

On Holding (ONON): Stock Running Hot

Overview

The narrative on On changed by about three points of guidance and the stock changed by forty percent. In March the company guided 2026 to at least 23% constant currency growth. In August it moved that to the low 20s because it chose to hold back wholesale shipments in a promotional United States market rather than discount. That is the entire fundamental deterioration. Against it, direct to consumer grew 34% in constant currency, Asia Pacific grew 55%, gross margin set a record at 65.4% after absorbing higher tariffs, EBITDA margin rose to 19.8%, cash grew 18% in six months and margin guidance went up. The stock now trades at 9.0 times next twelve month EBITDA and about 15 times my estimate of this year's adjusted earnings, which is the multiple the market assigns to a business that has stopped growing.

Compared to similar stocks the story is even better. Nike is flat on revenue with a 42.9% gross margin and a turnaround in its third year. Lululemon has cut guidance three times this year, comparable sales fell 9% and turnaround is unproven. On is the only one of the three that is growing, has the highest gross margin in the group by more than ten points, is the only one whose margins are going up, and is the only one that does not need anything fixed to work. It is priced in the same bucket as the other two.

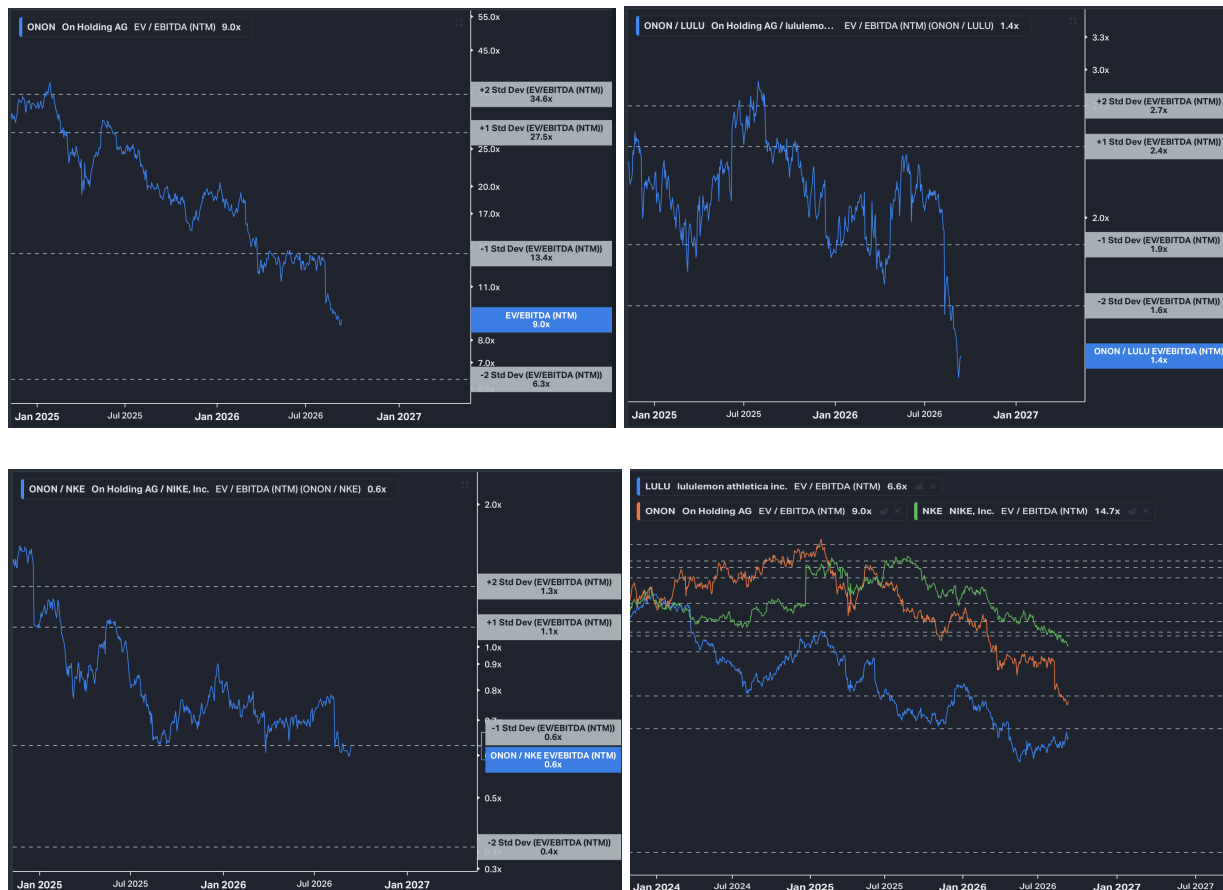
Three metrics decide how these stocks move, and ONON has an advantage on all of them.

