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Crocs, Inc. (CROX)

Q2 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the Crocs Second Quarter 2026 Earnings Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded. I would now like to turn the conference over to Abi Ritter, Investor Relations. Please go ahead.

Abigail Ritter

Senior Manager-Investor Relations & Strategic Finance, Crocs, Inc.

Good morning, and thank you for joining us to discuss Crocs, Inc. second quarter 2026 results. With me today are Andrew Rees, Chief Executive Officer; and Patraic Reagan, Executive Vice President and Chief Financial Officer. Following their prepared remarks, we will open the call for your questions, which we ask that you 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.

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

Andrew Rees

Chief Executive Officer & Director, Crocs, Inc.

Thank you, Abi, and good morning, everyone. Thank you for joining us today. We delivered a stronger-than-expected second quarter, driven by broad consumer demand for both brands and consistent execution of our brand strategies. This fueled our powerful value creation engine generating strong free cash flow, which returned to shareholders in the form of debt paydown and meaningful share repurchases.

While Patraic will discuss our quarterly performance in more detail later, I would like to start by sharing several financial highlights and reviewing our performance by brand. For the second quarter of 2026, we delivered record enterprise revenues of $1.2 billion, up 2% to prior year, including Crocs Brand up 4% and HEYDUDE down 6%. This quarter marked an important inflection for both brands, including a major milestone as the Crocs Brand exceeded $1 billion in quarterly revenue for the first time ever.

Another quarter of strong direct-to-consumer growth for both brands. Crocs Brand DTC up 12%, including reduced promotional activity. And HEYDUDE DTC up 7% despite lower performance marketing spend. Crocs Brand international revenue growth was 7% and North America returning to slight growth, a key milestone for the Crocs Brand.

Meaningful return of cash to shareholders was approximately 2.3 million shares repurchased for $251 million and debt paydown of $31 million. Furthermore, earlier this week, we received board approval for an additional $1.5 billion share repurchase authorization, which Patraic will speak about later today.

Now to performance by brand starting with Crocs. The second quarter continued to build on our strong start to the year, as consumers responded positively to product newness and marketing activations across channels and geographies. This is evidenced through the progress we have made against our five strategic pillars.

First, we are driving brand relevance globally as a Clog market share leader. During the quarter, we saw strength within our Sport and Fashion Clog franchises: Crocband, Echo and Crafted. These franchises enable diversification of our overall Clog portfolio, allow better segmentation and drive category relevance outside of our Classic franchise.

Starting with Crocband, demand has been broad-based across colors and iterations, including our latest introduction, the Crocband Runner. This focused introduction, which features our take on a retro sneaker trend, has been a strong performer amidst an exciting time for sports globally.

Our Echo franchise continues to outperform globally, led by the Echo RO and Mary Jane silhouettes, and we are building on this momentum with the recent launch of Echo 2.0 earlier this month.

The Crafted franchise continues to be led by our canvas and embroidery uppers. And as we head into fall, we're further differentiating our assortment with a more distinct cold weather offering.

As for our Classic franchise with a North American Wholesale, we are on plan with our strategy to tighten inventory and channel and further segment our business across key partners. These actions, along with the green shoots we're seeing at our domestic DTC business, give us confidence in the stabilization and future growth of our icon.

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Second, we're scaling our product pillars outside of Clogs through new category expansion. Starting with Sandals. This category represents our largest near-term diversification opportunity, and we continue to take material market share. Within our three core style franchises, the Miami, Getaway and Brooklyn, we are building on the success of prior seasons through new introductions and innovation.

One standout example of this success is within the Miami. New introductions, such as the platform and round toe, as well as new materializations, like the Miami Jelly, are driving heightened demand from consumers. Digital search trends further validate that this franchise is becoming increasingly well-known to new consumers.

As we spoke about on our first quarter call early this year, we launched the Saturday Sandal, a personalizable two-strap silhouette. The initial launch drove exceptional response from our consumers and retailers globally, led by the metallic buckle iteration. As we look forward, we expect this franchise to continue to build meaningfully.

More broadly, the momentum we have seen in our sandal category has strengthened the trajectory of our North America business, contributing to the return to growth we reported today. We expect this category to become an even more meaningful growth driver of our global business in 2027 and beyond.

Outside of Sandals, we're driving strong consumer engagement within our lifestyle category, led by the Classic Ballet Flat, which continues to see notable sell-outs globally, particularly in Asia.

Within Recovery, we leveraged New York Giants players, Jaxson Dart and Cam Skattebo, to launch two new silhouettes within our Mellow franchise, a Clog and a closed heel offering, which features an updated look and comfort proposition. The early demand we're seeing has been encouraging and reinforces the confidence we have in our overall diversification strategy.

Turning to personalization. As a category leader in this space, we aim to push the definition of what personalization can be beyond traditional Jibbitz charms. We have begun testing several innovations in the category, including sandal charms, which allow consumers to personalize franchises that don't support traditional Jibbitz charms.

We launched the program on a limited basis for our own dotcom and select stores, where we saw encouraging consumer response. The ability to personalize a growing portion of our product offering remains a powerful driver of consumer engagement and a key competitive advantage for our brand. In addition, we're intentionally expanding into categories, like bags and accessories, both of which saw meaningful growth during the quarter.

Third, we're fueling consumer engagement through disruptive social and digital marketing. During April, we launched the Glad You Noticed campaign, leveraging creative partnerships and a fully integrated media strategy to spotlight our sandal business. The campaign was a key driver of the strong momentum we saw in the category during the quarter, and reinforces the power of our socially-led storytelling to drive growth.

