

Crocs, Inc.

Second Quarter 2025 Earnings

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CORPORATE PARTICIPANTS

Erinn Murphy - *Senior Vice President, Investor Relations and Corporate Strategy*

Andrew Rees - *Chief Executive Officer*

Susan Healy - *Chief Financial Officer*

PRESENTATION

Operator

Good morning and welcome to the Crocs Second Quarter 2025 Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero.

After today's remarks, there will be an opportunity to ask questions. To ask a question, you may press star, then one on your touchtone phone. To withdraw your question, please press star, then two. Please note that this event is being recorded.

I would now like to turn the conference over to Erinn Murphy, Senior Vice President of Investor Relations and Corporate Strategy. Please go ahead.

Erinn Murphy

Good morning, and thank you for joining us to discuss Crocs Inc. second quarter results. With me today are Andrew Rees, Chief Executive Officer, and Susan Healy, Chief Financial Officer. Following their prepared remarks, we will open the call for your questions, which we ask you to limit to one per caller.

Before we begin, I 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 involve known and unknown risks, uncertainties, and other factors, which may cause our actual results, performance or achievements to differ materially. Please refer to our most recent annual report on Form 10-K, quarterly report on Form 10-Q and other reports filed with the SEC for more information on these risks and uncertainties.

Certain financial metrics that we refer to as adjusted or non-GAAP are non-GAAP measures. A reconciliation of these amounts to their GAAP counterparts is contained in the press release we issued earlier this morning. All revenue growth rates will be cited on a constant currency basis unless otherwise stated.

At this time, I'll turn the call over to Andrew Rees, Crocs Inc. Chief Executive Officer.

Andrew Rees

Thank you, Erinn, and good morning, everyone. Thank you for joining us today. Our teams delivered a solid second quarter, fueled by top line growth and the highest ever quarterly gross profit, which drove strong free cash flow in the midst of what continues to be a volatile marketplace. I will start by highlighting the key metrics of the quarter and then discuss the strategic rationale behind the decisions we have made to drive profitability and support long term brand health. And finally, we'll touch on deeper insights on our individual brands.

At an enterprise level, second quarter revenues of \$1.1 billion grew 3% to prior year. Crocs brand revenues of \$960 million grew 4% to prior year, led by 16% international growth; HEYDUDE revenues of \$190 million, down 4% to prior year, an improvement from the first quarter. Enterprise adjusted gross margins of 61.7% gained 30 basis points to our prior year. Adjusted operating margin of approximately 27% supported adjusted diluted earnings per share of \$4.23, a gain of 5% to prior year.

Our strong margin profile fueled free cash flow of \$269 million, enabling us to repurchase 1.3 million shares and repay \$105 million of debt. Our net leverage ended the quarter at the lower end of our target range of 1 to 1.5 times.

To remind everyone, over the last decade, we have deployed \$2.4 billion to buy back approximately 30% of our total shares outstanding. This along with continued deleverage of our balance sheet has been a consistent driver of EPS growth and shareholder returns.

Turning now to the current operating environment, we see the US consumer behaving cautiously around discretionary spending. They are faced with current and implied future price increases, which we think has the potential to be a further drag on an already choiceful consumer. Against this backdrop, our retail partners are acting more carefully and reducing their open to buy dollars in future seasons.

As we have consistently said, we are not trying to manage our business quarter to quarter. We had a solid first half of the year with our brands fueling strong gross profit and cash flow.

The current environment in the second half is concerning, and we see that clearly reflected in retail order books. We strongly believe this is the time to make bold decisions for the future to sustain and advance our durable cash flow model.

As a result, we have chosen to amplify certain measures in the second half of the year to protect brand health and profitability. For the Crocs brand, in addition to adjusting our forward receipts, we pulled back on promotional activity across the direct channels starting in May. While this has and will continue to impact our top line, we see this as an opportunity to drive margin dollars over time, support continued cash flow generation and tighten brand control.

For the HEYDUDE brand, we've accelerated our actions in the channel to support a clean and refreshed marketplace. This has resulted in us choosing to take back additional aged inventory and ensure more of our partners are reset with our current product lines. This will create further headwinds to sell volume over the next several quarters.

From an expense perspective, we've already actioned \$50 million of cost savings and are identifying further cost savings opportunities. As it relates to inventory, we've opted to plan our business conservatively, proactively pulling back on receipts across both brands for the second half, primarily in the US.

Without losing sight of the bigger picture, I want to remind everyone that, over the last three years, we have made significant progress in diversifying our business, which will serve as a strong foundation to enable long term sustainable growth. One, we've moved from one brand to a two brand enterprise, fortifying our leadership within the casual footwear segment. Two, we've diversified our clog offering and have six major franchises that make up the majority of our clogs business. In addition, we've developed strong sandals and personalization pillars that will offer unique wearing occasions and enable self expression. Three, we've accelerated our international growth business, which has grown from 38% of Crocs brand sales in 2022 to 52% in the second quarter. Collectively, this diversification should fuel durable long term growth for years to come.

