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<<David M. King, Analyst, ROTH Capital Partners>>

All right. Good afternoon, everyone. My name is Dave King, and I'm an analyst here at ROTH. Next up we have Crocs, and the Company's CFO, Anne Mehlman; and Marisa Jacobs who handles Investor Relations for the company. Go ahead, Anne.

<<Anne Mehlman, Executive Vice President and Chief Financial Officer>>

Good afternoon. So today, we're going to talk about Crocs and how we're positioned for growth. I'll take you through our key financial information, and then we'll talk through some investment considerations.

So for those of you who don't know Crocs very well, we're a powerful brand. We're one of the top 10 non-athletic global footwear brands. We're known really well for our iconic product, which is the Classic clog our fully molded lightweight clog. We're a democratic brand. We make product for women, men and kids around the globe. We have 65% global aided brand awareness and we're distributed in over 90 countries. And if you think through our revenue profile about 60% of our revenue is outside of the U.S. And we are driving product and marketing innovation through world class talent.

In 2016, we reset the business and we laid out three priorities. Three priorities where to simplify the business to reduce costs, improve the quality of revenues, and generate sustainable, profitable revenue growth. At the end of 2016, we announced a cost reduction program that would take $75 million to $85 million of costs out of our business on a run rate basis. And we've actually completed that program. So we completed that at the end of 2018 and you'll see the remainder of those costs come out of the business this year.

And we did that by closing stores. We closed about 175 retail locations. We also exited certain countries where we didn't have a lot of scale and we put distributors in there. So we took Taiwan, Hong Kong, South Africa and the Middle East from direct markets to distributor markets. And we did some restructuring and that left us with a sustainable cost base.

The second pillar was to improve the quality of revenue. We were over distributed in some cases. And we also over SKUed. We had made the decision a while ago to diversify beyond the Classic clog. And we were selling lower margin products that were difficult for us to sustain a good margin. So we cut back on our SKUs and focused again on our core clog and our more profitable, fully molded silhouettes and that allowed us to boost our gross margin.

And in addition to that, we cut back some of our distribution, particularly with Tier 4 customers, especially in Europe and some of our other markets, where it didn't make a ton of sense to sell

low margin goods. That helps supports the brand. And it also helped us improve the quality of revenue.

And then the third pillar was to generate sustainable, profitable revenue growth. And in 2018, we returned the company to growth, we grew at 6% in 2018 over 2017 and that included some headwinds from store closures of about $60 million. So with that, we consider that our plan is done and we're confident in our pathway to growth.

So we've turned to the Company's focus to profitable revenue growth and we're looking at that through three lenses. The first lens is product. The second lens is channel. And the third lens is region.

So when we talk through how we're going to grow through product, where we've been able to grow and how we've been able to win is really through igniting relevance around our core clog product.

So innovating and growing our clog relevance. And the way that we've done that is by refocusing on our core Classic clog. And by bringing newness into the silhouettes by refreshing colors, prints and expanding on personalization, which are Jibbitz charms; many of you may have seen them. And allowing people to personalize their clogs and creating that connection through the Jibbitz charms.

The second thing from a product perspective is sandals. We have a significant long-term growth potential in sandals. So clogs are our highest margin silhouettes; our fully molded silhouettes. Sandals are also fully molded and high margin. And it's a natural extension of our clog product, and where we think we have permission from our consumer to sell. We've grown double-digits in sandals over the last couple of years. And the sandal market is much larger than the clog market overall. And so we think we have a huge opportunity to continue to grow in sandals.

And the third is what we call visible comfort technology. We're not a technology company, we're a comfort footwear company. But from a technology standpoint, where we think there are places in the market where we can win, where we can continue to innovate on materials and bring something new and comfortable to the market, we will. Last year, we introduced the LiteRide franchise, which I'll show you in a minute, which has done really, really well and been one of the most successful franchises that we've introduced in years. And it's a very light, soft, fully molded product and an update to our clog products. It's also a little bit more streamlined, a little bit more modern looking and it's been received really well, particularly in Asia.

From a channel perspective, we're a multichannel business that we distribute through e-commerce, wholesale and retail. And from a channel perspective, we continue to see double-digit e-commerce growth and we believe that will continue. We actually had record e-commerce revenue in 2018. And we expect that to continue as consumers shift to the e-commerce channel.

