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<<Jonathan Komp, Analyst, Baird>>

Okay, great. Thanks everyone for joining our next session here. I'm Jon Komp here, Senior Analyst covering the active lifestyle sector. Very pleased to have Crocs join us next. Crocs maybe doesn't need an introduction, given that everyone knows the brand, but it is one of the largest non-athletic brands across the industry. It was founded more than 20 years ago and really has done an exceptional job over the last five to 10 years, the management team repositioning the company and the brand, and it's driven very meaningful growth. In fact, the last 12 months sold more than 120 million pairs of Crocs alone. And since then, just over a year ago, acquired the HEYDUDE brand, which represents another high profit, high margin growth opportunity for the business. So, joining me is CEO, Andrew Rees, and CFO, Anne Mehlman. And I'm going to turn it over to them. Thank you.

<<Andrew Rees, Chief Executive Officer and Director>>

Thank you, Jon. Really appreciate it. So I'm going to take you through some of our presentation. I'll just flip through some of our pages. And I think some of you may be aware, we added some things into the presentation in which we published this morning hopefully around, HEYDUDE, that will help give a little bit of color and elucidation to some of the incredible trends we're seeing in that brand. But I'm just going to go from the top. So some of this might be a little redundant for some of you, but here we go.

So just to kind of fully set the stage, for those of you who are really new to the story, Crocs has had a short but interesting history. The brand was founded back in 2002, went through an incredibly high growth phrase before it went public in 2006, and then went through a period of growing relatively quickly, but not making a lot of money. Really overextended itself, was over distributed, really built too many retail stores that were not profitable. But really went through that phase. Then back in 2014 Blackstone made a major investment and really brought some change to the company. That involved a whole changeover in the management team, and we were able to refocus the strategy.

We refocused the strategy on the core classic clog, driving innovation into the core clog through product innovation, but also marketing innovation. We pivoted to a socially digitally led marketing strategy. And since then we've really reestablished the company. We cut a significant amount of SG&A, so we rebased the company to a lower SG&A level. And then 2018, we really started to grow very strongly. We grew strongly through 2018 and all the way through COVID driven by that product strategy that I talked briefly about there and the marketing strategy.

And so since 2018, our company's been a high growth, high profit company that's performed very well. And then in 2020, got my years right here in late 2021, we made an acquisition of the

HEYDUDE brand, obviously, which has been a significant addition. That hopefully kind of sets the stage a little bit in terms of longer run history.

But let me now turn to looking forward in a second. But there's one other accolade I just wanted to highlight. If we looked over a five year period ending last December, the TSR, the annual TSR for the Crocs brand was actually 54%, an extraordinary number in terms of shareholder value creation. And if the company had been in the in the S&P 500, actually would've been the number two performance stock, one ahead of Tesla.

Okay, I'm going to skip queue on highlights, and Anne's going to cover that a little bit later on. So investment highlights. So if we think about why would you invest in, where is PJ? He's here somewhere. He does a better job of this than me. But if you were to think about why would you invest in Crocs, we're a broad based casual footwear company that has addressable market of about $160 billion. The footwear category is a big category on a global basis about $300 billion. We address just a little over half of that.

We have two iconic brands. The Crocs brand as you well know, but also HEYDUDE, they are both scale players in this arena, and really we think focused on some very compelling long run consumer drivers. The consumer today on a global basis in the footwear category is looking for casual. They're looking for comfort. They're looking for easy on and off. And we have two of the best brands that address those very compelling consumer needs.

We're diversified. We're diversified across those brands. We're diversified by silhouette. We're diversified globally, and we're diversified across channels. We have incredible margins. 26% is our kind of long run operating margin guide. As we look at our long run growth potential for the business, we're also asset-light. So those high margins translate into credible cash flow. And then we have a great management team. We have a great management team that's driven this resurgence, this growth in the company. And I think the profile of our brands and the diversification across the two brands, we have also put in a great position to continue in to attract some of the best-in-class management in the industry.

