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Crocs, Inc. (CROX)

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CORPORATE PARTICIPANTS

Patraic Reagan

Chief Financial Officer & Executive Vice President, Crocs, Inc.

OTHER PARTICIPANTS

Jonathan R. Komp

Analyst, Robert W. Baird & Co., Inc.

MANAGEMENT DISCUSSION SECTION

Jonathan R. Komp

Analyst, Robert W. Baird & Co., Inc.

Okay. We're ready to get started here. Welcome, everyone. Thanks for joining. I'm Jon Komp, Baird's analyst, covering the Active Lifestyle sector. Very pleased to be joined by Crocs and CFO, Patraic Reagan. Welcome.

Patraic Reagan

Chief Financial Officer & Executive Vice President, Crocs, Inc.

Great. Thanks, Jon.

Jonathan R. Komp

Analyst, Robert W. Baird & Co., Inc.

Crocs, as many of you, I'm sure know, is a company that generates roughly \$4 billion of annual revenue from the iconic Crocs brand, as well as HEYDUDE. The company has been focused on improving marketplace health and really leaning into product and marketing, and beginning to show the fruits of those efforts, especially in the direct-to-consumer channel. Patraic is EVP and CFO, joined Crocs last September.

Patraic Reagan

Chief Financial Officer & Executive Vice President, Crocs, Inc.

That's right.

Jonathan R. Komp

Analyst, Robert W. Baird & Co., Inc.

He came from SharkNinja and had a long career before that at Nike. So welcome again, Patraic. I want to start off and really talk about the actions the company has taken started the second half of 2025 to really reduce inventory risk and start to position the company for product and marketing that's now heading in the DTC channel. So maybe just lay out the current landscape for the company, and then we'll go from there.

Patraic Reagan

Chief Financial Officer & Executive Vice President, Crocs, Inc.

Yeah, yeah. So first of all, Jon, thanks. Thanks for inviting me in and nice to see everybody.

Let me start with, in response to your question, the second half of last year was a really important time in the period of our company in terms of setting us up for future growth. And so, for those of you who might not be as familiar with the story, we were at a point in time where we had a little bit too much inventory in the marketplace. And we had to take some short-term painful decisions to make sure that we positioned ourselves for longer-term future growth. And we did that with a focus of knowing that it's a product-driven company. That we had quite a bit of new innovation coming in the first part of 2026 for both of our brands. And so that kind of level set us in terms of what we needed to do as we turned into 2026.

So as we've come into this year, what we've been positioning ourselves to do is, number one being very aware of what's happening from a more macro standpoint. There's pressure on the consumer, although we feel good about our positioning within the consumer space from a pricing standpoint and a price to value perspective on our product. We also knew coming in, our industry footwear is one that's very, very competitive. And so, our focus on product innovation always needs to be front and center in terms of what we do. So those actions from last year, that really kind of paved the way to what we're seeing happen in the marketplace in this year.

And what we're focused on is really, from a growth driving standpoint, really a couple of things. Number one is, we, as a company, we're known for our Classic Clog. So if you close your eyes and somebody says, think of Crocs, you're going to view that Classic Clog, 13 hole, which is really our icon. And for us, what we're focused on is couple of things in terms of diversification.

Number one is, within the Clogs category, which is a growing category globally, we're diversifying within that space. We're the market leader by a pretty significant margin. We drive the innovation. We drive taste in that space. And so, we're really kind of driving continued innovation there. And that's one of the reasons why it's so important for us to get the marketplace in a good spot as we turned out of 2025 and in 2026.

The second component is, from a diversification product-wise, outside of the Clog business, we're really focused on areas like, for example, sandals, where, for the last couple of years, we've been developing our sandals programs. And we're now starting to get to a place where we've got real scale in that. So as we go through 2026, we're going to be at a point where we're roughly about \$0.5 billion sandal business across both brands globally.

And from a footwear perspective, there's not a lot of companies that have \$0.5 billion in sales overall. So really, from a size and scale standpoint, the innovation that's going on from a product perspective in that space has really been helping to drive growth.