And when we think about our e-commerce channel, the way that we talk about e-commerce is to own our own dot coms and then also through marketplaces where we sell directly to the consumer on somebody else's dot com. From a wholesale perspective, we have about 50% of our

wholesale made up of what we call e-tailers, which are pure play e-com, the Amazon's of the world and then distributors. So if you think through our wholesale about 50% is traditional brick-and-mortar and 50% is e-tail and distributors. And that 50% which is e-tail and distributors is growing much faster than our traditional brick-and-mortar piece and that's what's going to really drive wholesale.

And then from a retail perspective, I just mentioned we closed 175 retail stores and we prioritized outlets, which are our most profitable format and those equal about, they're over 50% of our fleet at this point. So we feel pretty good and we drove also record retail comps in 2018.

From a region perspective, we have three regions: Asia, Americas and Europe. Asia is our largest growth potential region. It has some of the fastest growing footwear markets in the world and also the largest footwear markets in the world outside of the U.S. And we're very excited about our Asia growth prospects, particularly in the markets where we're direct. And then we have some distributor markets where we're also underpenetrated where we think we can continue to grow.

And the Americas has strong growth momentum right now, especially in the U.S., which makes up the majority of our Americas region. And we had record Americas revenues last year, over $0.5 billion in the Americas. We have really strong growth momentum and we feel like we still have headway to go in the Americas.

So focusing on clog relevance, we're the market leader. We estimate the category is about $4 billion. And we grew our clog revenues by 13% in 2018 and it's about 55% of our overall footwear sales. And that was a key to reinvigorating our revenue growth. Really focusing on our icon, what we're known for and our highest margin silhouette, which is the clog. The way that we did that is through impactful collaborations. Many of you may know about our Post Malone collaboration that we did. We did two drops with Post Malone. They sold out in under eight minutes. It was really exciting. We've got a lot of social media attention out of it and it was a really good partnership and very organic.

We also did some smaller collaborations recently with some more niche brands, Chinatown, Pleasures, PizzaSlime, so some smaller but cool brands to really continue to ignite the brand. And what started our collaborations as we started doing collaborations, our first collaboration was with the designer Christopher Kane, and then we did a Balenciaga collaboration. And we feel like collaborations are a very effective way of bringing buzz to the brand and introducing the brand to new consumers.

We also have refreshed the clog with trend right colors and graphics. So this year if you go into one of our Crocs stores, you'll see some really fun coral, which is the color of the year and some fun graphics. And then you can also personalize those with expanded Jibbitz charms. So if you go into any of our retail stores or online, you can personalize your clog with your Jibbitz. A trend we've seen is sports teams buying white clogs and then personalizing them with their numbers or their team names or their last name. And that creates a very good connection with us and our consumer. So it also leads to an interaction that we wouldn't get if somebody is just coming in to buy a pair of shoes.

And then we'll continue with relevant licenses. So we've used Disney licenses and Marvel licenses for a number of years and we'll continue to do that to bring newness to the brand.

And you can see on the right, some of our marketing that we've done. From a sandal perspective, this is a significant long-term growth opportunity, because it's a much larger market than clogs. We estimate the global casual sandal market to be about $23 billion. And there's no clear market leader in the sandal market. So it's a huge opportunity for us.

And we've grown sandal revenues by 19% in 2018 and that was on top of 26% in 2017. It's about 19% or it's about 23% of our total footwear sales in 2018. And you can see on the right some examples: the Crocband Flip has been in our line for a number of years, also fully molded products. We introduced the Swiftwater a few years ago and then we have a more stylish style with kind of a dressier sandal with an interesting upper called the Sloane.

So we will continue to innovate around sandals and introduce more sandals. And we have had clear adoption by the Crocs core consumer, because we have permission to play there; it's molded, it's in our space, people expect to see summer product from us. We are focused on women, which is two-thirds of the sandal market and we feel like we can bring in new consumers into the brand also through sandals. We can play in multiple wearing occasions. As you can see on the right as we just talked about, we have active, we have style, we have essential and we can leverage our global distribution, so particularly our global distribution in Asia is a huge place for us to grow sandals.

And we can boost marketing support to increase sandal awareness. For the past couple of years, our marketing has really been focused on igniting the clog, bringing brand relevance and continuing to elevate that and now that we've done that, we'll start to continue to invest in marketing into sandals. And our growth will be ignited by global, social and digital marketing. So in 2017, we pivoted to being a 100% digital marketing and we pivoted to using celebrity and brand ambassadors.