On Americas revenue, On grew 13% in constant currency in its weakest region while Lululemon's Americas fell 8% with comparable sales down 12% and Nike's North America grew 3% on wholesale strength while its own direct channel fell 9%. On gross margin direction, On added 390 basis points with tariffs absorbed and no refunds taken, while Lululemon's underlying line fell about 360 basis points once the refunds came out and Nike's clean fourth quarter figure fell 10 basis points. On inventory to sales, On's inventory rose 31% against 13.5% reported sales growth, which is the bear's best number and deserves the direct answer that On is building ahead of the fastest product rollout in its history while Nike is clearing legacy silhouettes into a channel Dick's has already called saturated. Each of these three requires a turnaround at Nike and Lululemon and requires only continuation at On, which is what makes one multiple across the three a mispricing rather than a judgment.

I expect that ONON will re-rate faster than the other competitors and the market will go back to paying the premium for ONON that it used to, bringing EV/EBITDA back to the usual 15x.

This, alongside sustained EBITDA margins and revenue growth, gives the stock a 67.8% upside.

	Revenue (M)	Revenue Growth	EBITDA margin		
2025	\$3.858,00	16%	19%	Company	ONON
2026	\$4.475,28	16%	20%		
2027	\$5.191,32	16%	20%		
2028	\$6.021,94	16%	21%		
				EV (M)	\$8.320,00
				Future EV (M)	\$18.128,28
				Multiple	15
2028 EBITDA	\$1.264,61			WACC	12%
				return till 2028 (CAGR)	16,85%
				Fair Value today (M)	\$13.968,00
				Upside	67,88%



STOCK PERFORMANCE: LAST 12 MONTHS

Oct to Nov 2025, down 18%. The quarter was strong and the stock fell anyway, which is what happens when a name is owned for growth acceleration and delivers only growth. Jefferies read the same print and argued 2025 was the peak, so the market began paying for a decelerating compounder instead of an accelerating one.

Nov 2025 to Feb 2026, up 35%. A record year crossing \$3.7B of sales with gross margin at 62.8% made the deceleration call look premature, and the stock took most of the multiple back on the simple fact that nothing had actually broken.

March to mid May 2026, down 25%. The March 3 guide landed below where the Street had already modelled, and for a stock priced on the growth rate itself the guide is the entire earnings event. The founders then took back the chief executive seat from a thirteen year operator, which read as a loss of confidence rather than a doubling down, and nobody wanted to own the name into a quarter reported by new management. All three founders bought 60,000 shares each at \$36.64 on May 14 while the Street was cutting targets.

Mid May to early August 2026, flat in the high \$30s. A record first quarter with guidance reiterated and margins raised brought no upside at all, which is how you know the market had stopped paying for beats and was waiting only for proof that America's demand was intact.

August 11 to now, down 30%. Management protected price over volume by throttling wholesale shipments, the top line missed, the guide came down, and the market priced a decision as lost demand, taking the stock down 20.3% on six times average volume in the worst session since the 2021 listing. Coppetti and Bernhard each bought 65,000 shares at \$30.67 three days later, below that day's close. Two weeks after that Dick's described a footwear hangover and named On alongside Nike and Hoka, and the market stopped distinguishing between a brand clearing old product and a brand refusing to discount new product, which carried the stock the rest of the way to a 52 week low with better margins than it had at the high.