So, Jon, and back to your original question, kind of where we're going, where we're positioned, as we turn from 2025 into 2026, it's really been and is continuing to be driven by focused on innovation on behalf of the consumer.

QUESTION AND ANSWER SECTION

Jonathan R. Komp

Analyst, Robert W. Baird & Co., Inc.

Q

That's a great way to kick it off. And I know we'll talk more about international, too, because I know you're excited on the international side. But maybe sticking with the theme of US and the core Crocs business, maybe just expand a little further some of the changes from a marketing perspective. And then if you're willing to share some examples of the product that's working and presumably that's in your DTC channel here to start.

Patraic Reagan

Chief Financial Officer & Executive Vice President, Crocs, Inc.

A

Yeah. So great question. As we think about who we are as a company, number one, at our core, we're a product company, right? As I mentioned, we're very focused on innovation across both brands for our consumer. And we feel like we're really well positioned with some of the products we're bringing to market.

We continue to invest in innovation. It's a priority for us. However, and this is back to your question, Jon, is it doesn't do us much good to bring that great new product, innovative product to market if we're not telling those marketing stories effectively. And so what we're doing, and this has been some really exciting work, is we've been on what I would call the cutting edge in terms of digital and social marketing, particularly through some of our marketplace channels as we've been bringing new product to the market and reinforcing who we are as a brand.

And so, you can think about this is some of the work that we're investing in marketplaces like TikTok Shop and some of the other social selling platforms. We've been the number one selling footwear brand on TikTok Shop for two years. I get the question like, are you going to remain there? I'm like, no, somebody, Nike or adi or somebody is going to come by and just volume-wise be bigger. But from an agility standpoint, we're learning and we're learning quickly in terms of how to engage in and communicate with that consumer.

So that's been a lot of focus that we've been putting on. We've also – towards the second half of last year, we pulled back quite a bit on our performance marketing spend in investment. And for those of you that are familiar with how that works, that's what we call lower end of the funnel. It's expensive way to drive revenue, and we've kind of repositioned that into telling more of our product stories and more of our brand stories.

And so, that's all happened with a key leadership change that we had in the business as we've brought Terence Reilly back, I think, roughly about two years ago, initially running HEYDUDE. But if you're familiar with Terence and some of his work, you may not be, but probably many of you have got a very expensive Stanley coffee cup or beverage holder. And Terence was really the mastermind to bringing that to life. And he worked with Crocs before. He's now back. We're happy to have him, and he's really driving some very focused and very cutting-edge marketing stories to help us with product.

Jonathan R. Komp

Analyst, Robert W. Baird & Co., Inc.

Q

Maybe to go a little further on the channel performance in North America, Q1 highlighted a pretty big divergence. Crocs start to consumer positive, wholesale still negative. Just talk about the dynamics across the channels and how that's embedded looking forward as well.

Patraic Reagan

Chief Financial Officer & Executive Vice President, Crocs, Inc.

A

Yeah. So I think, as we came into the year, and again kind of going back to some of the moves that we made in the second half to make sure inventory was right within the marketplaces, part of what we were really trying to do is make sure that we were positioned well for 2026. And it relates to like the channels of distribution that we have, knowing that we are leading through innovation in new product.

It was our expectation, and this is what is actually happening, that we would see the acceleration from a consumer standpoint first through our digital and social channels within our DTC business, then within our direct-to-consumer stores. And we knew that that kind of ecosystem of direct-to-consumer was going to lead in terms of growth. That's what we saw in Q1. That's what we're seeing in – or that's what we expect to see as we continue to go through the year.

And we knew that the wholesale channel was going to lag because that's just kind of how the marketplace is. That's not to say that our wholesale partners are not important. They're critically important to us. We aim and we leverage our wholesale partners to make sure that we've got our product, both Crocs and HEYDUDE, available to our consumers without friction in terms of having to find us. And so, wholesale plays an exceptionally important place in how we get that product to consumer.

