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Crocs, Inc. (CROX)

Q4 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Crocs, Inc. Fourth Quarter 2020 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

I would like to now hand the conference over to your speakers today.

Corinne Lin

Vice President-Corporate Finance, Crocs, Inc.

Good morning, everyone. Thank you for joining us today for the Crocs' fourth quarter 2020 earnings call. Earlier this morning, we announced our latest quarterly results, and a copy of the press release may be found on our website at crocs.com.

We would like to remind you that some of the information provided on this call is forward-looking and accordingly is subject to the Safe Harbor provisions of the federal securities laws. These statements include, but are not limited to, statements regarding potential impacts to our business related to the COVID-19 pandemic. Crocs is not obligated to update these forward-looking statements to reflect the impact of future events.

We caution you that all forward-looking statements are subject to risks and uncertainties described in the Risk Factors section of our Annual Report on the Form 10-K. Accordingly, actual results could differ materially from those described on this call. Please refer to Crocs' Annual Report on Form 10-K, as well as other documents filed with the SEC for more information relating to these risk factors.

Adjusted gross margin, income from operations, operating margin and earnings per diluted common share are non-GAAP measures. A reconciliation of these amounts to their GAAP counterparts is contained in the press release we issued earlier this morning.

Joining us on the call today are Andrew Rees, Chief Executive Officer; and Anne Mehlman, Executive Vice President and Chief Financial Officer. Following their prepared remarks, we will open the call for your questions.

At this time, I'll turn the call over to Andrew.

Andrew Rees

Chief Executive Officer & Director, Crocs, Inc.

Thank you, Cori, and good morning, everyone. As you saw from our release issued this morning, we achieved record fourth quarter revenues and profitability, and finished 2020 with very strong brand momentum. We're looking forward to an exceptional 2021 with accelerated revenue growth, as we invest in digital, China, and a supply chain to support future growth. I'm confident in our ability to continue to deliver best-in-class profitability and strong cash flow. The Crocs brand has never been stronger, and I'm very excited about our future.

Anne will review our financial results in more detail shortly, but here are a few highlights from 2020. Our fourth quarter had the highest revenue and adjusted operating profit of any quarter in company history. We achieved record revenue in 2020 of nearly \$1.4 billion, up 13% from prior year. Digital sales grew 50% in 2020 and penetration increased more than 1,000 basis points to 42% of sales, while DTC comp growth was 39% for the full year.

Adjusted operating profit for the year was \$263 million, an increase of 84% with margin expansion of 730 basis points to approximately 19%. Adjusted diluted earnings per share for 2020 doubled to a record of \$3.22, and we achieved record cash flow, enabling investment in the business and a return to shareholders of over \$170 million by share repurchases.

The strength of our brand underpins these extraordinary results. The Crocs brand continues to resonate strongly with consumers around the world as a result of our iconic products and powerful marketing. We continue to launch a pipeline of exciting and innovative collaborations, ranging from global launches with Justin Bieber and Post Malone to a more regional partnership like Rare Market in Korea.

Throughout the year, Crocs garnered tremendous media coverage around the world from top publications like Vogue, BAZAAR, and Esquire. We were honored to be recognized by Footwear News as Brand of the Year for 2020. We're pleased that our comprehensive marketing strategy resulted in strong brand desirability, relevance, and consideration, which increased double digits for the fourth consecutive year. In summary, the Crocs brand has never been stronger and I'm confident of our ability to accelerate in 2021 and beyond.

Now, let's turn to fourth quarter highlights. From a channel perspective, digital remains our top priority. Global e-commerce growth was extraordinary with revenues up 92%. This represents our 15th consecutive quarter of double-digit e-commerce revenue growth. Our digital business, which combines e-commerce and e-tail, grew 87% and represented 41% of fourth quarter sales compared to 34% last year. Over the long-term, we believe our

digital presence on both our own sites and those of our partners will allow us to serve our consumers in their preferred channel and will continue to be a competitive advantage relative to other footwear brands.

Our wholesale channel grew revenues 52% versus prior year. Performance exceeded our expectations, driven by incredibly strong sell-through in our top-20 brick-and-mortar wholesale accounts. With improved deliveries in the fourth quarter, we've replenished on-hand inventories at wholesale. However, high consumer demand left inventory leaner than we anticipated at year-end.

Turning to company-owned retail, fourth quarter comp sales increased 41% on top of 16% last year, led by the Americas and South Korea. We remain pleased with the makeup and profitability of our store portfolio, which is majority outlet and shop-in-shop.

Turning to 2020 full-year results, we achieved the highest revenue in the company's history of nearly \$1.4 billion, growing double digits with a particularly strong second half. Digital sales grew 50% and our already best-in-class digital penetration increased over 1,000 basis points to 42%. Having achieved our double-digit operating margin target in 2019, we had incredible margin expansion to deliver 19% adjusted operating margins for the year. Last but not least, we delivered record cash flow and EPS.

From a product perspective, our results continue to be driven by our four key product pillars: clogs, sandals, Jibbitz and visible comfort technology. For 2020, sales of our clogs were particularly strong, increasing 33% year-over-year to represent 72% of total footwear revenues versus 60% in 2019. Early in the pandemic, we canceled sandal receipts as the initial store closures interrupted the peak of the sandal season. As such, 2020 sandal revenues declined by 19% and represented 18% of footwear sales versus 25% last year. Jibbitz sales accelerated nearly doubling for the year versus 2019.

Turning to 2021, we're investing in our key growth drivers: digital, China and our four product pillars. Digital is our top priority. In 2021, we'll be investing to personalize our consumer journey globally, enabling differentiated and more effective communication with our diverse consumer base. We're also investing in talent, technology and supply chain infrastructure to support high levels of growth for the foreseeable future.

China, as the second largest footwear market in the world, remains one of our most significant long-term opportunities. We have repositioned our product portfolio to align to our four product pillars. We continue to drive focused investments to create brand heat and consumer demand for a proven playbook that uses high-profile celebrities, influencers, and global and regional collaborations.