So to give you a little bit of an update on Crocs before we get dive into, HEYDUDE. And so if we kind of look, sorry, this is the diversification of the company. So if we look, and I'm not going to go through the slide because I kind of talked about much of it but diversified by brand, by channel, 50/50 DTC versus wholesale and also by region. So it's pretty important that we – and I think the regional diversification is super important in this time. We are definitely seeing some pressure on the consumer in some of our Western markets particularly here in the U.S. We've talked about that. You've seen many of our wholesale partners report recently, so you can see that pretty clearly. But we have a substantive business in Asia and other parts of the world that aren't seeing some of those factors.

So we have great growth opportunities in those arenas. Sandals, you're all very familiar with the Crocs clog, right. You're familiar with the classic clog, and you're also probably familiar with the fact that we've been diversifying our clog platform and adding other clog silhouettes to our silhouette, to our to our product line. And the clog silhouette is actually a high growth silhouette. We're seeing a lot of other companies participate in that arena. We think that is good for us and

good for our business. We're not worried about the competition because what it's doing is bringing more and more consumers into that silhouette. And we are the leader in that. But one of the important strategic vehicles that we outlined, a number of years ago, was to grow our business in sandals.

We strategically selected the sandal category for some critically important reasons and we selected this single category also for important reasons. When we look back at that period of over diversification, over expansion, part of that lack of focus and that loss attraction with the consumer was trying to diversify into too many things at the same time, none of which went particularly well. We strategically selected sandals because it's a large category, it's $30 billion on an annual basis. We think our molded technologies and the materials that we use to make our shoes allows us to make a great product, a great product, which is comfortable, easy, on and off comes in lots of different colors and flavors. We're in a great price point so that we can compete extremely effectively.

And we have a high focus on this, with a scale sandal business, we can invest marketing and we can put energy into the category, but many of the other players in the category that aren't sandal focused, it's the lowest ASP, least profitable product in their range, and they're not investing any marketing in driving this business. So let me give you a few highlights. It's performing well, right. So in Q1 our sandal growth was 65%. We're very much on track for our full year guide of being over $400 million sandal business this year. You might ask what's been driving that? What's been driving that is really newness. So we've been adding height, we've been adding new styles and we've been adding add-ons to existing franchises like the Brooklyn. We've also been investing more from a marketing perspective to support our sandal growth.

And I would say, thirdly, not on this page, but we're also performing extremely well in some regions that have high sandal penetration. So if you think about India or Southeast Asia, you're really wearing sandals all year round, all day long. And so we're also achieving great growth in those markets. So I think this is an important diversification vehicle and we're really pleased with the progress we're making.

And one of the reasons why we're making some of that progress is we've sub-segmented the business into different types of sandals. So every day there on the on the left is really sandals could be a two strap, a slide or a flip. And really that's appealing to a core clog consumer that might be highly engaged in the customization that comes in the core clog, and they can transfer that customization to their sandal choices.

We have some style centric sandals. They could be sort of street style or elevated style as you see on this picture but also a certain more conservative style, as you kind of think about our Brooklyn business. We've also I think leaning into a bit of a street sport vibe with our Echo franchise, and particularly here, the Echo sandals. And then also we have some adventure and outdoor orientated sandals, which are perform well as well. So by kind of diversifying our product innovation and product focus across these multiple arenas within the sandal category, we can tap into that full $30 billion opportunity that we highlighted on the first page.

So, in a nutshell, this is an important growth driver for the Crocs brand. In addition to our clogs, which is obviously a big part of the business, but I wanted to highlight the successes that we're seeing in that arena. Growing momentum internationally, one of the reasons that we're focused on our international business from a Crocs perspective is really the brand penetration. The brand penetration outside the United States is about a third of what it is here in the United States home market. We can see some clear points of light, Korea. South Korea, for example, is a market in which we actually do have higher penetration than we have it here in the United States.