Now turning to performance by brand, for the Crocs brand, all of our key product pillars – clogs, - sandals and Jibbitz charms - grew in the second quarter. Clog iterations and emerging franchises drove growth within the clog category, including Echo, Bay and Emotion. These results exemplify

that, when we deliver new innovation with clear storytelling through our marketing channels, the consumers' response was strong engagement.

In Asia, clog personalization and height continues to resonate well. Outside of clogs, sandals continue to yield strong results, providing new versatile wearing occasions for our consumer. During the quarter, we saw notable strength across our style franchises, which include the Brooklyn, Getaway and Miami. As we moved into the summer season, the Miami went viral on TikTok, and we were chasing demand.

Our consumer are responding well to neutrals and new materialization, including glitter and patent finishes. As we look forward, the success of these three franchises is translating into shelf space gains, and we're adding new collections such as the Soho Sandal next spring.

Within personalization, our Jibbitz charms growth continues to be driven by distribution expansion in our international markets, improved in-store presentation and success around elevated charms.

We remain laser focused on our digitally-led social first marketing playbook as this is a key ingredient in sustaining brand heat. In addition to bringing back franchise favorites like Cars, Pokémon and Minecraft partnerships were also stand outs in the quarter. We furthered our connection to sport, growing our NIL athlete roster with first round NFL draft picks Jaxson Dart and Ashton Jeanty, who notably wore our Swarovski Crystal studded Crocs clogs on the red carpet.

We continue to lean into social commerce as consumers more frequently start and end their shopping journeys on social platforms. During the quarter, Crocs remained the number one footwear brand on TikTok Shop in the US, and we recently launched on this platform in the UK where results have been strong out of the gate. Our plan is to continue to expand social commerce and live streaming platforms globally, and we expect this to drive new growth opportunities.

Turning to performance by region, our growth in the quarter was led by our international business, which registered revenue growth of 16%, led by the direct to consumer channel. Our international business represented more than half of our Crocs brand revenue mix this quarter. In China, we reported another quarter of strong revenue growth in excess of 30%.

During the quarter, Crocs brand outperformed during Mid-Season Festival, placing Crocs among the leading women's footwear brands on both T-Mall and Douyin. We're deepening our connections with consumers through our roster of locally relevant celebrities and KOLs, including brand ambassador and actress Bai Lu and actor TJC.

India saw double digit revenue growth in the quarter with outsized consumer demand across our classic club and sandal franchises. We welcomed Rashmika Mandanna as our first brand ambassador in India, and an inaugural Instagram post garnered over 400 million views.

Japan grew nicely during the quarter, and Western Europe continues to perform strongly, led by France and Germany. Our North American business was down 6% to prior year as we pulled back on discounting on our DTC channels, most notably on clogs. We continue to see sandals as a growth vehicle, increasing double digits in the quarter as we further diversify our business.

Last week, we held the grand opening of our newest retail concept in Soho, New York. This store houses our largest personalization experience to date, with expanded and upgraded Jibbitz charms opportunities. In addition to our mainline product, consumers can find New York exclusive

product as well as a dedicated assortment of elevated EXP product line with dynamic digital storytelling.

Turning to the HEYDUDE brand, we've been focused on three core pillars of our strategy - one, igniting the HEYDUDE community; two, driving the core and adding more; and three, prioritizing brand health as we stabilize the North America market. First, we've continued to ignite the HEYDUDE community. Over the past 12 months, we've been focused on speaking to a new female consumer while not losing sight of our core consumer. The cumulative impact of our marketing efforts over this period have resulted in an increase in aided awareness to 35% in North. In addition to an uptick in awareness, we've also seen improvement in consideration and purchase intent. With these advancements, HEYDUDE is now poised to further engage our core consumer.

In June, we launched our latest campaign, HEYDUDE Country. This campaign is rooted in authenticity and plays into several of our brand affinities, including music, pre and post sport and travel. We're excited about the future of this campaign and its broad appeal to our existing core consumer as well as new HEYDUDE fans, both him and her.

Second, we're building the core and adding more. During the quarter, we iterated our icons, the Wally and the Wendy, through color, materialization and partnerships. In June, we leveraged our icon to release the HEYDUDE Pabst Blue Ribbon Collection, which sold out on our own dot com. We also partnered with Margaritaville to release a collaboration featuring our HEY2.0 collection, which speaks to the core HEYDUDE consumer.

Lastly, we launched the Paul Pro, an elevated iteration of our best selling Paul silhouette, at an \$80 price point. Against our third strategic pillar, we continue to prioritize brand health as we stabilize the North American market while laying the groundwork for future international growth. We were pleased by continued growth of our direct to consumer channel, up 7% in the quarter. This was supported by our new store openings and strong performance on TikTok.

While we are pleased with the strategic progress we have made against our three pillars, we have identified further opportunities to more rapidly reset our North America business. We have focused our efforts against two primary actions - one, we pull back on bottom of the funnel performance marketing investment to enable a more profitable digital business, and two, we've initiated incremental returns and marked our allowances to our retailers to improve the health of our imagery in the marketplace. This will simultaneously elevate our brand presentation at wholesale.

