Retail ELEVATOR PITCH

Presented by Hedgeye Retail Sector **Short** **On Holding**

Ticker	ONON			2022A		2023E		2024E		2025E		2026E
Price	$26	Hedgeye EPS	$	0.31	$	0.51	$	0.53	$	0.72	$	0.97
Market Cap	8.16 bn	Street EPS			$	0.51	$	0.76	$	1.03	$	1.45
Enterprise Value	8.11 bn	Variance				0%		-30%		-30%		-33%
Short Interest	9.9%	P/E				50.6x		48.3x		35.8x		26.3x
Debt/EBITDA		Target P/E				40.0x		25.0x		20.0x		20.0x
Sell Side Target	$35	Implied Price				$20		$13		$14		$19
Return to SS Tgt	36%	Price Variance %				-21%		-48%		-44%		-24%

HEDGEYE EDGE | Huge Disconnect In Valuation and P&L Sustainability

We're concerned that ONON is growing too rapidly, with not enough product tiering by silhouette (80% of sales comes from the core 'On Cloud' product), colorway, price point and channel of distribution. We have nothing against the product, and acknowledge its popularity. But don't think this company has established a brand that should command a ~$8bn EV. This reminds us of the early days of UnderArmour, where the market valued it as the second coming of Nike. Didn't pan out too well, did it? We think it is moving too quickly -- ahead of new product introductions that make running wholesale alongside DTC successful. Inventory is broadly too high, and management needs to either accelerate R&D, or take its foot off the growth accelerator. It also needs to watch out for Nike, which is on offense again in running. The competitive landscape in running will intensify materially in 2024.

NEAR-TERM (TREND) | Sharp Wholesale Deceleration

Like last Q, wholesale grew at a much slower rate than DTC as the company continues its controlled wholesale approach--slowing door expansion and exiting doors in Europe. ONON shipped early this season, moving revenue from 4Q to 3Q, while receivables are rising. Bad look. At the same time it guided to wholesale to slow in 4Q to the high-single-digit range -- similar to what we expect at HOKA. ONON continues to release slightly different iterations of its core products, which we think weakens the brand heat and implies markdown risk. We're modeling a hit to margins, unlike the Street.

KEY RISKS TO THE CALL | On Actually Becomes a Brand

One of our biggest concerns is that the company's product offering isn't keeping pace with valuation. It's got too much inventory in stale styles, which poses gross margin risk. But if ONON succeeds in actually creating a sustainable brand, instead of just the 'On Cloud' product, it could grow into its valuation.

COMPANY DESCRIPTION

On Holding, known for its Cloud technology in performance footwear, also offers apparel and accessories for athletic activities. The company sells through wholesale and ecomm, with a few owned stores worldwide.

KEY MODELING ASSUMPTIONS

in CHF	2022A	2023E	2024E	2025E	2026E
Revenue	1,222	1,791	2,273	2,745	3,223
YY % Change		46.6%	26.9%	20.8%	17.4%
Gross Margin %	56.0%	59.1%	57.9%	57.5%	58.0%
EBIT Margin %	7.0%	9.7%	8.9%	10.0%	11.6%
EBITDA	165	262	305	388	499
Net Debt	(211)	(53)	(66)	(134)	(290)
Net Debt/EBITDA					
FCF/Share	(0.97)	(0.21)	0.04	0.21	0.48