THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

CROX - Q3 2018 Crocs Inc Earnings Call

EVENT DATE/TIME: NOVEMBER 08, 2018 / 1:30PM GMT

OVERVIEW:

CROX reported 3Q18 revenues of $261.1m, net income attributable to common stockholders (after preferred share dividends and equivalents of $4m) of $6.5m, and diluted EPS attributable to common stockholders of $0.07. Co. expects 4Q18 revenue to be $195-205m.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

CORPORATE PARTICIPANTS

Andrew Rees *Crocs, Inc. - President, CEO & Director*

Anne Mehlman *Crocs, Inc. - Executive VP & CFO*

Marisa F. Jacobs *Crocs, Inc. - Senior Director of IR*

CONFERENCE CALL PARTICIPANTS

Erinn Elisabeth Murphy *Piper Jaffray Companies, Research Division - MD and Senior Research Analyst*

James Andrew Chartier *Monness, Crespi, Hardt & Co., Inc., Research Division - Security Analyst*

James Vincent Duffy *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Jonathan Robert Komp *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Mitchel John Kummetz *Pivotal Research Group LLC - Senior Analyst of Footwear, Apparel Vendors and Retailers*

Samuel Marc Poser *Susquehanna Financial Group, LLLP, Research Division - Senior Analyst*

Steven Louis Marotta *CL King & Associates, Inc., Research Division - Senior VP of Equity Research & Senior Research Analyst*

PRESENTATION

Operator

Good morning, and welcome to the Third Quarter 2018 Crocs Inc. Earnings Conference Call. My name is Brandon, and I'll be your operator for today. (Operator Instructions) Please note, this conference is being recorded. And I will now turn it over to Marisa Jacobs, Senior Director of Investor Relations for Crocs. Ms. Jacobs, you may begin.

Marisa F. Jacobs - *Crocs, Inc. - Senior Director of IR*

Good morning, everyone, and thank you for joining us today for the Crocs' Third Quarter 2018 Earnings Call. Earlier this morning, we announced our third quarter results and a copy of the press release can be found on our website at crocs.com.

We would like to remind you that some of the information provided on this call is forward-looking, and accordingly, is subject to the safe harbor provisions of the federal securities laws. These statements include, but are not limited to, statements regarding future revenues, gross margins, SG&A expense,income from operations, adjusted EBITDA and our product pipeline. Crocs is not obligated to update these forward-looking statements to reflect the impact of future events.

Adjusted EBITDA is a non-GAAP measure. A reconciliation of this amount to income from operations is contained in the Crocs' investor presentation posted on our website.

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

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

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

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Andrew Rees - *Crocs, Inc. - President, CEO & Director*

Thank you, Marisa, and good morning, everyone. Q3 was another successful quarter for us. Our brand continue to strengthen and our product continues to be well received, particularly our clogs and sandals. Business was strong across all distribution channels and regions. As a result, we had one of the best third quarters in several years, with revenues up 7.3%, EBIT up 418% to $13.9 million and diluted EPS of $0.07 compared to last year's $0.03 loss. In response to this performance and our expectations for a good fourth quarter, we are increasing our 2018 guidance.

This morning, I'll detail our progress in four areas; brand, product, strategic priorities and our distribution channels. And we'll review our third quarter financial results and our updated guidance and then we will take your questions.

Our brand continues to gain traction. We conducted our annual brand survey this summer and we're very pleased with the results. Last year, we achieved double-digit increases in our three key metrics; brand desirability, brand relevance and brand consideration. This year, we made further gains as each metric grew at mid- to high single digit rates, which was a significant advancement on top of last year's exceptional progress.

Additionally, Piper Jaffray recently released the results of its Fall 2018 Taking Stock With Teens study, which found that our brand momentum among teens has tripled since Spring 2017. We rose in the rankings from #38 to #13 as a preferred footwear brand amongst all teens. Together, these results demonstrate that our focus on elevating our product and our investments in marketing are significantly enhancing the Crocs brand. The month of October, Croctober to us, included Croc Day on October 23. It was fun to see our fans flock to social media to showcase their excitement for Crocs. And we were thrilled when the shoe we designed specifically for the event sold out in a few hours.

Our impactful collaborations with Christopher Kane, Balenciaga, Drew Barrymore and A-life have also contributed to growing interest and engagement with our brand. Last week, we announced our newest collaboration with Post Malone, a hugely popular artist, whose most recent album broke the Spotify streaming record on its first day of release. What's particularly exciting to us is that we didn't choose Post Malone, he chose us. He's been a fan of Crocs, regularly wearing our clogs and posting about them on social media long before we ever reached out to him. The first drop of his shoe collection sold out in less than 10 minutes, and we know that fans can't wait for future product introductions. And on the day of the drop, the social media activity that followed far surpassed any prior single day activity for the Crocs brand.

Additionally, next week, we'll be revealing our 2019 celebrity brand ambassadors. We're really excited about them, and are confident they will resonate with our global consumer base.

Our strategic priorities remain number one, driving sustainable, profitable revenue growth; number two, improving the quality of our revenue so that we generate annualized gross margins in the low 50s; and thirdly, simplifying our business to bring our annualized SG&A rate down to the low 40s as a percentage of revenues. We made exceptional progress on each of these priorities during the third quarter as we continued to amplify the status and reach of our brand and deliver great product our consumers' love.