While these measures will have a meaningful impact to the second-half performance across both channels, we feel that they will stabilize the business more quickly.

In closing, we believe the HEYDUDE brand potential and its community are much greater than the size of the business today, and we're confident that the critical steps we're taking will fuel the potential in the future.

I will now turn the call over to Susan to provide more detail around our second quarter financial performance and third quarter outlook.

Susan Healy

Thank you, Andrew, and good morning, everyone. Our second quarter enterprise revenues of \$1.1 billion were up 3% to prior year. Crocs brand revenue of \$960 million was up 4% to prior

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year. Growth was led by wholesale up 6%, while DTC was up 3%. North America revenues were down 6% to last year as we pulled back on discounting during the quarter. These actions in part drove DTC down 8% while wholesale was down 4%. International revenue was up 16%, aided in part by timing shifts out of Q3 and into Q2 in select markets. China and India led the growth, while Japan and Western Europe also contributed strongly to these results.

HEYDUDE brand revenue of \$190 million was down 4% to prior year, an improvement from the prior quarter. DTC was up 7%, driven by the contribution of new retail stores and our strong performance on TikTok Shop. Wholesale was down 13% in the quarter.

Enterprise adjusted gross margins of 61.7% were up 30 basis points to prior year. Crocs brand adjusted gross margin of 64.1% was approximately flat to prior year. HEYDUDE brand adjusted gross margin of 50.2% was up 110 basis points to prior year, primarily due to distribution and logistics efficiencies. Adjusted SG&A dollars for the quarter increased 12% versus prior year. Adjusted SG&A rate was 34.7%, up 270 basis points compared to prior year, driven by incremental investment in talent, DTC and marketing. This excludes the non-cash impairment charge of \$737 million on HEYDUDE's intangible assets. This impairment comes as a result of a longer than expected timeline to stabilize the HEYDUDE brand and return it to growth, due in part to a weaker U.S. consumer and the disproportionate impact of tariffs on HEYDUDE products.

Adjusted operating margin of 26.9% was down 240 basis points compared to prior year. Adjusted diluted earnings per share of \$4.23 was up 5% to last year. Our non-GAAP effective tax rate was 17.7%, which reflects the tax impact of intra entity transactions and excludes the impact of the HEYDUDE impairment.

Our inventory balance as of June 30th was \$405 million, up 7% to prior year, in part due to the elevated cost of inventory from tariffs. Enterprise inventory turns remained above our goal of 4 times on an annualized basis. Our liquidity position remains strong, comprised of \$201 million of cash and cash equivalents and \$784 million of borrowing capacity on our revolver.

During the quarter, we repurchased approximately 1.3 million shares of our common stock for a total of \$133 million at an average cost of approximately \$102 per share. In the first half of the year, we repurchased 1.9 million shares, or 3% of our outstanding shares. We had \$1.1 billion remaining on our buyback authorization as of the end of Q2. We ended the quarter with total borrowings of \$1.4 billion and net leverage at the lower end of our target range of 1:1.5 TIMES.

Before I discuss our outlook, I want to briefly touch on tariffs. Last week, the US extended the pause period on a series of incremental tariffs on countries in which we source our products. While we can't predict future tariff changes, we are planning our business at the current rates. The impact from these incremental rates equates to approximately \$40 million in the second half of 2025 and approximately \$90 million on an annual basis based on our current sourcing mix.

Now moving to our outlook, it continues to be difficult to fully project the financial implications of changing global trade policies as well as to predict how consumer sentiment and purchasing patterns will evolve. Therefore, we are not reinstating full year guidance at this time. However, we would like to provide some visibility for the third quarter.

For Q3, we expect consolidated revenues to be in the range of down 9% to 11% at currency rates as of August 4th. This revenue range is based on the visibility we have to orders from our wholesale partners, a reduction of discounts in our cross DTC channels, the pullback of performance marketing for HEYDUDE, the incremental cleanup actions we have elected to take

for HEYDUDE as well as the potential range of outcomes against a weakening U.S. consumer backdrop. Within this range, we expect the Crocs brand to be down mid-single digits, led by declines in North America, offset in part by growth in international. This includes our expectation that the second-half wholesale environment will be challenging for both brands based on the visibility we have in our current order books.

Adjusted operating margin is expected to be in a range of 18% to 19%, including an anticipated approximate 170 basis point impact from tariffs and deleverage of expenses tied to our reduced revenue outlook. We plan to continue to buy back stock and pay down debt while remaining within our target net leverage range of 1:1.5 times. Based on the current environment, we are rapidly actioning additional cost saving measures across the enterprise in Q3.

I will now turn the call back over to Andrew for his final thoughts.

Andrew Rees

Thank you, Susan. While the current environment has created uncertainty for the industry and for our consumers, I'm confident that the increasingly diversified sources of growth we are developing and the strategic actions we are taking will position our brands for consistent and profitable long term growth. At this time, we'll open the call for questions.

QUESTION AND ANSWER

Operator

We will now begin the question and answer session. If you would like to ask a question, you may press star, then one on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star, then two. And at this time, we will pause momentarily for the first question.

