SEBS

Strategic Equity & Business Solutions

SEBS | Equity Research

January 9, 2025, 3:00 PM ET

On Holding AG | Ticker: ONON

Market Price: 55.54 USD
Market Capitalization: 17.95B USD
P/E: 129
Industry Group: Footwear & Accessories

Tanner Yarton
Head of Research
tanner@sebsresearch.com
+1 585 775 9529

Daniel Young
Editor
+1 704 497 2930

Spray on shoes, Zendaya, and the fall of legacy retailers

Introduction

On Holding AG ("On Cloud", "On") is a Swiss company that specializes in designing and manufacturing innovative running shoes and athletic wear. On was founded in 2010 in Zurich, Switzerland, and has become a popular brand among runners, athletes, and fitness enthusiasts worldwide.

Above: On's Logo

The brand is recognized for its unique *CloudTec®* technology, which uses pods on the sole of the shoe to provide both cushioning and propulsion. This design is intended to create a sensation of running on clouds, hence the name.

Abstract

The post Covid-19 consumer landscape has seen drastic changes from prior years. Consumers have shifted away from legacy brands, styles and comforts into more niche, leisure focused offerings. The solidarity of the pandemic sees consumers participating in running, hiking and training more than traditional sports, which results in an uncaptured market opportunity.

On positions themselves well as a disruptor to big shoe, bringing in founder-led efficiency, technology, unique branding, and key partnerships to tap into the $312B market.

Founder-Led Dominance

Nike (NKE) is now five CEOs removed from its founder, which raises an important question: How far can you stretch the elasticity of brand, vision, and culture before it snaps? Businesses built on a founder's unique genius are like vintage sneakers—highly coveted but tough to maintain after the original designer exits the scene.

Meanwhile, On remains founder-led, with triathlete Olivier Bernhard steering the ship. As we've seen with Apple (APPL) post-Steve Jobs, visionary founders are often the secret sauce of innovation. This is further exemplified through the pandemic, where some legacy businesses rotted with corporate bloat and simply couldn't pivot fast enough to keep up with the trends.

Fundamentals

On's fundamentals paint an intriguing yet nuanced picture. While the company demonstrates strong growth potential, its current valuation may give some investors pause. With projected revenue of $2.9 billion in 2024, its market share remains relatively small. However, its impressive growth trajectory suggests the premium valuation could be justified. The key question is whether On can successfully disrupt entrenched consumer loyalty to legacy brands and drive a meaningful shift toward its offerings. For growth-focused investors, On represents a compelling underdog in a market dominated by established players that are showing signs of waning dominance.

For its customers, On Cloud is more than just a product—it's a statement about the future of consumer preferences. As consumers seek products that feel tailored to their needs rather than relics of the past, On is positioning to capitalize on this shift, redefining expectations in the process.

The Decline of Legacy Retailers:

Nike and Adidas, once holding 63% of their Total Addressable Market (TAM) in 2022, now clutch just 35% in 2024. That's a colossal slip in the shoewear industry, leaving room for younger, hungrier competitors like On to lace up and race ahead.

We're already seeing this shift across industries:

● Media & Entertainment: Disney (DIS) is struggling to keep up, while niche content and creators dominate screens.

● Food & Beverage: Coca-Cola (KO) and PepsiCo (PEP) are losing fizz as Liquid Death and Celsius (CELH) penetrate the market.

● Fitness: Say goodbye to the clunky gym chains (sorry, Planet Fitness) and hello to boutique options like Orangetheory, Equinox, and Peloton (or at least the part of Peloton that still works).

● Beauty: Estee Lauder and Revlon are getting dusted by ELF Beauty and the influencer-driven brands redefining the industry.