Driving sustainable profitable revenue growth is a function of demand for our brand and our products, I've already addressed the growing strength of our brand, so let me turn to product.

We're continuing to prioritize molded footwear, specifically clogs and sandals, and our disciplined approach is clearly working. We grew clog revenue 12.7% during the third quarter. Clogs represented 55.3% of our footwear sales, up from 52% in last year's third quarter. We're driving clog relevance by delivering our new seasonally appropriate colors, prints and embellishments, and new styles like our platform clog.

Given the importance of personalization, we have continued to enlarge our Jibbitz Charm collection. Consumers are purchasing more and more charms to personalize their clogs, which is driving both charm and clog sales. And as we move from fall into winter, our lined clogs remain a favorite cold weather style.

Clogs grew in every region. Our North American results were particularly strong as interest in our Classic Clog continue to climb. It's a staple for every day, and on top of that, it was embraced by high school and college-aged students for back-to-school wear. This growing demand, which exceeded our expectations, gives us confidence going into Spring/Summer 2019.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Sandal growth was robust in Q3 and we remain confident in our ability to materially grow this business. During the third quarter, sandal revenues grew 21.1%. Sandals generated 21.3% of our footwear revenues, a 270 basis point increase over last year's third quarter.

Turning to LiteRide, it has been on shelves for over six months, and we're extremely pleased with its performance, as demand continues to outpace our expectations. For the second quarter in a row, LiteRide was one of our top five franchises, and we see significant growth opportunity ahead.

In terms of our Spring/Summer 2019 collection, we're very encouraged by the feedback we have received. This includes an enthusiastic response to our new sandal line Reviva, which adds a little bounce to your day by incorporating strategically placed bubbles that massage with every step.

Our second strategic priority is to improve the quality of our revenues. As we pursue revenue growth, we know it must be sustainable and profitable. We have made significant progress on this front over the past few years. And we once again exceeded our guidance, increasing our Q3 gross margin by 250 basis points year-over-year to 53.3%.

Our third strategic priority is to simplify our business so that we can operate more efficiently and reduce costs. We are on track to complete our SG&A reduction plan this year, which will enable us to take between $75 million and $85 million out of our annualized SG&A budget.

With nine net store closures in Q3, we have exceeded our 160 closure target and reduced our store count by 169 stores since the end of 2016. We ended the quarter with 389 stores in our fleet. While these closures continue to be a headwind to our revenues and gross margin, they are essential to driving SG&A savings and higher profitability.

In terms of our distribution channels, we continue to make great progress across the board. Third quarter wholesale revenues rose 9.3%. Following strong Spring/Summer 2018 sell-throughs, customers purchased considerably more Fall/Holiday product than last year, in anticipation of greater consumer demand. We also added new accounts and expanded into new doors with further expansion anticipated next Spring.

Looking at retail and e-commerce combined, our DTC comp was 17.9%, on top of the 7% DTC comp we delivered in the third quarter of last year, as consumers continued to respond well to our product offering. E-commerce grew 23.2%, delivering our sixth consecutive quarter of double-digit growth. Continued consumer adoption of this channel, coupled with in-demand product and strong execution drove the growth.

In retail, we delivered a 15% comp with positive same-store sales in all regions. This was our fifth consecutive quarter of positive comps. The excitement surrounding our brand is especially visible in our retail stores, where we're benefiting from a number of factors, including higher conversion and unit per transaction gains.

In conclusion, Q3 was another very productive quarter. Our product and marketing are both resonating with consumers and we just rolled out an exciting collaboration with Post Malone that is generating additional momentum for our brand. We are driving top line growth, ensuring that our growth is sustainable and profitable and reducing our expenses, all of which are contributing to a better bottom line. We continue to reinvest in our business and increase shareholder value. In combination, these activities are positioning us for a strong finish to the year and continued success in the years ahead.

As I announced on our last call, we're excited to welcome Anne Mehlman back to Crocs as our new EVP and CFO after her time as CFO at Zappos. I look forward to leveraging Anne's experience as we continue to drive improved performance at Crocs.

I'll turn the call over to Anne now to take you through our third quarter results and discuss our guidance for fourth quarter and full year 2018.

Anne Mehlman - *Crocs, Inc. - Executive VP & CFO*

Thank you, Andrew, and good morning, everyone. I'm delighted to be here this morning speaking to you for the first time as Crocs' new CFO, and I'm looking forward to meeting many of you in person over the coming months.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

I'll begin with an overview of our third quarter results. Revenues were $261.1 million, up $17.8 million or 7.3% from a year ago, even as we absorbed a negative currency impact of $4.8 million versus the third quarter last year. These results exceeded our guidance of $240 million to $250 million. Store closures and business model changes reduced revenues by approximately $15 million. Excluding the $15 million headwind, our revenues would have grown by approximately 13%, illustrating the strength of our underlying business.

Q3 is the fourth quarter in a row in which we grew our revenues at double-digit rates after adjusting for business model changes. We sold 13.3 million pairs of shoes, an increase of 2% over last year's third quarter. Our average selling price for footwear during Q3 increased 4% to $18.90.