To that end, we're excited to have signed Chinese actress Yang Mi as our brand ambassador for the second year, and we're confident she will continue to build brand awareness and relevance through sustained marketing investments. We'll focus on optimizing our mono-branded store network by selectively upgrading partners in certain provinces. We're also renovating our store portfolio in China to improve our store environment by leveraging personalization to drive an interactive consumer experience.

Similar to other areas of the world, we're investing in digital, including elevating Tmall and embedding personalization as our unique selling proposition. By the end of this year, we'll have executed our playbook, setting ourselves up for strong growth in 2022.

Finally, we're very confident in our entire product lineup for 2021. Selling has been strong on a global basis, giving us confidence in our revenue guidance. We look forward to a full sandal season and restoring sandal growth by

building on the early successes of Brooklyn, Tulum, and Classic Slide, as well as introducing a new two-strap Classic Sandal.

We're excited about the innovation we're bringing to clogs in 2021 and expect clogs to continue to outpace sandals for this year. As inventory levels improved in our Crocs at Work product, we've seen four consecutive months of strong double-digit growth. We anticipate strong growth in personalization through Jibbitz based on investment in the consumer experience both in-store and online.

We feel incredibly fortunate to have outperformed in 2020 and are proud to have given back to our global and local communities through our Crocs Cares program. In Q2, our Free Pair for Healthcare program donated over 860,000 pairs of shoes or nearly \$40 million in retail value to frontline healthcare workers. In July, we partnered with Feeding America, a hunger relief organization, United States. Thanks to the generosity of our consumers, we raised nearly \$1 million in six months, enabling over 8 million meals to those in need. We look forward to continuing our commitment to provide comfort to our global communities with the philanthropic efforts in the coming year.

In summary, we're even more confident now than a year ago about the Crocs' brand strength and our long-term growth potential. We're incredibly optimistic about 2021 and our growth trajectory. Our four key product pillars and our powerful social and digital marketing are clearly creating exceptional consumer engagement. From a channel and region perspective, our digital-first strategy and our long-term focus on Asia, particularly China, will drive our growth for years to come.

Before I turn the call over to Anne, I want to express my gratitude to the entire Crocs organization for their hard work and commitment to delivering best-in-class results. It was an incredibly challenging year for everyone and I'm proud of how we have executed as a team and the results we have delivered for all our stakeholders.

With that, Anne will now review our financial results in more detail.

Anne Mehlman

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

Thank you, Andrew, and good morning, everyone. I'll begin with a short recap of our fourth quarter results. For a reconciliation of the non-GAAP amounts mentioned to their equivalent GAAP amounts, please refer to our press release.

Our fourth quarter results were exceptional. Fueled by the Americas and EMEA, we delivered record revenue and operating profit, and generated record cash flow in spite of a global pandemic. Profitability was best-in-class, as we grew gross margins and levered SG&A, increasing operating income and profitability. Fourth quarter revenues came in at \$411.5 million, compared to \$263 million in the fourth quarter of 2019, a 56.5% increase, or 56.1% on a constant currency basis.

We sold 18.9 million pairs of shoes, an increase of 37.7% over last year's fourth quarter. Our average selling price during Q4 increased 13.7% to \$21.63, with the increase attributable to fewer promotions and discounts, as well as greater sales of charms per shoe. For 2020, we sold 69.1 million pairs of shoes, up 3% over 2019, with an average selling price of \$19.91, up 9.3%. We believe the increase in ASP is an indicator of brand strength.

Now, let's review our results by region. As Andrew mentioned earlier, the Americas had another strong quarter with revenues doubling to \$310.3 million. Retail comps increased 54.4% on higher traffic and increases in conversion. Growth was phenomenal in e-commerce, up 125%, and stronger than anticipated in wholesale, up

130.5%, led by e-tail and our top-20 global brick-and-mortar partners. Our performance in the US is the direct result of our commitment to driving relevance with the consumer through our iconic product and innovative marketing.

In Asia, Q4 revenues were \$51.8 million, down 19.5% from last year's fourth quarter. Strong e-commerce growth of 19.2% was offset by declines in distributor in India wholesale revenue. India was heavily disrupted due to COVID-19 lockdown, but we are optimistic about India returning to growth in 2021. South Korea continues to outperform and grew nicely during the quarter. EMEA revenues increased 14.9% over last year's fourth quarter to \$49.4 million.

Strong revenue growth in wholesale up ,10.8%, and e-commerce, up 53.8%, were slightly offset by declines in retail due to COVID-related store closures. While our retail stores in Western Europe remain closed today, we do not anticipate this to be a material impact to our 2021 expectations. EMEA is beginning to benefit from improved brand relevance and consideration, created by our marketing and product innovation as well as our continued focus on digital commerce, which represented nearly 60% of EMEA revenue this quarter.

Our fourth quarter adjusted gross margin was 56%, up 670 basis points from last year's 49.3%. Gross margin improved in all regions and all channels, driven by fewer promotions and discounts, favorable product mix and operating leverage.

Our SG&A fell to 34.9% of revenues, an improvement of 950 basis points versus 44.4% in last year's fourth quarter. The significant decrease in adjusted SG&A rate is a result of strong sales growth and operating leverage, even as we incurred variable expenses related to revenue growth and investing in additional brand marketing to support future growth. Adjusted SG&A excludes \$21.1 million in onetime noncash impairments, including a \$20 million noncash impairment taken on our 34th Street location in New York City.

Our fourth quarter operating income increased to \$64.6 million versus \$8.4 million last year and operating margin increased over 1,200 basis points to 15.7%. Adjusted operating margin increased over 1,600 basis points to 21.1%, as SG&A leverage on strong sales growth added to gross margin expansion. In Q4, the company recorded a onetime tax benefit of approximately \$128 million related to changes in the tax structure of our operations.

For 2021 and the next years, we expect our underlying GAAP tax rate to be approximately 25%. Our underlying non-GAAP tax rate, which reflects cash taxes paid, to be approximately 16% to 18%. Fourth quarter non-GAAP adjusted diluted earnings per share adjusted for onetime tax credits increased over 780% to a quarterly record of \$1.06 compared to \$0.12 a year ago.

