Crocs, Inc.

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Alex: We're going to get going with this next session with Crocs who I'm thrilled to welcome to the stage this morning. Crocs is one of the top 10 largest nonathletic footwear brands in the world with more than $1 billion in sales. In the last few years, the company has been undergoing a transformation process which has led to material evolution in the product, the distribution strategy and in the operating model. Here to tell us all about it, we have Andrew Rees, President and CEO, Anne Mehlman, EVP and CFO, Carrie Teffner, Executive Vice President, Finance and Strategic Products, and Marisa Jacobs, Head of IR. We're going to kick off with a brief presentation by Andrew this morning and then we'll dive into Q&A and of course take all of your questions from the floor. So with that, Andrew, please kick us off.

Andrew Rees: Thank you, Alex, much appreciated. I'm going to reference a few pages in our investor presentation just to set the stage. I think many of the people here are maybe not familiar with the Crocs story, and so that everybody has that grounding, and then we can flip to Q&A. So our forward-looking statement, I'm not going to read this to you, but please take note. If you look, and there's really three key things I want to cover. One is a quick introduction to the brand. Where the brand is coming from, the business transformation over the last several years which is making really good progress, and a quick recap of some financial information and our current guidance.

So from the perspective of an introduction to the brand, I think this image is probably familiar to you all. Crocs is an iconic brand with an iconic silhouette. The clog represents about 50% of our overall business and is a key part of our overall brand persona. But many things that you may not be aware of in terms of Crocs, Crocs is $1 billion business today. It's one of the top 10 largest nonathletic footwear brands in the world. Clogs represent 50% of our business, sandals represent 20% of our business, and both categories are driving growth.

In terms of global aided awareness, we have 65% global aided awareness and it's a very democratic brand. We sell to both men, women and kids. And there are very few brands on the global stage that sell to all genders. And we already have established global distribution, so it's a tremendous platform from which we can grow in the future.

I think one of the powerful things about the brand is we think about our consumers in these two groups, our Feel Goods and Explorers. But at the essence and at the core of this, we're incredibly democratic. We serve a very broad base of consumers from a socioeconomic perspective and from a global perspective. Those consumers are looking for some common attributes. They're looking for value, they're looking for comfort, they're looking for style in the product and as a brand, we can represent and we can deliver on all of those aspects.

Crocs is also a polarizing brand. You read about us a lot in the press. We believe that's a tremendous asset. So anytime if you look at our consumer group, you've got a set of consumers that are clearly passionate, they are very attracted to the brand and they are a big part of our ongoing support base. But you've also got a set of consumers who firmly reject the brand. That dichotomy, that polarization gives us tremendous leverage from a PR storytelling perspective and allows us to reach our consumers and tell our story very well. But also, the proportion of the customer base that we reach on a global basis is small relative to our potential. So we look at considerers and neutrals to provide a lot of growth opportunity for the brand.

From a footprint perspective, just slightly less than 50% of our business is in the Americas. So that's North and South America. And the remaining business is in the rest of the world, with Asia being the biggest piece of our business. As we think about our strategic focus and the markets we're focused on, we're really focused on our top five markets, those being the United States, China, Japan, Korea and Germany. Those markets represent over 70% of our overall sales.

So as I mentioned right at the beginning, Crocs has really been going through a 3-year period where we've been doing a tremendous amount of work to both reposition the brand and reposition the company. At this stage, that plan is going very well and our transformation is really taking hold. We articulate and talk about our transformation in three big buckets. One is improving the quality of our revenue, so that's enhancing our gross margins by making sure that we're selling quality products across quality channels, and are as profitable as we intend to be. The second is simplifying the business to reduce costs. And the third, where we're primarily focused today, is generating sustainable revenue growth. Sustainable profitable revenue growth. So I'm going to quickly touch on 1 and 2, but spend most of my time on point 3 which is how we're driving revenue growth in the future.

So from an improving quality of revenue's perspective, this is where we've seen a lot of progress over the last two years. So between 2015 and 2017, we've seen over 400 basis points of gross margin improvement. And at this stage, we've achieved sustainable gross margins of greater than 50%. So that was our target in terms of the profitability of our business, so we've achieved that and we feel really good about where we are there, where we are today.