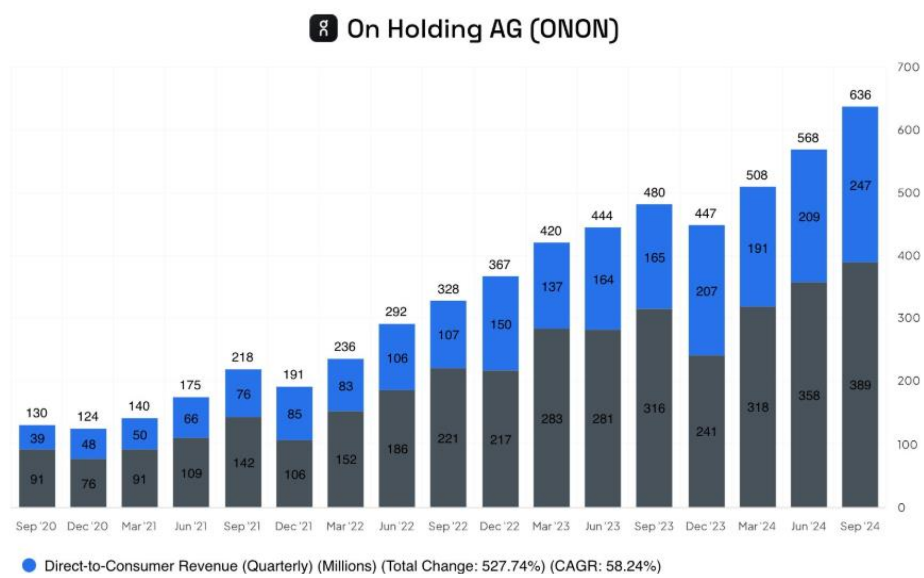
● Banking: The "we're too big to change" giants are getting schooled by lean, mobile-first players like Revolut, Cashapp, and Venmo.

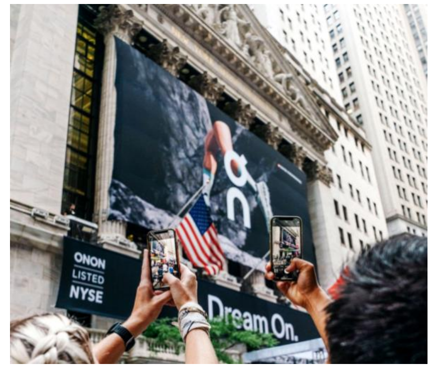
Above: Oliver Bernhard, Founder of On

Metric	Q3 2024	Change (YoY)	9M 2024	Change (YoY)
Net Sales (CHF)	635.8M	32.30%	1,711.7M	27.30%
- Direct-to-Consumer (DTC)	**246.7M**	**49.80%**	**646.6M**	**39.00%**
- Wholesale	389.1M	23.20%	1,065.1M	21.10%
Gross Profit (CHF)	385.3M	34.00%	1,028.9M	29.10%
- Gross Profit Margin	60.60%	70 bps	60.10%	80 bps
Net Income (CHF)	30.5M	-48.00%	152.7M	43.60%
- Net Income Margin	**4.80%**	**-740 bps**	**8.90%**	**100 bps**
Adjusted EBITDA (CHF)	120.1M	47.70%	288.3M	40.60%
- Adjusted EBITDA Margin	18.90%	200 bps	16.80%	160 bps
EPS (CHF)	$0.09	-50.00%	$0.47	42.40%
- Adjusted EPS (CHF)	$0.15	-25.00%	$0.62	59.00%
- EMEA	165.8M	15.10%	430.4M	14.40%
- Americas	395.5M	34.10%	1,095.1M	27.10%
- Asia-Pacific	**74.6M**	**79.30%**	**186.2M**	**73.90%**
Cash & Equivalents (CHF)	749.0M	**51.40%**		
Net Working Capital (CHF)	540.1M	8.90%		

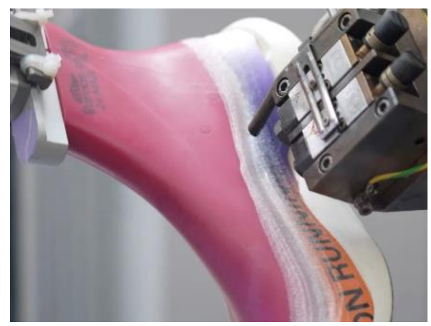
Key highlights from the recent quarter and 2024 thus far reveal notable progress for On. The company has capitalized on the growing Direct-to-Consumer (DTC) market, achieving 49% year-over-year (YoY) growth for the quarter. Additionally, consistent margin improvements throughout the year demonstrate On's ability to efficiently manage its operations as a newly profitable company.

The Asia-Pacific region stands out as the fastest-growing market, driven by a cultural emphasis on comfort in everyday wear. Lastly, On's strong cash position provides ample resources for continued innovation and market expansion without the need to dilute equity.





Above: September 15th, 2021 – On is officially listed on the New York Stock Exchange



Above: ON LightSpray Technology

The Direct-to-Consumer (DTC):

DTC growth trajectory is highlighted on the left, showcasing consistent quarterly expansion over the past few years. Remarkably, even in 2022, a period when many peers experienced a deceleration in growth, On demonstrated exceptional performance. This achievement is reflected in a compound annual growth rate (CAGR) of 58%.