And our first question today will come from Jonathan Komp with Baird. Please go ahead.

Jonathan Komp

Yeah. Hi, good morning. I want to start just by asking about Crocs North America and the outlook for Q3. I'm hoping you might be able to better isolate some of the unique factors impacting Q3 versus what might be lasting. And then as you look forward, especially into 2026, I know you've made some changes at the organization, at the Chief Brand Officer level, Chief Strategy position. So just, as you look forward beyond the next couple of quarters, could you give us more sense of the pipeline and the strategy in terms of reinvigorating the excitement for the brand?

Andrew Rees

Great. Thank you, John. I think if you look to the back half of the year for the Crocs brand in North America, there's a number of things affecting the business, some choices that we have made which we think will be productive in the long term and also some market related factors. Our consumer is an incredibly broad based consumer. If you look at our demographics and who we sell to for the Crocs brand, it's essentially the general population. So as you look at the general population, there is a portion of that consumer base which we I think has ample evidence that they are super cautious, they're not purchasing, they're not even going to the stores, and we see traffic down. So we're certainly affected by that, and we see that flowing through into our back half in terms of really our wholesale business and a little bit of our outlet business where we see that lower end consumer.

So we see our order books down, and we see a trajectory for our wholesale business. That is unintended and not necessarily out of our control, but that is what it is.

I think the second piece is our decision to pull back on discounting on the Crocs brand in North America in particular. And that is a fact -- that is an intentional decision we made. That's a revenue headwind, but a gross margin and ultimately an EBIT potential. We think that's important to do that, because as we looked at the trajectory and the discounting over time, we saw it increasing, and we think that is detrimental to the long term health of the brand. So that's really I think when you kind of look at the North America market.

What I would say is we've got consumer innovation coming into the market. We've seen a strong trajectory in the past, in the summer season from our sandal business. We think that grows next year. We see new product innovation on clogs and sandals coming on close, coming in the fourth quarter. We have I think significant product innovation on sandal in the in the first half of next year, and we're continuing to accentuate and grow our personalization business both in Jibbitz and expanding that beyond Jibbitz into a broader personalization offering.

I would also add that, in Q2, we saw strong international growth for the Crocs brand and obviously growth overall. And I think we've talked about repeatedly that we see international as a continued important growth driver for the brand.

I think the other thing you referenced was some personnel changes to strengthen our management team. I think we feel really good about those. Terence is getting settled as the Chief Brand Officer over both brands, I think, and driving the level of energy and creativity, which we're excited to see come to market, and we've strengthened our sort of growth and transformation with the addition of a strategy and growth officer. So we feel great about the team. I think it's going to be a difficult period to navigate in the next half year for the Crocs brand in North America, but we think we're doing the right things for the long term potential of the brand.

Jonathan Komp

Okay, great. I appreciate all that color. Just two follow-ups if I could - do you think in some of your core family channels, are you losing share in the order book at all as larger competitors come back with emphasis on the channel? And then just any more detail on protecting the profitability? I don't know if you were surprised by the magnitude of the revenue slowdown. Just given the size of the D leverage that you're implying for Q3, looks hard to see where you're seeing progress on protecting profitability just based on the Q3 outlook alone. Thank you.

Andrew Rees

Got it. Yeah, that makes sense. So, yes, I think if you look at the -- I think what you're referencing, we do see an athletic trend in the marketplace. I think everybody is well aware of that, talked about that. There is I think a clear athletic trend, the consumer is migrating back towards athletic. We know that is a cyclical trend, and as we look at some key athletic events coming up, we do think that will persist for a while. You've got the World Cup next year, you have the LA Olympics in a couple of years, and I think the athletic brands are building innovation into that, which they typically do. So that's a little bit of a headwind. I think we can fight that headwind in the long term.

And we also know that our brand is well positioned against pre and post sport. So I think athletic headwind is providing some pressure on open to buy, it combined with the consumer uncertainty of that very broad consumer base.

In terms of protecting profitability, yes, I think there's a couple of things. If you look at Q3, 170 basis points of the deleverage are tariffs, and obviously, that will continue into '26 and beyond. I think in our prepared remarks, Susan gave you some good color on what that looks like. And in terms of -- I think I'm anticipating that Q3 is a bit of a low spot in our in our EBIT potential. We've taken out \$50 million of cost savings already. Some of those are spread between gross margin and SG&A. And we will look -- and we are currently engaged in a extensive process to drive incremental cost savings or incremental SG&A reductions throughout the remainder of the year.

Jonathan Komp

Okay, thanks again.

Andrew Rees

Thank you.

And our next question will come from Chris Nardone with Bank of America. Please go ahead.

Chris Nardone

Thanks, guys. Good morning. So first, are you seeing anything in your Crocs international business that is implying a material step change for your back half outlook relative to the mid-teens growth in the most recent quarter? And then on your global Crocs direct business, is the slowdown that you're embedding in your 3Q guidance, is that matching what you're seeing? Or are you baking in a scenario where sales continue to sequentially get worse throughout the rest of the quarter?