But we knew that that was going to be a couple of seasons lag in terms of wholesale partners investing in some of that newness. And we also knew that what we would start to see, if we indeed had green shoots in that space, was that we would see our at-once business, which is wholesalers being able to make specific kind of smaller orders that would take off before some of the bigger buy investments that they would have. And that's exactly what we've seen.

Jonathan R. Komp

Analyst, Robert W. Baird & Co., Inc.

Q

That's great. Very encouraging. Maybe shifting to international since it's around half of your business. I know you're excited. The momentum looks good. DTC was very strong in Q1. So highlight some of like – what gets you excited about the growth in international?

Patraic Reagan

Chief Financial Officer & Executive Vice President, Crocs, Inc.

A

Yeah. I mean, I don't know if it's super well known that half of Crocs revenue globally has come from international. And so, we've got a very – the beginnings of a very strong footprint internationally. And so, for me, what's exciting is couple of things.

One, the team has done a really good job in terms of planting the seeds of international growth, which I think is, from a business model standpoint, in some of the more developed markets, say like France, Germany, UK, we've gone in owning our business. In some of the lesser developed markets, maybe think Southeast Asia, Latin America, we go in through a distributor model where we partner with a local distributor that knows the market a little bit better.

But in all those marketplaces, we're still in very much a nascent place of marketplace development. Just a nice little data point for you all is China is our second largest international market, but it accounts for just 4% of our global sales. So, there's a lot of people in China. There's a lot of feet. Our product plays really well to that consumer. The price is really well positioned in terms of where we are from a consumer standpoint.

And so, we've got a lot of runway internationally with both brands. Crocs is a little bit further advanced in terms of establishing some of those beachheads, and kind of leading with product that HEYDUDE was actually a company that was founded in Italy. Today, we have, I think, roughly about \$60 million, \$50 million, \$60 million in sales internationally for HEYDUDE. So we don't really have a presence yet. But you can see where that is going to be strategically, a step to come.

And so, Jon, coming back to your question, I mean, I'm super excited about the international side of our business. We'll see a lot of growth coming from there in both immediate and kind of midterm.

Jonathan R. Komp

Analyst, Robert W. Baird & Co., Inc.

Q

That's great. Why don't we talk a little bit more about HEYDUDE? Coming in last fall, your view of the brand, the leadership changes, the state of the business. You've also seen DTC inflect positively there. So maybe a rundown of where HEYDUDE stands.

Patraic Reagan

Chief Financial Officer & Executive Vice President, Crocs, Inc.

A

Sure, yeah. I mean, from a HEYDUDE standpoint, I think, again, for those of you maybe not familiar, acquisition that was made three years, I think three years ago, maybe four years ago. And like a lot of acquisitions, there are some growing pains. And so, you're kind of straight on after the acquisition, some really strong growth. And now, we're in a position where we're kind of rightsizing some of that inventory that's in the marketplace.

And so I think there's some learnings around that. But overall, when we look at HEYDUDE, a couple of things I'd like to be top of mind. Number one, if we think about HEYDUDE relative to Crocs, HEYDUDE has got a much, much larger total addressable market or TAM in terms of consumer. And so that gives us continued confidence that there is a business, a sizable business there.

Number two is that HEYDUDE, even though we're in the middle of kind of a marketplace adjustment, is it's a \$700 million footwear brand. And again, similar to my example on sandals, there's not a lot of \$700 million brands. So we're already at scale, and we're at scale in a profitable way. HEYDUDE's been profitable from day one and continues to be profitable for Crocs.

And then third, I think where we are right now is, as Jon alluded to, there's been a few leadership changes. We've brought in a gentleman by the name of Rupert Campbell, long-term adidas executive that's driven adi from a growth perspective in a number of areas around the world. A true inspirational operational leader in terms of marketplace and marketplace management. And he's taking the reins as driving. Also, making key investments in that team from a product standpoint, product innovation standpoint, merchandising standpoint. So really kind of building out the core of that leadership team.