As we continue to integrate our brand into entertainment and media, we leveraged the success of our first microdrama on ReelShorts, Charmed to Meet You, to launch Charmed to Meet You, Too during this quarter. Together, these microdramas have garnered nearly 20 million views, reaching both new and existing consumers.

Looking ahead, we will continue to leverage one of Crocs core strengths, our ability to identify and capitalize on emerging platforms early to connect with consumers in new and disruptive ways.

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We also launched several iconic collaborations during the quarter, including our partnerships with two globally recognized brands, BAPE and F1 Red Bull Racing. Starting with BABE. This collaboration leveraged the Echo RO and sold out within minutes globally, underscoring Crocs' versatility and ability to appeal to streetwear culture. To amplify the launch, we took over Shibuya Crossing in Tokyo, bringing our brand to one of the world's most visible consumer stages.

Turning to F1 Red Bull Racing. This collaboration was supported by global strategic partnerships, which fueled meaningful social media engagement and, in turn, drove strong new customer acquisition to the brand.

To round out the quarter, we were front and center at Paris Fashion Week, showcasing new innovation with our EXP line and building momentum ahead of our Echo 2.0 launch through a partnership with Brain Dead, an influential brand within Fashion and Culture.

Fourth, we are creating compelling consumer experiences across channels. Starting with Social Commerce, we continue to build our leadership position in this channel, including a successful execution of TikTok Shop's first-ever global Super Brand Day in July. The event exceeded our expectations and demonstrated the strength and scalability of Crocs Social Commerce model.

As we continue to push the boundaries of digital commerce, we've also become the first brand to launch a shoppable series within TikTok Shop. The series titled, Déjà Shoe, brought content and commerce together in a seamless digital-first experience. This coincided with the replenishment of our Ballet Flat and Saturday Sandal on the platform, amplifying demand for both franchises and creating a meaningful halo to our own dotcom.

In addition, we began testing AI-enabled shopping experiences across platforms, such as ChatGPT and Copilot during the quarter. While still early, we're seeing encouraging results, with consumers responding well to more personalized product discovery and converting at higher rates through these channels. We're excited about the opportunity to further expand our presence across these emerging platforms.

As we look ahead, these channels are becoming increasingly important to how consumers discover and shop brands. We have developed a diverse network of partners, which allow us to pivot our focus to platforms where we can further our leadership position at the intersection of commerce, content and technology.

Fifth, and finally, we continue to gain market share internationally. In the second quarter, we saw broad-based strength across our Tier 1 markets led by DTC. We saw double-digit growth in high priority markets, China, India and Japan, followed by key markets in Western Europe.

Beginning with China. The second quarter was a record revenue quarter, including another successful mid-season festival. Importantly, we leveraged our read and react abilities to quickly bring China for China product to market, including unique iterations of our Ballet Flat.

Turning to India, we leveraged celebrity and brand ambassador, Rashmika Mandanna, to celebrate the monsoon season featuring our new Classic Buckle and Ballet Flat franchises.

In Japan, performance continues to be broad-based across channels, supported by strong consumer affinity for personalization and successful launches of both new and licensed product.

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Western Europe, which includes the UK, France and Germany, continues to be led by direct-to-consumer channels, where newness within our Echo and Crocband franchises have driven outsized response from consumers.

Lastly, during the quarter, we opened approximately 160 mono-brand stores and kiosks, including 34 owned and operated stores internationally.

Now turning to HEYDUDE. The second quarter marked another significant milestone in our progress for turning the brand to growth, anchored in a focus on our core consumer and building off the momentum we saw entering the year. Both our DTC and wholesale channels contributed to the brand's improving performance despite ongoing pullback in performance marketing spend and the thoughtful management of in-channel inventory. This progress is evidence that our three-pillar strategic plan is working.

First, we are laser-focused on our core consumer. During the quarter, we launched our first-ever global summer campaign, Take a HEY-Cation. The campaign was grounded in the key attributes of our core consumer, comfort and relaxation. Our HEY20, Stretch Sox and sandal products anchored the messaging and helped drive upside to our top line expectations in the quarter.

Building on this, we arrived at Stagecoach for the fourth year in a row, this time with partner TikTok, which drove higher conversion to our own dotcom versus prior years. We then celebrated Father's Day to round out the quarter in a most disruptive way yet. We leveraged Home Depot to launch the ultimate dad shoe, the Stride-S, designed by Steven Smith. Looking forward, we plan to build on this launch to induce a broader range of sneakers and casual footwear.

Turning to collaborations. During the quarter, we launched several relevant partnerships, beginning with Burlebo, an outdoor lifestyle brand. During the initial launch in April, this collab sold out in less than 24 hours on our own dotcom and we're chasing demand for a second release in May. In addition, we released collaboration with SIMMS Fishing, Minecraft and Toy Story, all of which exceeded expectations.

Before turning to product highlights, I would be remiss not to mention our newest partnership with the National Hacky Sack League. Amidst a national resurgence, HEYDUDE icons, the Wally and Wendy, were banned from tournaments due to the design of the shoe, which was deemed to provide players with an unfair advantage. Core to Crocs, Inc. DNA, we work swiftly to capitalize on the virality of the moment and have now entered into a partnership as the official shoe of Hacky Sack for 2026.