Before reviewing segment results, I want to highlight a financial reporting change we announced this morning. Our SVP and GM in Europe has assumed responsibility for our Middle East and Africa business, which is operated through distributors and flows into our wholesale channel. We have made appropriate adjustments to our Asia and Europe segment reporting to reflect this movement and have re-cast prior-period segments accordingly for comparative purposes.

Consolidated financial results remain unchanged. During 2017, the combined revenues from our Middle East and Africa businesses were approximately $24 million and by the middle of that year, they consisted exclusively of wholesale business.

From a regional perspective, the following amounts are as reported.

The Americas generated revenues of $137.0 million in the third quarter, an increase of 13.7%. Results exceeded our expectations in all three distribution channels.

During the third quarter, currency negatively impacted our results by $2.1 million. Wholesale revenues increased 7.8%. In North America, we had a very good quarter as customers placed at-once orders to meet consumer demand. In Latin America, the economic disruptions and currency depreciation, we spoke with you about last quarter, continued. We have factored these impacts into our guidance.

Our Americas DTC comp was up 21.6%. Our retail comp was 19.9%, up for the sixth quarter in a row. Total retail revenues grew 13.7%, despite having 10 fewer stores than in last year's third quarter. Our North American stores benefited from a robust back-to-school business. E-commerce revenues increased 25.3% as site traffic grew and we generated higher UPTs.

Turning to Asia, third quarter revenues of $75.2 million declined 0.2% from last year's third quarter as strong wholesale and e-commerce results did not fully offset the decline in retail revenues resulting from store closures. Currency negatively impacted the region by $1.4 million.

Wholesale revenues increased 12.8% as we continued to expand our presence in multi-brand stores, grow our business with key e-tail accounts and see the impact of strong experienced distributors expanding our reach in under-penetrated geographies.

Our Asia DTC comp was 8.4%. Our retail comp was up 3.2%, driven by higher ASPs and unit sales and increased availability of built-for-outlet product. Retail revenues declined 22.2%, with 51 fewer stores opene compared to the same time last year. E-commerce revenues increased 18.3%, as traffic and UPTs increased.

In Europe, revenues grew 0.4% to $47.4 million over last year's third quarter, following on the heels of an exceptionally strong second quarter. The perception of our brand continues to improve in Europe. Additionally, throughout much of the third quarter, we benefited from warm weather, which drove high levels of sandal and clog sales well into the Fall. Currency negatively impacted the quarter by $1.3 million.

Wholesale revenues grew 2.8%, exceeding our expectations. On our last call, we noted that Q2 benefited from some customers taking additional Spring/Summer product in anticipation of growing late Summer demand. As a result, we had expected more muted sales in Q3, so we are particularly pleased with this outcome. Our Europe DTC comp was up 19.3%. Our retail comp was up 15.1%, benefiting from increased demand as well as better availability of our built-for-outlet product. We did operate 24 fewer retail stores, which accounted for the 16.8% reduction in retail revenues. Our e-commerce business grew by 23.6%, based on the appeal of our collection and increased site traffic.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

Moving to other items on our P&L. Our gross margin was 53.3%, coming in significantly better than our guidance, and 250 basis points higher than our Q3 2017 gross margin of 50.8%. Our strategy is working, and as a result, we sold more higher-margin clogs and sandals than anticipated. The weather was also better-than-expected across Europe and demand in North America exceeded expectations, so that we drove more full priced selling than we had originally contemplated. Additionally, a weaker dollar earlier this year reduced our inventory cost in overseas markets, which helped our gross margin.

Our SG&A expenses at $125.2 million, increased by $4.4 million and exceeded the slight increase we had guided to as a result of incentive compensation and other variable costs associated with higher revenues. As a percent of revenues, SG&A came in at 47.9%, a 170-basis point improvement over last year's third quarter, even as we made further marketing investments.

Total nonrecurring charges were $6.3 million, with $5 million relating to the termination of company-owned manufacturing operations, and the remaining $1.3 million relating to our SG&A reduction plan. This compares to $3.6 million of nonrecurring charges incurred during last year's third quarter in connection with our SG&A reduction plan.

Due to the success we had growing revenues and gross margin while limiting our expenses, our income from operations climbed to $13.9 million, an increase of 420 basis points over last year's third quarter.

Net income attributable to common stockholders after preferred share dividends and equivalents of $4 million was $6.5 million. After further adjusting for the preferred share participation rights of $1.1 million, remaining net income available to common stockholders came to $5.4 million compared to a loss of $2.3 million in last year's third quarter.

Our diluted EPS attributable to common stockholders was $0.07 compared to a loss of $0.03 in last year's third quarter.

Our balance sheet continues to be very strong.

Inventory at the end of third quarter was $117.7 million, a 16.1% decrease compared to the same time last year. We ended the quarter with $203 million in cash and no outstanding borrowings on our credit facility. This compares to $178.2 million in cash and no outstanding borrowings at the end of Q3 2017.

After the quarter ended, we amended our credit agreement to increase our borrowing capacity under our line of credit to $150 million from $100 million, with more favorable terms.

During the third quarter, we repurchased 604,000 shares of our common stock for $11.1 million at an average price per share of $18.39. And over the trailing 12-month period ended September 30, we repurchased approximately 4.6 million shares for $60 million at an average price of $12.99 per share. This leaves $182 million available under our current plan for future repurchases.