With record fourth quarter cash flow, our liquidity position is strong with \$135.8 million of cash and cash equivalents, in addition to \$180 million of long-term borrowings and \$319.4 million of borrowing capacity on our revolver. Given the historically low interest rates, we may opportunistically seek to add permanent capital to our capital structure. If we pursue this, we expect to use proceeds to pay down our existing revolver balance and for general corporate purposes.

Given our record cash flow generation, we restarted our share repurchase program. In the fourth quarter, we engaged in a \$125 million accelerated share repurchase, or ASR, and received 1.5 million shares in the fourth quarter and an additional 500,000 shares in January of 2021. For 2020, we repurchased a total of 3.2 million shares for \$170.8 million. Including the impact of the final ASR share delivery in January 2021, the average price for share repurchases in 2020 was \$46.50 per share.

Inventory at December 31, 2020 was \$175.1 million, up slightly from \$172 million in the fourth quarter last year. As Andrew mentioned, inventory in the channel remains lean given strong sell-through. We do not expect the same degree of inventory constraints in 2021 that we had in 2020.

Turning to the future, I would like to share our current outlook for Q1 and full-year 2021. For Q1, we expect revenue to grow approximately 40% to 50% and adjusted operating margin to improve between approximately 17% and 18%. Strong growth is expected in all regions as we see continued brand momentum and we anniversary some COVID-related closures that began in the first quarter of 2020.

Barring significant additional COVID-related closure, we expect 2021 revenue to grow between 20% and 25%. We anticipate approximately \$12 million to \$15 million in onetime charges for our distribution center investments to impact gross margin. As revenue grows, we expect to be able to leverage SG&A, leading to adjusted operating profit margins of approximately 18% to 19% for 2021.

As we invest in supply chain to support our digital growth, we expect capital expenditures to be approximately \$100 million to \$130 million this year. For 2021, we expect our underlying non-GAAP tax rate, which reflects cash tax paid, to be approximately 16% to 18%. Our GAAP tax rate will be approximately 25%.

In summary, we delivered an incredible fourth quarter and full-year revenue growth, profitability and cash flow. We are confident we have positioned ourselves for sustained profitable growth and strong cash flow generation for the future.

At this time, I'll turn the call back over to Andrew for his final thoughts.

Andrew Rees

Chief Executive Officer & Director, Crocs, Inc.

Thank you, Anne. The Crocs brand has never been stronger. Despite an extremely challenging environment, our company had an extraordinary year in 2020 and we expect acceleration in 2021. Looking to the future, I'm confident in our ability to continue to deliver best-in-class results.

Operator, please open the call for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question comes from Erinn Murphy of Piper Sandler. Your line is open.

Erinn E. Murphy

Analyst, Piper Sandler & Co.

Q

Great. Thanks. Good morning. And truly a banner year, so congratulations, Andrew, to you and the entire team. I guess, my question for you is on the digital-first focus strategy. I'd love to just hear a little bit more about the biggest pieces of incremental spend that you feel bullish about for 2021.

And then, specifically on the fourth quarter digital e-comm was up 92%. Could you just share a little bit more about what you're seeing from a new customer perspective versus existing customers with their basket purchases? Thanks.

Andrew Rees

Chief Executive Officer & Director, Crocs, Inc.

A

Great. Thanks, Erinn. And appreciate the kind remarks. The team will be appreciative of that. From a digital-first perspective, yeah, I'll probably put the spend in three big buckets. I think the first bucket is all about sophistication of communication, and that's about personalizing our communication so that we can speak to – we have a very broad customer base, consumer base, so we can speak to the consumers differentially. And obviously, the intent there is that we speak to them more personally, they buy more, they return more often, etcetera, because we really have that incredibly broad consumer base. So, I would say, personalization of communication, and that requires people, that requires technology, and that requires intent.

I think the second piece is just generally scaling of the business, right? So, it's scaling of technology. It's scaling up talent. It's building out our talent across our digital realm, which is not only here in United States, but in Europe and in Asia. And then, the third big piece is really supply chain, right? So, you saw us at the back-end of last year scale kind of US supply chain to meet digital demand. That was very successful and allowed us to really have that banner quarter that we had from a digital perspective, as we were able to kind of build out that capability. But we kind of need to do that across the globe. So, those are really the three buckets of digital investment.

From a Q4 and kind of new and existing customers, I would say it's a little bit of all three buckets, right? So, the first bucket being new customers, we're absolutely bringing new customers to the brand. I think we had about 4 million new customers last year through our e-commerce businesses on a global basis. So, that's a very significant number. It is also existing customers returning at key shopping occasions. And we can also see some trend in terms of existing customers kind of buying more and lifetime value ticking up. I think one thing that we've highlighted before, which is really important, when a customer buys Jibbitz online, their lifetime value is 2x the average customer. And we are seeing increased incremental penetration of Jibbitz through our online channels.

Erinn E. Murphy

Analyst, Piper Sandler & Co.

Q

Great. That's helpful. And then, if I could just ask a follow-up on the visibility that you guys have on the second-half order book. It sounds like you're seeing some early reads that are strong. But I'm trying to marry that comment with just the way you guys have [ph] sloped (23:13) the guidance for the year. So, Q1 being 40% to

50% at the full year hasn't budged, so it doesn't seem like you're giving yourselves a lot of credit for the back half. So, any help on kind of marrying those two comments would be great.

Andrew Rees

Chief Executive Officer & Director, Crocs, Inc.

A

Yeah. I would say, look, I'll just give you a general comment. Maybe Anne can give you a little bit more detail. Look, I think it's still a little early for the back half order book. We're certainly booking into Q3, but there's a long way to go with the strength of back to school and holidays. So we feel great about where it is. We feel really great about our lineup and the feedback that we're getting on that lineup in terms of what we're bringing to market, but it's early.

Anne Mehlman

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

A

Yeah. And I think just, Erinn, if you remember, last year in Q1 and Q2, in Q1 we start anniversaring COVID-related closures in China and then early in the quarter and then Asia later and then in March, obviously kind of worldwide. And we go through that in Q2, where much of our retail fleet was closed and our partners weren't taking shipments. So our business is very strong, but we are re-anniversarying some weakness based on COVID last year and that's why the guidance looks like it does.