But as we've driven brand trajectory, brand heat, and brand traction and resonance here in the United States over the last five years, we also see the opportunity to do that globally. And we're seeing some very clear traction, both in Western Europe, some parts of the Middle East as well as in Asia, and as we think about the next kind of five years for the Crocs brand, we would expect to see more growth internationally than we would here in the United States.

Product and marketing innovation, you've probably – you've heard me mention a number of times as we've been talking here about the brand, innovation is so important to our consumer and it's so important to maintaining a strong and vibrant brand. So as we look at our pipeline for 2023 and beyond, we have record number of innovations. We have about 60 plus partnerships. Those could be collaborations or licensed partnerships that we'll bring to market in 2023, about a 25% increase – sorry, about 25% of that is regionally focused. So the rest will be more globally focused. And we're going to invest in excess of $200 million in marketing to support the Crocs brand.

We spend between 7% and 8% of marketing. So bringing new products to market, engaging consumers in those new products and instructions, and creating a strong cadence of consumer moments is a big part of our DNA at the Crocs brand. Some of the marketing highlights, you probably have all seen many of these, but select partnerships that we've showcased this year already. So sports licensing with both the MBA and the MLB have kicked off.

We had a Hello Kitty and Friends collaboration, which we released earlier this year. Probably one of the more successful collaborations we've done. The demand for that was exceptional. We did an in-game partnership. We did a couple of different partnerships with Minecraft, including an in-game option where you could you could scan the barcode, and then you got benefits and in-game goodies which went extremely well. And then also some regional collaborations, Melting Sadness is a brand you probably never heard of but it performed particularly well in China. So I think this strong cadence of collaborations of innovative partnerships is a big part of what supports our consumer engagement model.

So hopefully that gives you a little bit of a sense of where we are with Crocs. We think we have a strong growth trajectory within the Crocs brand. We're definitely leaning into sandal growth. We're leaning into our international opportunities, and we're continuing to support our strong cadence of innovation and marketing spikes. HEYDUDE, as you all know, as a brand, we bought a little over a year ago, and we had an incredible growth trajectory last year. But I think there's definitely been a little confusion about its trajectory this year, which we wanted to make sure we gave everybody the opportunity to clarify that. But stepping back, I think the acquisitions exceeded our expectations with almost $1 billion in sales in the first year of our ownership.

We also saw EPS accretion, and we saw significant debt pay down almost immediately as we owned the business. We have staffed the entire business, which may not sound like a small feet but it was a large feet. This was a business we brought that was very entrepreneurial. We're very much aware of that. It was entrepreneurial. It was a very light SG&A model. And one of the things we had to do was put a team in place that we think could get the most out of it and also drive it forward.

We put in place a business systems roadmap and IT roadmap. We're opening a new DC at the end of this year. So we've made a lot of investments in sort of building an infrastructure and a capability that we think can really benefit the brand. From a Q1 perspective revenues to $235 million, up 15% on top of the reported numbers for the prior year but that's 70% growth on a pro forma basis. We didn't own it for the whole of the first quarter in 2022. We've quickly penetrated a lot of our large strategic accounts. And I'll come to that in a second. And we've just started on our international growth trajectory.

The brand, excuse me, when we bought it, we actually bought the brand owner that was based in Hong Kong. And we bought the U.S. distributor. The previous model, the HEYDUDE had operated was really selling to a range of distributors across the globe. And we're looking at how do we improve that global distribution model. And we're starting to test both a number of direct markets and a number of distributor markets as we as we get traction internationally.

So if we look at a couple of things. So when we provided guidance for the HEYDUDE brand for 2023, we said it would grow about mid-20s, so call like 24%, 25% growth on a reported basis for 2023. If you take out the period, we didn't own it for, that translates to a mid-teens growth rate for this year. And I think some people were concerned was why is the growth accelerating, which it is because it grew 70 plus percent last year. A big part of that growth last year was pipeline fill for some of those major U.S. retailers that we were able to expand the brand into. And I think on the left hand side of this slide, what we're trying to highlight and break out for you all is the non-comp version. That's the pipeline fill. So $70 million in Q2, $60 million in Q3 of 2022 was pipeline fill, right.