Technology

On Cloud's design isn't just unique, it's unmistakable. Those signature CloudTec soles look like a futuristic blend of Swiss engineering and marshmallow technology. This distinct look gives them a competitive edge, reducing the need for costly ad campaigns. Why spend big on commercials when your shoes are already doing spot marketing on every treadmill and sidewalk? Word of mouth does the heavy lifting.

The pandemic also shifted the game. Sports enthusiasts swapped team jerseys for solo pursuits, and gyms filled up with people pounding treadmills, climbing Stairmasters, and out-cycling each other on stationary bikes. On Cloud and its peers responded to this shift with a new wave of "super runner" shoes, inspired by Nike's groundbreaking Vaporfly (2017).

The result? A chunky, softer, joint-friendly revolution in running shoes. On's CloudTec has emerged as the MVP of this innovation race. While the rest of the industry seemed stuck in neutral, these brands shifted into high gear, delivering solutions that runners (and their knees) actually care about.

While On may boast its fair share of flashy products, it's forward-thinking breakthroughs like these that push boundaries and keep legacy brands up at night. Such innovation doesn't just turn heads—it inspires confidence, and curiosity, from both consumers and investors.

Branding and Partnerships

The year 2020 was nothing short of a rollercoaster for brands. Legacy media took no prisoners, with athletes and corporations alike facing intense scrutiny. This upheaval drove many consumers to pivot toward smaller, niche brands, turning away from industry giants embroiled in political theatrics. Amid the chaos, On took a different path, staying focused on building strong partnerships with athletes and celebrities.

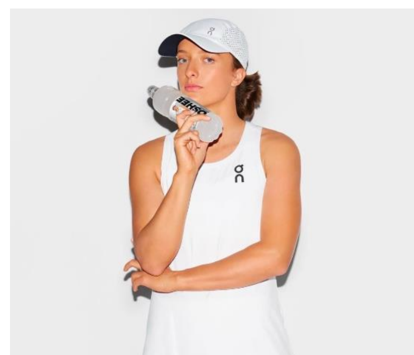
Closing Notes

On's growth over the past few years has been nothing short of remarkable. Despite challenges surrounding valuation and fierce industry competition, the management team has skillfully navigated the landscape. Through innovative products, high-quality partnerships, and global expansion, On has established itself as a formidable competitor. Whether or not it proves to be an investable company, there's no denying the exceptional effort and vision of its team.

Partnerships:

Beyond its lineup of super runners, On has added a new development to the mix: a recycled, spray-on shoe variant. Kenyan marathoner Hellen Obiri debuted this lace-less design at the Paris Olympics, clinching a bronze medal in the women's marathon. The founder aptly calls this innovation "our ticket to future competitiveness."

Perhaps their most notable collaborator is tennis legend Roger Federer, who joined the team in 2019 to develop his own line of shoes. Federer's involvement has since inspired a wave of tennis stars to follow suit, including Iga Świątek, Ben Shelton, and João Fonseca.



On has extended its reach beyond the world of sports by partnering with Zendaya, appealing to casual entertainment and film enjoyers. While celebrity collaborations represent a smaller aspect of On's overall strategy, they contribute significantly to the premium image the brand seeks to cultivate, leveraging the star power of household names to elevate its growing reputation.

Disclaimer

SEBS, “SEBS RESEARCH,” “SEBS EQUITY RESEARCH,” and “EQUITY RESEARCH BY SEBS” (collectively referred to as "SEBS") is not a broker, dealer, investment advisor, or financial advisor. SEBS does not provide personalized investment advice, tax advice, or legal advice. We do not possess or claim access to non-public information regarding publicly traded companies. All information provided through our content, including but not limited to research reports, analyses, or other materials, is for informational and educational purposes only.

The content provided by SEBS should not be interpreted as a recommendation to buy, sell, or hold any security or financial instrument. Any reliance you place on such information is strictly at your own risk. You should conduct your own independent research and seek advice from a qualified financial professional before making any investment decisions.

SEBS does not guarantee the accuracy, completeness, or timeliness of the information provided and shall not be held responsible for any errors, omissions, or results obtained from the use of this information. Past performance is not indicative of future results, and all investments carry risk, including the potential loss of principal.

By accessing SEBS content or joining any membership or group associated with SEBS, you acknowledge and agree to the terms of this disclaimer. You accept full responsibility for your financial decisions and actions. Misrepresentation, unauthorized reproduction, or transmission of SEBS materials is strictly prohibited.

SEBS reserves the right to amend or update this disclaimer at any time without prior notice.