This year we are really excited. We just announced five new brand ambassadors that are starting to show up in our campaigns now. And we have one brand ambassador for each of our key markets. Our key markets are South Korea, Germany, the U.S., China and Japan. And we have a celebrity working – for the first time, we have celebrities for each of those key markets, so local celebrities. And we've just started to see some of that marketing content come through.

We'll continue to focus on driving clog relevance and sandal awareness. And we will also drive further collaboration. So we have a full slate of collaborations this year as we continue to think that it's a really fun way to connect with the consumer, bring in new consumers and drive brand heat. And we will improve our social engagement through relevant platforms and continue to double down on our digital marketing strategy.

One of the great things about being able to pivot to a digital marketing strategy is it allowed us to scale a global campaign, which we had never been able to do before from a marketing perspective. So we could stretch our dollars much further and we could have a consistent

message to all of our markets, including giving a messaging and marketing to our distributor partners.

From an e-commerce standpoint, we think that e-commerce double-digit growth will continue. We feel like there are two pieces to that. One like I just discussed is our own dot com, which is our own operated e-commerce sites. We continue to see traffic growth. It's a fast growing distribution channel just because the consumer is migrating there. And we've been investing in people and technologies to continue to drive people to our own dot com. From a marketplace standpoint, when we talk marketplaces again, that's where we can sell directly to the consumer on a platform which we do not own.

So a good example of that would be Amazon. We don't – we're not on Amazon marketplace here, but we sell on Amazon marketplace in Europe, where Zalando has a marketplace. We also are looking at Asia marketplaces such as Rakuten in Japan or Coupang in Korea. Those are all examples of global marketplaces. Our biggest marketplace is T-mall in China, which is where we sell through another platform, but we directly sell to the consumer.

So the way that we're going to win there is - we were active on- so we launched five sites in 2018 and we'll launch an additional five sites in 2019. And we'll continue to look to that channel. And currently we play somewhat on those sites. We had product on those sites, but the way we were doing it was we were selling to wholesale partners and then they were selling online. And this way we can really control our brand presence. We can control what we offer. We can control the breadth of the product that's offered by doing it directly. And we can do a better job of reaching the end consumer

From an e-tail and distributor perspective, as I mentioned, about 50% of our wholesale business is made up of e-tail and distributors. And e-tail again, being the pure play e-commerce players, Zappos, Zalando, Amazon, and then our distributor markets, particularly in Southeast Asia and South America and the Middle East. And so the way that we've been able to gain share is by achieving consistent double-digit e-tail growth, we've been partnering with e-tailers for a long time. And we've been able to do that through product segmentation and investing in on-site marketing, as many searches now and much of the traffic is going directly to these marketplaces and to these multi-branded e-commerce players.

And then from a distributor standpoint, as I mentioned, we pivoted a couple of years ago in markets that we didn't think we could serve well enough, because the SG&A was prohibitive. We went with well established distributor players, so that they can penetrate the market and we've been able to align with them on marketing, so that they can present a consistent brand message. And so we have a strong portfolio of leading distributors, and we've also been able to sell them the same line that we have, so that we can have a consistent message globally.

From a retail standpoint, from our own retail perspective, we'll continue to prioritize outlet growth within retail. So as I mentioned, we closed 175 retail stores from 2016, we now have about 383 stores on a global basis and about half of those are outlets. And we pivoted our outlet strategy so that we could really merchandise with built-for-outlet product, which is really good

for our margins and good for the consumer as well, because we can offer compelling price points at a good margin.

Our outlets are our most profitable format and so they're very important in our overall brand strategy. And we will continue comp-store growth, we had extremely strong comp store growth in 2018 and we look to continue to leverage that. And in Asia, our primary outlet growth will be in Japan and China. And then from an overall store footprint perspective, we feel like our footprint is about right where it's at. So we may have some natural closures as things come up and we may have some natural openings in places like Asia or China and Japan. But overall, our retail footprint is about right at this point.

And then from a region perspective, Asia is our largest growth opportunity, particularly in China. So we've – in 2018, we saw a lot of brand heat around our clog and our Classic, especially in the U.S. and also in Europe. And now the opportunity is to transfer that brand heat over to Asia to increase the brand recognition, really optimize and ignite China. We just established a Board committee for China growth to leverage and figure out how to really double down and grow China. China is the second largest footwear market in the world and growing. And then strong e-commerce growth and rapid marketplace expansion, so the marketplaces that we're growing are heavily weighted towards Asia.