In terms of simplifying the business to reduce costs, we've done a tremendous amount of work here over the last three years. We closed about 160 stores in the last 18 months. We sold a number of noncore markets to distributors. We haven't exited those markets, but we've transitioned our business model from being a direct business model to working with distributors in those markets who we believe can transact that business more profitability and grow more effectively. Most recently this year, we've closed our company owned and operated manufacturing facilities in Mexico and Italy and so we'll be 100% outsourced from a manufacturing perspective which we think is far more efficient and far more effective. We partner with some of the world's leading manufacturers, so we feel really good about out our sourcing base. As well as eliminating overhead associated with the store reduction and improving efficiency.

So as we look at the SG&A reduction plan that we initiated at the beginning of 2016, that had us reducing our overall SG&A by between $75 million and $85 million and that run rate will be achieved in 2019. We're on track to meet that and we feel really good about our prospects from simplifying the business.

So that's a lot of what is behind us. So what's really important today is that we look forward to how we're going to grow the business and how we're going to grow the brand and grow the business going forward. And there are a number of critical strategies underlying that. One is bringing innovation to the clog silhouette. As I mentioned, clogs represent about half of our business and we've got some distinct strategies in place to grow the relevance of clogs, grow the category, and grow our share within that category. The second is sandals. We believe sandals represents a very significant growth opportunity from a product perspective. The third is bringing new technologies to the marketplace. We launched some new technology this year which has been extremely successful which I'll tell you about. The fourth is focusing on digital commerce. Obviously, the consumer is more and more shifting from shopping in physical stores, bricks and mortar, to shopping in what we call digital commerce environments. This could be e-commerce environments of a number of different types. And then lastly is really leveraging our marketing campaign to improve the relevancy and consideration of our brand.

So a bit more about each of those. So clogs is a $4 billion global business. That's our estimate, it's not particularly well tracked. We're the market leader by a long way in that category. And we're focused on really growing the category and growing our share within that category. In Q2 of this year, we were able to grow our business in the clog category about 11%. It's our highest margin category and what we're focused on there is really delivering innovation. Delivering innovation in terms of color, in terms of graphics, in terms of licenses, in terms of collaborations to really make the silhouette and that wearing occasion a higher level of consideration to consumers. And that has been successful to date.

Probably more exciting is our opportunity within sandals. So the way we look at the sandal business, the casual comfort sandal business, our estimate of that global marketplace is about $23 billion. We today have about less than a 1% share of the overall market. That market is very, very fragmented. There is no global leader, there is no single brand out there that is a global player with a large market share. It's incredibly fragmented. And we believe that we can establish a leading global presence in the sandal business. We started focusing on this category two years ago, and last year we were able to achieve 20% plus growth rates, and this year we've continued to achieve high teens growth rates. So we believe this is a category where we can drive long term, sustainable double digit growth rates.

New innovation. So earlier this year, we introduced a new range of shoes, a new franchise called LiteRide. LiteRide has two critical components. The first is a soft comfort footbed, so the consumer can touch and feel and really sense the comfort that the shoes provide. The second is updated styling, so more sleek and modern styling. We launched this franchise in March of this year. It's been a huge success and already today is in our top five franchises. So we feel really good about our ability to bring innovation to this category, drive interest from consumers, and launch new products. So that was tremendously helpful.

From a digital commerce perspective, we think about digital commerce potentially a little bit differently than some other brands do. We think about it in three tiers. The first tier is our own e-commerce environment, so that's pretty traditional. We operate 11 websites around the world and we sell directly to consumers. That business we break out in our financials and it's been growing strong double digits over a number of quarters now.

The second is e-tail. So like a lot of major footwear and apparel brands, we also sell large global e-tailers. That's transacted today on a wholesale basis - we sell to them. That's also a rapidly growing segment as the consumer transitions not just to single branded websites, but to multi branded websites in terms of their shopping habits. So that's been a growth business and we've really focused on building, I would say, state of the art and leading relationships with those e-tailers versus fighting and opposing them, which we see some of our competitive brands doing.