We generated $85.9 million of cash from operating activities during the nine months ended September 30, 2018, 6.8% more than in the same period last year.

As we turn to guidance, I want to remind you that our guidance is on an as-reported basis based on current currency rates.

For the fourth quarter of 2018, we expect revenues of $195 million to $205 million compared to $199.1 million in last year's fourth quarter. This includes a loss of approximately $10 million of revenues associated with our reduced store count and business model changes and approximately $5 million of negative currency impact to revenues.

Gross margin for the fourth quarter is expected to be approximately 80 to 100 basis points higher compared to 45.4% in last year's fourth quarter. Our fourth quarter SG&A is expected to be approximately $10 million lower compared to last year's $120.7 million. This includes approximately $2 million of non-recurring charges compared to $9.4 million in last year's fourth quarter.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

Lastly, we expect to spend approximately $16 million on infrastructure-related activities this quarter, bringing our full year CapEx up to the $20 million we had anticipated.

Now let me turn to our full year guidance.

With respect to revenues for full year 2018, we are very pleased to once again increase our full year guidance. We had previously guided to a low single-digit increase. We now expect our revenues to grow 4% to 5% even as we absorb a negative currency impact of approximately $10 million in the back half of this year. E-commerce and wholesale growth are expected to more than offset the lower retail revenues resulting from store closures. We continue to estimate that store closures and business model changes will reduce our 2018 revenues by approximately $60 million compared to 2017. Excluding the $60 million headwind, we anticipate growing our revenues over 10%.

We now expect our gross margin to increase approximately 100 basis points over last year's 50.5% rate compared to our prior guidance of a 70 to 100 basis point increase. Please keep in mind that our gross margin benefited from the weaker U.S. dollar in the first half of the year.

SG&A for the full year is now expected to be approximately $495 million. This $10 million change to our prior guidance of $485 million reflects incentive compensation and other variable costs associated with higher revenue. For the full year, we now anticipate incurring approximately $19 million of non-recurring charges, up from our previous estimate of $18 million. 2017 SG&A was $499.9 million.

We now expect income from operations to be slightly under $60 million compared to our prior guidance of $50 million and up from $17 million last year.

We now expect adjusted EBITDA to be just over $100 million compared to our prior guidance of approximately $95 million, and up from $67 million last year.

We define Adjusted EBITDA as income from operations plus depreciation and amortization and nonrecurring charges. 2018 Adjusted EBITDA is expected to include approximately $30 million of depreciation and amortization and $19 million of non-recurring charges.

2018 income tax expense is still estimated at approximately $17 million compared to $7.9 million in 2017.

With respect to 2019, while we are not providing detailed guidance at this time, I do want to provide some thoughts on our top line, which we currently expect to grow at a mid-single digit rate over our anticipated 2018 revenues. We estimate that currency, which provided a tailwind in the first half of 2018 will negatively impact us in 2019. Wholesale and e-commerce growth is expected to more than offset the lower retail revenues resulting from store closures, which we estimate will reduce our 2019 revenues by approximately $25 million compared to 2018. Absent that $25 million reduction, we estimate revenues will be up mid to high single digits over our anticipated 2018 revenues.

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

Andrew Rees - *Crocs, Inc. - President, CEO & Director*

Thank you, Anne. We have had a very good year so far and anticipate a good fourth quarter as well. These results didn't just happen. They stem from the commitment and hard work of the talented team we've assembled at Crocs. I want to thank everyone on our team for contributing to our success, and I'm grateful for your passion and commitment.

Looking ahead, we will continue to grow by maintaining our focus on molded clogs and sandals that are comfortable, on trend and affordable. And, we'll continue to elevate our brand and advance our strategic priorities. This provides us with a realistic, achievable road map for delivering steadily improving financial results and increasing shareholder value.

Operator, please open the call for questions.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And from Pivotal Research, we have Mitch Kummetz.

Mitchel John Kummetz - *Pivotal Research Group LLC - Senior Analyst of Footwear, Apparel Vendors and Retailers*

Anne, welcome back. So Andrew, on back-to-school, you highlighted that as being strong in the quarter. Is there any way you can quantify the impact of that during those key back-to-school weeks? And how are you taking that information and thinking about marketing of the brand, now that you're seeing the strength with these teen and college-aged consumers? And you talked about brand ambassadors, I think, you're going to announce that next week. Is that how you factor in who the brand ambassadors are?

Andrew Rees - *Crocs, Inc. - President, CEO & Director*

Mitch, so I think the first thing I'd say is that it wasn't an accident, right. So we've been focused on igniting the teen customer for a period of time now. I think we talked about it a little bit on our last call in terms of particularly sporting events and teens wearing product pre- and post-event. So this is something we've been focused on for some time. In terms of quantifying it, I think, it's very hard to quantify, but certainly, we can see it in our DTC performance. If you look at our North American comps, both online and in-store, they were exceptional. We also had very strong comps from a DTC perspective in Europe and also on e-commerce in Asia. So we're really pleased with that ability to ignite that consumer. And in addition, the collaboration that we did with Post Malone last week, which will obviously continue through the fourth quarter into next year, I think, is a very powerful way of igniting that consumer. So we're putting a lot more effort against it and it's paying off. In terms of quantifying, I think, it's really hard to quantify it in terms of dollars. You mentioned our brand ambassadors. Yes, I think one of the most significant changes there is, yes, we'll be announcing a slate of ambassadors that will hit all of our key markets. So that will hit our North American market, it will hit Europe and it will also hit our Asian markets, China, Japan and Korea. So look, we're really pleased with the marketing efforts and the impact it's having on consumers and drawing them into the brand.