So when you're filling a major retailer, so take a famous footwear of somebody with thousand stores and you're putting a significant number of SKUs on the shelf and you're putting a size run of each SKU in each store obviously it adds up to a lot of units. And you don't sell through that all immediately. So what we're trying to highlight is a period here that will be, we wish we won't be comping this year. I would say that pipeline fill, you could say, well, why wouldn't you do that more gradually over a number of years and smooth out the growth? It was a very conscious decision on our part to do that last year because we're very much aware that there is competition out in the marketplace.

There are people selling HEYDUDE knockoff or something that's very similar. And there are many of these retailers had private label, there was similar product on the shelf. We knew our product would perform better and we wanted to secure that shelf space for the HEYDUDE brand. So that was a conscious decision we made. I think we probably could have done a better job being a little clearer about that, but that was a conscious decision we made. And on the right

hand side, if you look at the sort of two year growth rate, Q1 is essentially just over 100% on a two year growth rate. And our guidance for the full year is in the same ballpark, a little less, but in the same ballpark. So that gives you some, I think, some comparables that you can think about kind of quarter-on-quarter performance.

And then the next piece to look at for the brand and really understand is the sellout, right. And so this is a little bit complicated as well. So I'm going to kind of walk you through this. So on the left hand side of this chart, if we take our sort of strategic wholesale accounts, so these are our major U.S. wholesale accounts that we get, weekly tracking information on sellouts and inventory on hand and terms, et cetera. So we have a lot of visibility and transparency on that information. So the total sellout for Q1 was up 143% versus the prior year, right. That's not a comp number, right. That's comp and non-comp because some of those wholesalers would've had some HEYDUDE historically, some had none historically.

But the way to think about it is the 143% more pairs are now in the hands of consumers. If we look at DTC, so for HEYDUDE, there is a digital DTC. There's a small amount of retail, but it's really very small. Your DTC is up 40% – 41%. So and then on the last piece, which is highlighting that the wholesale number non-strategic. So the outside of those strategic customers we can see visibly are clearly down, right. So we've broadened distribution, there's HEYDUDE available in many more doors than it was available in the year before. And so those that had it the year before that were sort of, had open field running, they were the only game in town are selling less pairs, right. We believe that to be about 20% down.

We don't have precise information on that. But that's what we believe it to be. If you net all of that out, that would imply that the HEYDUDE brand is up mid-20s, 24%, 25%, 26%, that kind of range on Q1. So the consumers taking away, call it 25%, 24% more product than they took away the year before. So that to us, that implies a brand that is growing, it's gaining penetration and it's gaining – is acquiring new customers.

In addition to that, we have other indicators of brand health, best-in-class NPS. So we look at the net promoter score, I'm sure you're all familiar with that metric. The net promoter score for the HEYDUDE brand in a number of different surveys we've done is in the 70s, right. If we look at net promoter scores for most other brands, it's in the 50s under the same – within the same survey and under the same sample metrics.

I think you can also see in MPD it sort of ranked as sorry, that's not MPD. We can also see it ranked in a number of other additional surveys that we've had. There's been the number one casual brand. It's been extremely high growth in U.S. wholesale and ino other surveys, we can see it ranks extremely highly with a team consumer. So I think we're very confident in the brand's trajectory, the reception is getting from its consumers. And I would say the bumps that you would see in kind of the U.S. wholesale business was intentional and apologies we didn't do a good enough job of explaining that. And I think the net of that is we'd actually expect the U.S. wholesale business in Q2 and Q3 of this year to be negative, right.

We're not going to grow as – we're not going to comp the numbers that we had last year. But I don't think that's any indication of any brand weakness. That's an indication of the extraordinary size of the selling that we executed last year.