The third tier is marketplaces. If you look around the globe, we think marketplaces win. So if you look at T-Mall, Rakuten, Coupang, Amazon, these are incredibly powerful marketplaces, incredibly powerful companies. And we are increasingly focused on taking back our representation on those sites, so that we are managing our representation and sales transactions on those sites directly. So that's been a new strategy we put in place this year, which we think will be powerful in the future. So digital commerce is a really important part of our future strategy.

Our marketing campaign, most recently over the last two years has been very successful. Out tagline, “Come As You Are”, featuring a number of global celebrities, relevant in different marketplaces: Drew Barrymore, Henry Lau and Yoona Lim, as well as a series of collaborations with Christopher Kane, Balenciaga, and most recently with A-Life. These have all helped to increase the relevance and the consideration of the brand and had a significant impact.

And we can see that impact in our global brand studies. So a couple of things. One as I mentioned right at the beginning, we have 65% aided brand awareness. So awareness is not our problem. So from a brand growth perspective, what we're looking to do is drive brand desirability, brand relevance and brand consideration. And the data you can see here is a statistically relevant sample that we complete each year. And there's two data points. So if we look at brand consideration for example, it improved between 2016 and 2017 by 14%, so double digit increases in brand consideration is pretty hard to achieve and frankly unheard of in many brands. And that was followed up with a 9% increase in brand consideration between 2017 and 2018. So a compounded stack of 23% increase in brand consideration as an example. And so we feel that the brand has really moved forward as a result both of our product introductions and also the marketing activities that we put in place.

So if you go back to those three pillars, in terms of pillar number one, our revenue basis is substantially more profitable than it was and we have gross margins that were last year 50.5% and we've guided this year to potentially between 70 and 100 basis points more than that. You've got current gross margin levels which are at industry leading levels. We've simplified the business dramatically and really the heavy lifting associated with cost reductions and all of the activities that we've been doing there and invested in there are substantially complete. So we're very focused on our growth and as I've just walked through, we feel really great about the growth strategies we have in place and the traction that we're starting to see in the marketplace from those growth strategies.

Touching quickly on a number of key components of our financial information. So Q2 was a really strong quarter for us. It was our sixth consecutive quarter of meeting or exceeding our revenue and gross margin guidance, so we feel really good about the trajectory of the business and how all of those strategies are flowing through.

In terms of our financial guidance, we're reiterating our guidance both for Q3 and for the full year, and I would say that as we've looked at, as we can see in our back to school business, over the last couple of months since the end of Q2, business has been as we expected and we feel really good about reiterating our guidance.

So, where is all this heading? One of our goals as we established this transformation pathway was really to get back to double digit EBIT margins. The company has been some time since it operated at that level. And we really see that as a benchmark of success in this industry, getting back to double digit margins. And our formula for that is pretty straightforward and I would say we're on track to achieve that. That is by sustaining our gross margins at greater than 50%, getting our SG&A down to the low 40s, and then driving moderate growth. And that will yield double digit EBIT margins, so we really feel like we're on track for that and we feel great about that progress.

I recently announced a CFO transition so we're really thrilled to have Anne Mehlman back at the company and she is rejoining us from Zappos. She's been at Zappos for the last two years where she was the CFO. She was prior to that at Crocs, so we're excited to have Anne back. And then Carrie will be resigning effective April 1 of 2019. She's going to be pursuing strategic advisory and board work, but obviously between now and April of 2019 we've got an extended period to ensure that we have an effective transition and Carrie will also be taking on some strategic transformation work that we'll continue to work on between now and then. So we're delighted to have Anne back and really appreciate all of the hard work that Carrie has put in over the years.

So just a quick wrap up: Crocs is a brand that many of you know as you see it on people's feet on the streets. But many of you probably don't appreciate the business underlying. We see it as a powerful global brand with a democratic consumer base that has significant opportunities for growth. Our business transformation that we've been working very hard on for three years is certainly taking hold and we're excited about the prospects for the company. We have a great management team and we really feel good about where we are. So I'd love to take your questions and help you understand the company a little bit more. Thank you.

Alex: Thank you, Andrew. And maybe I'll kick off. One of the things that strikes me as I listen to you speak about the business is the very material transformation and focus from growth at all costs to this sustainable growth message. How difficult has it been to pivot the organization and reunite all of the staff and the organization to this new goal?