Andrew Rees

Okay. Let me answer the international piece. I'm going to come back to you on the DTC piece. I didn't quite understand what you're asking there. So from an international perspective, there are always a kind of few puts and takes between quarters, particularly around your distributor business; and you're probably well aware, our distributor business is substantial. And so -- but in the long run, a mid-teens growth trajectory for our international business, we feel very good about that.

I think we highlighted in the prepared remarks, strong growth in China, really successful Mid-Season Festival, strong growth in India, another large -- a very large potential market, good performance in Western Europe and actually return to growth in Japan, which we're also excited about. So I think our international business remains really important to us. It could be a driver of growth. I would also highlight, in Q2, it was the majority of our Crocs business, right? We passed the 50% mark in terms of the international business being bigger than our domestic business. I think puts and takes between quarters will be kind of around that longer-term trajectory.

The second piece, I'm not 100% clear what you were asking there.

Chris Nardone

Yeah, so I'm just trying to get a sense of -- I know you're not guiding 3Q by channel, by region, per se, but we're a little over a month into the quarter. It sounds like the outlook is getting a little bit worse. Are you baking in things sequentially getting worse as we move through the quarter, or are you kind of calling the 3Q guidance based on the trends you're seeing as of today, the first couple of weeks of the quarter?

Andrew Rees

Yeah, we're not baking in it getting sequentially worse as it goes through the quarter from now. We do think the back half is worse than the first half, right, based on the things I talked about earlier. So -- but do I -- do we see it sequentially declining from sort of our July trajectory as we go through the year? We are not anticipating that. I think there is an element of cautiousness, and we recognize the consumer is pretty unpredictable, particularly here in the North America. We do see sort of fairly significant fluctuations week-to-week, so I think we've got some cautiousness embedded in it, but we haven't embedded a downward trajectory month over month from now.

Chris Nardone

Got it. That's very clear. And then just to sneak one more in, just on margins, I just wanted to get a sense of how you're thinking about taking price for both plans -- for both brands and what's included in your margin guidance in terms of mitigation strategies around tariffs. It sounds like you're pulling back on promos and DTC, which is leading to lower volumes. So I'm just wondering if that's making you rethink whether you think you can take price across both brands.

Andrew Rees

Yeah, I mean, this is -- so I think we can over the medium term mitigate the impact of tariffs. That will come from cost savings in our supply chain, both negotiations with factories, which I don't think is a huge amount, but there's some there, but also just efficiency drive within our supply chain. It will come from some price, and it will come also from some reduction in SG&A through, again, looking much harder and driving to efficiency.

In terms of your specific question around price, we have selective actions planned, some in the back end of this year for HEYDUDE. We are getting some net price, as you pointed out, through reduction in discounting. And we have -- we will be announcing some price increases on Crocs both in select styles and also in some of our international markets where we think we have opportunities. So we're going to, I think, be very strategic about where we get price. We don't think this is a market that we can be taking all of our prices up by a certain amount to simply mitigate the tariffs. I don't think that's, realistic given where our brands sell and the very broad base of our consumer base.

Chris Nardone

Very clear. Good luck.

Andrew Rees

Thank you.

Operator

And our next question will come from Adrienne Yih with Barclays. Please go ahead.

Adrienne Yih

Great. Good morning, and thank you very much for taking my questions. Andrew, I guess my question is, given the down 9% to 11%, how much of that is due to kind of the wholesale pullback? Is that a reaction to the front order book, or is that more of a proactive management, given kind of everything that you know about what's happening and potentially with the consumer kind of demand environment? And how do you think about philosophically balancing that with the risk of losing shelf space in the marketplace?

Andrew Rees

Right. So I would say the guide embeds the order book for both brands, right? So we've been -- it's not -- we're not anticipating an erosion of order book. It embeds the order book where it sits

today. And I would say it also embeds conservative assumptions around returns of cancellations, right? So we're definitely, I think, being very cautious about how we're anticipating the market flowing out over the next six months and how the consumer is going to react.

In terms of shelf space, I think in response to John's question, I think in some channels of wholesale distribution, we are losing shelf space relative to other brands, relative to the athletic brands. And I think we are working to make sure that we drive incremental shelf space with sandals. We certainly picked up shelf space in the summer with sandals. We think we will pick up more shelf space in channels next year. But a significant part of our clogs business is done through our DTC channels, right? It's done through our retail stores and our digital channels. And obviously, I think we're maintaining market share through those channels.

Adrienne Yih

Okay. Great. And then my just clarifying question - you said that, within that guidance of down 9 to 11, Crocs, if I heard correctly, would be down mid-single digits.

Andrew Rees

Correct.

Adrienne Yih

So HEYDUDE will then kind of go -- kind of the trajectory of HEYDUDE will worsen pretty significantly. Is that -- are you seeing more of this wholesale kind of pullback and more of the actions, the reset actions at the wholesale brand?

Andrew Rees

Yeah, I think the principal driver of that leg down for HEYDUDE is the actions that we decided to take, right?

Adrienne Yih

Yeah.