Second, we're building the core and thoughtfully adding more. We're amplifying our leadership within the slip-on category led by our icons, the Wally and Wendy. Stretch Sox remains a driver of our core business, along with the increasing momentum in our Stretch Jersey franchise. Patent iteration of these core silhouettes, such as those included in Americana launch were consumer favorites ahead of America's 250th anniversary, and demand outpaced inventory during the quarter.

As we grow our business outside of our icons, we continue to see strength in Sandals, particularly for her, led by the Maui Breeze and the Austin Slide. Also within Sandals, we're testing the HEY20 Flip, which appeals to him, and has been on a positive trajectory. Beyond Sandals, we're seeing notable consumer response to our work offering. Importantly, this consumer is new to the brand and purchases at a higher frequency. We've begun to take meaningful shelf space at key retailers in this category and look forward to scaling further as we move into the fall and winter season.

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Third, we're focused on stabilizing the North America marketplace. As I shared earlier, our second quarter results were ahead of expectations, and we're confident in our strategy to return to growth in the back half of this year.

During the quarter, direct-to-consumer revenues increased 7%, led by strength in digital marketplaces. Within this, we saw outperformance from TikTok Shop, in part, driven by our Super Brand Day, as well as the benefit from a record Amazon Prime Day, led by products, including the Karina. Wholesale was better than anticipated, down 17%, supported by higher at-once demand and thoughtful management of in-channel inventory. Against this progress, we're receiving positive feedback from our key partners in both new as well as core products as we head into the back half of the year and beyond.

To conclude, we're focused on executing our near-term initiatives to drive diversified growth across both brands, direct-to-consumer and wholesale channels, as well as domestic and international markets. We have clear and achievable strategies to grow our brands, enabled by consumer focus, innovative products to marketing and our global go-to-market capabilities.

I will now turn the call over to Patraic.

Patraic Reagan

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

Thank you, Andrew, and good morning, everyone. During the quarter, we again made meaningful progress against our strategic priorities for both brands. This reinforces the confidence we have in building sustainable, long-term growth.

The second quarter built on our strong start to the year, delivering better-than-expected results, driven by broad-based consumer demand and disciplined execution. At Crocs, Inc., our teammates across the globe are playing to win every day. With a mindset of ambition, decisiveness and agility, we are moving with purpose to aggressively action our strategic priorities and we are making progress.

Now, let's move to our results. For the second quarter, we delivered record enterprise revenue of $1.2 billion, up 2% to prior year and ahead of our expectations. Our results were led by strong direct-to-consumer growth for both brands, as consumers continue to respond favorably to new product offerings. This was offset, in part, by anticipated wholesale declines, as we continue our managed approach to optimize the channel and support long-term profitable growth.

For the quarter, Crocs Brand revenue of $1 billion was up 4%, the first time the brand has exceeded $1 billion in a quarter. This is not only an exciting milestone, but one that underscores our brand's continued resonance with consumers globally. Results were led by our International segment up 7%, including double-digit growth in China, India and Japan.

North America returned to growth, up slightly to prior year. Within North America, the direct-to-consumer channel was up 5% to prior year, led by marketplace outperformance and despite our continued year-over-year reduction in promotional activity. This growth was, in part, offset by the aforementioned wholesale decline.

The HEYDUDE Brand delivered revenue of $179 million, down 6% to prior year, exceeding our expectations and marking another meaningful step in our return to growth journey. Direct-to-consumer sales were up 7% ahead of our plan, driven by robust digital marketplace performance and new store openings. Notably, this growth was achieved against a continued lower level of year-over-year performance marketing spend.

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The wholesale channel was down 17%, also ahead of plan, as we continue to thoughtfully manage our in-channel inventory levels. The HEYDUDE team has been executing their strategy with speed and rigor, giving us continued confidence in returning to growth in the back half this year.

Now moving to adjusted gross margins. Enterprise adjusted gross margin of 60% was down 170 basis points to prior year, driven by 160 basis points of incremental tariff impact. Crocs Brand adjusted gross margin was 63.1%, down 100 basis points to prior year, driven by tariffs and product mix, offset, in part, by the benefit of our cost savings initiatives and international price increases. HEYDUDE Brand adjusted gross margin was 43.7%, down 650 basis points to prior year, driven by tariffs, channel and product mix, offset, in part, by benefits of our cost savings initiatives.

Moving to expenses. Adjusted SG&A dollars were $412 million, up 3% to prior year, as we recognized benefit from our cost savings initiatives, offset by choiceful direct-to-consumer channel investments aimed at connecting with our consumers and driving revenue.

Adjusted operating margin of 25.1% was down 180 basis points to prior year. This excludes $10 million of specific costs related to the implementation of our cost saving initiatives and a distributor takeback during the first quarter. Adjusted diluted earnings per share of $4.55 was up 8% to prior year and ahead of our guidance of $4.15 to $4.30 per share. And finally, our non-GAAP effective tax rate was 18%.

Now, turning to a discussion of our strong balance sheet and cash flow. We ended the quarter with just over $170 million of cash and cash equivalents and approximately $870 million of borrowing capacity on our revolver. Our inventory balance as of June 30 was $389 million, down 4% to prior year. Notably, this included the impact of higher tariffs. Inventory footwear units were down high-single digits to prior year, reflecting our decisive actions to manage inventory flow into the marketplace. Enterprise inventory turns were above our goal of 4 times on an annualized basis.

The power of our business model drives exceptional free cash flow, which provides us with significant flexibility in how we allocate capital and generate shareholder value. During the quarter, we repurchased approximately 2.3 million shares for $251 million. Another proof point of our commitment to returning capital to shareholders.