Mitchel John Kummetz - *Pivotal Research Group LLC - Senior Analyst of Footwear, Apparel Vendors and Retailers*

Got it. And then on gross margin, when I look at the Q4 guide, the midpoint of the range is, I think, down about 700 basis points from where Q3 came in. I know that that's a seasonally low gross margin quarter for you guys, but I guess, I'd be surprised if it wasn't better than that. Are you guiding to that based on mix of product and maybe some pressure on the FX side? Can you give us the puts and takes to get us to that number and how conservative is it?

Anne Mehlman - *Crocs, Inc. - Executive VP & CFO*

Yes. Hi, Mitch. As you mentioned, it is our lowest revenue quarter. So we do de-lever a little bit on our fixed costs. The other piece is that we did benefit from a stronger U.S. dollar, especially, a weaker U.S. dollar in the first half of the year, which is now causing headwinds in fourth quarter. So it's a combination of those two things. We're still pleased that we were able to raise our guidance for the full year and we're going to come in roughly 100 points over last year.

Mitchel John Kummetz - *Pivotal Research Group LLC - Senior Analyst of Footwear, Apparel Vendors and Retailers*

Okay. And then, lastly, on 2019, I was hoping you might be able to speak to SG&A a little bit. You've got $19 million in charges hitting the SG&A line this year, did those all go away next year? And then you've got another sales hit of about $25 million on the closures and business model

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

changes. How much does that $25 million benefit the SG&A line? Is there any way you can kind of give us some guidelines on SG&A? I know it's early, but that would be helpful.

Anne Mehlman - *Crocs, Inc. - Executive VP & CFO*

Yes. I think we're not ready to guide yet on 2019. It is -- a little early. But I will say that for full year this year, we're going to be approximately 300 basis points lower than last year. We're on track for SG&A reduction plan, and we still feel good about our long-term framework of SG&A in the low 40s.

Operator

From Piper Jaffray, we have Erinn Murphy.

Erinn Elisabeth Murphy - *Piper Jaffray Companies, Research Division - MD and Senior Research Analyst*

Great. Really nice results, and welcome, Anne. So a couple of questions, maybe first focusing on the North American comp of 20%, if you just look at the in-store component. Can you speak to what you saw in terms of traffic versus AUR versus conversion during the quarter? And then, just curious on your confidence behind this kind of ongoing robust comp as you go into the fourth quarter and into next year. I know you're lapping price increases in North America, in particular.

Andrew Rees - *Crocs, Inc. - President, CEO & Director*

Yes. Erinn, I think close to 20% comps was exceptional. I think lot of other retailers did well in back-to-school as well, but I think, this is beyond that. It was traffic, a lot of it was traffic. So a lot of it we link to brand strength, a lot of it we link to marketing efforts, and it really drove people into store. I'd say the second-biggest component after traffic was really average unit retail. So higher unit retails and also larger baskets. We're seeing much stronger attach rates for the Jibbitz charms, as particularly that younger consumer is very interested in personalization of the product. We also like that dynamic a lot because it makes the purchasing occasion much more emotional and then they are much more involved with the product than just buying a standard pair of clogs instead today they personalized it for themselves. In terms of the future, we don't guide by channel, as you know. But we're hopeful, right. We're very confident in the product we're putting out there. We're very confident in the ability to talk to the consumers that we wish to attract and we're optimistic about the future.

Erinn Elisabeth Murphy - *Piper Jaffray Companies, Research Division - MD and Senior Research Analyst*

And then, maybe just on that Jibbitz piece in particular, we've noted in some of your stores, you changed the layout before you put that in. I'm curious if you can talk a bit more about how you further enhance that attach rate and any strategies to keep that going? And then what is the attach rate today? And where should that be if you look back over peak to the attach rate?

Andrew Rees - *Crocs, Inc. - President, CEO & Director*

Yes. So I would say the biggest shift in Jibbitz charms is really the broadening of the consumer that we're focused on. I think if you went back a number of years, it was very much aimed at children, it was very much aimed at young children. Whereas, today, if you look at the assortment and what we're offering, yes, we have charms that still appeal to children, license characters, et cetera, but a lot of it, numbers, letters, emojis, it's socially relevant icons and that's where we see the growth. We see the growth more strongly here in the U.S., but we're also focused on having that play out around the world. We don't actually breakout or disclose the attach rate. I could say that it's several times what it was two years ago, but we see upside in that. And that's both in-store and online, if you look at our web interface, we make it very easy for you to type in a phrase and then

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

it will put all of the relevant letter Jibbitz in your cart, et cetera, and we're looking at other ways to enhance the online experience and improve our online attaches as well.

Erinn Elisabeth Murphy - *Piper Jaffray Companies, Research Division - MD and Senior Research Analyst*

That's great. And then just last question for me. Just thinking about the Chinese consumer holistically, can you speak to how China within APAC performed during the quarter? There's been some concern on a potential slowdown. Are you seeing that at all? And then as you get into Singles Day in a few days here now, how are you planning the business with BABA? I think last year, you pulled back on promotional activity, but I'm curious on the pure-play digital within China?

