 175,466 shares bought. These sales represent <1% of shares outstanding.

There are currently 6.0 million shares sold short, which equates to 11% of shares outstanding and just under three days to cover.

Attractive Funds That Hold CROX

The following funds receive an Attractive-or-better rating and allocate significantly to CROX:

1. Catalyst/Lyons Tactical Allocation Fund (CLTIX) – 3.4% allocation and Attractive rating.
2. Acquirers Fund (ZIG) – 3.3% allocation and Very Attractive rating.
3. Wall Street EWM Evercore Equity Fund (EWMCX) – 2.6% allocation and Attractive rating.
4. Invesco S&P MidCap 400 GARP ETF (GRPM) – 3.3% allocation and Very Attractive rating.
5. Alpha Architect U.S. Quantitative Value ETF (QVAL) – 2.0% allocation and Very Attractive rating.

This article was originally published on June 4, 2025.

Disclosure: David Trainer, Kyle Guske II, and Hakan Salt receive no compensation to write about any specific stock, sector, style, or theme.

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It's Official: We Deliver the Best Fundamental Data in the World

Many firms claim their research is superior, but none of them can prove it with independent studies from highly-respected institutions as we can. Three different papers from both the public and private sectors show:

1. The stock market is missing footnotes – and only we have that critical data.
2. Legacy fundamental datasets suffer from significant inaccuracies, omissions, and biases.
3. Our proprietary drives novel alpha. Our measures of Core Earnings and Earnings Distortion materially improve stock picking and forecasting of profits.

Best Fundamental Data in the World

In The Journal of Financial Economics, a top peer-reviewed journal, Core Earnings: New Data & Evidence proves our Robo-Analyst technology overcomes material shortcomings in legacy firms' data collection processes to provide superior fundamental data, earnings models, and research. More details.

Key quotes from the paper:

- "[New Constructs'] *Total Adjustments* differs significantly from the items identified and excluded from Compustat's adjusted earnings measures. For example… 50% to 70% of the variation in *Total Adjustments* is not explained by *S&P Global's (SPGI) Adjustments* individually." – pp. 14, 1st para.
- "A final source of differences [between New Constructs' and S&P Global's data] is due to data collection oversights…we identified cases where Compustat did not collect information relating to firms' income that is useful in assessing core earnings." – pp. 16, 2nd para.

Superior Models

Ernst & Young features the superiority of our ROIC, NOPAT and Invested Capital research to Capital IQ & Bloomberg's in Getting ROIC Right. See the Appendix for direct comparison details.

Key quotes from the paper:

- "…an accurate calculation of ROIC requires more diligence than often occurs in some of the common, off-the-shelf ROIC calculations. Only by scouring the footnotes and the MD&A [as New Constructs does] can investors get an accurate calculation of ROIC." – pp. 8, 5th para.
- "The majority of the difference…comes from New Constructs' machine learning approach, which leverages technology to calculate ROIC by applying accounting adjustments that may be buried deeply in the footnotes across thousands of companies." – pp. 4, 2nd para.

Superior Stock Ratings

Robo-Analysts' stock ratings outperform those from human analysts as shown in this paper from Harvard Business School. Bloomberg features the paper here.

Key quotes from the paper:

- "the portfolios formed following the buy recommendations of Robo-Analysts earn abnormal returns that are statistically and economically significant." – pp. 6, 3rd para.
- "Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts." – pp. 20, 3rd para.

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