Reflecting our confidence in the business and future cash flow generation, earlier this week, our board approved an additional $1.5 billion share repurchase authorization, bringing our total available authorization to approximately $2 billion. This substantial increase underscores both our confidence in the business and our commitment to returning excess capital to shareholders.

At the same time, we continue to strengthen our balance sheet. During the quarter, we paid down an additional $31 million of debt and ended the quarter with net leverage at the low end of our target range of 1 to 1.5 times.

Now, moving to our full year 2026 outlook. We expect enterprise revenue growth for the full year to be 1% to 2% versus prior year, up from our previous guidance, and assuming currency rates as of July 27.

Moving on to revenue guidance by brand. For the Crocs Brand, we now expect revenue to be up 2% to 3% versus our previous guidance range of flat to up 2%, led by international growth. We continue to expect North America to be down for the year with declines led by the wholesale channel.

Now, before turning to HEYDUDE guidance, I want to speak to a business model change that we will be implementing with one of our largest marketplace partners beginning in Q3. This will affect how we recognize

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Crocs Brand North America revenue between our DTC and wholesale channels and will have the following impacts.

One, we will recognize lower revenue in our DTC channel. Two, conversely, we will recognize higher revenue in our wholesale channel. Three, the net of these revenue shifts will be lower overall revenue. Four, this will be neutral from a units sold and market share perspective. And five, we will see an improvement to operating profit. We have fully contemplated the impact this will have to revenue in our latest top line expectations for the Crocs Brand. Finally, and in line with our prior guidance, North America DTC is anticipated to be positive for the year, excluding this change to revenue recognition.

Turning to HEYDUDE. We now expect revenue to be down approximately 2% to 4%. Another improvement from our previous guidance range of down 5% to 7%. This increase reflects our confidence in the brand returning to growth in the back half of the year. We are also raising our bottom line expectations for adjusted diluted earnings per share to now be in the range of $13.70 to $14, up from our previous guidance range of $13.20 to $13.75. Consistent with our previous guidance policy, this range does not assume any impact from future share repurchases.

Moving on to margin guidance. We continue to expect adjusted gross margin for the year to be slightly up versus last year, including the impact of tariffs, offset, in part, by our cost savings efforts, primarily in our supply chain. Adjusted SG&A dollars are implied roughly flat to prior year, in line with our prior guidance, including benefits from our previously announced cost savings programs, offset by investments into growth drivers for the enterprise.

Taken together, we continue to expect adjusted operating margin to expand modestly from the 22.3% level we reported in fiscal year 2025. This excludes approximately $25 million of non-recurring costs. For tax, we continue to expect our underlying non-GAAP effective tax rate, which approximates cash taxes paid to be 18%, and the GAAP effective tax rate to be 23%. For the year, we continue to expect capital expenditures to be in the range of $70 million to $80 million.

Regarding capital allocation, as I highlighted earlier, we are committed to, first, investing behind both of our brands to fuel long-term growth, and, second, returning our significant free cash flow to shareholders through share repurchase.

Now, turning to our third quarter outlook. For the third quarter, we expect revenues to be approximately flat at currency rates as of July 27. Within this, Crocs Brand revenues are expected to be up approximately 1%. HEYDUDE revenues are expected to be flat to down 3%. Adjusted operating margin is expected to be approximately 21.5%, which embeds adjusted gross margin up approximately 170 basis points to prior year. Adjusted diluted earnings per share is planned to be in the range of $3.20 to $3.30.

Before closing, I want to provide a few [ph] shaping (00:28:40) considerations implied in our third versus fourth quarter guide. For revenues, the strategic actions we made in the back half of last year for both brands were more weighted towards Q4. And for margins, the fourth quarter of 2025 had a larger tariff headwind of 300 basis points versus Q3 at 230 basis points.

To close, we are pleased with our strong first half performance and the momentum we continue to see across the business. The results we delivered reflect the strength of our brands, broad-based consumer demand and disciplined execution by our teams around the world. As always, we remain focused on driving long-term profitable growth, while generating and deploying our exceptional free cash flow to our best-in-class value creation engine.

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At this time, Andrew and I are happy to take your questions. Operator?

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Jonathan Komp with Baird. Please go ahead.

Jonathan R. Komp
Analyst, Robert W. Baird & Co., Inc.

Q

Yeah, hi. Thank you. Good morning. Patraic, I wanted to start regarding the business model shift that you mentioned. Could you may be further quantify any impacts you're expecting on DTC and total revenue, maybe both for the third quarter? And then, how should we think about that on an annualized basis?

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

A

Yeah. Hey, good morning, Jonathan. Thanks. Thanks for the question. Maybe – you know, what I'll do is, I'll hit the mechanics of it, as it relates to kind of revenue recognition. And then, Andrew will kind of pick up and contextualize a little bit.

So let me just kind of start off by saying that, overall, what we aspire to do is kind of meet the consumer where they shop and take friction out of the shopping experience. So, what we're talking about here today is a means to the end of that. But, more specifically, as it relates to the financial side of it is, it's really – as we described in the prepared remarks, it's really a revenue recognition in a topic. And so, just to kind of reiterate, what you'll see is, you'll see lower revenue recognized in our DTC channel as we make the evolution. We'll see higher revenue recognized from a wholesale perspective. The net of those will be lower overall, but there will be no impact to units sold in to market share, et cetera.