And then the third (sic) [fourth] (00:25:53) is, within kind of the Crocs-HEYDUDE shared service ecosystem, we're really pulling the supply chains for those respective brands more closely together. Number one, to gain efficiencies in reference to kind of time and speed to market. But with that also comes significant amount of cost savings and efficiency that help us from a bottom line standpoint. the stories in Crocs as well, we are doing what we said we're going to do.

And so if you look at this sequential improvement from a revenue perspective for HEYDUDE, we're on a multi-quarter improvement. And with that, that gives us the confidence in the second half that as we guided

expectations for the year, we made a clear statement that we would return to growth for HEYDUDE in the second half of the year. That's on track. The data points and the proof points are out there. And we continue to feel exceptionally confident with that.

I think Jon is kind of like teasing me a little bit here on the virality. We had some fun controversy in HEYDUDE over the last maybe week or so where our shoes got banned from the – I don't know if there's an international hacky sack tournament. But for those of you who've got kids of a certain age, hacky sack is back in a big way, and there's some tournaments going on. And apparently, some of our shoes are designed in a way that give an unfair advantage. We didn't design them like that. That's just kind of an outcome.

But we're seizing on the moment in a way that Crocs, Inc. is really good at seizing on viral moments. And it's making a fun kind of play in terms of being banned from hacky sack tournaments. So we're just having a little bit of fun with it, but it's all really pointed at kind of keeping the brand top of mind for our consumers. So, it's been a little bit of fun over the last week or so.

Jonathan R. Komp

Analyst, Robert W. Baird & Co., Inc.

Q

I can only imagine the ideas that Terence is formulating, some of the potential there. Maybe spending a minute on the 2026 guidance. I mean, your guidance raise after the first quarter stood out in light of uncertainty with the Middle East and freight and tariffs and health of the consumer. So just talk about the visibility you have for 2026, the key assumptions and the confidence to raise the guidance for the first quarter.

Patraic Reagan

Chief Financial Officer & Executive Vice President, Crocs, Inc.

A

Yeah. I mean, you're right to say there's a lot going on from a macro standpoint right now. And we fully contemplated all of that in terms of our guide. And so for the folks maybe not as familiar with the story, some of the headwinds we see in that space are, one, obviously with the Iranian conflict. We had our distributor stores in the Mid East. Many of them shut down. Some of them, partially operating. And so, we've constrained the flow of inventory into those markets. So that has a direct impact, but that was fully contemplated in terms of the guidance that we that we raised.

The second component of that is like most all other companies, we're seeing some headwinds from distribution and logistics perspective in terms of fuel prices, both outbound, inbound. Those aren't super significant. We don't expect them to be super significant from 2026 standpoint. But we're monitoring. But this, for me, it falls under kind of the work that we have to do. The world isn't getting any less dynamic or less chaotic. These shocks to the system seem to be coming – they used to come like once every three or four years, then once every couple of years. Now, it seems like they happen every couple of months, if not weeks.

But from a management team standpoint, we pull that responsibility close to ourselves. We view that as the things that we've got to solve and not really kind of opine on what was us. We've got another headwind. We just got to go out and solve it. And so that's kind of how we position ourselves from a resiliency and an agility standpoint. And we're really confident that as we continue to go, we don't go forward. We don't know what the next thing is going to be, but we know there's going to be the next thing. And we'll respond to it.

Jonathan R. Komp

Analyst, Robert W. Baird & Co., Inc.

Q

I'm sticking with margin a bit. I get asked often how Crocs' gross margins are so high. So maybe you could start there about some of the structural gross margin drivers. And then really for 2026, you've embedded slight operating margin expansion. So, include some discussion around the cost structural changes you've made and how that's flowing through.

Patraic Reagan

Chief Financial Officer & Executive Vice President, Crocs, Inc.

A

Yeah. For us, our profitability, which is really kind of best in class from a pure set standpoint, it all starts with product and kind of our price value equation with our consumer. And so, with that and how we're able to engineer, produce at scale our product, we're in a position that we've got really healthy product margins. And so it kind of all starts there.

And so, you heard me earlier in kind of our time together, talk about the importance of product innovation. First, important to innovate on behalf of the consumer, but it's also equally as important for us to innovate profitably on behalf of the consumer. And so, we're always obsessing what that price value equation looks like and then how that relates to our product profitability.