Andrew Rees

The first is the reset of some inventory in the wholesale, and that's pretty significant, and that will be done essentially in Q3. So that's a meaningful amount. And the second is the reduction of marketing, so performance marketing on our digital channels where we've seen that creep up over a number of quarters, and we've got to a point where the marginal profitability is really not there. So we took an opportunity to -- we took a tough decision to reset that. So it's principally due to those two things. I wouldn't say the wholesale trajectory, an order book trajectory is dramatically worse than Crocs; it's a little bit below, but those are the two biggest things.

Adrienne Yih

Okay, thank you. And then two clarifying questions for Susan - when you say the current tariff environment, you mean the August 1st, right? It's all that whole litany of kind of new numbers for all the different separate countries. Is that kind of the new \$90 million annual growth unmitigated? And then secondarily, the inventory up 7%, how much of that is now due to the cost of tariffs? Thank you very much.

Susan Healy

Yeah, so on the first part of your question, yes, that is an up-to-date number, I think, as of hot off the presses. So that includes everything that we heard as of August, plus I think there was a -- there's a 50% tariff on India that we have incorporated in that number. India is a meaningful but

not the largest country from which we source exports to the U.S. And then your second part of your question was about inventory. Yeah, up 7%. We don't break that out, but a meaningful portion of that is the cost of the tariffs, and we capitalize that in our inventory and recognize that as we sell the product.

Adrienne Yih

Okay, thank you very much, and best of luck. Thanks for all the information.

Operator

And our next question will come from Anna Andreeva with Piper Sandler. Please go ahead.

Anna Andreeva

Great. Thanks so much. Good morning, guys. Just a follow-up on the pullback in promotional activity at Crocs in North America - did you quantify that impact in the second quarter or how we should think about that for 3Q? And we still see Crocs promotions around big events, whether it was Memorial Day or July 4th weekend, so just trying to understand how we should think about the magnitude of that pull back manifesting. And then secondly, to Andrew, on the shelf space losses to athletic, just trying to understand, athletic space has been strong for some time now. Why do you think your losses are accelerating now?

Andrew Rees

Got it. So we haven't quantified in dollars the amount of the pullback relative to the reduction in discounts. But what I could say is, if you look at Q2, which is down essentially almost 6%, right, for North America for Crocs, if we had, I think, not made that decision, it would have been down slightly. So it was a pretty meaningful impact. And, yes, I think to your question, will we still run I would say competitive discounts and promotional events around key events, absolutely, we will. But we are being careful about the depth and the breadth of those events and also making sure that we are not running significant events between those time periods. So it is a very meaningful change in terms of dollars that we are foregoing in North America for future health of the brand.

And the second point, I'm not sure I agree with you, right, in terms of the athletic trend. I think there are some high-end athletic brands that have been performing very strongly in North America for some time, but they are selling at high prices and are principally selling to an elevated consumer. I think the broader athletic trend that hits the broad consumer base that we service has accelerated. And that is, I think, principally due to some of the big players reembracing a broader distribution strategy.

Anna Andreeva

Okay. Okay. No, that's fair enough. And just as a quick follow-up to Susan, could you guys quantify the timing shift in international? You said the benefits 2Q and occurred 3Q, I believe.

Susan Healy

Yeah, we didn't actually quantify the shift. It's a part of the difference in the growth rate between international and international between Q2 and Q3, but we still would have been -- it still would have been positive. As Andrew said, we have these shifts based on our distributor business from quarter-to-quarter on a regular basis, both this year and last year.

Anna Andreeva

All right, understood. Thank you so much, and best of luck.

Operator

Our next question will come from Jay Sole with UBS. Please go ahead.

Jay Sole

Great. Thank you so much. Andrew, can you just elaborate a little bit on what you're seeing in China? I think you talked about China was up over 30% versus last year. Talk about what's driving the strength and maybe the outlook that you have for China in the third quarter and beyond. Thank you.

Andrew Rees

Yeah. So I think what's driving our business in China is I think strong consumer engagement, right? So the overall China business, and you look at it across many different brands, is not strong from a consumer perspective. Consumer purchasing is certainly not strong in the Chinese market. We are bucking that trend because we're driving I think brand heat for the Crocs brand in China.

That brand heat has been driven by a set of social-first digital marketing tactics using key Chinese celebrities. We have a very large digital business in China, which has performed particularly well during Mid-Season Festival, and we're very familiar with how to operate during these festival time periods and maximize the business. We have also extended significantly our mono-brand stores through our distribution partners in China with significant store openings both last year and this year.

And I think our personalization aspect to our brand, the use of Jibbitz and the ability to personalize the shoes have also been particularly effective in engaging that consumer. And I think that's also effective in engaging sort of the broader Asian consumer. We see our personalization business strong in Southeast Asia, in Korea and in Japan, as well.

Jay Sole

Got it. Thank you so much.

Operator

And our next question will come from Rick Patel with Raymond James. Please go ahead.

Rick Patel

Thank you. Good morning. Can you unpack the disparity in performance between HEYDUDE in direct-to-consumer versus wholesale? Direct-to-consumer's performed well now for three quarters in a row. So I guess what would you attribute the softer performance to at wholesale? And as we think about the wholesale channel, in particular, how long do you envision it will take to right-size inventories so that sell in and can sell through are in better alignment?