And then, we'll see a slight benefit from an operating profit perspective. And so, I think, the backdrop against this and how to think about it in terms of our guide and balance of year, Q3, Q4 is, you saw the confidence in terms of taking up the guide for Crocs, Inc., in both brands and specifically for Crocs Brand, despite the headwinds of this revenue recognition shift has for us in the short term. We still have great confidence in terms of where we are. And that gave us the confidence to take up the guide today. And I think Andrew has got a few more comments on just contextualizing this.

Andrew Rees
Chief Executive Officer & Director, Crocs, Inc.

A

Yes. Thank you, Patraic. Yeah. As you know, Jonathan, for a long time, we've been focused on leaning into marketplaces. It is where the consumer goes first, both in this country and in many countries around the world, when they're searching for brands that they know and love. And we've seen us grow our business very meaningfully. I would say, it's critical as we kind of think about each region and each country to make sure that we're doing business with those marketplaces in a way that is, I would say most in sync with their business model. So I think this brings us a little bit more in sync with a key marketplace here in North America.

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But as I think about the consumer takeaway, we continue to gain share on these marketplaces. We continue to offer a very clear and coherent assortments to our consumers. And I would say, it's very clear over the long run this strategy has been really effective, and it's working well for us. So we plan to continue it.

Jonathan R. Komp
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. That's helpful. And maybe just as a follow-up, when we think about the new annual guidance for Crocs Brand, up 2% to 3% for revenue, which you raised, what should we take away in terms of the updated second half outlook for Crocs North America? If you could maybe clarify, how the underlying revenue in that projection is changed.

And I guess bigger picture question, what's your confidence in being back to growth in North America? I think there's some concerns about retail generally for July. Maybe some questions for the Crocs Brand as you get past core sandal season. So just any other color there would be helpful. Thank you.

Andrew Rees
Chief Executive Officer & Director, Crocs, Inc.

A

Yeah. Great. Great. So I would say to start with, we are supremely confident in the future growth trajectory of both of our brands, right? We just closed out a record quarter for our company in terms of revenue and raised our guidance and expectations for growth into the future. Returning to growth specifically in North America for both brands, also a very high priority. And from a Crocs perspective, we will not be returning to growth here in 2026, but we will meaningfully reduce the rate of decline that we saw in 2025. And that has been driven by, I think, very important and sustainable underpinnings.

Number one is diversification, we've been diversifying our product offering, allowing both the consumer more choice and greater segmentation between our wholesale partners in a couple of meaningful ways. Number one, Sandals, as you highlighted in your question. We've had a blockbuster sandal season for the Crocs Brand here in North America and around the world. And it's driven meaningful revenue upside.

We're also well on the trajectory of diversifying our Clog portfolio, which was heavily orientated towards our core Classic, and I think, in our prepared remarks, we highlighted all the other Clogs we will bring into market and seeing really great success, whether it be bringing back Crocband, introduction of Echo 2.0, introduction of the materialized Clog to Crafted, and most recently, Recovery Clog and Recovery Shoe in the Mellow.

In addition, I would say emerging are other diversification opportunities for the Crocs Brand, the Ballet Flat, which we include in our lifestyle segment, has been a really great success around the world, more in Asia than the US, but that's another opportunity to further diversify. So I think the things that we have done that are seeing very positive trajectory, we have complete confidence will yield the end result, which we wish, which is obviously return to growth in North America.

I'd also highlight a couple of things. I know the market and the investment community is super focused on North American growth, but we have over many years now yielded very sustainable and strong international growth. Obviously, the number of consumers outside of North America in some of these big markets is very substantial indeed. We continue to see a long runway of strong international growth. And I would highlight, and I think we've highlighted this a couple of times, the flow through of that growth to profitability from our international business is as strong as our North American business. So we see our ability to drive very meaningful growth and shareholder value from both growth internationally and growth here in North America.

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Jonathan R. Komp
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. Thank you.

Andrew Rees
Chief Executive Officer & Director, Crocs, Inc.

A

Thank you, Jonathan.

Operator: And the next question comes from Adrienne Yih with Barclays. Please go ahead.

Adrienne Yih
Analyst, Barclays Capital, Inc.

Q

Good morning. Thank you for taking my questions. I guess going back to the business model change, I'm still unclear. This is something that will actually take place starting in the third quarter Crocs specific. So can you give us more color, Patraic, maybe the guide for Crocs in the third quarter? It's slowed quite a bit against easier compares guiding 1% versus the 3.7% constant currency. Should we assume that all of that or the vast majority of that is from this revenue recognition change? Or is there something about kind of what's happening in wholesale? So just some color there may be from a quantitative standpoint, obviously suggest Crocs confirming that.

Number two, what percentage of your marketplace partners is this happening with? And I guess really getting to what percent of sales does it actually impact to help us with the color on that? And then on Paris, just post 7/20 or 7/24, whichever date you want to take, we're now at kind of 12.5%. What's your assumption as we go up against those big tariff numbers? How much of – do you recapture from the 300 basis points in the fourth quarter? Thank you very much.

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

A

Yes, great. Thanks, Adrienne. So let me, kind of, start with the marketplace shift, and then we'll kind of progress through. So, first of all, you're correct. Beginning – the marketplace shift begins in Q3. And so, as Andrew had mentioned, we really view this as a shift going into Q3, Q4 that we want to communicate today because ultimately trying to be transparent in terms of where it's going.