	ONON	LULU	NKE
Share price	\$27.07	\$97	\$36.80
Current year sales growth	Low 20s % (cc)	-5% to -7%	Roughly flat
Americas growth, latest quarter (cc)	+13.0%	-8.0%	+3.0%
Gross margin, latest quarter	65.4%	54.9%	40.2%
Gross margin change (YoY)	+390 bp	-360 bp	-10 bp
EBITDA margin	19.5% to 20.0%	~19%	~10%
EV / EBITDA (NTM)	9.0x	6.6x	14.7x
EV/EBITDA / NA sales growth	0.69x	negative	4.90x
EV/EBITDA / Margin change	2.31x	negative	negative
Needs a turnaround to work	No	Yes	Yes

WHAT IS THE MARKET NARRATIVE

Consensus is still Buy, but the average target has fallen to about \$45 across 28 analysts and nearly every revision since August has been a cut. The bear case is the Jefferies case: growth peaked in 2025, United States door expansion is slowing, retailers are moving shelf space back to Nike as its running line recovers, and a high price point with a narrow assortment caps the addressable market. The second quarter looked like proof: Americas sales grew 4.5% in francs, wholesale grew 4.8% reported, inventory rose 31%, and management admitted sell through of everyday running shoes was weaker in the United States. The Dick's commentary then bracketed On with Nike and Hoka as brands in a reset, and the group has been sold as one trade since.

HOW MY THESIS IS DIFFERENT

On is not the cheapest name in this group even though the company has been performing strongly and doesn't need a turnaround to make the stock work. Lululemon is cheaper on every multiple, and it deserves to be, because it is shrinking 5 to 7% this year with comparable sales down 9%. Nike is more expensive than On on earnings while revenue is flat and earnings are falling.

The market is applying one footwear multiple to three very different situations, and On is the only one where the multiple has to assume something that has not happened yet. Buying Nike or Lululemon here is underwriting a recovery. Buying On here is underwriting that a business already compounding above 20% with rising margins does not suddenly stop.

THE GROWTH ADJUSTED PICTURE

A multiple on its own places On between the two peers and settles nothing. A multiple divided by what the business is delivering settles it. I divide next twelve month EV to EBITDA by the growth rate of the region that caused all three deratings, and separately by the change in gross margin, using each company's most recent reported quarter. On pays 0.69 times its multiple per point of Americas growth against 4.90 times at Nike, a seven fold gap, and Lululemon has no value at all because its denominator is negative. On the margin version, On is the only one of the three whose denominator is positive, because it is the only one whose gross margin is going up.

Two honest caveats on the arithmetic. Nike's margin change is close to zero, so dividing by it produces an absurd number that overstates the gap, which is why the table shows the sign rather than a figure. And the ranking does not depend on the version I chose: on reported rather than constant currency, On's Americas growth was 4.5% and the ratio is 2.0 instead of 0.69, and on Nike's full fiscal 2026 rather than its fourth quarter, North America grew 5% and the ratio is 2.94. Every construction of the calculation ranks the three the same way.

THE THREE KPIS THAT DECIDE THE TRADE

Comparable sales is the obvious candidate and I do not use it, because only Lululemon reports it: Nike does not disclose comps in any usable form and On does not report them at all. The three metrics all three companies actually disclose, and that all three stocks actually trade on, are the following.

1. **“Americas revenue growth.”** On grew 13.0% in constant currency in its weakest region, while Lululemon's Americas revenue fell 8% with comparable sales down 12% and Nike's North America grew 3% on wholesale strength while Nike Direct fell 9%. On's figure is a share gain against roughly 30% global brand awareness, so it does not require the category to grow; Nike and Lululemon are share donors whose Americas line needs a category recovery and a product fix at the same time.
2. **“Gross margin direction.”** On printed 65.4%, up 390 basis points, after absorbing higher tariffs in full and excluding any refunds, and raised full year guidance to at least 65%. Lululemon printed 60.5% but 560 basis points of that was tariff refunds, so the underlying line fell about 360 basis points, and third quarter margin is guided down a further 250 basis points. Nike's 42.9% for fiscal 2026 includes 210 basis points of tariff recovery, and the clean fourth quarter figure was 40.2%, down 10 basis points. On is the only one going the right way, and it did it in the quarter Nike was marking down to clear product.
3. **“Inventory growth against sales growth.”** On's inventory rose 31% against 13.5% reported sales growth and this is the bear's best number, so it deserves a direct answer. The question is whether the inventory is forward or backward. On is building ahead of what management calls the fastest product rollout in its history over the next 14 months, plus new stores and the Belgian automated warehouse going live at the end of 2026.

Nike's inventory was flat for the year only because it has been clearing legacy silhouettes into a channel that Dick's has already described as saturated. Forward inventory converts at full price and backward inventory converts at a discount, and the third quarter print tests this directly.

On wins all three at once for the same reason: each metric requires a recovery at Nike and Lululemon and requires only continuation at On. Lululemon has to reverse a 9% comparable sales decline in its core category with a chief executive in her first month. Nike has to clear inventory, relaunch lifestyle and fix Greater China, where revenue fell 17% last quarter. On has to let a wholesale channel it deliberately throttled return to normal while product it has already announced ships on a schedule it has already published. Two of those are turnarounds and one of them is a calendar.

WHY THE THESIS WILL WORK

1. **"The fundamental change was three points of guidance."** At least 23% became low 20s, and it happened because management refused to discount into a promotional market; the stock lost roughly 40% of its value for a revision that size.
2. **"It is priced with the turnarounds without being one."** Nike is flat on sales with a new product cycle still to prove itself and Lululemon has cut guidance three times with a chief executive who started this month; On needs nothing fixed, only continued.
3. **"Best margins in the group and the only ones going up."** Gross margin of 65.4% against 56% at Lululemon and 42.9% at Nike, and On's rose 390 basis points in the same quarter Nike was taking aggressive markdowns to clear product.
4. **"Cheaper than its own history by more than half."** Jefferies marked On at just under 20 times EV to EBITDA in August 2025 when it downgraded the name; it is 9.0 times today, with constant currency growth still above 20%.
5. **"The founders are buying with their own money, twice."** Coppetti, Allemann and Bernhard bought about \$6.6M in May, and Coppetti and Bernhard added roughly \$4M at \$30.67 on August 14, three days after the worst session in the company's history and four months after taking direct operating control.
6. **"Investor Day on September 22 is the catalyst."** The founders set 2030 targets in Zurich, and management has already said third quarter growth will trail the fourth, which puts a visible reacceleration into the Q4 print and the March 2027 guide.

WHAT WOULD BREAK THE THESIS

1. **"DTC decelerating before wholesale recovers."** Direct to consumer grew 34.3% in constant currency and is 45.7% of sales, and it is carrying the whole argument while wholesale is throttled; if it falls to the high teens before Americas wholesale normalises there is nothing left holding this up.
2. **"The Americas trend is already pointing the wrong way."** Constant currency Americas growth went from 17% in the first quarter to 13% in the second, so one more step down converts a deliberate slowdown into a demand problem and hands the bear the argument.
3. **"Nike's multiple is on a trough number."** The 14.7 times is measured against a depressed forward estimate, so a Nike bull will argue it normalises on recovery rather than on multiple compression, and that argument is fair and should be answered rather than ignored.

4. **“Lululemon may be the better risk reward if the brand merely stabilises.”** At 6.6 times with \$1.4B of cash and a return on equity above 30%, Lululemon is priced for permanent decline, and permanent decline is a high bar for a brand of that quality to actually clear.