We also are direct in China, India, Japan and South Korea, which are many of our key markets. And we're seeing growth in some of those key markets and continuing to double down is really important for us, and then incremental penetration in our distributor markets. So some of our distributor markets are very early on and as they continue to penetrate, we should get increased growth.

From an Americas perspective, it's our largest region and we broke our revenue record last year; it's performing very well. And it's really maximizing the clog growth and expanding sandal penetration at wholesale. We've also been working with e-tailers for a number of years and so we need to continue to leverage that leading position. And we'll continue to double down on our strong e-commerce growth.

And EMEA, which is Europe and then we moved Middle East under Europe last year. So it's Europe, Middle East and Africa. It's really the digital focus, but focus on e-tail and marketplaces and then we have some distributors in some of the market.

From a financial perspective, so those of you who aren't very familiar with the story, 2018 was a great year for us. We returned the Company to revenue growth. We grew 6% even with store closures and business model changes. We improved the quality of our revenues, improved our gross margins. We also had fewer narrow promotions, less liquidations, and we were able to increase the price on some of our Classic clogs, which is one of our iconic products, in both the U.S. and in Europe.

We simplified the business to reduce costs. We finished rightsizing our brick and mortar fleet and we also exited our owned manufacturing. So we had owned manufacturing in Italy and

Mexico, which we moved to complete third party contract manufacturing at this point and that – and implemented other cost savings improvements with that.

And we strengthened our balance sheet. So we generated over $100 million of cash last year. We increased our borrowing capacity from $100 million to $300 million and part of that was we eliminated our preferred share structure. So we had a Blackstone investment of $200 million that carried a $12 million a year annual dividend and also was dilutive overall to our EPS, because of the preferred participation rates. And we simplified that and bought that back, we retired half of it and then half was converted into common stock and locked up until April. So feel really good about that – sorry, August.

And then we also repurchased 3.6 million common shares on the open market for $63 million at an average cost of $17.42.

And our EBIT margin last year was up 400 basis points and what we laid out is our interim target with a double-digit EBIT margin, which moving into 2019, we laid out on our earnings call that we thought we could achieve our double-digit EBIT margin this year adjusting for one-time costs.

So the guidance we gave for 2019, was we expect revenues to increase 5% to 7% over 2018 and that includes about $20 million of negative currency impact and $20 million of store closures and both of those things are front half weighted. So as we lap currency, of the currency impact of $20 million, about $18 million of that is in Q1 and Q2. So that will impact revenue and margins in the first half of the year more on a larger basis than the second half of the year. And then, if you exclude that, growth is estimated at 7% to 9%.

From a gross margin standpoint, we also announced on our earnings call that we're going to be relocating our DC, our DC right now is in Ontario in California and we're moving it more towards the middle of the country in Ohio. That will allow us to reach our customers much quicker from an e-commerce perspective, and it will allow us to reduce costs. So we will have non-recurring costs associated with that DTC relocation of about 100 basis points. But we do expect it to support margins in 2020. Not only we will recouped the one-time cost of a 100 basis points from this year, we'll also get another 100 basis points of cost savings outside – from having the DC in Ohio. So we're really excited about that project. It allows us to save costs and also serve our customers better. And we do have some higher freight costs this year and the negative currency impact, which are pushing our margins down. Again, one of the reasons we're moving our DC in order to reduce costs and create efficiencies.

From an SG&A perspective, we expect to be about 41% of revenues. So that's down 460 basis points versus 2018. That includes a small amount of non-recurring charges, last year we had $21 million of non-recurring charges associated with our cost reduction plan. This year it's a nominal amount. And if you think through our SG&A, it is more first half weighted as our marketing spend is going to be higher in the first half. Q2 is our largest quarter, so we will have large marketing spend in the first half. In addition last year, because we had such a good year, we did have additional incentive comp that we accrued for in the back half of last year. We reset our

incentive comp this year so we will have more SG&A in the front half than we will in the back half.

From an EBIT margin perspective, we expect to be 8.5%, but if you exclude our non-recurring charges, then we anticipate achieving our double-digit EBIT margin targets.