Andrew Rees - *Crocs, Inc. - President, CEO & Director*

Yes. So one of the standouts from our perspective was our wholesale growth in Asia during the quarter with 12.8% wholesale growth. So we're really excited about that. I would say that was across Asia, that wasn't just China. We're happy with where China is. We don't see today the consumer pulling back. We don't really -- I was just there two weeks ago. We don't see anti-western, anti-American sentiment today, but you never know with everything that's going on from a geopolitical perspective. So we're happy with our China business. And we think that we have lots of opportunity there on a forward basis. Singles Day, we still continue to plan that cautiously, to be quite honest. We see a lot of very deep discount activity. We saw that again, last year, and as you rightly mentioned, we were more cautious and focused on profitability and we will do the same thing this year. We just don't see the value in selling vast quantities of product at zero profit.

Operator

From CL King & Associates, we have Steve Marotta.

Steven Louis Marotta - *CL King & Associates, Inc., Research Division - Senior VP of Equity Research & Senior Research Analyst*

Hello Andrew, Anne and Marisa. I just have a couple of quick questions. In prior years, you've endeavor to deliver more Spring product to warm weather markets in the fourth quarter. Is that still an idea that you're pushing this year? Or is that as played out as possible?

Andrew Rees - *Crocs, Inc. - President, CEO & Director*

Yes. I think it's still relevant for us, Steve, particularly as we look at our global business and a lot of that is in Asia where we're delivering to Southeast Asian wholesalers and distributors. I would say, as a percent to business, it's pretty consistent this year over last year.

Steven Louis Marotta - *CL King & Associates, Inc., Research Division - Senior VP of Equity Research & Senior Research Analyst*

Okay. That's very helpful. Can you also talk a little bit about your cost of goods exposure from any -- actually I think your sourcing in China is very, very small, correct?

Anne Mehlman - *Crocs, Inc. - Executive VP & CFO*

Yes. Steve, let me try to help outline that. So we have seen negligible impact so far, as far as tariffs go. So we do only have 20% of our U.S. product that comes from China, so we have a pretty global sourcing base.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Steven Louis Marotta - *CL King & Associates, Inc., Research Division - Senior VP of Equity Research & Senior Research Analyst*

Right, that's the number I needed. And with the exception of Latin America, were there any markets from a geographic standpoint that are of any cause of concern for you?

Andrew Rees - *Crocs, Inc. - President, CEO & Director*

Yes. The geopolitical environment has affected our business. It did affect our Q3 North American performance when we look at our Latin American wholesale business from currency, and that's particularly Brazil and Argentina.

Anne Mehlman - *Crocs, Inc. - Executive VP & CFO*

Yes, I think, other than that, we haven't seen any issues.

Andrew Rees - *Crocs, Inc. - President, CEO & Director*

Yes. It's just those two markets, yes.

Operator

From Baird, we have Jonathan Komp.

Jonathan Robert Komp - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

My first question for Anne. Carrie, your predecessor has done a pretty remarkable job in the last two years of consistently exceeding quarterly guidance ranges on the top line and gross margin. And I'm just wondering if we should be expecting any changes philosophically or from your approach overall?

Anne Mehlman - *Crocs, Inc. - Executive VP & CFO*

Yes, I agree. I think Carrie has done a great job and I really want to continue the existing philosophy that she has laid out.

Jonathan Robert Komp - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Got it. And then, thinking about the overall top line performance, I know that DTC performance is very strong in addition to the wholesale, but when you look at the DTC sustainability, is there any way to parse that out a little bit more - where you thought or how much you thought weather might have helped in some of the geographies and just how to think about the DTC momentum going forward?

Andrew Rees - *Crocs, Inc. - President, CEO & Director*

Yes. I think weather was a factor, particularly in Europe. We don't think it was a huge factor in the Americas, but Europe did have an exceptional summer. I think it was the best in some sort of multi-decade period. And absolutely, we think that helped in our European performance. I don't really think it impacted America or Asia significantly. And I think the exciting thing about our DTC environment is you can showcase the breadth of what the brand has to offer; we can make thatconsumer experience more engaging, and it's a place where our strong marketing activity and strong impact on the consumer and the desirability to purchase Crocs can really translate very quickly.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Jonathan Robert Komp - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Okay. And may be as a follow-up, I know the Americas had a pretty good DTC performance in the fourth quarter of last year. Is there anything as you look at the comparison in your expectations for this year that we should be mindful of it at all?

Anne Mehlman - *Crocs, Inc. - Executive VP & CFO*

I would say that it's all incorporated in our Q4 guidance, over $195 million to $205 million, yes.

Jonathan Robert Komp - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Okay. And maybe last one, if I could, just following up on the SG&A. I know from a GAAP perspective, pointing around $495 million this year. When you look at that number for next year, I just wanted to make sure we are thinking about the pieces correctly. I don't believe you'll have a lot of restructuring and/or closures with regard to the $19 million of charges that should go away. And then, I believe you're at $45 million in terms of the run rate of cost savings this year out of the ultimate $75 million. So are we thinking about that correctly, the $19 million-plus maybe $30 million of savings and then any underlying growth on top of that?