As it relates to kind of the guide for the year, let me again take you back to the fact that we raised guidance in the Crocs Brand for the year. So, the underlying strength of our business is significant and gives us the confidence to raise despite the revenue recognition shift that we're seeing.

As it relates kind of back to your question and just to be overwhelmingly clear, this relates to the Crocs Brand in just North America within the Crocs Brand. So, that's kind of where we are. And from an evolution standpoint, overall, we feel good about where this is going. You know what I'd say in terms of percentage of marketplace shift, we're not going to get into the quantification exactly of those numbers. Obviously, it's large enough that we want to make you all aware of it, but it's not so large that it negatively impacts our confidence to guide up on the year. So trying to put the brackets on that hopefully is helping.

From a number of partners standpoint, I mean, listen, we've got dozens of marketplace partners across the globe, obviously, highlighting this means it's one of our more strategically significant partners. And so, I think about it through that lens. But, again, overarchingly, the shift that we're communicating in that today, fundamentally, it

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does not impact or affect anything as it relates to units into the marketplace, market share, health of our business, etcetera. It is simply a revenue recognition between channels.

And then, finally, before I'll turn it over to Andrew, if he wants to add anything on here, from a tariff assumption perspective, where we are is we feel confident in terms of how we've guided. We've embedded the latest information that's come from the administration to – into our guide. We do expect that there are likely to be some additional twists and turns as we go through the balance of the year. And our guidance that we put forward today anticipates and reflects that. So with that, [indiscernible] (00:41:38).

Andrew Rees
Chief Executive Officer & Director, Crocs, Inc.

A

No. I think you covered it. Thank you, Adrienne. Appreciate your questions.

Adrienne Yih
Analyst, Barclays Capital, Inc.

Q

Okay. Thank you very much.

Operator: And the next question comes from Rick Patel with Raymond James. Please go ahead.

Rick B. Patel
Analyst, Raymond James & Associates, Inc.

Q

Thank you. Good morning. I was hoping you could double click on Crocs North America Wholesale. So nice to see the sequential progress there. Given the momentum and the accounting change, is it safe to assume that you expect declines to narrow further in the back half versus what you saw in Q3? And then just bigger picture, what your wholesale accounts need to see before getting more constructive with demand? And if we exclude this revenue recognition change, would you see further progress based on the strength of newness?

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

A

Yeah. Rick, what I can do is, I'll hit the revenue recognition side of it, and then turn over to Andrew for some of the strategic actions and what we're seeing in the channel. So, you kind of alluded to it. Given this is solely just a revenue recognition shift, and it benefits from a rev rec standpoint, wholesale, you can expect the wholesale compares on a year-over-year basis to narrow and benefit from the shift and, conversely, DTC be impacted adversely in the shift. And so, that's kind of the underlying mechanics to the shift. And Andrew could speak a little bit more to what we're seeing with wholesale and wholesale partners in the North American marketplace.

Andrew Rees
Chief Executive Officer & Director, Crocs, Inc.

A

Great. Thanks, Patraic. Yeah. So I would say, from a North American Wholesale perspective, I think we're really pleased with our business, and we're pleased with the trajectory that it's on. There's a couple of – there's probably three critical things that are – that we plan to happen and that we've executed well against. Number one is really maximize the growth of Sandals. And we've been able to do that, both in DTC, but also very strongly within wholesale. I would also say that some of our wholesale partners did under anticipate or underplayed some of the growth in our sandal business. And we've been chasing incremental inventory too to supply at once across a range of styles that have performed really, really well, which also gives us really great confidence in an even better sandal season in 2027.

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The second important thing is segmentation. So diversification of the Clog from the Classic Clog to a broader range of Clogs, I think, suited to some of the key channels within our wholesale landscape are allowing us to improve segmentation and give each of our partners some differential offering on which to engage their consumers. I think that is also on a very good trajectory and would also give us confidence in even stronger growth in 2027.

And then, I think, the third thing I'd say, as we look at the consumer landscape that our wholesale partners are dealing with, I think they're planning their business relatively conservatively. I know you speak to many of them and you'll be hearing that, as I would if I was in their shoes as well. And – but when they have new product that is working, they are very proactive in terms of chasing, right, and we have been working, I would say, tirelessly with a good number of them to chase key programs and key styles that have been selling through very effectively. So I think we're prudent relative to a consumer landscape, that remains a little bit uncertain. But what it is very, very clear to us that when we deliver winning product, particularly new winning product, it gives us a great opportunity to continue grow our business.

Rick B. Patel
Analyst, Raymond James & Associates, Inc.

Q

Thank you very much.

Andrew Rees
Chief Executive Officer & Director, Crocs, Inc.

A

Thanks.

Operator: And the next question comes from Tom Nikic with Needham. Please go ahead.

Tom Nikic
Analyst, Needham & Co. LLC

Q

Hey, everybody. Thanks for taking my question. I wanted to ask about the recovery in HEYDUDE. And I guess the expectation for growth in Q4 seems like a pretty steep acceleration that's embedded. I mean, based on my math, it's something like mid- to high-single digit growth in Q4, and I'm sorry if this was touched upon already, but is that a function of like wholesale becoming a lot less negative? Is it an acceleration of DTC, like, what's the level of confidence in that acceleration? Just would love to get more color there.

Andrew Rees
Chief Executive Officer & Director, Crocs, Inc.

A

Yeah. Yeah. Thanks, Tom. I would say, look, we're really happy about the trajectory that the HEYDUDE brand is on. I think we've seen kind of four sequential quarters of improved performance. And I think for the last three to four quarters, it's also exceeded our expectations. A lot of that has been driven by DTC growth, where we are seeing really great growth on our marketplaces, on our dotcom, and also some – and obviously, we're getting some growth because of the stores that we've opened and servicing our consumer. We've also been resetting the wholesale channel and managing carefully the quantity of inventory, have the makeup of inventory, that our wholesale partners have to ensure that their inventory turns accelerate. And I think we've reported a couple of quarters in a row now that that has meaningfully changed and meaningfully improved. So the wholesale drag has been due to that reset.

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As we look into the back half of the year, we're confident in HEYDUDE returning to growth here in North America. And you are right, there is a steep increase in Q4, and that is relative to two things. One is confidence. We have been growing in both channels. And two is the reset actions that we took last year that created a very weak compare. So if you – I think we gave you all the breadcrumbs associated with how much that was in Q3 and Q4. So if you factor that in, I think you see that it's a – it looks like on the top line a very steep return to growth. But if you factor that in, it's obviously much more sensible.

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

A

Yeah. And Tom, just to add on, what I would say is, first of all, I just want to thank you for asking the question about HEYDUDE. We've been really pleased with what we've seen from the team and the actions and how we've been executing throughout the year. Fundamentally, from an internal standpoint, we've been meeting and exceeding all of the milestones that we set forth as we turned into the year. So as Andrew mentioned, very confident in both, where we are, what we've done to get to this point and what the future looks like for HEYDUDE.

Tom Nikic
Analyst, Needham & Co. LLC

Q

Okay. Sounds good. Thanks very much, and good luck for rest of the year.

Operator: And the next question comes from Brooke Roach with Goldman Sachs. Please go ahead.

Brooke Roach
Analyst, Goldman Sachs & Co. LLC

Q

Good morning, and thank you for taking our question. I was hoping we could dig into the Sandals business performance in a bit more detail. How much of the revenue upside in 2Q relative to your plan was driven by the Sandals category? And as you look on a medium-term basis, how large do you think this business can become over the next one to three years as a percent of Crocs Brand sales, particularly in North America? Thank you.

Andrew Rees
Chief Executive Officer & Director, Crocs, Inc.

A

Thanks, Brooke. Yeah, look, the Sandals did well very much in Q2. We're very pleased with our sandal season. Our growth rates, I would say, are well ahead of the category. So we continue to gain share in Sandals within the Crocs Brand. I also would highlight we're actually probably gained a lot of share within Sandals within HEYDUDE also. It was a strong contributor to the beat in Q2. But not the only thing, I would definitely highlight there are very clearly other silhouettes that are working well within North America and across the globe. With the sandal business this year will be $0.5 billion dollars on a global basis. So, that is a meaningful business. And if you look at $0.5 billion dollars relative to the sandal market share, there are a few key players that are bigger than that. But we're certainly in the top echelon of sandal players on a global basis.

And to your sort of future point, we do believe there is a multi-year significant growth pathway here for the Crocs Brand, and it provides a very meaningful diversification. And I think, you may not recall, but as we articulated a number of years ago while we got into this category, I think the key strategic factors remain very, very clear. Number one, it's a large category on a global basis. We estimate it's in excess of $30 billion on a global basis, it's an annual refresh category, particularly for women. They refresh their sandal assortments on an annual basis.

Our manufacturing techniques and the product that we make, particularly molded, really lends itself to this category. We can bring newness, we can bring fun, we can bring color, and we can bring tremendous comfort to

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the category. And it remains competitively fragmented. And so, I think those are the key strategic reasons why we identified this. And we're thrilled that it's playing out as it is. And we're very optimistic for the future.

Brooke Roach
Analyst, Goldman Sachs & Co. LLC

Q

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

Operator: And the next question comes from Kendall Toscano with Bank of America. Please go ahead.

Kendall Toscano
Analyst, BofA Securities, Inc.

Q

Hi. Thanks for taking my question. I just want to follow up again on this revenue recognition shift. I think it's really important to have some visibility on this in order to make sure we understand the relative momentum in your North America DTC business, as well as the split between DTC and wholesale. So maybe if you can at least just tell us what the second quarter North America DTC number would have been, excluding the shift, or sorry, if you had applied this revenue recognition shift to the second quarter, what would the North America DTC number have been? Would it still have been positive?

Andrew Rees
Chief Executive Officer & Director, Crocs, Inc.

A

Yes, look, Kendall, I think we wanted to be as transparent as we can be on this shift. I don't think there's any more information that we can give you at this time. But I think we've been really clear. What I would say to your specific question, if this had been in place for the first half of 2026, we would still have been positive in DTC in the Crocs Brand in North America.

Kendall Toscano
Analyst, BofA Securities, Inc.

Q

Okay. That's helpful. And then just as a follow-up, I wanted to see on gross margin, it looks like it's down 170 basis points year-over-year, which was a little bit light versus guidance for 150 basis points. Just curious, what drove the surprise in the second quarter?

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

A

Yeah, Kendall, I wouldn't categorize it as a surprise. I would say more evolution. Really, the major impact as it has been for a number of quarters now, overwhelmingly has been the impact of year-over-year tariffs. And so, that's kind of where we are, from a fundamental standpoint. What we are working through, and this is a very positive thing and something that we're very excited about and confident in. Internally as we look at our business is, if you look at our strategic pillars in terms of how we're running the business now and more importantly for the future, diversification is a significant pillar of where we're going. And part of what we're driving our business towards.