Erinn E. Murphy

Analyst, Piper Sandler & Co.

Q

Got it. Just one last one, if I may, on Jibbitz. We've noticed you've been testing higher price points online. I'm just really curious to see how that's performing and if that's something you would roll out to physical stores. Thank you so much.

Andrew Rees

Chief Executive Officer & Director, Crocs, Inc.

A

Great. Thanks, Erinn. Yeah. Look, I think the test is still ongoing. Obviously, it's out there on our US – online on our US site. We've raised the price of Singles, but also introduced kind of a multi-buy offer. And, obviously, when you're kind of transacting digitally, if people put more stuff in their basket, it really aids your package economics. So, we think this is the right way to go. We feel good about the test. It's still ongoing. I wouldn't say we have concrete conclusions, but we like where it's heading.

Erinn E. Murphy

Analyst, Piper Sandler & Co.

Q

Thank you.

Andrew Rees

Chief Executive Officer & Director, Crocs, Inc.

A

Thanks.

Operator: Your next question comes from Jonathan Komp with Baird. Your line is open.

Jonathan Robert Komp

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

Q

Yeah. Hi. Thank you. Can I just ask if you could clarify the clogs and the sandals growth in the fourth quarter? And then I'm curious, sounds like you expect clogs to outpace sandals still for 2021, which I'm interested in given the difference in comparisons. And maybe just separately, one follow-up, Anne, it looks like maybe you're embedding something less than 10% growth in the second half for total revenue. I just want to maybe clarify that if you're willing and just understand that a little bit more as well.

Andrew Rees

Chief Executive Officer & Director, Crocs, Inc.

A

Why don't I start, Jonathan, with the sort of clogs versus sandals, then Anne can clarify the Q4 numbers and how kind of guidance plays out? Yeah, I think as we look at 2021, clogs have been growing tremendously through 2019, through 2020, and we see that continuing in 2021. I think that's partly consumer receptivity to that silhouette and to the utility that that silhouette allows the consumers to have. But it's also tremendous innovation in terms of color, print, height, etcetera, that we have in our product lineup. So, we've – and obviously we've got kind of strong visibility to bookings, so we can definitely see that clogs are going to perform well in 2021.

Sandals will return to strong growth in 2021. And as you look through a multiyear trajectory, we would expect over time sandal growth to accelerate past clog growth.

Anne Mehlman

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

A

And then on the guidance, Jonathan, so I think a couple of things. Again, we had a lot of some interesting timing last year, with Q2 coming out of Q2 with much of the closure. So we had a lot of wholesale revenue that shifted in Q3. So we're still guiding growth for the full year. I think we're still trying to make sure that we have good visibility. I think we're giving actually quite a bit of guidance.

And as we move through the year, obviously, we will be transparent. And as we get better insight into how things are trending in the back half of the year, we will certainly keep you updated. I think – but we have, obviously, the best visibility in the first half of the year. And we certainly feel like all of our underlying trends are extremely strong and we don't see anything changing from the way the business was trending in Q4.

Jonathan Robert Komp

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

Q

Yeah. That makes perfect sense. Maybe just one follow-up then on the margin outlook. You're guiding adjusted operating margin for the year 18% to 19%. I think you were close to 19% in 2020. And I believe you mentioned expectations for SG&A leverage. So I just want to ask about the implied gross margin outlook that you're embedding and any other color you have first quarter versus full-year drivers for gross margin?

Anne Mehlman

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

A

Yeah. Sure. So, our full-year guidance, obviously, our revenue growth is 20% to 25%. And we expect all regions to grow with the strongest growth expected out of Americas and EMEA.

From a channel perspective, we do expect to have continued digital-led growth, but we also see really strong wholesale growth from distributors as they're coming back. Some of it is because of 2020, as we talked a lot about, we didn't ship as much and then we see strong return at the back half. And that wholesale growth will pressure gross margin a little bit just because it is a little bit lower. Obviously, it doesn't have much SG&A associated with it.

So the – how we're thinking about that is that our underlying gross margin remains really strong. But we do expect the wholesale mix, especially with the strong return of distributors, to put a little bit of pressure on our gross margins. However, it allows us to drive SG&A leverage while continuing to invest.

Jonathan Robert Komp

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

Q

And just to clarify, would you not have maybe pricing opportunity and currency favorable offsets? And that's it for me. Thanks.

Anne Mehlman

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

A

Yeah. That's a good question. So let me tackle currency first. Right now, we do have some currency tailwinds for the first time in a while, so that's nice to see. I would say from – just overall, in gross margin, there are several puts and takes. We're also seeing freight pressure on inbound, largely just due to the supply chain right now globally is a little bit, I would say, just slow and shipping lanes are really clogged as everybody is trying to get product and things are just messed up from COVID. But we are seeing the currency offset the inbound freight. So I would say that's probably a little bit neutral. Obviously, currency will support ASPs.

And then, in your question, from a pricing perspective, there's always pricing opportunities. I think we've done a lot of work that you saw culminate in our 400 basis points of gross margin improvement in 2020. And we expect to continue to look at that in 2021. And we'll see, but I do expect this year to be a little bit more unit-led than I do ASP-led.

Jonathan Robert Komp

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

Q

Thank you.

Operator: Your next question comes from Jay Sole of UBS. Your line is open.

Jay Sole

Analyst, UBS Securities LLC

Q

Great. Thank you so much. Andrew, I want to ask you about rain boots. It seems like in the quarter there were some good signals that maybe some of the kids' and the men's and the women's rain boots did pretty well. You didn't mention it in your – the four key drivers of product. Where do boots fit in? And can you just talk about what you saw in the quarter from that product category?

Andrew Rees

Chief Executive Officer & Director, Crocs, Inc.

A

Yeah. I would say, Jay, that's not a huge product category for us. I think we do make kids' rain boots. That's been on the line for a long period of time and, I would say, has a very loyal following amongst mums. It's easy on and off and has a lot of the kind of key attributes they're looking for.