Anne Mehlman - *Crocs, Inc. - Executive VP & CFO*

Yes. I think as we -- as I mentioned earlier, we're not really ready to guide on 2019 SG&A. I will say that you're correct. We're around $45 million of cost savings that we've achieved this year. Obviously, we have put money back into the business in marketing. And as revenue grows, we do have variable costs that go with that. So you just need to think through that piece as well, but we still feel really good about a low 40%, that's low-40% SG&A.

Operator

From Stifel, we have Jim Duffy.

James Vincent Duffy - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Congratulations to the team on the successful turnaround and brand reacceleration. Anne, great first quarter. I can only assume you're particularly good at this. Couple of questions for you guys. I'm going to dig in on the SG&A as well. But before I do, Andrew, the North American result is stronger than the international as a whole. In your prepared remarks, you talked a lot about brand momentum and some of the dynamics. Is that reflective of a global phenomenon or is the breakout more concentrated in North America? Anything you can do to kind of dimensionalize where you are in the uptick across regions will be great.

Andrew Rees - *Crocs, Inc. - President, CEO & Director*

Yes. Look, the DTC results were definitely stronger in North America, absolutely. But I would say our wholesale growth rate was the strongest in Asia of all of the three regions. And I think, DTC was very strong in Europe. So I would say the back-to-school phenomenon that we saw in terms of that being a real tailwind for the brand was really in North America. That doesn't really happen as clearly in Europe and Asia. But we are seeing, in the study that we mentioned that we look at the brand desirability relevance and consideration, we do that on a global basis. We do that in our five major markets, which includes North America, Germany, China, Japan and Korea, and we saw progress across those markets.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

James Vincent Duffy - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Okay. Great. Anne, I recognize you're not ready to guide fully for '19 yet, but can you talk about some of the gross margin puts and takes as you look into the year and touch on some of the FX impact?

Anne Mehlman - *Crocs, Inc. - Executive VP & CFO*

Yes. So for gross margin, obviously, it came in much higher in Q3 than what we had laid out and that was really on higher DTC mix and more full price selling and we had very clean inventory. It also reflects the continued shift in the clogs and sandals, which are high-margin silhouettes. So that, that breaks down from a Q3 perspective. Q4, obviously, we guided 80 to 100 basis points over last year, which includes some FX. And at current currency rates, we do expect FX headwinds for next year, but currency rates change and they move around so..... And we benefited in the first half of this year. Overall, we still feel like our margins will be in the low 50s and that framework still works.

James Vincent Duffy - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Okay. I want to ask about something I think, you mentioned that FX reduced your inventory costs in overseas regions. How does that work?

Anne Mehlman - *Crocs, Inc. - Executive VP & CFO*

Yes. So our purchasing power, so as the US dollar weakens against currencies around the world, we can buy more -- it's cheaper to buy inventory in local currency, and then you sell it in local currency. So it's the difference between transaction and translation. What we call transactional purchasing power, and that impacts our margin. So we benefited from that in the first half of the year and versus guidance because we had bought a little bit of product in Q3, in Q1 and Q2 and we sold that in Q3. Now that currency has turned a little bit against us, it's the opposite on margins.

James Vincent Duffy - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Got it. Okay. And then on the SG&A, Carrie had been adamant about the $75 million to $85 million reduction from the $506 million in 2016. You guys again mentioned that today. That implies roughly $430 million at the midpoint as a percent of the implied revenue for 2019, that looks more like a high 30s percent than a low 40s percent. Is there some planned reinvestment? Are you guys backing away from that $75 million to $85 million reduction?

Anne Mehlman - *Crocs, Inc. - Executive VP & CFO*

No. The $75 million to $85 million reduction was on run rate SG&A. It wasn't meant to reflect total SG&A reduction. It was meant to reflect that our run rate is lower and then we could reinvest some of that back into different activities such as marketing. We're not walking away from the $75 million to $85 million of run rate reduction and you can see that. For full year, we're going to leverage our SG&A by 300 basis points.

Andrew Rees - *Crocs, Inc. - President, CEO & Director*

Yes, and I'd say we're essentially almost complete with the SG&A reduction program and have achieved all those intended impacts and targets, but frankly, we've already started to reinvest some of that money in driving additional revenues and reigniting the brand. So you can't just take that off the prior run rate and hope that be the net SG&A.

James Vincent Duffy - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Okay. And then the low 50s gross margin and low 40s SG&A kind of implies a 10% maybe low-double digit operating margin. Is that how you're thinking about this as a business? Or is there more opportunity in that going forward?

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Anne Mehlman - *Crocs, Inc. - Executive VP & CFO*

I think we're not ready to give any long-term guidance beyond what we've already given, but we still feel good about long-term double-digit EBIT margins.

Andrew Rees - *Crocs, Inc. - President, CEO & Director*

Absolutely. And obviously, Jim, we will expand upon this on our Q4 earnings at the end of February. We'll give you robust guidance for '19 and we'll do that at that time.

Operator

From Monness, Crespi, Hardt, we have Jim Chartier.

James Andrew Chartier - *Monness, Crespi, Hardt & Co., Inc., Research Division - Security Analyst*

First, I want to follow-up on the Jibbitz discussion. Andrew, you mentioned that's primarily U.S. related right now and then you want to get it going in other markets. So where are you in terms of igniting the Jibbitz trend in other markets? And what do you need to do to get it moving?