And as we move towards ever increasing diversification, there are some twists and turns along that path, where our product mix gets a little bit more complicated, our channel mix gets a little bit more complicated. As Andrew had mentioned earlier, we're very fortunate in the fact that one of our major strategic pillars, which is international growth, is exactly on par, from a profitability standpoint with North America.

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So, overwhelmingly, where we are from a margin standpoint, the biggest impact by far is the tariff landscape. And that's one that we continue to obviously focus on intently as well as everybody else that's in our place. But really, what we're focused on is diversification and driving our business forward through that diversification lens.

Kendall Toscano
Analyst, BofA Securities, Inc.

Q

Thank you.

Operator: And the next question comes from Anna Andreeva with Piper Sandler. Please go ahead.

Anna Andreeva
Analyst, Piper Sandler & Co.

Q

Great. Thank you so much for taking our question, and good morning. We wanted to follow up on the 3Q guide. Basically, as differently, on the underlying basis, excluding this accounting treatment, are you seeing any change in demand in North America DTC at Crocs quarter to-date? Obviously, very nice momentum in the business for the past two quarters. And you called out a number of franchises that are working well. So definitely, diversification there.

And then secondly, on wholesale, you've talked about segmentation for some time. Just curious, what are you seeing at both brands with new versus existing partners? The family channel for Crocs has been challenged, I mean, really for some time. Any improvement in demand from those retailers? And Andrew, I think you mentioned you saw some green shoots with Classics in DTC. Just curious if we should think this franchise has troughed and we could be back to growth in the medium term in Classics?

Andrew Rees
Chief Executive Officer & Director, Crocs, Inc.

A

Great. A lot of questions there, Anna. Let me try and hit the high notes on those. So I think the first one that you're trying to get at is consumer takeaway from DTC strong and building, right? And I would say, ex the sort of revenue recognition, absolutely. We see growth in consumer takeaway from our sort of DTC channels. And that is really driven by two things. One is newness, because we can bring newness to our DTC channels far faster. So whether that newness is in Sandals, whether that's in Clog diversification, whether that's in Ballet Flat, and there's also new channels, right?

So our expansion into social selling on TikTok Shop here in North America, and I would add increasingly key markets around the world is super important, right? I think you actually have been probably at the forefront in trying to quantify and understand that. And – but that has been meaningful. We also see a super important halo from that to our other DTC channels. So when styles or key creators promote a style on TikTok, we can see that demand going to marketplaces, we can see it going to dotcom. And to some extent, we can also see that going into store and we hear some of it from our wholesale partners, why is X, Y and Z spiking? And we can relate back to that.

In terms of wholesale strength, I think I've talked about the segmentation. I would say, they are increasingly focused on our innovation and newness and are bringing that in more rapidly than they have in the last several quarters. So we're excited about that. I would say, the sporting goods channel has been a particularly strong channel for both of our brands. We've seen really great sporting goods support and acceleration, both within Crocs and within HEYDUDE. And I actually think that some of the big partners in that channel are some of the most effective and forward-looking retailers that we deal with.

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And then the last question we had was Classics. Yes, I think, we definitely see some stabilization in Classics in our DTC business. And while we're diversifying our Clogs, we're also very conscious and have some exciting programs coming up where we need to drive innovation into our Classic business as well. We continue to do partnerships and collaborations and licensed product from Classic, which also continues to perform very well. So thank you, Anna.

Anna Andreeva

Analyst, Piper Sandler & Co.

Q

Appreciate it. Very thoughtful.

Operator: And the next question comes from Aubrey Tianello with BNP Paribas. Please go ahead.

Aubrey Tianello

Analyst, BNP Paribas Securities Corp.

Q

Hey, good morning. Thanks for taking the questions. I wanted to ask about the EBIT margin guide for the year, which you reiterated. Given your comments about the marketplace changes being a benefit to EBIT, is there any help you can give us on the magnitude of that accretion? And if there's any other offsets to EBIT margin this year or any other puts and takes to consider on the reiterated guide in the context of marketplace helping?

Patraic Reagan

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

A

Yeah, Aubrey, thanks. Thanks for the question. As you saw, we reaffirmed our guide. We feel really confident in terms of where we are for the year. As it relates to kind of magnitude of the revenue recognition shift, we expect a slight improvement from as a result of this. But, within what we are guiding for the year, we feel that we're in the range. And so, what we previously guided, we feel like is the best kind of measure of where we are today.

So, I think, more importantly, maybe is, you see the building confidence in terms of our revenue raises and our sequential EPS raises as we've gone through the year. That's given us the confidence to kind of not only just reiterate, but be very confident in terms of, number one, our ability to generate profits as we're returning to growth in both of these brands. And then, number two, just the power of our cash creation and valuation machine, which further underscored. We haven't talked about this on the call today, but the announcement of the $1.5 billion buyback is underpinning the significant message that we have confidence in our business for, not just today but the foreseeable future, and the ability of us to return significant benefit to our shareholders via stock buybacks.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Andrew Rees, Chief Executive Officer, for any closing remarks.

Andrew Rees

Chief Executive Officer & Director, Crocs, Inc.

So to close out, I just want to thank everybody for the interest in our company, listening to us over the last hour. And probably just reiterate one key point that Patraic just made, which is we remain incredibly confident in the trajectory of our business. I think the cash-generative capabilities of this business are unbelievable and will allow us to create meaningful shareholder value growth over a sustained period of time. Thank you.

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Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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