And so, it starts there. And then as we look down through the P&L, there's really three areas that we prioritize from an investment standpoint that we protect. And so those are, one, product innovation. I've hit that pretty hard, so I won't go deeper into there. Second is marketing. We talked about that a little bit earlier. It doesn't do us any good to tell or develop great product without telling the stories. We've got to educate the consumer in terms of what we're bringing into the marketplace. So very focused on that. And then the third is continue to invest in our supply chain.

And so those three areas, the ones that really get that outsized investment. And then as we look across the rest of the P&L, that's what we try and are very, very successful driving efficiencies to keep our operating margins in a very healthy space. And then you see that translate into obviously our cash flow generation, which is best in class.

Jonathan R. Komp

Analyst, Robert W. Baird & Co., Inc.

Q

And to follow up, I know you took out some costs at the start of the year. Just talk about how those are flowing through, how that impacts your ability to leverage moderate top line growth here.

Patraic Reagan

Chief Financial Officer & Executive Vice President, Crocs, Inc.

A

Yeah. So really, two cost savings initiatives. One, well, both kicked off in 2025, initial \$50 million earlier in 2025 and then a second \$100 million exercise that was later in 2025 and continues in 2026. And really, what it's focused on is just being a leaner, more efficient Crocs. Some of that – well, number one, all of that's been identified and actioned. So that's like check the box.

The second component of that is that we'll drive some of that to the bottom line. We'll reinvest some of that in the business. And we're also looking for additional opportunities to continue to reinvest. And so it's another example of being able to quickly and nimbly adapt to bring a little bit more efficiency into our P&L without sacrificing and actually prioritizing the investment that we make in product innovation, marketing and supply chain.

Jonathan R. Komp

Analyst, Robert W. Baird & Co., Inc.



Not to say one of the better topics for last, but in the last few minutes, maybe talk about the cash generation, the capital allocation strategy. You're at the lower end of your target net leverage ratio. So how much cash are you going to generate here, and what are you going to do with it?

Patraic Reagan

Chief Financial Officer & Executive Vice President, Crocs, Inc.



Yeah. So, we've got a very powerful cash generation machine, and it starts really with the profitability of our products. This is an area that I don't feel like we get enough credit from an investor standpoint. We're trying to communicate this more effectively. But I think what's happened over the years is, over the last few years, a lot of our cash generation has gone to pay down the debt associated with the HEYDUDE acquisition. And so, it was kind of like cash was being deployed, but obviously, in a way that wasn't really returning value to shareholders at that point in time.

We're now in, what I call, kind of the Goldilocks zone of our leverage. We don't have too much. We don't have too little. I feel really good about where we are as a consumer company with the level of leverage we have. We're at the lower end of our target of 1 to 1.5 times. So we feel great there.

And so what we've been able to do over the last 12 months or so is aim the power of that cash generation to truly returning value to shareholders through buybacks. And so over the course of the last year, we bought back roughly about 10% of our outstanding shares. We are positioned to be aggressive in the space in 2026. We don't formally guide our buyback program, but we've been aggressively in the space post Q1. And so, it's something that is looking at our stock and personally believing it's a buy and that we're undervalued. We'll continue to be in the space.

Jonathan R. Komp

Analyst, Robert W. Baird & Co., Inc.

I can't think of a better way to end it. Patraic, thank you.

Patraic Reagan

Chief Financial Officer & Executive Vice President, Crocs, Inc.

All right.

Jonathan R. Komp

Analyst, Robert W. Baird & Co., Inc.

I think we covered a lot of ground, and I appreciate you being here today.

Patraic Reagan

Chief Financial Officer & Executive Vice President, Crocs, Inc.

Great. Thanks, Jon.

Jonathan R. Komp

Analyst, Robert W. Baird & Co., Inc.

Patraic will be with us over in the Astor Suite for a few minutes afterward for a breakout session. If you could all join me in thanking Crocs, Abi and Patraic. Thank you.

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