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Crocs, Inc. (CROX)

Q1 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

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

I'd now like to hand the call over to your speaker today, Cori Lin, VP of Corporate Finance. Please go ahead.

Cori Lin
Investor Contact, Crocs, Inc.

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

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

We caution you that all forward-looking statements are subject to risks and uncertainties described in the Risk Factors section of our Annual Report on Form 10-K. Accordingly, actual results could differ materially from those

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described on this call. Please refer to Crocs' Annual Report on Form 10-K as well as other documents filed with the SEC for more information relating to these risk factors.

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

Joining us on the call today are Andrew Rees, 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.

Andrew Rees

President, Chief Executive Officer and Director, Crocs, Inc.

Thank you, Cori, and good morning, everyone. Let me start by welcoming Cori as our new VP of Corporate Finance and Investor Relations. As you saw from our release issued this morning, our business from both a top and bottom line perspective held up well during the first quarter of 2020 despite the worldwide challenges presented by COVID-19.

Our performance in the midst of one of the most difficult situations many of us have faced in our lifetimes underscores the work we've done, expanding the desirability, relevance, and consideration of our brand and product offering globally.

Anne will review our financial results in more detail shortly, but here are a few highlights from the first quarter of 2020. Our Americas business delivered record first quarter revenue, increasing 14%. Retail comparable sales were up 23% prior to the impact of COVID-19 and subsequent store closures. E-commerce revenue globally increased by 16% on top of 20% constant currency growth last year, with strong performance across all regions.

Adjusted gross margins of 48% were up approximately 110 basis points over 2019. We invested an additional approximately $5 million back in the business by our marketing programs to further strengthen our brand equity, and the Crocs brand was ranked the highest it has ever been in Piper Sandler's Spring Taking Stock with Teens survey.

Let's start by reviewing the impact of COVID-19, which remains top of mind for all of us. Our thoughts are with all of those who have been directly impacted as well as the many heroes on the frontline battling this pandemic. And as we have shared, our top priority throughout this has been ensuring the well-being of our employees, our consumers, and our partners. We are focused on positioning our business for both short and long-term success.

We quickly established both a defensive and offensive playbook that we began to implement in early March. With the actions taken to-date and our future plans, we feel Crocs is well-positioned to weather the crisis and emerge a strong, vibrant brand.

Despite our optimism for the future, the near-term impact on our business has been profound. Many retail locations across the globe, including our wholesale customers, our own stores, and our partner stores will close at some point during Q1, and many remain closed today.

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In the Americas and Western Europe, our company-operated stores have been closed since mid-March. And in Russia, our stores closed in early April. Many, but not all, of our wholesale customer stores in these regions have also been closed. In Asia, we've seen a second wave of the virus. Japan, India, and much of Southeast Asia have been impacted, with many stores now closed as of early April.

In China, our stores and the approximately 350 partner stores that were closed from January through March are now reopened. We are seeing a slow and steady recovery with week-on-week improvements in traffic and sales, but comps are down materially.

We are optimistic about our business in Korea, where stores have not been closed for a sustained period, but the social distancing guidelines have caused traffic to be significantly down through February and March. Encouragingly, we're starting to see week-on-week improvements in traffic and sales.

In geographies where stores are closed, stores will remain closed until it is appropriate to open in line with local guidelines and regulations. Recognizing none of us can predict the future, we've estimated that stores will begin to reopen in stages over the coming months.

Importantly, while brick-and-mortar stores have been closed, crocs.com and our third-party digital commerce platforms remain open. We're fortunate to have been able to keep our distribution centers operational, with heightened cleaning and socially distancing protocols. We are grateful to our employees who have been working hard to deliver our products worldwide.

Our strong digital commerce performance benefited from brand momentum coming into 2020. Our ability to drive brand relevance in an authentic way was evident in our launch of our donation program, A Free Pair for Healthcare. We wanted to provide support to those in need during the crisis. And frontline healthcare workers shared that Crocs was the perfect shoe for them. They provided all-day comfort, easy on and off and easy to clean.

In response to their outreach, we stood up the US donation program in a matter of days. And since March 25, we have donated over 450,000 pairs of shoes primarily in the US, but also in Asia and Europe. To extend this philanthropic initiative in a financially sustainable way, we recently launched a consumer-supported program in the UK, One for You, One for a Hero. We will monitor the consumer uptake before hopefully deploying this program globally.

In a time with very few bright spots, everyone at Crocs feels proud to meaningfully contribute in a way that is consistent with our brand philosophy. We've also been heartened by the outpouring of support we received from both the healthcare community and our consumers at large. I encourage you to take a look at some of their responses, which we have included in our first quarter earnings presentation. I hope you're as touched as I was.

Now, let's turn to the future. As I mentioned, our leadership team laid out both a defensive and offensive playbook that we're executing against. The defensive playbook consists of all the measures you might expect us to take in an environment such as this, including dramatically cutting expenses, reducing inventory, deferring discretionary capital expenditures and maximizing our liquidity.

The following is a recap of the most important steps we have taken over the past few weeks to manage our expenses and maximize our liquidity. Compensation for our Board of Directors and senior leadership team have been significantly reduced for the foreseeable future. In our retail business, we've temporarily furloughed employees and reduced hours of store management in North America. All these employees continue to receive

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benefits. In other parts of the world, employees are receiving full or reduced pay in accordance with local regulations.

We've kept our distribution centers operational as they qualify as essential businesses. In addition to the fact, they're being used to distribute and supply companies with essential products for healthcare workers during the pandemic. To help ensure the well-being of our associates, we've enhanced safety protocols and heightened cleaning of the facility in accordance with state and CDC guidelines.

We asked some employees to reduce their work hours. We placed some on temporary unpaid leave and we eliminated some roles as we adjusted our organizational structure to the future. We've supported the impacted employees with separation payments and [ph] assistance to the (00:09:15) transition to the next employment opportunity.

Across the company, for 2020, we reduced hiring, suspended the annual increases, market adjustments and promotions that were scheduled to go in effect in 2020. As a result of these activities, we have significantly reduced SG&A for 2020. It's is now expected to be between $440 million and $460 million, which is approximately $30 million to $50 million lower than prior year and $100 million lower than was planned for 2020. These savings are primarily compromised by reduced salaries and wages, increased marketing investments and fewer discretionary expenses.

In terms of working capital, we are carefully managing inventories by reducing and canceling future factory orders, rebalancing existing inventory and consolidating future seasonal collections. We're also working closely with both our customers and vendors to manage receivables and payables.

Capital expenditures are now expected to be approximately $30 million as we cut back on deferred investment. This compares to prior guidance of approximately $50 million to $60 million for 2020.

As previously announced, we increased our revolving credit facility to $500 million, modified our leverage ratios and suspended share purchases. In addition to these defensive measures, we've started to develop our offensive playbook. We anticipate a slow recovery and are planning for a global recession, where the consumer is focused on value and the retail landscape is highly promotional.

For our offensive playbook, we plan to continue to focus on our four key product pillars; clogs, scandals, visible comfort technology and personalization through Jibbitz. In addition, we plan to significantly expand our Crocs at Work focus. We will invest in proven winners with high margins, leveraging commercially-orientated products that can deliver strong consumer value and high product margin and promotional marketplace.

We'll continue to leverage Jibbitz as a way to offer newness and inspiration at a compelling price point. We believe personalization and optimistic storytelling will be even more critical post-COVID-19, and that Jibbitz will provide an important halo for the entire Crocs brand.

We will continue to execute upon the successful marketing strategies that supported our incredible brand momentum during 2018 and 2019. Even as we reduce our marketing spend, we'll execute impactful programs and campaigns to further strengthen consumer affinity for the Crocs brand around the world. Our Come As You Are campaign, now in its fourth year, will be amplified and adjusted to be part of the cultural conversation and remain relevant in the new environment.

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New exciting collaborations such as KFC and [indiscernible] (00:12:14) will enhance brand relevance. We are confident that Crocs is well-positioned to win even with COVID-19 and a potential recession as a backdrop. Our brand entered this crisis with incredible momentum, and that momentum has not abated. Recent evidence is that the Crocs brand was ranked the highest it's ever been in Piper Sandler's Taking Stock with Teens spring survey, which was fielded in the midst of the crisis.

Google Search interest for Crocs is at the highest we've seen in the past 15 years. Furthermore, in times of change, consumers tend to fall back on brands they trust and believe in. We believe Crocs is one of those brands, delivering iconic products at compelling price points, with comfort and style.

Despite the challenges presented by COVID-19, we remain very optimistic. No one knows when conditions will return to normal. What we do know is that we are confident that Crocs is well-positioned. In the near term, we have no liquidity concerns. And we have the ability to be profitable under a wide range of revenue scenarios. Perhaps, even more importantly, for the long term, we are well-positioned to restore momentum in 2021 and continue our positive growth trajectory.

Before I turn the call over to Anne, I want to express my gratitude to the entire Crocs organization for the hard work and commitment to delivering strong results in the face of such adversity. I also want to especially thank those in our distribution centers. Without you, it would not be possible to serve our consumers, and perhaps and more importantly, our frontline healthcare community. These are challenging times for us all and we look forward to healthier times ahead for everyone.

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

Anne Mehlman

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

Thank you, Andrew, and good morning, everyone. I'll begin with a short recap of our first quarter results. For a reconciliation of the non-GAAP amounts mentioned to their equivalent GAAP amounts, please refer to our press release. As you have already heard, we had a record-setting first quarter for the Americas, even as we closed our retail stores in the region midway through March. Growth in Americas was offset by COVID-19-driven weakness in Asia and EMEA, resulting in softer-than-expected top and bottom line results versus the first quarter of 2019.

First quarter revenues came in at $281.2 million, compared to $295.9 million in the first quarter of 2019, a 5% decrease or 3.3% on a constant currency basis. Currency negatively impacted our revenues by approximately $5.2 million.

First quarter wholesale channel revenues fell 5.6% following last year's reported growth of 5.2%. The Q1 softness was primarily driven by our Asia business, with the largest declines in China, South Korea and our Southeast Asia distributors. We began to see additional softness outside of Asia in mid-March when some of our large wholesale partners started to shut stores and defer or cancel orders.

First quarter retail sales fell 15% globally, driven by COVID-19 closures in all regions. Retail comp store growth was 7.5% on top of an 8.7% comp prior year, excluding store closures of more than three days.

We continued to see strong double-digit e-commerce sales growth at 15.8% on top of 16.5% growth last year. This represents our 12th consecutive quarter of double-digit e-commerce growth. Digital revenue, as a percentage of total revenue, which includes Crocs.com and marketplaces reported as e-commerce and our e-tail

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revenue included in our wholesale channel, was 30.1% in the first quarter as compared with 25.4% in the same period last year.

Now, let's review our results by region. As I mentioned earlier, the Americas had another strong quarter, with revenues up 14.4% to $147.7 million, and minimal impact from currency. Even more encouraging was the 23% increase in retail comps prior to the shutdown in March.

Growth was also robust in wholesale and e-commerce, building upon the strong [indiscernible] (00:16:33) and momentum in 2019 even as we started to see the wholesale declines in March related to delays and cancellations for many of our brick-and-mortar retailers. Our performance in our home market is the direct result of our commitment to driving relevance with the consumer through great product and marketing.

In Asia, Q1 revenues were $65.5 million, down 28.1% from last year's first quarter. Strong e-commerce growth of 18.3% was offset by a 26.7% decline in retail as the result of store closures and declines in traffic. As Andrew mentioned, we are encouraged by week-over-week improvement in China and Korea sales.

EMEA revenues declined 10.3% over last year's first quarter to $67.9 million. Our EMEA business is benefiting from growing [indiscernible] (00:17:25) and our continued focus on digital commerce. EMEA e-commerce was our fastest-growing channel in Q1 at 23.7% growth, though this growth did not outweigh the COVID-19 impact on our wholesale and retail channels. Prior to COVID-19, EMEA had been delivering mid-single-digit comp growth, with the wholesale order book trending towards double-digit growth.

Our first quarter adjusted gross margin was 48%, well above last year's 46.9%, driven by higher product mix, higher prices on certain product and lower levels of promotions and discounts in the Americas, somewhat offset by 50 basis points of currency impact. One-time items, mostly related to our US and European distribution centers, impacted reported gross margin by 30 basis points.

Our adjusted SG&A increased to 38.7% of revenues versus 35.3% in last year's first quarter. The increase in adjusted SG&A is the result of our continued investment in marketing to drive the robust growth we've initially planned for 2020. As Andrew mentioned, we took immediate action to reduce SG&A in anticipation of lower revenue as the pandemic worsened.

Non-recurring charges were $4.6 million, compared to $700,000 in last year's first quarter. $2.8 million relates to an increase in bad debt reserves for certain Asia customers as a result of COVID-19, and $1.7 million is for product donations. At this point, we have committed to donate up to $11 million in shoes, with the majority of expenses expected in Q2. Our operating margin declined to 7.4% or to 9.4% on an adjusted basis, as marketing investments and SG&A offset the positive leverage in gross margin.

For Q1, we recorded a higher tax rate than planned. This is primarily a result of two factors: the first is that we have losses in jurisdictions where we cannot benefit from the losses for tax purposes; the second is that the forecasted decline in profits for 2020, resulting from COVID-19, is resulting in a higher tax rate based on our current structure.

First quarter adjusted diluted earnings per share, excluding non-GAAP adjustments, were $0.22, compared to non-GAAP earnings per diluted share of $0.36 a year ago.

During Q1, we repurchased approximately 1.6 million shares of our common stock in the open market for $39 million at an average price of $25.13. We suspended our share repurchases as the pandemic worsened.

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Our balance sheet continues to be very strong. We ended the quarter with $107 million in cash and $350 million in outstanding borrowings. As previously shared, out of an abundance of caution, we upsized our revolving credit facility from $450 million to $500 million and amended our covenants to provide a bit more flexibility in the second and third quarter of 2020.

Inventory on March 31, 2020, was $195.8 million versus $172 million at the end of 2019. The increase was driven by our plan for growth for the year, first quarter build ahead of the spring/summer selling season and lower first quarter revenues due to the coronavirus.

As Andrew touched on earlier, our thoughts and focus are on the well-being of our colleagues and partners throughout the world during this very difficult situation. We all continue to lack visibility to when conditions will improve and when stores will reopen. As a result, we will not be providing second quarter or full-year 2020 guidance beyond what Andrew referenced in his update on COVID-19. I would like to share a few more details on our outlook for areas where we have more control and therefore visibility, specifically SG&A and liquidity.

As Andrew mentioned, we expect SG&A to be between $440 million and $460 million, which is approximately $30 million to $50 million lower than last year and $100 million lower than what we had planned. We have taken decisive action and are deliberately being conservative given near-term uncertainty and the likely medium-term recessionary environment.

We expect capital expenditures to be approximately $30 million, which is about half of our prior guidance of approximately $50 million to $60 million. This reflects the movement of certain expenditures into 2021 as we defer investments to support growth and focus on maximizing liquidity and profitability.

With regards to networking capital, as you know, Q1 is usually our peak working capital quarter as we bring in inventory before our peak season. We now expect inventory to peak in Q2 as we adjust our purchases for the remainder of the year. We do expect to reduce working capital and generate positive free cash flow throughout the remainder of the year.

On liquidity, we have no concerns. Under current projections, we expect to remain in compliance with our covenants, with plenty of availability on our revolver. As we think about the shape of the year, we anticipate the sharpest decline in Q2 as we expect retail to be materially closed for most of the quarter, including our own stores and many of our partner stores.

We also expect e-commerce to continue to outperform in all regions as we are seeing strong results in April. In summary, although we are experiencing near-term challenges with the global disruption of COVID-19, the Crocs brand and our fundamentals are strong, and we believe this disruption to be temporary.

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

Andrew Rees

President, Chief Executive Officer and Director, Crocs, Inc.

Thank you, Anne. As our 2019 performance indicated, we had great momentum in our business and our brand has never been stronger. While 2020 is not playing out as we initially anticipated, our company has adapted quickly. We have further enhanced the relevance of our brand even in the depths of this COVID-19 crisis.

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I want to reiterate that in the near term, we have no liquidity concerns and have taken quick action to ensure we will be cash flow positive for the remainder of the year. Additionally, we believe the Crocs brand is very well positioned in the post-COVID world, with iconic products at moderate price points, great storytelling and global distribution.

Operator, please open the call for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And our first question comes from the line of Jonathan Komp with Baird. Go ahead please. Your line is open.

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

Q

Yeah. Hi. Thank you. I wanted to maybe start on the inventory. I don't know if there's more color you can give just on the current complexion [indiscernible] (00:24:11) have either in the first quarter or in the second quarter here. And then just any thoughts on how you're managing any buckets of excess globally and how quickly you can address the inbound receipts going forward?

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

A

Yeah. Hi, Jonathan.

Andrew Rees
President, Chief Executive Officer and Director, Crocs, Inc.

A

Yeah. Anne, why don't you start? Yeah.

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

A

Thanks. So, from an inventory perspective, as you know, Q1 is usually our peak inventory. And at this point, we do expect inventory to peak in Q2. We have been working really hard to cut receipts and get ahead of it. And we've been cutting receipts starting for June forward. We still, even with that, expect to generate free cash flow, positive free cash flow in Q2.

I would say, overall, our inventory balance is really made up – much of it is core. So, we're not worried about our ability to sell it or that we need to liquidate it because so much of it is core following last year, core clogs made up 60% of our revenue. So, our approach allows us to take the inventory we have and spread it over the remainder of the year.

Andrew, anything you want to add?

Andrew Rees
President, Chief Executive Officer and Director, Crocs, Inc.

A

Yeah. I think the only other thing I'd add is it's very current, right? There is very little, what we – what you might think of as aged inventory. So, the quality of the inventory is very high. It's obviously higher given the lack of sales

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in the last month of Q1 that we had anticipated. But I think we've been very successful in cutting future receipts with the great cooperation from our manufacturing partners, and we feel like this is under control.

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

Q

Okay. And maybe just as a follow-up, any thoughts on how we should directionally think about gross margin? I mean, first quarter looks solid. Obviously, there'll be a lot of seasonal goods that may not be sold as intended. So, just thoughts on your plans [ph] or even a (00:26:09) view on the market place and how you might need to react from a gross margin standpoint.

Andrew Rees
President, Chief Executive Officer and Director, Crocs, Inc.

A

Yeah. I mean, look, it's incredibly hard to tell, Jonathan. I think, as we said in our prepared remarks, we're anticipating, as we come out of this, that this will be a difficult marketplace. We think the consumer will be in a recession. We think that will be a global recession. We think many brands will have excess product on hand, retailers will have excess product in hand. It's going to be a difficult marketplace. So, that's really one of the factors that makes it really, really hard to predict.

As we highlighted in our answer to your question around inventory, I think we have some ammunition that's a little bit different to other brands. We do not have a lot of very seasonal goods that we have to sell in the spring season. We have a lot of core black, white, gray, classic, which can be sold over an extended period of time at better margin. So, I think we have some strength that allows us to be more careful. But we believe it's going to be a very promotional marketplace.

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

Q

Okay, great. And if I can just clarify then the last one on the SG&A guidance, is that a GAAP or a non-GAAP number? And then, any other cuts that you're making do you think will they limit your ability to recover once the environment improves?

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

A

Yeah. So, as you know, and as we discussed in our script, we are taking decisive action around that. That's a non-GAAP SG&A number and adjusted SG&A number that we're reducing. And we feel pretty good about what we've cut and our ability to manage, that we can scale our SG&A structure appropriately over the last couple of years, even during growth times. So, we certainly feel like we can do this without impacting our ability to recover as things start to come back.

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

Q

Okay. Thank you. Best of luck.

Andrew Rees
President, Chief Executive Officer and Director, Crocs, Inc.

A

Thanks, Jonathan.

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Anne Mehlman
Chief Financial Officer & Executive Vice President, Crocs, Inc.
A

Thanks, Jonathan.

Operator: Your next question comes from the line of Erinn Murphy with Piper Sandler. Go ahead, please. Your line is open.

Erinn E. Murphy
Analyst, Piper Sandler & Co.
Q

Great. Thank you. Good morning, and I hope you're all well. I guess, the first question, Andrew, for you, is if you could share a little bit more about what you are seeing in the month of April, in China stores have reopened, and maybe more what you're learning about how the new normal look there in terms of how consumers are shopping.

Andrew Rees
President, Chief Executive Officer and Director, Crocs, Inc.
A

Yes, I'm happy to do that. So, I think as we look at Asia, we can definitely take, I think, important learnings away from Asia. Number one, China, and I might put Korea into that bucket as well, the retail environments, our stores, our partners stores, our wholesale customer stores are open and we are seeing traffic and sales returning, right? So, week-on-week, you can see progress. You can see week-on-week progress in terms of increase in traffic and increase in sales. But you did start from a base that was materially down on last year. So, you're getting better but you're still down on last year.

I think the other thing that is important to take away from Asia more broadly is what you've seen in Southeast Asia, Singapore, et cetera, where they really had the virus under very tight control in January and February, and then they saw a wave two that was much more significant than wave one, and have reclosed, right? So, I think Singapore announced yesterday they are now going to go into lockdown for another six weeks. So, you're definitely seeing some – you're seeing some progress and some returning traffic and business in Korea and China, but you're kind of seeing the opposite in other parts of Asia.

Erinn E. Murphy
Analyst, Piper Sandler & Co.
Q

Okay. That's helpful. And then maybe just on your offensive strategy that you kind of laid out. The one area in particular [indiscernible] (00:30:05) on is how you think about or how you plan to lean into the Crocs at Work initiative and maybe what you've learned bigger picture about the TAM as you guys have been on the frontline donating to healthcare workers?

Andrew Rees
President, Chief Executive Officer and Director, Crocs, Inc.
A

Yes. So Crocs at Work has always been sort of in the background as important product line. But I think it never reached its true potential. What we saw in the depths of the crisis and through the donation program is just some very key attributes of the products, of our products and our brand, really stood out to the healthcare consumers, healthcare workers, easy on and off, easy clean and comfortable as they're on their feet all day.

So, I think the donation program has really ignited that consumer base for us. Definitely, I don't know you follow social media, you see a lot of comments that other brands aren't doing this. This is definitely a tremendous resonance that that's created. So, we're really excited about that. And I think that's a great opportunity for us to

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lean into that customer base with Crocs at Work. I think there is another opportunity, which is to ignite our foodservice customer base in the same way as they come back to work here shortly in the US and in Europe.

Erinn E. Murphy
Analyst, Piper Sandler & Co.

Q

Okay. And then last question, really, for Anne, I think in the script, you guys talked about just confidence in profitability despite kind of a wide range of revenue scenarios. Can you just expound upon some of the downside scenarios that you've stress tested in the model? Thank you.

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

A

Yeah. Yeah. What we're really excited about is our ability to generate free cash flow in a wide range of scenarios. I think that's number one and the most important thing right now. So, we've looked at a number of different scenarios as I think most companies are doing right now. It's really important to have several scenarios. But in our scenarios, we've looked at stores being closed for an extended period of time. We do think e-com in most scenarios continues to outperform as we're seeing that pretty strongly through the beginning of April.

And then also with that, we look at different scenarios around wholesale and what that looks like for our wholesale partners reopening. So, again, I think, overall, we have the ability to generate free cash just through managing net working capital. And as Andrew mentioned earlier, we've been really quick to act on inventory, which is key.

Erinn E. Murphy
Analyst, Piper Sandler & Co.

Q

Great. Thank you. I'll let someone else hop in.

Andrew Rees
President, Chief Executive Officer and Director, Crocs, Inc.

A

Thanks, Erin.

Operator: Our next question comes from the line of Mitch Kummetz with Pivotal Research. Go ahead, please. Your line is open.

Mitch Kummetz
Analyst, Pivotal Research

Q

Yes, thanks for taking my questions. Maybe just to kind of follow on what Erinn was asking, you said – Anne, I think you said that e-com was trending well of late. I'm just hoping you guys could maybe speak to some of the trends that you're seeing through the first two or three weeks of 2Q. Maybe starting with e-com, has it accelerated from the 15.8% that you guys posted in Q1? And is there anything you can say around wholesale? Maybe you're really kind of sort of splitting your comments between kind of selling into e-tailers versus your more traditional brick-and-mortar accounts?

Andrew Rees
President, Chief Executive Officer and Director, Crocs, Inc.

A

Yeah. I think, let me give you a little bit of color on that because that's definitely – there are some bright spots there. So, I think the first thing I'd highlight is 30% of our total business is digital, right? And that's split between

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our own e-commerce business and our e-tail business. E-tail represents about 25%, about a quarter of our wholesale business.

So, in terms of trend and trajectory, we've definitely seen a significant acceleration in our own e-commerce growth rates. That's I think driven by natural consumer traffic that they can't go to stores and they're looking for entertainment, I think it's also driven very strongly by the healthcare donation program that we've been doing.

We've seen that ignite both the – that audience, the healthcare frontline workers, but also significantly broader consumer engagement from a very broad set of consumers who recognize that program as being important and wanted to – and have – going to our site to look for products as a result. So, we've seen strong acceleration in our digital business, I'd say stronger in Americas and Europe, but definitely strong across the globe.

And then e-tailers, absolutely, we continue to see very strong growth rates in e-tail business. I would say fulfillment of the stock has been a little sporadic as they've had to pause occasionally to manage the inflow of essential goods. But they quickly recognized, given demand that they see particularly from the healthcare community that our product is essential in the minds of their consumers, and so, we've seen strong growth on e-tail as well. So, I think those are two of the bright spots.

I would say the remainder of the business definitely is tough, right? So, the majority of wholesale customers are closed. You're seeing essentially minimal or no reorders. They're obviously not selling too many products, they are selling – doing their best on their e-commerce environments, but that's a small part of their business. So – go ahead.

Mitch Kummetz
Analyst, Pivotal Research

Q

And then, Andrew, as a point of clarification, when you guys break out the 30% digital, that does not include the e-com businesses for your traditional brick-and-mortar retailers. Is that correct? And then if, I don't know if you could, but if you were to include that, I mean, does that percentage go to like 35% or 40% do you think? And then I have another question.

Andrew Rees
President, Chief Executive Officer and Director, Crocs, Inc.

A

That does not include the e-commerce business of our traditional brick-and-mortar. It only includes pure-play e-tailers. The reason we did that is that those companies are not correct – that they can't provide you the detailed accurate information in a timely fashion that allows you to break that out accurately. So, we just don't think that's a good number to report externally. And I couldn't really expect – it would obviously be higher but I don't really expect [indiscernible] (00:36:34) would be.

Mitch Kummetz
Analyst, Pivotal Research

Q

Got it. And then on the donation program, maybe, Anne, can you talk about how that's hitting the P&L? I mean, are we talking like on average, is it like for every pair of shoes you're donating, is it like a $10 hit to the COGS line on the P&L? Or maybe you could give us some color on that.

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

A

Yeah.

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Mitch Kummetz
Analyst, Pivotal Research

Q

And then could you say – I think you guys said 450,000 pairs roughly or over that to-date. Could you say how much of that came in the first quarter and what's the P&L impact to the first quarter was? And then kind of how are you thinking? So, I think you said you're capping at $11 million. So, again, just kind of help us out on the P&L with that.

Andrew Rees
President, Chief Executive Officer and Director, Crocs, Inc.

A

Yeah. So, it hits in SG&A and it will – we will carve it out so that you can understand what that looks like. So, it'll sit in SG&A at very small amount within Q1. So, the majority of it will be in Q2. And then will be $11 million globally. And the way that it's recognized as you have to gross it up to fair market value, and then you'll see a small offset below the line. But we capped it at $11 million and it'll sit in total SG&A and we've carved it out some adjusted SG&A so that you'll have insight into that. And when we release the 10-Q, and I think it's even carved out in the press release in our non-GAAP bridges, Mitch, for you.

Mitch Kummetz
Analyst, Pivotal Research

Q

Okay. And is there any way to quantify the goodwill that you guys are generating from this? I know that's not the reason that you're doing it, but I mean have you seen any purchases maybe tied to the goodwill that you're generating from this program?

Andrew Rees
President, Chief Executive Officer and Director, Crocs, Inc.

A

Yeah. I would say...

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

A

Yeah. I think I'm going to let Andrew answer that. I'm just going to give you the quick – the actual number that we – the actual amount that's sitting in our SG&A for Q1 was $1.7 million. And then, I'll let Andrew talk to the goodwill.

Mitch Kummetz
Analyst, Pivotal Research

Q

Okay. Got it.

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

A

Go ahead, Andrew.

Andrew Rees
President, Chief Executive Officer and Director, Crocs, Inc.

A

Yeah. I did mention, I don't think there's any way to precisely quantify it. But I would say it is extremely evident to us based on what we hear from consumers, what – the activity we see on our website, and what we hear from our wholesale customers who are also benefiting from this, both e-tailers and regular household customers, I would say the goodwill is very substantial.

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Mitch Kummetz
Analyst, Pivotal Research

Q

Got it. All right. Thanks, guys. Stay safe.

Andrew Rees
President, Chief Executive Officer and Director, Crocs, Inc.

A

Thank you.

Operator: And your next question comes from the line of Sam Poser with Susquehanna. Go ahead, please. Your line is open.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Thank you very much. I'm going to follow up on the follow-ups here. Can you just give us specifics on what your e-commerce trends are quarter-to-date? What's the increase that you're seeing? So, we have some – give us some – [ph] a lot of things (00:39:29) we recognize that may not be sustainable, but could you tell us what specifically you're running up for the...

Andrew Rees
President, Chief Executive Officer and Director, Crocs, Inc.

A

Yeah.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

...e-com right now?

Andrew Rees
President, Chief Executive Officer and Director, Crocs, Inc.

A

Yeah. I would say looking substantial, Sam. We – particularly in the US and EMEA, which are obviously our biggest businesses, we're up triple digits.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Thanks. And then, secondly, do you expect SG&A in 2Q to be the biggest cut or is that going to be spread? How should we think about that given that you've reduced your number by $100 million versus your plan?

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

A

I think, Sam, we haven't broken that out to try to give us flexibility, as we understand how things come back online, but we have tried to take it out through Q2 on. I do expect Q2 to have a sharp cut just in the nature of that. Right now, we don't have a lot of our retail stores operating, and so, – especially in the US, as we'd mentioned in our prepared remarks, we furloughed a lot of our employees [indiscernible] (00:40:42) so that will automatically take SG&A lower.

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Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Perfect. And then just real quick, a couple other things, number one, can you give us details on the pay reductions for the senior team – for the remaining people, especially on the senior team rather than there was a material or substantial or whatever you put in the press release? Second. And then lastly, normally you release earnings a little bit later. And I'm so surprised you released as early as you did in the quarter. Can you give us some color as to why you chose to release earlier than normal? Thanks.

Andrew Rees
President, Chief Executive Officer and Director, Crocs, Inc.

A

Let me take those in reverse order, Sam. So, I would say that the second question in terms of why we decided to release earlier, we've deliberately not gone down the road of putting out press releases every week, explaining different activities that we've taken on to either control inventory or control our SG&A. We [ph] really don't (00:41:42) want to package everything and put it together and have a vehicle [ph] here and story (00:41:46) and allow yourselves and the investment community to understand the full picture. So that we pulled this forward so we had the opportunity to do that in a comprehensive way. So, that was really the reason for releasing earlier.

And in terms of the SG&A savings or the salary reductions or compensation reductions for the employees and the Board of Directors, I would just say those are substantial. They are reductions in base. There are reductions in performance comp and also long-term comp. So, I would say they're very substantial and graduated from the top down.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Okay. Will that be out in the 10-K or something with specifics on how substantial? I mean other companies have said substantial...

Andrew Rees
President, Chief Executive Officer and Director, Crocs, Inc.

A

No.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

And – well, other companies have said substantial and it's their presumption of substantial and some had gone to zero salaries in the CEO position, others have gone to 20% of cut and called that substantial. So, that's why I'm asking the question to – I understand using the word substantial but...

Andrew Rees
President, Chief Executive Officer and Director, Crocs, Inc.

A

So, I would say, yeah – yeah. I mean I think we're comfortable with how we've actually played it and obviously when proxy statements come out, et cetera, subsequently, people will be able to understand that fully.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

And when do you expect those to come out?

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Andrew Rees
President, Chief Executive Officer and Director, Crocs, Inc.
A

The proxy for last year will be out shortly, but the one for this year obviously will be next year.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

Okay. Thank you and good luck. And stay safe.

Andrew Rees
President, Chief Executive Officer and Director, Crocs, Inc.
A

Thank you, Sam.

Anne Mehlman
Chief Financial Officer & Executive Vice President, Crocs, Inc.
A

Thank you.

Operator: [Operator Instructions] And our next question is from the line of Laura Champine from Loop Capital. Go ahead, please. Your line is open.

Laura Champine
Analyst, Loop Capital Markets LLC
Q

Hi. Thanks for taking my question and just to – I guess this is a third derivative follow-up question. So, you've given us a lot of qualitative discussion of what's going on with revenues, I really appreciate that. Would normally never ask for three weeks of sales, but can you give us just how you're tracking total sales April to-date?

Andrew Rees
President, Chief Executive Officer and Director, Crocs, Inc.
A

Yeah. I mean...

Anne Mehlman
Chief Financial Officer & Executive Vice President, Crocs, Inc.
A

Yeah. [indiscernible] (00:44:09).

Andrew Rees
President, Chief Executive Officer and Director, Crocs, Inc.
A

...that obviously – go ahead, Anne. Thank you.

Anne Mehlman
Chief Financial Officer & Executive Vice President, Crocs, Inc.
A

Yeah. I was just going to say, as Andrew mentioned, e-commerce is obviously outperforming with triple-digit increases in US and EMEA. I would say, most of our stores are closed around the world. We have about 30% operating and there are smaller stores in Asia. So, obviously, retail is down dramatically. And then also, many of our large wholesalers and distributors have their stores closed. So, they are not taking new product or different products. So we were – we are seeing large wholesale declines into the quarter as well.

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Laura Champine
Analyst, Loop Capital Markets LLC

Q

Okay. Can you give us a sense of what percent of your accounts receivable you view at risk at this point as of the end of the quarter?

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

A

Yeah. I think, we don't – we report accounts receivable on a net basis. So, we don't feel like any of that is at risk. We've reserved. We carry about – that reserve is around [ph] $18 million (00:45:11). And we increased that reserve in Q1 for two specific distributors that were in Asia that were uniquely impacted by the COVID virus. But other than that, we feel pretty good about our accounts receivable. We'll reserve things as we see fit. But I would say, and we feel confident that our accounts receivable are in good shape outside of our reserves.

Laura Champine
Analyst, Loop Capital Markets LLC

Q

All right. Thank you.

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

A

Thank you.

Operator: And your next question comes from the line of Jim Duffy with Stifel. Go ahead, please. Your line is open.

Jim Duffy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thank you. Good morning. Thanks for all the perspective and thanks for Crocs for supporting our healthcare professionals.

Andrew, I was hoping that you could start by speaking about how you may be steering merchandise assortments for the balance of the year to balance newness with risk management. And in that context, what's the role you expect promotion to play in the inventory management strategies?

Andrew Rees
President, Chief Executive Officer and Director, Crocs, Inc.

A

Yes, great question, Jim. So, a few things. So, I'm – probably I'm going to talk about it in phases, right? So, if we look at the spring season, so if we look at it today, we have looked very hard at the most seasonal products that we might have with maybe some new sandal introductions, et cetera, and we will likely make sure those are delivered only to environments that we think can sell those through.

The majority of the cancellations that we've been able to do were for later in Q2 and early Q3. So, I think that takes a significant amount of inventory flow out of the market. I would say that it's mostly core, mostly replenishment orders. So, that's kind of pulls that out.

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So, our intent is to extend the season for our core product, for our core clog, and we think that's very, very viable, but protect newness for the full holiday, back to school and full holiday season. Last year, you saw a line product being very important in some key markets. We wanted to protect all the newness associated with that.

So, we'd really try to extend what we have in the market for spring, summer, back off on replenishment orders and protect that for holiday newness. I think there will be select items or select groups of items that we had intended to introduce in a major way in spring 2020, which we will recolor and bring back for spring 2021.

Jim Duffy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. Thank you. And you made some comments earlier about a strategy to position for value and what you expect is going to be a very promotional environment. Can you talk a little bit more about how you see that represented in assortments and pricing?

Andrew Rees
President, Chief Executive Officer and Director, Crocs, Inc.

A

Yeah. Yeah, I can. So, I think, as you're all aware, we have [ph] a substantive (00:48:18) outlet business. It's the majority of our bricks-and-mortar retail business at this stage. We have valued lines that we use, built for outlet and we use in the outlet business that are derivatives of our main line, so a derivative of a classic, a derivative of another kind of key item. We also have promotional items that we use with the lower-tier channels, whether that be [ph] close-out (00:48:45) channels or that be promotional channel. So, we have vehicles that we can use to drive promotional activity. So, our intent will be to use those vehicles to drive up promotional activity and not be promoting our flagship products.

Jim Duffy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Very helpful. I'll leave it at that. Thank you.

Andrew Rees
President, Chief Executive Officer and Director, Crocs, Inc.

A

Thank you.

Operator: And our next question comes from the line of Mitch Kummetz with Pivotal Research. Go ahead, please. Your line is open.

Mitch Kummetz
Analyst, Pivotal Research

Q

Yeah. Just a couple of quick follow-ups, on your stores, can you say exactly what number of stores are currently open? I know the majority are closed but can you say what's open and where?

And then can you talk a little bit about your decision-making process around potentially opening stores, what's going to inform your decision?

Andrew Rees
President, Chief Executive Officer and Director, Crocs, Inc.

A

Yeah.

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Mitch Kummetz
Analyst, Pivotal Research

Q

I know that some of the governors of the states are talking about relaxing their stay-at-home orders, and I'm just trying to wonder if you're going to follow their direction. And then kind of what's your process of opening stores in terms of providing your staff with PPE and then communicating to consumers that the stores are safe to shop all of that?

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

A

Yeah. I'll take the store opening question and then I'll leave it to Andrew to talk about the philosophy behind reopening.

So, as I mentioned earlier, about 30% of our locations are open globally, which are mostly in Asia. So, we have 110 opened in Asia but again those are mostly smaller stores. All of our stores in Americas are closed and we have three that just recently opened in EMEA, so [ph] 356 in EMEA (00:50:21).

Andrew Rees
President, Chief Executive Officer and Director, Crocs, Inc.

A

Yeah. And then and I think if you look at EMEA, you're going to see there are another raft of stores that are scheduled to open next week. So, in terms of the decision-making the – obviously, we're looking to follow local, country, state guidelines, right? So, we're not certainly planning to open any stores in contravention of any stay-at-home order.

So, when the stay-at-home orders are released, when malls are opened, we will consider opening stores. We are also looking to the majority of the stores in a mall being open. We don't want to be the one or two stores that's opened, otherwise, you just have all of the costs and potentially very limited traffic.

In terms of – we've done virtual walkthroughs and in some of the stores that have [ph] started in (00:51:18) EMEA, we are testing a set of procedures associated with wearing masks, cleaning the services that a consumer would interact with, principally at point of purchase, regulations or procedures for try on and how that's managed, a number of people in the store, the distancing, waiting in line and waiting in line to get into the store, I think are rapidly emerging from both Asia, from EMEA, are a very clear set of guidelines about how you can operate a small footprint, small-volume store like ours. And I think we will follow – we will – not I think, we will follow all those very closely to make sure – and also requiring our customers be wearing a mask when they come in as well. And I think that will all play out in the US as well.

Mitch Kummetz
Analyst, Pivotal Research

Q

Got it. And then my very last question, on Asia, when you guys reported Q4 a couple of months ago, you did provide some guidance on Asia. I think you were saying at the time, you were expecting sales to be down $40 million to $60 million kind of in the first half of the year, with all of that related to Asia. Is Asia, at this point, you're thinking any better or worse than that? It sounds like maybe China, Korea may be a little bit better but then the rest of Asia may be a little bit worse than what you're originally thinking. Are you still kind of thinking that Asia is within that sort of $40 million to $60 million range in terms of the drag?

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Anne Mehlman
Chief Financial Officer & Executive Vice President, Crocs, Inc.
A

Yeah. I think it's in line. Certainly Q1 was in line with what we expected for Asia. I mean, it's harder to – it's obviously a changing environment as things have changed so much. I think when you think about where we were when we talked about Q1 in Asia, right, we had China and kind of Korea closed and now we have China and Korea open, but we have Japan having a second wave. We have Singapore having a second wave. Southeast Asia is now closed. India is now closed. So, I'm not – that's one of the reasons why we pulled back on guidance. It's just because the situation has changed so much. I would say, though, Q1 for Asia was in line with our expectations. There may have been a little bit better in China and South Korea but not materially.

Mitch Kummetz
Analyst, Pivotal Research
Q

Got it. All right. Thanks again.

Operator: Our next question comes from the line of Jim Chartier. Go ahead, please. Your line is open.

James Chartier
Analyst, Monness, Crespi, Hardt & Co., Inc.
Q

Good morning. Thanks for taking my questions. Anne, could you talk about the flexibility you have with your store leases? If stores don't reopen for an extended period of time or traffic is lower than expected when you reopen, what's the flexibility to close stores maybe that were marginal before? And then any kind of rent concessions you're getting from landlords? And then finally, you talked about the tax rate for first quarter, but what's the expectation for the tax rate for the full year? Thanks.

Anne Mehlman
Chief Financial Officer & Executive Vice President, Crocs, Inc.
A

Yeah. Great question. So, on the store piece, so let's just talk about it in region. So, obviously, from an Asia perspective, especially Korea, a lot of our stores [indiscernible] (00:54:34), so that makes it a little cleaner to deal with. And then there are jurisdictions where it's a lot more traditional like Japan and Australia.

As you know, we've done a ton of work on our store base over the last couple of years. And so, most – all of our stores, we have a pretty high hurdle rate for stores to remain open. So, the vast majority of our stores were hurdling that. We will go back and look and see if we think that there's permanent traffic declines, if it makes sense for us to exit stores or stay in, and we'll definitely continue to do that just as normal business runs. But there's not a lot of flexibility in most our leases to just exit, but we'll look at the economics and see if it makes sense for us to negotiate that.

On the second point on concessions, we are working with all of our landlords globally. We have had some success in Asia during Q1 on negotiating concessions, and we're working with all of our landlords around the world to figure out what that looks like when we have stores that are closed or traffic is down.

And then on the tax rate side, this happened so quickly and we couldn't really respond from a tax perspective in order to kind of rejigger things. We do feel that the first quarter tax rate is not representative of the full year. There's a lot of things happening right now in relation to COVID all around the world and all of the different jurisdictions that we do business in in relation to go-forward tax rates and things that different countries are doing.

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So, it's really hard to give you complete visibility, but I will say, we expect our tax rates to be below 40% for the remainder of the year. That's not – the first quarter tax rate is not indicative of the full year tax rate.

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

Q

Great. Thank you. Best of luck.

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

A

Thank you.

Andrew Rees
President, Chief Executive Officer and Director, Crocs, Inc.

A

Thanks, Jim.

Operator: And our next question comes from the line of Sam Poser with Susquehanna. Go ahead, please. Your line is open.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

I just have one question – actually two questions. One, the EMEA, firstly, – the Europe first quarter wholesale business, I wondered sort of – could you give us some color on why that was down? And two, given that the low oil prices now, is that going to be of any aid going forward on a materials basis?

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

A

On the EMEA side for wholesale, as you know, our stores closed midway through March. And EMEA went in a little bit before the US. And so, just similar to color that you're seeing, it just took longer in the US to have [ph] enough (00:57:16) deferrals on the wholesale side, and a lot of our wholesalers were closed, so they weren't needing to take product. And that would include our wholesalers and our distributor partners.

And then on the oil price, as you know, labor is the biggest component of our COGS. But it could be an impact. We'll wait and see. I mean, the biggest impacts are currently in labor but freight is another cost. So, if it starts to come down, we could see a benefit.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

And what about in production like in – the oil that goes into the production of the product, of the material?

Andrew Rees
President, Chief Executive Officer and Director, Crocs, Inc.

A

Yeah. I mean, yes and no, Sam. It really – it's natural gas and obviously oil is separated from natural gas to some extent...

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Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Right.

Andrew Rees
President, Chief Executive Officer and Director, Crocs, Inc.

A

...over the last year years. So, natural gas is the underlying raw material and that goes into the raw materials that we make our product from. So, there might be some benefit there. I don't think it's going to be significant. The other component of oil is obviously your transportation costs and that supply/demand is going to prompt the underlying cost of the fuel in those cases. But we're not [indiscernible] (00:58:22)...

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Thank you very much.

Andrew Rees
President, Chief Executive Officer and Director, Crocs, Inc.

A

...significant cost of goods benefits.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Thank you very much.

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

A

Thank you.

Operator: And our next question comes from the line of Erinn Murphy with Piper Sandler. Go ahead please. Your line is open.

Erinn E. Murphy
Analyst, Piper Sandler & Co.

Q

Thanks for taking my follow-ups. Just a couple, Andrew, for you, can you just talk about your collaboration pipeline as it sits now and just how you pivoted the strategy? I think coming into this year you were expecting over 20 different collabs. And then housekeeping, and sorry if I missed this, could you just say what pricing and units were in Q1 and then what are you thinking for marketing spend this year? Thank you.

Andrew Rees
President, Chief Executive Officer and Director, Crocs, Inc.

A

So from a collabs perspective, we've actually done six collabs already this year. So, we've done Liberty of London, KFC, [indiscernible] (00:59:07) I think everybody saw those in this marketplace. But also more recently Beams in Japan, Rare Market in Korea and also Madewell.

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And so we've definitely continued with our collaboration strategy. I think those have all been working well. We have pushed some of the bigger ones out of kind of Q2 time period towards the back end of the year and we will also push some from 2020 into 2021.

So, we're definitely trying to move them out of this current period. The bigger ones that require more investment and obviously will have a bigger impact. But our intent is to continue with our collaboration strategy. We think it's an important way to engage with our consumers. But obviously, we're also going to make sure that all of those designs and those relationships are kind of appropriate to the environment. So, we still think it's important, we'll still be continuing.

Anne Mehlman
Chief Financial Officer & Executive Vice President, Crocs, Inc.
A

Yeah. And then on the ASP and units, so our units were down 8% and our ASPs were up 2.6%.

Erinn E. Murphy
Analyst, Piper Sandler & Co.
Q

Got it. And then marketing, just how are you thinking about that for the year now just given some of the pushing out of [indiscernible] (01:00:19)...

Anne Mehlman
Chief Financial Officer & Executive Vice President, Crocs, Inc.
A

Yeah. We didn't guide specific marketing, it's – yeah, it's encompassed into our SG&A. The reason we [ph] did this (01:00:23) because we want some flexibility there.

Erinn E. Murphy
Analyst, Piper Sandler & Co.
Q

Okay.

Anne Mehlman
Chief Financial Officer & Executive Vice President, Crocs, Inc.
A

We also have a piece of our marketing that's variable associated with e-com. Marketing is one of the areas, as we talked about, that we did cut. But we are trying to preserve as much of our marketing as we can, especially just so that we can continue to connect with our consumer.

Erinn E. Murphy
Analyst, Piper Sandler & Co.
Q

Great. Thank you both.

Anne Mehlman
Chief Financial Officer & Executive Vice President, Crocs, Inc.
A

Thank you, Erinn.

Operator: And there are no further questions at this time. I'd like to turn the call back over to Andrew Rees for some closing remarks.

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Andrew Rees

President, Chief Executive Officer and Director, Crocs, Inc.

Yeah. Thank you, everybody. Appreciate your interest in the company at this time. And I'd just like to close by saying while this is a very difficult time for individuals, the consumers, very difficult time for our company, we are very confident in our ability to weather the storm and also to be stronger and more – and grow into the future. So, we feel good about where we are. So, we thank you for your interest.

Operator: Thank you. And this does conclude today's conference call. You may now disconnect.

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