We historically have not been significant in rain. It's not been a good category for us. And I think the category is somewhat bifurcated. There's a lot of low-end product that's very low margin for manufacturers and, frankly, for

retailers too. And there's also some premium product. We're kind of stuck in the middle. So we don't really see that as really interesting for us at this stage.

I would say, as we're looking to fall holiday of 2021 and into 2022, we do have some interesting easy on-and-off boot development that we've been showing to retailers. It's not really a rain boot but it's more of as a comfort warm weather boot. And that's been getting really good feedback from the wholesale partners.

Jay Sole

Analyst, UBS Securities LLC

Q

Got it. Interesting. Okay. Thank you. And maybe, Anne, just on the margins, just a follow-up. If you can really maybe focus on the second quarter and the third quarter margins, and if we think about the difference between where the margins were in 2019 and where the margins were in 2020, can you just sort of help us sort of understand how to think about what the margins should look like this year based on – obviously, you talked about the distributor improvement, obviously wholesale in general probably rebounding is a factor. But are there drivers which should move the margins more back to a normalized 2019 level or vice versa, like something that should drive them more to that 2020 level?

Anne Mehlman

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

A

Yeah. I don't – I'm going to talk generally because obviously we haven't guided Q2 and Q3, but I think we don't see gross margins moving back to 2019 levels. We feel pretty good that our 2020 gross margins are largely sustainable and which is implied I think in our guidance. There is a little mix impact. And obviously, as Q2 was a very strange quarter last year as a lot of our retail was shut down, I will say, retail does carry a very high gross margin, so the wholesale and the retail kind of offset.

So, I don't think there's anything particularly abnormal in any quarter that you need to be concerned about at this point in time. We'll certainly keep you posted. I think overall margins – our gross margins are really good and we're really proud of all the work we've done. And remember, the major drivers of our gross margin have been pricing and discounts that we've pulled back on, which we think are sustainable.

Jay Sole

Analyst, UBS Securities LLC

Q

Got it. And then maybe one last one for me. You talked about a lot of investments happening in digital, China, products, a lot of that sounds like SG&A. At the same time, the \$130 million in CapEx, would it be possible to elaborate a little bit on what the money allocated to CapEx is really going to go for and what that's going to be driving for the business?

Anne Mehlman

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

A

Yeah. Sure. It's distribution centers. So, it's really building out our distribution network to support mostly our digital business, as that is serviced a little differently. And so, as we've mentioned before, we're moving our EMEA distribution center, and we're automating that. And then, we're looking at just other distribution center investments around the globe and continuing to expand our US distribution center.

Jay Sole

Analyst, UBS Securities LLC

Q

Got it. Understood. That's helpful. Thank you so much.

Operator: Your next question comes from Mitch Kummetz of Pivotal Research. Your line is open.

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Yes. Thanks for taking my questions. I guess I have a couple. Let me start with the lined clog business. Is there any way you can say, like, what percent of sales that was in the fourth quarter, maybe how much it was up in the quarter? And I'm curious if you've seen continued strong performance through the early part of Q1 in that business.

Andrew Rees

Chief Executive Officer & Director, Crocs, Inc.

Yeah. Look, we don't break it out, Mitch, but I can tell you performance was extremely strong, right? So the lined clog performed extremely well here in the US, in Europe, and parts of Northern Asia. So it's obviously a very important part of our fourth quarter business.

In terms of its continued performance in Q1, it continued to perform well in Q1, absolutely. We plan to be essentially out of stock as we come into Q1. So we don't have huge inventories at this time period because, obviously, we want to be out of stock and then reintroduce next year. We will carry year-round on our e-comm sites on an ongoing basis because we do actually see kind of year-round demand for that silhouette. So, it's been really good. And I would say we haven't found the top yet. I think there is a long way to go on lined clogs.

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Got it. And then on collabs, are there any metrics you can give around that when you think about 2021 versus 2020, maybe in terms of the number of collabs, the type and the timing of them? Is there anything you can offer on those sort of metrics?

Andrew Rees

Chief Executive Officer & Director, Crocs, Inc.

Yeah. So, I can give you a little color. So, I think collabs will be as strong, potentially stronger than they were in 2020. They will be a little bit more evenly distributed through the year. We've already executed some collabs already this year, a key one in Europe did particularly well even last month. So, they will obviously be – without the COVID impact, they will be spread more evenly throughout the year. There will be more of them than there were last year.

There will be more regional collabs than there were last year, so I think Europe, Korea, Japan, China, etcetera. And so, those tend to be a little bit kind of smaller as we're reaching to a more niche audience, but we do also have some of our kind of blockbuster names that we're really excited about. So, I would say the pipeline is super full. And at this point, we're still also getting significant inbound interest and that, obviously, is obviously tearing over into 2022 at this point.

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Okay. Thanks...

Anne Mehlman

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

Yeah. And Mitch, just remember...

A

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Yes.

Q

Anne Mehlman

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

...if I could just add, those aren't financially significant on their own. Obviously, they create a great halo for the brand and are an important part of our marketing strategy. But you don't need to worry about us anniversaring something from a financial perspective.

A

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Got it. Okay. Thanks. Good luck.

Q

Andrew Rees

Chief Executive Officer & Director, Crocs, Inc.

Thanks, Mitch.

A

Operator: Your next question comes from Sam Poser of Williams Trading. Your line is open.

Sam Poser

Analyst, Williams Trading LLC

Good morning, everybody. Thank you for taking my questions. I just have – I have a few. I'm just going to get one. What do you anticipate the share count to be for 2021 right now?

Q

Anne Mehlman

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

We didn't guide share count, Sam. So I would just use what we gave in our release, which I think was around, yeah, \$68 million.

A

Andrew Rees

Chief Executive Officer & Director, Crocs, Inc.

\$68 million, I think.

A

Anne Mehlman

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

I think, yeah, \$68 million.

A

Sam Poser

Analyst, Williams Trading LLC

Q

Got it. Okay. Thank you. And then I want to talk about China a little bit. Number one, Andrew, can you give us some history, like, give everybody a history lesson sort of over the years as to what happened in China and why it's taking as long as it's taking to get it turned around? Because, I mean, if any – and based on what I know, any other market, Europe, US, China was more negatively impacted by various things that happened in the past, hence taking it longer. But can you give everybody some details as to what happened, what you're doing, and why it's taking so long?

Andrew Rees

Chief Executive Officer & Director, Crocs, Inc.

A

Yeah. So, I think – look, a couple of things. I'm not sure we have time on this call for a complete history lesson, Sam, but I can give kind of some of the key issues, right? And absolutely, I agree, it's taking longer than we had hoped it would. I think – and that's not just COVID. It's just taken us longer to unwind some of the issues of the past. I think the core issue that we've been wrestling with is the network of partners that we have that operate single-branded stores throughout China, right? So, we had a network of partners. They operated largely single-branded stores on a province-by-province basis and I think, historically, we were with the wrong partners. We were with the people that were not equipped to grow and evolve the brand in the future in the way that we wanted to grow and evolve there.

And that's, frankly, not inconsistent with the transition that other brands have been through in China, but they've largely been through it. At this point, as we indicated in the prepared remarks, I think we're making some real progress on that, right? So, number one, the product strategy has been reset, right? The product strategy in China was historically a little bit different than it was in the rest of globe. It emphasized more male, emphasized loafers, it emphasized kind of canvas loafers.

We've reset to our four pillars that we know work around the globe and I would say that reset is complete and we are in the thick of transitioning, I would say, the partners that we use. We've transitioned a number of them. We've got a few more to go. So we're in the thick of that and we think that will be complete by the end of 2021. So, that will put us in a place where we have the right product strategy, we have the right partners. At the same time, we're investing in the brand awareness and the brand resonance with the [ph] NMY (40:45) and a significant marketing investment, and we've also built our digital business through Tmall.

So, we feel very confident we have kind of the right strategy. It's just taken longer than we would have liked and would have hoped, but we really can see light at the end of the tunnel today.

Sam Poser

Analyst, Williams Trading LLC

Q

Thanks. And then, lastly, pricing in China, how does that compare to pricing – actually if you could give us China and Europe versus pricing in the US, what is the differential there and sort of...

[indiscernible] (41:16)

Andrew Rees

Chief Executive Officer & Director, Crocs, Inc.

A

So, how we think about pricing is – yeah. Yeah, how we think about pricing, we price to market. We price to the local market. So, we don't try and keep our icon the same price everywhere in the globe. We price it relative to, I would say, competitive products in the local marketplaces, and we've moved it differentially at different times. What that translates to today is we sell the clog at a slight price premium in China, frankly, as many brands do.

They sell a little bit at a premium to what they sell out rest of the world, as we think that market can sustain and bear that relative to competition.

Then your other question embedded in there was Europe. Europe right now is a little bit of a discount to our US price and that is something that we're taking a look at.

Sam Poser

Analyst, Williams Trading LLC

Okay. Thank you very much. Continued success.

Q

Andrew Rees

Chief Executive Officer & Director, Crocs, Inc.

Thanks, Sam.

A

Anne Mehlman

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

Thanks, Sam.

A

Operator: Your next question comes from Laura Champine of Loop Capital. Your line is open.

Laura Champine

Analyst, Loop Capital Markets LLC

Thanks for taking my question this morning. It's really on longer-term CapEx. So, the CapEx budget is much higher this year. That makes a lot of sense. Is that just catch-up with demand or is this elevated level of CapEx spend as a percentage of sales likely to continue for the out-years?

Q

Anne Mehlman

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

Yeah. I think it's certainly elevated this year as we're investing along with the business. Yeah, I don't think we're prepared yet to guide long-term. Our – what we've talked about in the past is maintaining CapEx is around replenishment of depreciation, which is around \$30 million, and that's run rate CapEx. But we will continue to invest in the business. We are really proud of our free cash flow. We generate a lot of cash from operations, well, to over \$250 million this year. So, we feel like investing in the business is really important. So we will continue to do that to support the growth as we see the opportunities.

A

Laura Champine

Analyst, Loop Capital Markets LLC

How much of your CapEx spend this year of that budget is about moving the distribution center in EMEA and, therefore, likely does not repeat?

Q

Anne Mehlman

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

I will say all of the CapEx this year is related to distribution centers. I wouldn't say that any of it is recurring as far as – well, the vast majority of it is distribution center. So it's either EMEA or investing in our other distribution centers to upsize or to automate. So, I don't think any of it is necessarily what I would call repetitive on an ongoing

A

basis. The reason I'm hesitant to guide past that is because I don't want to – I want to make sure that we have the opportunity to invest continuing as we see revenue growth.

Laura Champine

Analyst, Loop Capital Markets LLC

Understood. Thank you.

Q

Operator: Your next question comes from Steven Marotta of C.L. King. Your line is open.

Steven L. Marotta

Analyst, C.L. King & Associates, Inc.

Good morning, Andrew, and Anne. Congrats, again, on a great 2020. Q4 ended with leaner than desired inventories, as you mentioned. You also mentioned that this is going to be remedied throughout the year. Can you talk a little bit about the year-to-date remedy and how you see your inflow of inventory finally meeting outflow from a demand standpoint?

Q

Andrew Rees

Chief Executive Officer & Director, Crocs, Inc.

Yeah. I mean, that comment in our prepared remarks is really around our wholesale partners, where we've obviously, and particularly in the US, had significant shipments. I mean, the wholesale business in the US was up, I think, 130%. So we shipped them lot of product. They just sold a lot of product as well, right? So they didn't end with the stronger inventories that they and we anticipated. So we still are kind of catching up a little bit from that perspective.

A

And so, what I would say as we look into 2021, we have been able to ramp up production capacity very significantly. We absolutely have adequate production and can make enough product to meet our expectations and get kind of our own environment – our DTC environments and our wholesale customers back in stock. I would say, global logistics here in the first quarter are really challenging, right? So we're quite – I don't think we're meeting everybody's expectations today and frankly, we're unlikely to and I doubt if anybody else is either.