I think one more slide on, HEYDUDE. Look, I think the way to think about this is we're committed to a sustainable long-term growth of the brand. That's about building relationships with our key large accounts. We certainly think in the U.S. marketplace, the root to sustainable well-managed brand is with those major accounts. There is certainly a portion of I would say regional and some key smaller accounts that perform specific roles. But we think whether that being kind of brand elevation or reaching specific customer groups.

But the key to a long-term sustainable business is to focus on those major accounts. We have eliminated a number of non-strategic accounts. This is not just about size or that it is some component of it but we're trying to make sure that we're working with customers and wholesale customers that can support the brand effectively, communicate the brand values, carry an appropriate range of product and not do things that we don't like with the brand.

To that point, cleaning up the Amazon marketplace, we definitely see some HEYDUDE on the Amazon marketplace that we're not thrilled with. We're in the process of cleaning that up. We've implemented map pricing and also reducing the amount of competition there is digitally for the brand. Historically, essentially all customers were authorized for digital, we're reducing that to a small number of customers who are authorized to compete on the digital marketplace. So that becomes more rational.

And then I think critically important as we build out the product range and we enhance the product range, we're also looking to provide much more strategic segmentation between all our customers. So I'm running a little long and I want to make sure I give Anne some time talk about our financial highlights.

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

All right, thank you, Andrew. Okay, so Q1, I'll cover quickly. I think most of you guys have been through it. So revenue growth, 36% on a pro forma basis, that's up 18%, right. Because we didn't own, HEYDUDE, for the all of Q1 in 2022. Gross margins were up 470 basis points. So really strong performance, really by both brands as we've seen freight come back in and benefit us this year.

I think from an adjusted SG&A perspective, continue to leverage that. So at about 26% as we added the HEYDUDE revenue last year and we're able to comp kind of our fixed overhead leveraging our overall business. And so operating margins were very strong on an adjusted basis. We delivered 27.9% and increases year-over-year in adjusted diluted EPS of 27%. So just to break that by brand from a Crocs perspective, in constant currency, we had 22% growth.

So really, really strong growth as well as, HEYDUDE again, 15%. So both two high growth double-digit revenue growth brands, we have good growth from a digital perspective, which is one of our key initiatives of 12%. We saw DTC growth for the Crocs brand grow 19% as we've

talked about wholesale for the year for both brands. We expect DTC to continue to outperform. And our digital penetration was about 30% for the both brands. Just a reminder of our full year guidance. Total revenue growth of 11% to 14% on a reported basis. And that kind of breaks out to mid-teens as Andrew mentioned for pro forma for HEYDUDE and seven to nine from a Crocs standpoint. Adjusted margins between 26% and 27% as we continue to deliver best-in-class operating margins and then our adjusted diluted EPS of $11.17 to $11.73.

And as we go through our capital allocation priorities, this is something that we have updated. So as most of you know, we took on some debt to buy HEYDUDE. And within that debt, we had to cover a covenant on our high yield bonds that we needed to get below two times gross leverage to be able to resume share repurchases. We are now forecasting that we will be below two times gross leverage by June 30. So in 2020-ish days and at that point in time, July 1, we will resume our share repurchase program and we're still committed to our long-term net target of one to one and a half. We think that's about the right time and we generate a lot of free cash flow.

So we will methodically balance debt repayment with share repurchase. Our term loan B does have a variable rate. So both are important but that is kind of new news that we introduced today. And that's it from my perspective. I think as maybe EJ puts it best from a Crocs perspective, just kind of reasons to invest. So if you do not like strong margins, if you do not like strong cash flow, and if you do not like strong ROIC, then don't buy Crocs.

<<Andrew Rees, Chief Executive Officer and Director>>

Thank you. We really appreciate it.

<<Jonathan Komp, Analyst, Baird>>

Yeah, thank you. The company will join us for a breakout session right after this. So if you could all join me in thanking Andrew and Anne and Cori for coming.