Andrew Rees

Yeah, great question, Rick. So, look, direct-to-consumer has performed well, but there are new points of distribution there, right? So that's for -- I would say for two principal reasons. We continue to open outlet stores for the HEYDUDE brand, which we're very pleased with both the performance of those stores and also the role they play in terms of extending the HEYDUDE brand to new consumers, right? So HEYDUDE brand, while the awareness has improved, it has improved to 35%. That is a relatively low number compared to the 60% plus awareness, aided awareness for the Crocs brand.

So we've made progress on awareness, but it's still low. And so there's new points of distribution from an outlet store perspective embedded within that DTC growth. There is also TikTok Shop. So

you are aware that, with both of our brands, we've been at the forefront of selling on TikTok shop. Crocs is the number one footwear brand on TikTok shop, and I think HEYDUDE is the number three. So that is -- number two, sorry, I've been told. I know it's two or three. And that is an outsized performance relative to the size of the HEYDUDE brand in the U.S. marketplace. So it's -- I would say it's new points of distribution is a big driver there.

Rick Patel

Thanks very much.

Andrew Rees

Thank you.

Operator

Our next question will come from Aubrey Tianello with BNP Paribas. Please go ahead.

Aubrey Tianello

Hey, good morning. Thanks for taking the questions. I wanted to ask on HEYDUDE, I think it's been a few quarters now since you changed the approach to marketing going more top of funnel. How are you feeling about the benefits you're seeing from that? And then how are you thinking about investment in the brand going forward? And then any update on new leadership for HEYDUDE? Thanks.

Andrew Rees

Yeah. So I'll do your last question first. So the current leadership for HEYDUDE is myself. So I'm really enjoying being able to dig into the brand and work with the team. While we have not yet appointed a brand president of HEYDUDE, I would say that we have appointed some key team members, and I'm really excited about the strength of our leadership team for the HEYDUDE brand. I think they are doing a really great job and really grappling with some difficult situations, but doing it in an extremely proactive and productive way for the future.

In terms of shifting the marketing, we have seen I think positive signs from that. We have been -- and we continue to invest in marketing. We have been experimenting with some different messages and different approaches. We have seen an increase of aided brand awareness, as I mentioned in the prior question, to 35%, which we think is a very productive trend. I would say our latest campaign around HEYDUDE Country has been really well received by the industry as we talk to our wholesale partners. And I think we are seeing some clear evidence it's resonating with consumers.

We have also spent a good amount of time, as we've talked about in the past, speaking to her and bringing a younger female consumer to the brand. I think that has been productive. I would say that, as we look forward, we are shifting more of our dollars and focus back to our core consumer and ensuring that we really resonate and capture and get the most productive purchasing from our core consumer.

So I think we're doing all of the right things. We plan to continue to invest in the HEYDUDE brand, and we see a trajectory that we think we will be pleased with, and ultimately, shareholders will be pleased with over time.

Aubrey Tianello

Thanks. And if I could just sneak in a follow-up on capital allocation - in the first half, you're ahead of where you were last year in terms of share repurchases. Does that continue into the back half, or is that different now with the new revenue trajectory?

Susan Healy

Yeah, so let me try to address that. Consistent with our past practice, we really don't commit ahead of time to our capital allocation, how we're going to allocate our free cash flow. But as you can see from what we did in the first half of the year, we really believe our stock is an excellent value, and consistent with our 1 to 1.5 times target range, we're going to continue to allocate free cash flow to buy back stock and pay down debt as we see the opportunities.

Operator

And our next question will come from Brooke Roach with Goldman Sachs. Please go ahead.

Brooke Roach

Good morning, and thank you for taking our questions. Susan, I was hoping you could elaborate on the cost savings actions that you've taken, that you're planning on taking. What additional areas of opportunity have you identified outside of the SG&A savings in the \$50 million that was previously discussed? And can you provide any color on the magnitude or timing of these savings for the second half and into '26? Thank you.

Susan Healy

Sure, Brooke. So when we talk about the \$50 million of cost savings, these are things that we've already identified and taken action on for the year. We realized \$15 million of that in Q2, and that was really balanced across SG&A and gross margin. And you can think about the remaining \$35 million as being kind of evenly spread across Q3 and Q4 with a similar weighting on SG&A and gross margin.

As we look to the further opportunities that Andrew mentioned, we're particularly focused on SG&A and steps that we can take to further simplify the business. We spoke a little bit about the marketing spend for HEYDUDE and being able to pull back on performance marketing where we don't feel there's an adequate return. We're looking at our entire expense base with that lens to make sure that where we're investing the dollars are the ones where we're seeing the return for the long term.

Brooke Roach

Great. Thanks so much. I'll pass it on.

Operator

And our next question will come from Ashley Owens with KeyBanc Capital Markets. Please go ahead.

Ashley Owens

Good morning. Maybe just to start on HEYDUDE, with the further pressure on the wholesale channel, is the assumption that this will come as incremental margin headwinds on the brand through the balance of the year? And additionally, I know you mentioned pulling back on some of the inventory received domestically for the back half, so can you help us understand how this shapes the product cadence? You've been strong in newness in collaboration for several years now, but should we expect a pullback in some of these efforts in SKU count until conditions normalize, or how are you thinking about balancing tighter buys with the need to maintain freshness? Thank you.

Andrew Rees

Yeah, yeah. Good. Thank you, Ashley. Those things are clearly connected. So yes, from a HEYDUDE perspective, there will be incremental pressure on margins in the back half based on the actions we're taking, right? So the cleanup -- the continued cleanup of wholesale inventory it's costly, right? And that is a significant investment that we are making. In terms of inventory receipts, we're planning our receipts cautiously in terms of where we're purchasing and/or bringing in units that we think satisfies what we anticipate will be the future demand.

We're not planning -- I think one of the comments we've heard from wholesale partners is, look, we're going to plan our inventories down, and if things perform, we will chase. We're not planning significant receipts for chase because that would be inventory risk that we think is not merited at this point. In terms of SKU count and new product introductions, we think the wholesale returns and cleanup that we'll do will significantly refresh and reset the floors to current new inventory. And where we've done that, we've seen some nice improvements.

So it's about making sure that we do have newness and we do have new inventory and new styles within -- at the point of sale for our consumers. And I would say we're seeing some really nice trajectory in HEYDUDE against stretch socks, which has been completely refreshed. So we started that refresh at the beginning of this year as we look at wholesale and DTC inventory; that's been a significant effort, and we're very pleased with the performance of stretch socks going forward. The Paul franchise has been a franchise that's performed well. We recently added the Paul Pro, which is an elevated version of the Paul with additional cushioning and a better footprint. That's performing well. HEY2.0 performed well through the summer, which is our drain shoe for fishing or for those who are in and around the water. And I would say also our work business for HEYDUDE, particularly the comp toe, is also performing well. So the newness is performing, and the reason we're prepared to make what is a significant investment to refresh is we want more newness in front of more people.

Ashley Owens

Okay. Got it. That's super helpful. Thank you.

Andrew Rees

Great.

Operator

Our next question will come from Sam Poser with Williams Trading. Please go ahead.

Sam Poser

Thank you for taking my questions. So Andrew, in the prepared remarks, you talked about -- I just want to clarify -- you talked about the weakness, the uncertainty and the potential weakness of your broad-based consumer, which I assume you're speaking both to Crocs and to HEYDUDE.

Andrew Rees

Yeah, yeah. I think what is different about us is the -- we sell a very democratic price points on both brands, right? And the democratic price point means that we appeal to a particularly broad consumer base. There are other brands that are absolutely performing much better in this marketplace because they are focused exclusively on a high-end consumer. The low-end consumer is a consumer that we believe is most sensitive to price increases, is most nervous, and in some cases, is not leaving the house.

Sam Poser

Well, let me ask you this, though. You did also talk about how well you've been doing with sandals. Is this -- and you're sort of implying it in what you're working on with HEYDUDE. Is this an issue basically of you, for the sake of argument, don't have the right product for the broad base of consumer, it isn't innovative enough, they just aren't going to it? And you talked about athletic getting better, so there may be more innovation there, and that may take some from you. So how much of this is sort of macro consumer versus we need to make better stuff for our customers, for our--

Andrew Rees

--Yeah. I think it -- we believe we are making very good stuff for our consumers, right? So as we look at where our brands are positioned, particularly on HEYDUDE, I just talked about it, refreshing the product line and refreshing the product that we're putting in front of consumers is proving to be very positive, right? So I think the incremental improvements that we're making are strong. In terms of the HEYDUDE -- sorry -- in terms of the Crocs business, we also see a strong trajectory on new product introductions, right? A lot of the growth we saw in sandals and the very successful sandal season and the increase in market share in sandals was based on new styles that we think are meeting consumers' needs. And we're very confident that sandal business will grow nicely into next year as we kind of think about next season.

So I think the macro is a very important factor for our business. We're definitely seeing that -- or our brands. And then I think we're making some tough decisions in the back half of this year, which I know, given your kind of long-term understanding, I think you'd recognize are impactful to the business but also costly.

Sam Poser

And then I guess the question is what -- last thing -- what percent of your business -- of your Crocs business was sandals this year, what was the penetration versus last year?

Andrew Rees

Yeah, we typically break that out at the end of the year. I would say it grew in penetration, I can tell you that. I think kind of once a year, we try and give you visibility to that. But it was -- we said it was 13% last year in terms of penetration. It was up double digits in the first half of the year. So it will be -- it will grow.

CONCLUSION**Operator**

And ladies and gentlemen, this will conclude our question-and-answer session. I'd like to turn the conference back over to Andrew Rees for any closing remarks.

Andrew Rees

Thank you, everybody, for joining us today and your continued interest and support of our company. Thank you.

Operator

The conference has now concluded. Thank you for attending today's presentation, and you may now disconnect your lines at this time.