Andrew Rees - *Crocs, Inc. - President, CEO & Director*

So, yes, that's a good question. So yes, we're well advanced in North America. We're really pleased. But we also think we have plenty of runway in North America. And I would say in terms of igniting that in overseas market, it's not like it hasn't started in other markets, it has, but I think it will be a particularly strong focus in '19.

James Andrew Chartier - *Monness, Crespi, Hardt & Co., Inc., Research Division - Security Analyst*

Okay. And are you seeing the same signs that the momentum is picking up in other markets that you saw in the U.S., maybe six or 12 months ago?

Andrew Rees - *Crocs, Inc. - President, CEO & Director*

Absolutely.

James Andrew Chartier - *Monness, Crespi, Hardt & Co., Inc., Research Division - Security Analyst*

Great. And then, in terms of the Americas wholesale, very significant kind of FX impact. How big are the non-U.S. markets for the Americas wholesale, what percentage of sales do they represent?

Anne Mehlman - *Crocs, Inc. - Executive VP & CFO*

We don't break out that segment from our segment reporting, but we will say that North America accounts, we're really pleased with the North America wholesale accounts because they placed a lot of at-once orders to meet demand. And so despite the LatAm disruptions that we had, and the currency impact, we felt that North America wholesale was pretty good, up 13. -- or it's up 7.8%.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

James Andrew Chartier - *Monness, Crespi, Hardt & Co., Inc., Research Division - Security Analyst*

Andrew, you mentioned better performance or, I guess, some made-for-outlet product help to drive some comps. Was there a material difference in terms of the comps for outlets and full-price stores?

Andrew Rees - *Crocs, Inc. - President, CEO & Director*

Yes, I would say, yes.-- Our fleet has shifted towards outlet stores. So as we look at our fleet today, it's slightly on the majority outlet stores. It's slightly over 50% outlet stores on a global basis. In the U.S., our outlet fleet is particularly strong. We don't break out the comps between the different store types, but our outlet performance was very good.

Operator

From Susquehanna, we have Sam Poser.

Samuel Marc Poser - *Susquehanna Financial Group, LLLP, Research Division - Senior Analyst*

A couple, just housekeeping. Based on the mix that you see of your business, what's the underlying tax rate that you see going forward? What should the tax rate be once you clear out of all of the different one-time events and so on and so forth?

Anne Mehlman - *Crocs, Inc. - Executive VP & CFO*

Great. It's a good question. So our tax rate, our full year tax is going to be about $17 million this year. And you'll see that leverage as we continue to generate more profitability in the U.S., particularly as a result of the tax reform, but we do make money in several jurisdictions across the world, so our tax rate is impacted by that.

Samuel Marc Poser - *Susquehanna Financial Group, LLLP, Research Division - Senior Analyst*

And then, the work you do with Post Malone and the new ambassadors you're bringing in, these are a little edgier type person and can attract a lot of customers for you given how fast those goods sold out as products sold out on your website the other day. Are you working off of that? -- You hinted at other shoes coming out on the website following the sellout of that shoe. How big, how in-depth is your relationship with him? And how long do you foresee it lasting?

Andrew Rees - *Crocs, Inc. - President, CEO & Director*

So the agreement that we have in place at this stage does provide for multiple drops. So we've been collaborating on designing product that will go into early next year at this stage. So from a Post Malone perspective, I would say, I wouldn't read into the Post Malone collaboration as having other celebrity ambassadors being more edgy. I think one of the commendably powerful things about the Crocs brand is its democratic nature. We appeal to the whole family and we appeal to, as we think about it, more of a feel-good consumer and also more of a fashion forward consumer. So we're looking to have our ambassadors and our marketing activities reflect that very broad range of consumers and the progress we can make against all of them.

Samuel Marc Poser - *Susquehanna Financial Group, LLLP, Research Division - Senior Analyst*

And then lastly, with the improved reaction from the teens and college kids, the college students, and so on, are you finding that those were the kids that had them when they were younger and then the Jibbitz and the Crocs are what's old is new again to them. Is that do you think recapturing that? And if so, attract them by design using what's old is new again?

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

Andrew Rees - *Crocs, Inc. - President, CEO & Director*

Yes, I think, that is a piece of it, Sam, that's not all of it, right. So certainly, given the brand is I think 18 years old this year, sheer math drives the fact that many of those consumers when they were infants, a clog or a croc was their -- probably their first shoe. And so for teenagers, as today, it's not an alien concept, right. A molded shoe is easy and also it's incredibly comfortable and it comes in a wide variety of colors, et cetera. It's something that makes a kind of sense to them and it is not an alien concept. So I think that certainly helps. We see that is helping. But we see and believe -- we believe we have an ability to ignite the brand more strongly with a broader range of consumers as well.

Operator

We have no further questions at this time. We'll now turn it back to Andrew for closing.

Andrew Rees - *Crocs, Inc. - President, CEO & Director*

Thank you very much everybody. I appreciate you joining us today and your continued interest in the company. Have a great day.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference. Thank you for joining. You may now disconnect.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2018, Thomson Reuters. All Rights Reserved.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS