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Crocs, Inc.

Third Quarter 2020 Earnings Conference Call

October 27, 2020

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Anne Mehlman, *Executive Vice President, Chief Financial Officer*

Cori Lin, *Investor Relations*

CONFERENCE CALL PARTICIPANTS

Jonathan Komp, *Baird*

Erinn Murphy, *Piper Sandler*

Sam Poser, *SIG*

Susan Anderson, *B. Riley*

Laura Champine, *Loop Capital*

Mitch Kummetz, *Pivotal*

Jim Duffy, *Stifel*

Unknown Analyst, *UBS*

Jim Chartier, *Monness, Crespi, Hardt*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Crocs Inc. Third Quarter 2020 Earnings Conference Call.

At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. To ask a question during this session, you will need to press star, one on your telephone. Please be advised that today's conference is being recorded. If you require any further assistance, please press star, zero.

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

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Cori Lin

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

We would like to remind you that some of the information provided on this call is forward-looking and accordingly is subject to the Safe Harbor provisions of the federal securities laws. These statements include, but are not limited to, statements regarding potential impacts to our business related to the COVID-19 pandemic. Crocs is not obligated to update these forward-looking statements to reflect the impact of future events. We caution you that all forward-looking statements are subject to risks and uncertainties described in the Risk Factors section of our annual report on Form 10-K. Accordingly, actual results could differ materially from those described on this call. Please refer to the Crocs' annual report on Form 10-K, as well as other documents filed with the SEC, for more information related 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 today on the call today are Andrew Rees, Chief Executive Officer, and Anne Mehlman, Executive Vice President and Chief Financial Officer. Following their prepared remarks, we will open the call for your questions.

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

Andrew Rees

Thank you, Cori, and good morning, everyone.

As you saw from our release issued this morning, our business achieved record third quarter top and bottom line results. Our extraordinary performance amidst these dynamic and difficult times demonstrates the strength of our brand and product offering globally and our ability to deliver sustainable, profitable growth.

I'm incredibly proud of the results and how the entire Crocs organization has executed against our long term growth plan and managed the business through the COVID-19 pandemic. Anne will review our financial results in more detail shortly, but here are a few highlights from the third quarter of 2020.

We achieved record third quarter revenues of $362 million, up 16% versus prior year. Our Americas business had an exceptional third quarter with revenue increasing 26% and DTC comp growth of 31%. Our EMEA business delivered strong revenue growth of 13% with double digit revenue growth in both ecommerce and wholesale. Every channel grew revenue with digital commerce sales increasing 36% to represent 38% of global revenue.

Adjusting operating profit was $75 million, an increase of 70% with margin expansion of 660 basis points. Adjusted diluted earnings per share grew 65% to a third quarter record of $0.94.

Let's first focus on the strength of our brand which underpins these extraordinary results. The Crocs brand continues to resonate strongly with consumers throughout the world as a result of our powerful marketing and iconic products. We shared on our last earnings call that we had an exciting marketing pipeline and we've seen this come to fruition. In July, we released a Luke Combs collaboration, our first feature in the classic slide. In August, fans in Korea queued overnight at stores for our collaboration with

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K Study (phon) that sold out in 90 seconds. With Chinatown Market, we launched our colorful Grateful Dead clog which LeBron James wore around the NBA bubble, creating quite a stir.

In September, we released Black Lives Matter Jibbitz charms. Our brand has always stood for equality and inclusivity and encourages everyone to come as you are. We continued to celebrate come as you are with a special edition glow-in-the-dark clog with Puerto Rican star, Bad Bunny. For those of you who may be less familiar with Bad Bunny, he performed in this year's NFL Super Bowl halftime show alongside Jennifer Lopez and Shakira, and according to U.S. Billboard his latest album became the highest charting all-Spanish language album ever. The Crocs that Bad Bunny designed were in very high demand, selling out in minutes.

More recently, we kicked off our month-long Croctober celebration with the launch of our Croctober Jibbitz calendar containing 50 unique Jibbitz that count down to Croc Day on October 23. This month was full of Croctober surprises, the most noteworthy being our collaboration with Justin Bieber and his clothing brand, Drew House, which generated incredible global media buzz. The singer-songwriter designed yellow Jibbitz-adorned clogs that sold out quickly around the world.

I'm pleased to share that this best-in-class marketing is translating into results. In our own 2020 brand survey, which measures participants' views about the Crocs brand globally, results were up double digits for each of our key metrics: brand desirability, brand relevance, and brand consideration. We have now averaged double-digit growth across these same metrics for the past four years.

Another indicator of brand strength is Piper Sandler's fall 2020 Taking Stock with Teens survey, where the Crocs brand remained in the top 10 footwear brands preferred by teens in the U.S.

In summary, our brand has never been stronger and the brand's strength has further increased through the pandemic. I'm confident that the Crocs brand will continue to drive accelerated growth this year and beyond.

Now let's turn to the third quarter highlights.

From a channel perspective, global ecommerce revenue grew by 36%. This represents our 14th consecutive quarter of double-digit ecommerce revenue growth. Our digital business, which combines ecommerce and e-tail grew 36% and represented 38% of our third quarter sales compared to 32% last year. Digital growth rates tempered a bit from Q2 when much of brick and mortar was closed for an extended period, yet our digital penetration remains high and this remains a top priority. Over the long term, we believe our digital presence on both our sites and those of our partners will allow us to serve our consumers in their preferred channel and will continue to be a competitive advantage relative to other footwear brands.

Our wholesale channel, which includes bricks and mortar, e-tail and distributors, grew 12% versus prior year fueled by strong sell-through at e-tail and our top 20 global brick and mortar accounts. Over the past 18 months, we have been increasingly focused on these top 20 leadership brick and mortar accounts which are made up of sporting goods, family footwear, and specialty footwear retailers. Ten of these reside in the U.S. We are pleased to have recently added both Foot Locker and Finish Line to expand our presence in specialty athletics.

Turning to Company-owned retail, third quarter comp sales increased 16% over 13% last year, driven this year by the Americas and South Korea which together account for approximately two-thirds of our store base. During the quarter, most of our stores were open but operating at reduced hours. Both our own retail and that of our bricks and mortar partners returned to growth in the third quarter and recovered from the impact of the pandemic much faster than we expected.

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From a product perspective, our results continue to be driven by our four key product pillars: clogs, sandals, Jibbitz, and visible comfort technology. Sales of our clogs were particularly strong this quarter, increasing 31% year-over-year to represent 72% of total footwear revenues versus 62% last year. Early in the pandemic, we cancelled sandal receipts. As such, Q3 sandal revenues declined by 4% and represented 19% of footwear sales versus 22% last year. Jibbitz sales continued to be strong, doubling for the quarter versus last year.

Looking to next year's product pipeline, we're very confident in our line-up. 2021 sell-in has been strong on a global basis. We're excited about our innovation in clogs and our ability to deliver a full season of sandals with classic slide, Brooklyn and Tulum. We also expect to capture strong interest in our Crocs at Work line based on our Free Pair for Healthcare program. We are poised to continue significant growth in personalization with Jibbitz charms.

Finally, profitability was incredibly strong. Our brand's strength and lean inventory led to fewer promotions which, coupled with price increases and product mix, boosted our gross margins. We significantly leveraged SG&A to deliver best-in-class operating margins and we delivered record third quarter EPS.

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

Before I turn the call over to Anne, I want to express my gratitude to the entire Crocs organization for their hard work and commitment to delivering best-in-class results. I'm tremendously proud of how they have executed as a team and the results we have delivered for our employees, our customers, and our shareholders.

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

Anne Mehlman

Thank you, Andrew, and good morning, everyone.

I'll begin with a short recap of our third quarter results. For a reconciliation of the non-GAAP amounts mentioned to their equivalent GAAP amounts, please refer to our press release.

Our third quarter results were exceptional. Fueled by the Americas and EMEA, we delivered record third quarter revenue in spite of a global pandemic and in addition to delivering record third quarter revenue last year. Profitability was outstanding as we grew gross margins and leveraged SG&A, increasing operating income and operating margin, and generating record third quarter free cash flow generation.

Third quarter revenues came in at $361.7 million compared to $312.8 million in the third quarter of 2019, a 15.7% increase or 15.9% on a constant currency basis. We sold 16.9 million pairs of shoes, an increase of 6.2% over last year's third quarter. Our average selling price during Q3 increased 8.8% to $21.36, with the increase attributable to fewer promotions and discounts, higher pricing on certain products, and increased sales of charms per shoe.

Now let's review our results by region.

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As Andrew mentioned earlier, the Americas had another strong quarter with revenues at $234 million, up 26.4% over 27.3% on a constant currency basis. Retail comps increased 22.3%. Growth was phenomenal in ecommerce and stronger than anticipated in wholesale, led by e-tail and our key brick and mortar partners. Our performance in the U.S. is a direct result of our commitment to driving relevance with the consumer through great products and innovative marketing.

In Asia, Q3 revenues were $67.7 million, down 8.8% from last year's third quarter. Ecommerce growth of 10% and retail comp growth of 2.8% were offset by declines in our distributor wholesale revenue and retail closures related to further right-sizing of our fleet. Both South Korea and China performed well, however, our distributors in Southeast Asia continue to be under significant pressure due to lack of tourism.

EMEA revenues increased 12.6% over last year's third quarter to $60 million in spite of inventory constraints that impacted performance early in the quarter. Strong revenue in wholesale and ecommerce was partially offset by declines in retail. Our EMEA business is benefiting from growing brand heat and our continued focus on digital commerce, which represented almost 60% of EMEA this quarter.

Our third quarter adjusted gross margin was 57.4%, up 380 basis points from last year's 53.6% driven by changes in product mix, fewer promotions and discounts, and price increases.

Our adjusted SG&A fell to 36.6% of revenues versus 39.4% in last year's third quarter. The decrease in adjusted SG&A rate is a result of strong sales growth and operating leverage even as we made additional brand marketing investment to support future growth in the business.

Our third quarter operating income increased 80.7% to $72.1 million versus $39.9 million last year, and operating margin increased over 700 basis points to 19.9%. Adjusted operating margin increased 660 basis points to 20.8% as SG&A leverage on strong sales growth added to the gross margin expansion.

For Q3, we recorded $8.2 million of income tax expense with an effective tax rate of 11.7% versus 6.4% last year. Third quarter non-GAAP adjusted diluted earnings per share increased 64.9% to $0.94 compared to $0.57 a year ago.

With record third quarter free cash flow, our liquidity position is strong with $123.6 million of cash and cash equivalents in addition to $364.4 million of borrowing capacity available on our revolver.

We did not repurchase any shares during the quarter, and given our strong balance sheet and liquidity, we may opportunistically resume share repurchases.

Inventory at September 30, 2020 was $174.1 million, up from $139.8 million in the third quarter last year. We ran lean inventory throughout Q3 with significant receipts later in the quarter and high in-transit inventory. We anticipate a strong fourth quarter and do not expect the same degree of inventory constraints that we saw this past quarter.

Turning to the future, as we have said, we will share our expectations when visibility allows. I would like to share our current outlook for the balance of 2020. Barring significant additional COVID-related closures, we expect fourth quarter revenue to grow between 20% and 30%. This will translate to full year 2020 revenue growth of approximately 5% to 7%.

In summary, we delivered incredible third quarter profitability with exceptional cash flow, further strengthening our balance sheet and positioning ourselves for sustained profitable growth.

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

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Andrew Rees

Thank you, Anne.

The Crocs brand has never been stronger with iconic products, great storytelling, and global distribution. As you can see from our third quarter results, we have great momentum in our business and we're excited about the future.

Operator, please open the call for questions.

Operator

As a reminder, to ask a question, you will need to press star, one on your telephone. To withdraw your question, press the pound or hash key. Please stand by while we compile the Q&A roster.

Your first question comes from the line of Jonathan Komp from Baird. Your line is now open.

Jonathan Komp

Yes, hi, thank you. I want to start just by asking about the step-up or acceleration in the top line growth, both in the third quarter and then continuing into the fourth quarter. Maybe you can give more color on any call-outs or any drivers as we think about going into the fourth quarter here on the top line, and then in addition to that, just thinking through the margin implications from the demand surge that you've seen, any specific call-outs that you might provide for the fourth quarter from a margin perspective?

Andrew Rees

Thanks, Jonathan. Why don't I start by just talking a little bit to the top line question and then hand it over to Anne, and she can fill in some details around margin and Q4 expectations.

Really, top line—look, we're thrilled. The brand momentum is really playing out very strongly. Obviously we've got a really strong driver in terms of growth both in percentage and dollars from the Americas, really thrilled with the performance in EMEA. From a channel perspective, our digital channels are performing very strongly. The marketing we're doing and the collaborations are obviously driving people to those channels, so that has been super effective, so we really see very strong acceleration in the business.

I would say a couple of things. Our channel inventory has been lean until this point, so there's certainly some restocking going on with our wholesale partners; but as we restock those wholesale partners, we also see accelerating sell-through, so we think it's definitely a sustainable and encouraging sign.

Anne Mehlman

Yes, so just to expand on what Andrew talked about a little bit, giving a little more detail around Q3, the stronger guidance, we had strong—really strong execution of our wholesale order book where we saw better sell-through on existing inventory with very little promotions. We also saw continued direct-to-consumer strength in the Americas, and we were a little bit conservative in Q3 just given the fluidity of the situation.

As we go into Q4, as we guided in the prepared remarks, we expect to see growth rates of 20% to 30% in Q4, so really those accelerating trends of growth continuing into Q4. From a gross margin standpoint, in

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Q3 we saw expansion of about 350 basis points. Most of that was due to reduced promotions and product mix, and we really see those dynamics continuing over into Q4, so we should see similar gross margins on an adjusted basis expansion in Q4 year-over-year.

Then I think just to finish out the P&L, from an SG&A standpoint, we're really pleased about being able to leverage our cost base, which is something we've been able to do successfully for many quarters at this point. We leveraged our cost base almost 300 basis points in Q3, and we expect to see similar leverage effect on our volume in Q4, and then obviously at the top end of the guidance range we would see additional leverage on top of that.

Jonathan Komp

Okay, that's very helpful. Then maybe thinking forward to next year just generally, maybe just talk about how you're thinking about sustaining the momentum. I know, Andrew, you talked about the brand e-tail accelerating here. You're clearly adding new accounts, maybe bringing in new customers with some of the collaborations and the heat that's driven. Just how are you thinking about continuing the success into next year, and any broad stroke commentary you might give?

Andrew Rees

Yes, absolutely. While obviously we're not providing specific guidance at this time for next year - there's a tremendous amount of uncertainty in front of us with an election a week from today and obviously COVID-19 continuing through the winter - I would say we feel extremely confident. We are confident about the brand momentum. We're confident based on the receptivity we've seen to spring '21 selling, we're seeing great receptivity from our wholesale accounts in multiple regions. We're confident from a consumer perspective in terms of the breadth and depth of our consumer engagement, so I think that's probably the best sense and guidance that I can give you in terms of '21.

Jonathan Komp

Okay, excellent. Best of luck. Thank you.

Andrew Rees

Thank you.

Operator

Your next question comes from the line of Erinn Murphy from Piper Sandler. Your line is now open.

Erinn Murphy

Great, thanks. Good morning.

I guess maybe first a follow-up to Jonathan's question around EBIT margins. I guess putting some of those pieces together and for the fourth quarter, you would be at least at mid-teens, 15% to 16% for the full year. How do you think about the sustainability of that going forward? Because it seems like a lot of the levers that you have from a product mix perspective and even regional mix perspective would continue to benefit that over time.

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Anne Mehlman

Yes, thanks, Erinn. Obviously as Andrew said, we haven't really guided for 2021. I will say from an EBIT margin perspective, we do feel good about pieces that are sustainable, which includes drivers of gross margin for Q3 were product mix, fewer discount price, and Jibbitz, and we feel good about our ability to maintain those elevated margins barring changes in currency. I think we feel pretty good about that, and we know that we can drive growth and leverage our cost base.

I would say from guiding long term EBIT margins, we are planning on having an investor day towards the end of next year. As you remember, we delayed one of this year, just given the lack of visibility, so as long as we have enough visibility, we plan to do that next year and we'll talk a little bit more about where we see our EBIT margins moving to.

Erin Murphy

Okay, got it. Then a couple more for me. Maybe I'll ask on Justin Bieber's collaboration - I think this is one of the first that you moved around the globe, so you started here in North America, I believe you had it in store in Korea and China, as well as a drop in Europe, so can you just speak to, I don't know, the magnitude that you saw that move the overall business as we've translated now into the fourth quarter?

Andrew Rees

Yes, we were very pleased with the Justin Bieber collaboration. Obviously given his global status, his celebrity status around the world, his social media following, it was a really good partnership in terms of being able to activate that around the world. As you said, we activated it online here in the U.S., online in multiple regions, and in store in a number of regions as well. I would say we sold through completely in—very rapidly, and I think it was very, very successful in terms of the amount of social engagement and the amount of consumer impressions it generated, so we were really pleased with that.

We don't disclose the size and scale of any particular collaboration, but I can say this was certainly one of the larger ones we have done.

Erin Murphy

Got it, thank you. Then I guess the last question for me is just into the holiday season, there's been a lot of conversation around elevated shipping costs, and I believe you guys expanded your DC. Can you just talk about, A, is that operational yet, and then what are you expecting in terms of just the shipping costs into the holiday season? Thank you.

Anne Mehlman

Yes, thanks, Erinn. As we anticipated growth into this year, particularly in digital, we've actually doubled our ecommerce capacity in the U.S. to support our own ecommerce business, so as you remember, we've been talking about that we've expanded our Ohio facility in order to accommodate that. We are actually currently up and running and shipping out of there, and we're really pleased, so we feel really, really good about being able to handle what we think will be a really strong holiday season for us.

On the freight side, we are definitely seeing elevated freight rates, both in inbound and outbound. Those are outweighed by obviously a lot of other tailwinds that we have, but we are certainly seeing elevated logistics costs as well as just logistics delays around the world and around the globe, and we do expect those logistic costs to continue through next year.

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Andrew Rees

Yes, I think the other thing I might add, Erinn, I think from a consumer perspective, I think the biggest issue is going to be lack of shipping capacity in terms of to the consumer, and we do anticipate and, I would say, you can see very strong messaging from the major shipping companies trying to encourage consumers to pull forward their shipping and ordering so that it doesn't all hit those last two weeks of December, where there will be definitely constraints.

Erin Murphy

Thank you so much, and all the best.

Operator

Your next question comes from the line of Sam Poser from SIG. Your line is now open.

Sam Poser

Good morning. Thank you for taking my questions. Let me just ask you, Anne, in the fourth quarter, you're anticipating from an SG&A perspective—I mean, are you anticipating the same kind of dollars that were in q—that were in Q2—or Q3, excuse me, or are you looking for a similar rate? I mean, can you give us some color there, please?

Anne Mehlman

Yes, I think we're looking for a similar rate, so a similar ability to leverage year over year. When you think about the fact that we were able to leverage our year-over-year SG&A rate by 300 basis points in Q3, we expect to be able to leverage Q4 by around 300 basis points as well. I would say at the top end of our guidance range, we'll be able to leverage that more just given the amount of fixed costs that we have in Q4, and then—so that's how to think about that.

Sam Poser

Okay, thank you. Then can you give us some color on within the revenue guidance of how you're thinking about it by—in general by channel and region? Where do you think the biggest increases are going to come from?

Anne Mehlman

Sure.

Andrew Rees

Yes, we can talk to that. Why don't I start and then Anne can fill in?

I think we will continue to see strongest growth by region in the Americas. We're seeing strong underlying growth in EMEA but we do have some comparability to some major distributor shipments that we don't anticipate making in EMEA, so I don't think EMEA will be quite as strong next quarter. Then we're also—we think APAC will continue how it has through the year, so that gives you flavor by region. It's really the Americas.

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From a channel perspective, we expect DTC to be very strong, both ecomm and our store business. We're seeing strong comps in the Americas, as you see in our release, but also in South Korea, and we also expect our wholesale business to be strong, particularly in the Americas, but also in EMEA.

Anne Mehlman

Yes, and I think just adding onto that a little bit, the interesting thing about this Q4 for us versus other Q4s, besides the amount of volume we're going to drive, is we will see—typically Q4 is a very strong DTC quarter for us, which it will still be this quarter, but we actually think that mix is going to be a little bit more even as we see some demand shift from Q3 to Q4 and us being able to be back in stock with our wholesalers on strong sell-through in the U.S. We should actually see a pretty even quarter from DTC versus wholesale as a percentage.

Sam Poser

Thank you. Then lastly, you've talked in prior analyst days and so on about SG&A targets under 40%. Well, we're well under, and given that you're starting to get the top line growth, how should we think in general about SG&A growth longer term?

Anne Mehlman

Obviously we saw a lot of leverage in SG&A this quarter. We're also at the lowest store count that we've been at, so we're really excited about that, and the stores we have are very productive. We feel really good about our SG&A base and we will—we've continued to invest in marketing in the back half of this year. We've invested an additional approximately $7 million that we'll invest in the back half of this year really to support next year, and we'll continue to make investments that we think are important to our business.

I think we will definitely come out with a longer term SG&A rate as part of our investor day next year as we update our overall EBIT margin thought process.

Sam Poser

Thanks, and then lastly, why should investors not be concerned about sort of the sustainability of Crocs and of the trends that you're seeing? Can you talk about the evolution of brand management and supply chain management and segmentation management and so on?

Andrew Rees

Yes, so let me start off by saying I do understand why investors are concerned, right, about sustainability. If you look at the history of the Company, it has been through, I would say, three significant cycles, right? But I would also tell you, I think today the Company and the brand is a very different brand and a very different Company.

If I start with the consumer facing side of the business, I think the breadth of consumer engagement with our clogs, with sandals, with Jibbitz and visible comfort technology is very different to how it's been in the past. We have multiple avenues to grow the business. The sophistication of our marketing and consumer engagement is completely different to how it's been in the past. I think the effectiveness of our go-to-market and how we manage the marketplace with both segmentation between accounts, allocation that we give particular accounts, and we've announced to our accounts that we will also be moving to MAP pricing here in the U.S. on 140 of our best selling styles, so I think we are managing the marketplace in

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collaboration with our wholesalers in a very, very different way than we have in the past, and we're managing our inventory in a very different way than we have in the past.

I think it's completely different, and I would say also the consumer is different. I think while Crocs is certainly not a pandemic play, I think that's also a concern that some investors have, we were seeing this trajectory and this trend before we came into the pandemic. I think the shift in consumer mindset has only helped the brand - we make a product that is fun, it's value priced, it's easy on and off, it's easy to clean. There are a lot of both functional and emotional benefits to our brand, and I think it fits really well with where the global consumer is today.

I think there's many, many reasons not to think that the growth that we're seeing is short-lived and/or a fad, if you want to use that word. I think we can substantiate that on multiple avenues.

Anne Mehlman

Yes, and I think even just to give a little bit of color around that from a number of perspectives, if you think about our unit sales versus our ASP, our growth has really been very balanced this year and we're up both in price and in units, and actually for nine months it's really price that's driving a lot of the increase in revenue, so it's not just we're selling a bunch of units into the market. It's definitely something to think about as far as sustainability.

Sam Poser

Well, thank you. Continued success, and it's great to hear about the MAP pricing. I just heard from a client - can you explain that pricing to everybody, because—I know what it is, but some people may not.

Andrew Rees

We'll leave that to you, Sam.

Sam Poser

All right, thank you.

Andrew Rees

Thank you.

Operator

Your next question comes from the line of Susan Anderson from B. Riley. Your line is now open.

Susan Anderson

Hi, good morning. Thanks for taking my question. Nice job on the quarter.

I guess just to follow up on the wholesale channel, I'm curious - it sounds like there's going to be a lot of restocking going on this quarter, so as we look forward and replenish that restocking, how much of the acceleration in growth in fourth quarter is being driven by the fact that wholesale is so lean right now versus that growth continuing into next year?

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Andrew Rees

Yes Susan, I would say it's both, and when I say both, I mean, there is certainly an element of replenishing our wholesale partners whose inventories are too lean. They're too lean and they're spotty in terms of size coverage, etc. As our inventories have built through the quarter and we're in a stronger and stronger position and able to refill those partners, what we have also seen is accelerating sell-through, so what that tell us is that the consumer demand is there for those higher inventory levels in our wholesale partners, and we can see that in our own DTC business as well.

It's certainly both. It's certainly not just a restocking component. There is a piece of that, but there is a piece of also very strong sell-through.

Anne Mehlman

Just to add a little bit more color as well, we do think that is a very U.S.-driven phenomenon, and outside of U.S. we definitely see some distributors that normally we sell into in Q4 that we're not going to be selling into this Q4, so there is opportunity for that next year.

Susan Anderson

Great, that's helpful. Then I guess over in Asia, so nice to see the sequential improvement there. Can you maybe give a little bit more color just by channel—it looks like online grew, retail's slightly down, and then wholesale was down more. What's going on with the wholesale channel there? Was that supply constrained or is it just where the consumer is shopping over in Asia and would you expect that to continue to improve?

Andrew Rees

Yes, the best way to think about Asia is actually by region or type of business. Let me give you some color on that.

The biggest impact that we're seeing in Asia, and I would say Asia in totality has seen the greatest impact from COVID-19 and probably will have the most sustained impact as it relates to our business because there are a lack of tourists. There's a lack of tourists traveling to Asia and within Asia. A big part of the Asian business is stimulated by Chinese tourists traveling to all those different markets, so we see that most strongly in our distributor businesses, which are in Southeast Asia, so think Thailand, Philippines, Indonesia, etc. where those distributors are heavily impacted. That's wholesale, and so that's why we see the drag in our wholesale business.

If we look at the other countries in Asia, South Korea is our strongest market. It's performing very well. We're seeing real brand momentum, we're seeing elevation of wholesale distribution, we're seeing really strong sell-throughs and strong performance in our department store shop-in-shops, which is a retail sale for us.

In Japan, I think that consumer has pulled back during the pandemic, so we're definitely seeing some pull back in Japan. From a China perspective, we see good performance on our digital business. We're very much encouraged by the reaction to our new store concepts that we talked about at our last earnings call, but we are concerned about our partner store portfolio. Our partner store portfolios generally are in poorer retail locations and they have not bounce back as quick as the rest of the economy, and as we look at that, we anticipate that we'll do further investment and optimization in the partner store network in '21 before we can get back to wholesale growth in '22 within China.

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Susan Anderson

Great, that's helpful. Then I guess lastly, really quick on the collabs, while I guess the collab may be small as a piece of the revenue, I guess I'm curious if you see a large bump in other products across maybe the Crocs website or retail stores when you do launch, like a Justin Bieber collab. Is there any color that you could give around the bigger picture on what these are driving in terms of revenue?

Andrew Rees

What I would say, what we focus on is the collaborations driving consumer engagement, so they drive consumer engagement, they drive social and digital impressions on a global basis and on an enormous scale. In addition, the dynamics of the consumer shopping on our website allows us typically to collect their email addresses and create a relationship with those consumers, which obviously has value beyond the sale of that collaboration and future sales of the brand to those consumers.

I would say it's the consumer engagement, it's the social and digital activation, and then it's the ability to be able to reach out and market to those discrete consumers on an ongoing basis, and given the portfolio of collaborations and the different types of consumers that we're bringing to the site, that obviously broadens our reach as a brand.

Susan Anderson

Great, that's helpful. Thanks so much. Good luck next quarter.

Andrew Rees

Thank you.

Operator

Your next question comes from the line of Laura Champine from Loop. Your line is now open.

Laura Champine from Loop?

Laura Champine

Hi guys. Thanks for taking my question this morning. It's really on gross margins, so appreciate the very strong performance there this quarter and the guide for next. How much of that is just coming from leverage on the better sales, and how much is related to lesser promotions given that strong top line trend?

Anne Mehlman

Yes, it's a great question. Longer term, we do feel like gross margins are sustainable partly because we're able to leverage our fixed costs on better revenue. I would say for the quarter, we didn't actually see that as we had several distribution center projects in Europe and the U.S. and a couple other countries underway. The biggest piece of gross margin expansion for the quarter was really fewer discounts and promotional cadence, followed by mix both with clogs and Jibbitz - Jibbitz are obviously very high margin, and then the price increases that we took last year. I would say those were the biggest dynamics driving gross margin for the quarter.

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Laura Champine

Great, thank you.

Anne Mehlman

Thank you.

Operator

Your next question comes from the line of Mitch Kummetz from Pivotal. Your line is now open.

Mitch Kummetz

Yes, thanks for taking my questions. I guess I've got a few.

Let me start on Q4. Can you maybe address your outlook by product category a little bit? I guess I'm particularly interested in the lined clog business. Can you say what percent it was a year ago in the fourth quarter, and are you looking at that business to grow in line with the 20 to 30 that you provided, or maybe at a faster rate?

Andrew Rees

Yes, I can talk a little bit to that, Mitch. Look - in Q4, I think the big drivers from a product category perspective are going to be both clogs and Jibbitz. Obviously, we do sell sandals year round, but obviously it's a weaker sandal period, so clogs and Jibbitz are the big drivers on a global basis.

In terms of the lined business, I would say the lined business is trending very, very strongly. In fact, I think we're struggling to keep up with that. We struggled to keep up with it last year, and I would say it will grow substantially faster than the overall 20 to 30 guide that we gave, so it's really—it's a very strong part of the business.

Mitch Kummetz

Then, Andrew, you mentioned Jibbitz, and I think in your prepared remarks maybe you or Anne mentioned that that business doubled in the quarter. Can you frame that a little bit for us? I feel like you've been a bit reluctant in the past to break that out, but can you say what percent of the total that is and its impact on margins as it grows at an outpaced rate?

Anne Mehlman

Yes, hi Mitch. I think we did say it doubled, and we're really pleased with that. Remember, the reason we love Jibbitz besides they're high margin is they really can create really good consumer engagement and they sell clogs. We feel great about the fact that that business is so important, because it's our unique way to really do personalization in a way that resonates with the consumer, and then also really is accretive to our margin.

The best place to see that is we have started including it in our ASPs, as we think it's an add-on to our clog purchase, and so you can see that it is driving ASPs and therefore flowing through to margin. I think we continue to see that business and we will continue to see it accelerate. In Croctober, we sold a calendar with 50 Jibbitz and those sold through really well, and also as we talked about with collaborations, they all feature Jibbitz and that's a really good way to showcase the Jibbitz.

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Mitch Kummetz

Got it. Then last question, just on 2021, I recognize that visibility is limited especially because of COVID, but as I'm looking at my model, last year—or I shouldn't say last year, first half of 2020, I think sales were down 6%, if my math is correct, and I would guess that your initial plan was that sales would have been up double digits had it not been for COVID. I'm just curious how you think about your ability to recover what you lost, especially as you visibility into your spring order book, which I would imagine is probably pretty strong.

Andrew Rees

Look, we're up against a weak first half in this year, absolutely, so I think we're pretty confident that we will recover obviously the business that was lost because stores were closed, etc. and continue to grow. We think the first half will be much stronger than the second half, but I think at this stage, we're not anxious to say more than that. We do understand that everybody is looking for that perspective. Our intent is to attend the ICR conference in January, where I think we'll be in a good position to give everybody more information and more perspective on 2021.

Mitch Kummetz

Got it, all right.

Anne Mehlman

Just one quick reminder about what we guided coming into the year before COVID hit us pretty early because of Asia. We did guide 12% to 14% revenue growth before—pre-pandemic, and I will say that we feel really good that we would have hit those numbers, had there not been the COVID-19 outbreak.

Mitch Kummetz

Great. Thanks and good luck.

Andrew Rees

Thanks, Mitch.

Operator

Again, if you'd like to ask a question, press star, one on your telephone.

Your next question comes from the line of August P. Truesdale from Stifel. Your line is now open.

Anne Mehlman

Good morning?

Andrew Rees

August, you might be on mute.

Jim Duffy

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This is Jim. Can you hear me?

Anne Mehlman

Hey Jim.

Andrew Rees

Yes, Jim.

Jim Duffy

Oh geez, not sure how I ended up dialing in under my associate. Well, great. Terrific momentum, guys.

Andrew, thank you for the market-specific commentary on the Asia-Pacific region. I know that turn in China has been a strategic priority for the Management Team. Can you talk about the brand indicators you're seeing in China and maybe speak more about the path to acceleration in the China business? How big is that drag from the realignment of the partner or door footprint, and then in the Asia-Pacific business, how big is the distributor business as a percent of APAC revenue? Thanks.

Andrew Rees

Okay, so China and then distributors. I would say underlying brand indicators in China are improving, so we're definitely encouraged by that. If you look at 2020, obviously our investment plans and our strategy related to China was heavily interrupted by COVID-19, but we did collaborate and work with Yang Mi earlier in the year - she's a major celebrity in China, including doing the collaboration with her. That was well received and we're seeing great, I would say, digital and social engagement More recently, as Erinn highlighted, Bieber was a global release and that also resonated very well in China, so we are seeing brand indicators from our brand study improve nicely.

We are seeing good trajectory on our digital business, so we feel confident about our future, and I would say it remains our number one priority. We think ultimately the China market should be our number two market on a global basis following the U.S.

The drag from the distributor realignment, we don't think is substantial relative to this year because, frankly, they have not taken a lot of product this year, so we don't think there's a strong drag and it's a perfect opportunity to make those investments and execute that realignment.

Then moving to the second piece of your question, which is distributors, we don't break that out, but it's substantial. Those distributors in Southeast Asia, those are not small economies when you think of Thailand, Philippines, Indonesia - huge amounts of people, I think now they're close to a billion people, and those are relatively big businesses and so that's been a big drag this year. We do not expect them to rebound early next year, just to be very clear. They are very much dependent on tourist travel and people are just not in a position to travel yet, so we don't think that will be—we think it will be late next year and potentially into '22 before they start to rebound.

Anne Mehlman

Yes, and then just wholesale was in 2019, which was a more normalized year, was 60% of our overall Asia business, so if you look at the decline this year versus last year, a lot of that is the distributor business. You can get to the magnitude there.

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Jim Duffy

Got it, thanks. That's helpful. Can you talk more about the rollouts at Foot Locker and Finish Line? How many doors are you in now, what's the glide path to broader rollout? That'd be helpful, thanks.

Andrew Rees

Yes, I'd probably just give a little color on that. I don't want to get into that in too much detail. Finish Line, we're in, I would say, a good proportion of their stores today with an early assortment. We've definitely performed really well on their website, and they participated with us in the release of the Bad Bunny collaboration, which I think was a record day for their website in terms of traffic.

Foot Locker is just getting started in terms of—and that's really, to be clear, that's across multiple of their fascias, not just the Foot Locker fascia, and also a number of their different sites, so that's getting started here in the fourth quarter and will accelerate in '21.

Jim Duffy

Thank you very much.

Operator

Your next question comes from the line of Jay Sole from UBS. Your line is now open.

Unknown Analyst

Good morning, this is (inaudible) on behalf of Jay Sole. Just wanted to ask about the retail stores. They've been performing quite well in the comp sales, so just wanted to think how does that balance with your comment that you're focusing on keeping the most efficient stores. Should we see that, you know, further store closures going forward, or are we reaching—have we reached this balance in the store count?

Andrew Rees

Look, I think the first thing to say is particularly here in the U.S. but also in South Korea, which is about two-thirds of our store base today, we saw really great comps in the U.S., not quite so strong in South Korea but definitely good, and bear in mind those stores are operating on pretty significantly reduced hours, and I would say kudos to store associates who are working really, really hard in difficult conditions to service our consumers. As you go to many of the malls in which we're operating, you frequently see a line outside our store because we're very strict about the number of people that we allow into the store at any given time to protect our store associates, and also to protect our consumers. That gives you also an indication of the strength of demand for the brand.

In terms of the store portfolio and the fleet, we'll continue to, I would say, prune that. I think we've closed frankly most of the poor performing or unprofitable stores, with the exception of probably one or two around the globe. The remaining stores are highly productive, but we do not anticipate or we do not intend to open a significant number of stores. We just don't think that's the right growth pathway for our brand. It's not the most effective and profitable way to grow the brand. We'll be growing the brand through our digital business and through our wholesale business.

Anne Mehlman

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Yes, so we closed about 16 stores this year, and we expect—yes, our fleet, I would say is relatively stable. We have talked about in prior calls that there actually may be a few more outlets we would want to open, especially in the Asia region.

Unknown Analyst

Great, that's very helpful. Then just lastly on the pricing, just wanted to check with you, how often do you usually increase prices, and particularly given the very strong momentum, do you see opportunity to maybe do a little bit more price increases in the short term?

Andrew Rees

Yes, we price to market, so we evaluate all of our products in all of the markets in which we go to market, so we're very focused on pricing the market and looking for—making sure that we're giving our consumers incredible value, because that's a very important part of the brand, especially in an environment where the consumer, I think, is generally under pressure, but also to make sure that we're capturing the right value for the brand that we think we deserve and that will enable us to invest in the brand in the future.

I would say we've made some fairly assertive moves in pricing over the last two to three years, and that—it's not all at once, it's cadenced in different regions at different times. I don't think we see such significant movements in the future, but we will continue to evaluate products in the local market on an ongoing basis.

Unknown Analyst

Great, thank you. Just one very last one, if I may, just on the buybacks. You mentioned in the press release that you may, I guess depending on the situation, consider doing—resuming the buybacks. Just wanted to ask around if that were to happen, how—I guess the pace at which you would return to the historical amount of buybacks that you had been doing to in previous years.

Anne Mehlman

Yes, I think one of the most important pieces of our performance this quarter was really showcasing our strong balance sheet and that we generated record free cash flow. I think we used a lot of our cash flow to pay down the revolver, which we have $365 million undrawn. We have $140 million cash, so we have plenty of capacity. Obviously our business operations are very capital efficient and we expect to generate free cash flow going forward. We'll always prioritize the growth of the business first and then we'll look for other ways to deploy that capital and provide the best returns to our shareholders, and we obviously have over $500 million left on our authorization, I think, for buybacks, so we have plenty of Board-authorized capacity to do that as well.

Unknown Analyst

Great, thanks. Thanks a lot, and congratulations on the results.

Anne Mehlman

Thank you.

Andrew Rees

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Thank you.

Operator

Your next question comes from the line of Jim Chartier from Monness, Crespi, Hardt. Your line is now open.

Jim Chartier

Good morning, thanks for taking my question. I just want to talk about the—follow up on the new distribution. What are you doing from a product segmentation standpoint to manage the different channels, and then any product categories or styles that you might—you think you might sell better in the athletic specialty channel, and do those doors help you reach that younger, I think you call it the explorer customer? Thanks

Andrew Rees

Yes, so let me just address the last piece first. I think the assortment for athletic specialty will certainly start with clogs, and yes, it does help us reach a slightly different consumer. We've certainly got other key customers that reach that consumer, but it gives us more critical mass in terms of reaching a younger consumer, a teen customer both urban and suburban. I think that's important.

In terms of segmentation and allocation, really what we're looking to do is to provide a point of difference for our major retailers. Obviously they all want to carry the best-selling colors and the best-selling products, which is really the classic clog here in North America today, and this is really mainly a North America conversation but it is important in other markets as well. But they also want a point of difference, so we'll use energy packs, we'll use exclusives, we'll also do some special make-ups for different retailers so that their overall assortment is differentiated. They get the volume, but they also get differentiation, so that's really the approach.

Jim Chartier

Great, thanks, and best of luck.

Andrew Rees

Thank you.

Operator

Your next question comes from the line of Sam Poser from SIG. Your line is now open.

Sam Poser

Just two follow-ups. Number one, just to confirm, with the big collaborations such as Justin Bieber, you're bringing more people to the brand and then you're selling more Jibbitz, because people are trying to, let's say for instance, personalize their yellow clog to look like the Justin Bieber clog.

Andrew Rees

I wouldn't say that exactly. We're certainly bringing more people to the brand, so if we look at Bad Bunny and Justin Bieber, two very, very different populations. They both brought enormous numbers of people

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to our website and to the brand and gave us the ability to talk to them on an ongoing basis. In terms of people trying to mimic the product by buying Jibbitz and adding them to maybe an inline product, I don't think we really see that, to be frank. What people want is the collab product because of the exclusive nature that it has versus trying to imitate it, if you like. I would say our store associates are super creative in terms of enabling consumers to do fun things in store, but that's more about expressing their own point of view and their own personality.

Sam Poser

Thank you, and then lastly you said how you're creating this—to the last question about segmenting and creating a point of difference within your top retailers, just in a sense—I mean, your—could you just say that everything you're doing now, especially now that you have MAP and everything else, is getting down to personalization and really—and to an individual consumer or individual retailers or channels of distribution? Is that sort of the long term objective here?

Andrew Rees

Yes, I would say that's a pretty good summary. Yes, I think we want to enable our consumers to be able to personalize their product, and obviously Jibbitz is a unique way to do that. I think the really compelling aspect of it is it can constantly change and it's instantaneous, right? Many other brands offer personalization opportunity, but you're waiting six, seven, eight weeks for that product to arrive. Our personalization allows you to do it at the point of purchase immediately for, I would say, a good value, and then if you're bored of it four weeks later, whatever period of time later, come back and re-do it. It's an incredibly versatile sense of personalization.

From the retailer, from the customer point of view, we're also trying to get more and more, I would say, customized for them as well, absolutely, and I think one thing I would point out, our brand heat and our differentiation that we're really working hard to provide to our customers actually yielded about a 15% increase in our out-the-door pricing in the North American market the last quarter, so it's definitely having an impact in terms of raising out-the-doors.

Sam Poser

Thanks again. Continued success.

Andrew Rees

Thank you.

Operator

There are no further questions at this time. I will turn the call back over to the presenters.

Andrew Rees

Thank you. Just a big thank you to everybody for their ongoing interest in the Company, and we look forward to talking to you next quarter.

Operator

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

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