Importing product from Asia, getting it through Long Beach and other ports, getting it shipped to customers is really challenging right now. And that's not an issue with production capacity, that's just logistics. I think that will smooth out over time, but it's going to take a little while.

Steven L. Marotta

Analyst, C.L. King & Associates, Inc.

That's very helpful. And you've provided a very nice detailed commentary regarding gross margin in the current year, just to put the finest point on it possible. Obviously, with wholesale increasing as a percent of the consolidated mix, there will be a little bit of that, as you mentioned, the pressure on gross margin. Will gross margin – do you expect gross margin to increase in each channel throughout the year?

Q

Anne Mehlman

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

So, we don't guide gross margin by channel because our reportable segments are actually Americas, EMEA and Asia. What I will say is that – you just talked about inventory. One of our strategies is to run lean inventory and obviously keep our consumer in stock on core. But running lean inventory supports good gross margins. And we

A

don't expect to go backwards from a pricing perspective in any of our channels. So we are really excited about the work we've done on gross margin and we're focused on maintaining really high-level gross margins.

Steven L. Marotta

Analyst, C.L. King & Associates, Inc.

I got it. That's helpful. Thank you.

Q

Operator: Your next question comes from Susan Anderson of B. Riley Securities. Your line is open.

Susan Anderson

Analyst, B. Riley FBR, Inc.

Hi. Good morning. Let me add my congratulations on a very nice year. I guess, on the wholesale front, I'm curious if you feel like there's still opportunity for shelf-space gains, or new doors in 2021, or even I guess adding Jibbitz to more wholesale doors? And then, just in terms of the door growth in fourth quarter, was that impactful or significant in terms of the wholesale growth, or did that mainly come from sell-ins in existing doors?

Q

Andrew Rees

Chief Executive Officer & Director, Crocs, Inc.

Yeah. Okay. So, let me kind of hit the last bit first. So the door growth in fourth quarter really wasn't as significant. I mean, I think our rollout with new customers, particularly some large ones here in the US, is absolutely going well and meeting all of our expectations and their expectations, but that wasn't impactful in terms of growth. The real driver of growth was accelerated sell-through. And so, that's the big driver.

A

In terms of share of shelf gains, absolutely, yeah, we believe we have opportunity to gain share of shelf in our major customers, both bricks and mortar customers as well as online customers, I would say, particularly with sandals over time as we grow our sandal business. We want to keep all of our clog SKUs and add sandal SKUs. That will be a key part of our strategy. And also, yes, we do believe that there is an opportunity to significantly grow Jibbitz in the wholesale environment. I would say that's made strongest headway here in the US and we had a really nice with Jibbitz in wholesale last year. But I think we can do a lot more and a lot better, particularly as we increasingly packaged the Jibbitz into kind of multipacks, which I think will make a lot easier for our wholesale partners to display and handle them.

Susan Anderson

Analyst, B. Riley FBR, Inc.

Great. That's helpful. And then just on the Work category, I think you said it grew double digits in the last four quarters. Is that accelerating as the economy reopens? And then, any color on how big that category could be or where it could go?

Q

Andrew Rees

Chief Executive Officer & Director, Crocs, Inc.

I didn't hear what you were referring to there – Jibbitz, oh, yes.

A

Susan Anderson

Analyst, B. Riley FBR, Inc.

Work. No, so just Work category. Yeah. So...

Q

[indiscernible] (49:35).

Andrew Rees

Chief Executive Officer & Director, Crocs, Inc.

A

Yeah. I'm sorry, yes. Yeah. At the Work category, absolutely, we were – if you remember, last year we really gave a lot of that product away earlier on in the year to frontline healthcare workers. So, we put ourselves in a very big inventory hole. We managed to get that replenished towards the back end of last year. And in aggregate, we said we saw a very high double-digit growth on that over the last four months of the year. We see that continuing. I would highlight that in some of our kind of controlled DTC environments, we see even higher growth, right? So we think that's a very interesting signal and an interesting business for us in the future.

Susan Anderson

Analyst, B. Riley FBR, Inc.

Q

Great. Very helpful. Thanks so much. Good luck this year.

Andrew Rees

Chief Executive Officer & Director, Crocs, Inc.

A

Thank you.

Anne Mehlman

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

A

Thank you.

Operator: Your next question comes from Jim Duffy of Stifel. Your line is open.

Jim Duffy

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thank you. Good morning. Terrific year, guys. Thank you for your philanthropic contribution, so a lot of reasons to be proud on 2020 execution. And I wanted to start on the balance sheet. A big step up in the deferred tax assets, \$350 million. Can you give us some insight to [indiscernible] (50:49) is that all US based? What are the requirements to utilize that asset?

Anne Mehlman

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

A

Yeah. So, the tax asset is related to the movement of some of our IP rights from Bermuda to the Netherlands, and that is associated with that deferred tax asset. Remember, we took the GAAP impact of most of that upfront and that's the over \$100 million credit you saw in Q4. And then, from a cash tax perspective, we actually saved the money over the long-term. So, that's how that works. It's not – that's why you see the big credit upfront. So, we do have obviously some allowances against that, but that's why there's a big DTA on the balance sheet.

Jim Duffy

Analyst, Stifel, Nicolaus & Co., Inc.

Q

And so, that \$350 million, what's kind of the accounting treatment for drawing that down? Does it have to be profits recognized in a certain region to offset that in cash taxes?

Anne Mehlman

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

A

Yeah. So, it's not the DTA. I think there's some valuation allowances against it. And then there – it'll amortize over time and that's how it'll roll off. So, the valuation allowance is against it as you have – it's not profits, it's as you prove your valuation overseas, then you can kind of – as we have better visibility into that, then that's how you draw that down. But the overall deferred tax asset just amortizes over time, and that's how it dropped down.

Jim Duffy

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Understood. And then, Anne, can you talk about SG&A budget for the year and the shape of SG&A across the year? I believe you spoke to expectations for leverage for the year as a whole. 2020, I know SG&A was somewhat artificially depressed, given COVID savings in the first half of the year. How much should we be looking for to come back into the model from that? What's the budget for marketing spend versus 2020? I know you're talking about ramping investments in China over the course of the year. Where I'm going with this, I'm curious, like, do you get leverage in the first half of the year and are you assuming de-leverage of SG&A in the model as the year unfolds?

Anne Mehlman

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

A

Yeah. So, really good question. I don't think we're prepared yet to guide by quarter, and part of that is just because we spend in SG&A as we see growth and to support our accelerated growth, and there's some timing. But overall SG&A, we expect it to leverage. We're excited about the work that we've done on our SG&A structure. And last year, we invested in marketing in the back half of the year and invested almost \$10 million in marketing and still we're able to leverage our SG&A. And we see similar trends like that this year. So we see that we'll be able to leverage SG&A, while continuing to invest in marketing.

Jim Duffy

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Great. And then last question, can you speak to what's included in the adjustments related to cost of goods? I guess I'm curious why these are appropriate exclusions for a growing business. Can you speak in more detail...

Anne Mehlman

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

A

Yeah.

Jim Duffy

Analyst, Stifel, Nicolaus & Co., Inc.

Q

...about specifically what those expenses are?

Anne Mehlman

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

A

Yes. They're related to our distribution center move in EMEA and their duplicate running costs.

Jim Duffy

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. Thank you.

Anne Mehlman

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

Thank you.

A

Andrew Rees

Chief Executive Officer & Director, Crocs, Inc.

Thanks, Jim.

A

Operator: Your next question comes from Jim Chartier of Monness, Crespi. Your line is open.

James Andrew Chartier

Analyst, Monness, Crespi, Hardt & Co., Inc.

Good morning. Congrats on a great quarter and thanks for taking my question. Andrew, I was wondering if you could provide some color on brand desirability, relevance and consideration by region. And I'm really curious how the US compares to other regions and are other regions kind of progressing similar to what you saw in the US, maybe kind of [indiscernible] (54:43)? Thanks.

Q

Andrew Rees

Chief Executive Officer & Director, Crocs, Inc.

Yeah. Happy to, Jim. That's a really important set of metrics that we watch, actually, really closely. So, what I'd say is, firstly, brand desirability, relevance and consideration, we have seen double-digit increases in our global metric for four years in a row now, right? And as you look at those kind of metrics, a double-digit increase is, frankly, in one year is pretty extraordinary. But I think it's a real testament to the trajectory of the brand that we have been able to sustain those level of increases.

A

I would say the increases have been strongest and most dramatic in the US, as you'd expect, as you see the underlying business. We have seen them strengthen very strongly in EMEA and we've really measured them in EMEA in Western Europe, to be clear. We've seen the strength and very strongly in EMEA, I would take a 19%, 20%, so in the last two years.

And then, as we look to Asia, obviously we've seen strong trajectory in some of our key markets like Korea, like India, and we've seen positive trajectory in Japan and China. So, that kind of gives you a little bit of kind of relativity. I would say, as we look at them, the reason we follow them closely, we do see them quite well correlated to future growth.

James Andrew Chartier

Analyst, Monness, Crespi, Hardt & Co., Inc.

Great. That's very helpful. And then, in terms of collaborations, you mentioned increasing regional collaborations this year. How did the number of regional collaborations in Europe or Korea or Japan compare to the level in the US, and is there an opportunity to get those more aligned? Thanks.

Q

Andrew Rees

Chief Executive Officer & Director, Crocs, Inc.

Yeah. Look, I think there is an opportunity to, I think, grow them into the future. As we look at this year, it'll be a pretty significant increase in those regional collaborations, but probably will still do more here in the US, right? So

A

I think if you kind of looked at that over a two- to three-year time horizon, we would really see strong growth in some of those regional collaborations.

And frankly, some of those regional collaborations partners actually have global potential, right? So we could also see with the rising – particularly in Asia, with the rising importance of some, I would say, celebrities and/or musicians, etcetera, from key Asian markets. So I think we could see those having a global footprint as well.

James Andrew Chartier

Analyst, Monness, Crespi, Hardt & Co., Inc.

Great. Thank you.

Q

Andrew Rees

Chief Executive Officer & Director, Crocs, Inc.

Thank you.

A

Operator: [Operator Instructions] Your next question comes from Sam Poser of Williams Trading. Your line is open.

Sam Poser

Analyst, Williams Trading LLC

I have a quick follow-up. Thank you. The philanthropy – the donations you did to the frontline workers earlier in the year, do you have any read-through on how that sort of grew the equity of the brand and how many new customers may have been driven by sort of just doing good by [ph] giving way these shoes (58:13) that might have helped business? Do you have any way to measure that?

Q

Andrew Rees

Chief Executive Officer & Director, Crocs, Inc.

Yeah. I think we have some insight, Sam. I would say, firstly, that was not the reason we did it, right? So, firstly, the reason we did it is we felt at the time it was the right thing to do. I would say it has been very positive, right? We can definitely read improvements in brand empathy in association with the brand from a lot of those communities and that's very much appreciated.

A

In terms of acquisition of new customers, I would say it was pretty effective. As we look at the customers that we acquired during that time period, it was very significant. There was a lot of new customers we acquired during that time period. I'm not sure I can give you a number off of top of my head, but it was a big number. And we've seen continued activity from those customers. So it was very effective from that perspective.

Sam Poser

Analyst, Williams Trading LLC

Thanks. And continued success.

Q

Andrew Rees

Chief Executive Officer & Director, Crocs, Inc.

Okay. Thank you, Sam.

A

Anne Mehlman

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

A

Thanks, Sam.

Operator: There are no further questions at this time. I will now return the call to Mr. Rees for closing remarks.

Andrew Rees

Chief Executive Officer & Director, Crocs, Inc.

Just wanted to express my thanks for everybody and their interest in the company. We're looking forward to a really stellar 2021 and continue to talk to you through the year. So, thank you.

Operator: Ladies and gentlemen, this concludes today's conference call. We thank you for your participation. You may now disconnect.

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