And then overall from an investment standpoint, we are in an investment year this year, because we are doing the new DC, which is going to be about $35 million in CapEx. So we expect to spend about $65 million of CapEx this year versus about $12 million in 2018. So if you strip out the DC of $35 million, the balances is for more routine IT and infrastructure investments, and some were deferred from last year, but overall about $65 million in CapEx.

Turning to Q1, we guided revenues to be between $280 million and $290 million. And with that in the first quarter, we expect currency to reduce revenues by $10 million and store closures by $6 million. And also keep in mind that we have the Easter shift this year. So more direct-to-consumer sales will shift into Q2 and Easter is in late April and last year it was the first week of April. So we had some additional sales last year in the first quarter.

We've also had such a strong Q4, which was great from a comp perspective, particularly in the U.S. but we are a little constrained on our classic product or a classic silhouette in the U.S., which is constraining our inventory that's available for at once replenishment orders for a wholesaler. So overall a great problem to have, but we are working on getting back in stock and we are incurring some air freight in order to do that. So we guided our gross margin at 45.5% compared to 49.4% in Q1, which includes some higher freight cost and the use of airfreight to replenish inventories plus the negative currency impact. And then the non-recurring charge related to the new DC, which we expect to reduce gross margin by 50 basis points.

And then from an SG&A perspective, we expect SG&A in the first quarter to be between 37% and 38% of revenue compared to 40.2% in first quarter of 2018. And this includes non-recurring charges of about $1 million compared to $2.5 million in first quarter of 2018.

So overall from an investment perspective, we have an unmistakable icon recognized around the world in the Classic clog. We have a powerful global brand with a large democratic and diverse consumer base. We have a management team with deep industry experience and we're one of the world's 10 largest non-athletic brands. In the past couple of years, especially in 2018, we grew revenues and gross margin, while reducing SG&A, creating a sustainable profitable business model. It's perfect for leveraging revenue, leveraging SG&A and growing revenue. And we also have a really strong balance sheet, where we generated well over $100 million of cash last year.

Q&A

<Q>: [Question Inaudible]

<A – Anne Mehlman>: From our retail out…

<Q – David M. King>: So is it productivity and outlets and I think was the question.

<A – Anne Mehlman>: Yes. So I think our revenue – I think our square footage per outlets, I think prime square footage is like 1,500 square feet I want to say.

<Q>: [Question Inaudible]

<A – Anne Mehlman>: I don't have that let, if you give me your information, I can send it to you.

<Q>: [Question Inaudible]

<A – Anne Mehlman>: Sure. So in Q4, we had really strong same store sale comps. So in the U.S., we had a 20-ish same-store sales comp which is pretty strong. And we didn't anticipate it being quite so strong, particularly in December. And so – and it was mostly focused in our Classic clog, which is our iconic silhouette, which I'm sure you're familiar with as a whole and we sell through that and we feel in order to replenish that we've had to use some additional airfreight to bring some of that product back and stuff.

<Q>: [Question Inaudible]

<A – Anne Mehlman>: We're still working on it. And it's mostly in the U.S. and it's mostly related to inventory that's available for at once purchases. So with our wholesalers, we have a pre-book, where they can pre-buy and then we ship those orders. And then we usually keep some inventory on hand for them to replenish as they sell through. And so that's the piece that we've been a little bit constrained on. And that would be incorporated in our Q1 and our full year guidance.

<Q – David M. King>: Time for one more quick question.

<Q>: [Question Inaudible]

<A – Anne Mehlman>: As far as…

<Q – David M. King>: Sounds like acquisition perspective sort of…

<Q>: [Question Inaudible]

<A – Anne Mehlman>: Yeah, I think – yeah, there's not a global leader in sandals. So I don't think there's somebody that has a huge percentage. And I think it's an interesting question, but we think we have so much room for organic growth within the brand and we feel like that's the best way to really drive shareholder return is by investing in our own brand. And we have a pretty strong sandals business now. So it's just creating that same brand awareness that we have around our clog and transferring it.

<Q>: [Question Inaudible]

<A – Anne Mehlman>: We're really focused on our core silhouettes which are molded sandals. And when we talk about sandals, it's slides, it's flips, and then it's sandals, and then our Crocs clogs.

<<David M. King, Analyst, ROTH Capital Partners>>

Thanks, Anne. Thanks everyone for attending.