Andrew Rees: That's been a journey. As with any company, you have to start internally with the team. I think there's a couple of key components to that as a lot of the management team are new. As I joined the company three plus years ago, one of the things that struck me was that the management team was not deeply experienced in the footwear industry or branded consumer goods. So we brought in a lot of new people and I would say a lot of state of the art talent, so that's been really important. And then I think the second aspect is the framework that we just talked about is really the framework we use internally. So we have over the last three years gotten the whole team bought into that framework and I would say down to the lowest level they are very strongly committed to that architecture.

Alex: You talked a lot about product and it seems like product is one of the starting points for many of the changes at the company. Clogs is still a large proportion of the business. Is the new product predominantly being sold to those existing customers or are you recruiting a newer customer to the company and to the brand as you go through that process?

Andrew Rees: It's a good question. I would say it's both. So we have reenergized existing customers. So one of the incredibly powerful things about the clog is it's a, call it, a $40 shoe, so it's not an expensive item. And if you offer it to the consumer in a variety of colors, in a variety of graphics, a variety of collaborative styles, they're going to own a lot of them. So you can sell more to existing consumers. But I think we have also attracted new consumers. So as we look at our sandal business, we look at our LiteRide business which is a different look and feel, we've attracted a lot of new consumers. And I would say we've also been successful in attracting a lot of those new consumers in different parts of the globe as we reach new distribution, particularly in Asia.

Alex: Why did you choose sandals as a particular area to focus on? Is it something about the economics of that specific silhouette or is it that you thought that your brand would transfer to that category best out of the number of things that you considered?

Andrew Rees: As we looked at the history of the business, we'd had some success in that category which spoke to the DNA translated really well. So the DNA translates really well, molded footwear translates really well, you can make a very effective product, a very comfortable product, a very bright, cheerful product. You can use our molding technology that allows us to make really distinctive product at extremely competitive price points. So the DNA translated really well, we had some residual success within that category, and we believed that the competitive base was constructive for us. It wasn't particularly strong and we felt that we could compete effectively. And I think that's really proven to be true.

Alex: One of the things that you talked about was increasing innovation across the range and this is certainly something that we hear more broadly, not only across footwear, but across apparel and a number of the consumer categories. What's going on that is driving that need for increased faster paces of innovation and that's driving these faster fashion cycles? And how are you making sure you keep up?

Andrew Rees: Yeah, I mean I think the consumer moves really fast today, right? So we can see it in many product categories. They move in the technology environment from phone to phone, they move really fast in terms of what they're interested in, and capturing that interest and maintaining that interest I think requires constant innovation. I think one of the other things that's going on is they're also looking for high levels of personalization or customization. So we have a range of products called charms which go on our shoes and I think at one stage they were child-orientated, but that's really evolved dramatically as personalization has become a megatrend. And we're seeing a very broad range of consumers personalize their products using the charms. So you just have to move fast and that's the way the consumer is and there's no opportunity to fight it, there's only opportunities to embrace it.

Alex: I'd love to ask if anyone in the audience has a question. Yes, a gentleman in the front.

Unidentified Participant: (Inaudible - microphone inaccessible)

Andrew Rees: Why are they? It's our manufacturing techniques. So there's far less labor that goes into our product. So the majority of our shoes are molded and while a lot of traditional footwear will have a molded outsole or a molded insole, there is cut and sew stitching and labor that goes into the upper. For us, our shoes come out of an injection molding machine and they're basically done. So that's the reason why we can sustain higher margins. So it's lower cost of goods and then the brand allows us to price appropriately to capture that margin.

Unidentified Participant: The retail business and the systems investments are your main uses of CapEx over the last 3 or 4 years. Now that you've moved away from that, can you talk a little bit, 2, 3 years out, to get to the $1.1 billion of sales, you get to double-digit EBIT margin, could you bridge for us that $110 million or so of EBIT to free cash flow? Because it seems like your tax rate is low, your capital needs are low, your D&A versus CapEx is probably going to be a benefit and you have maybe some working capital benefits at wholesale mostly.

Andrew Rees: Okay, so let me take a crack at that stuff and then Anne and Carrie can add in. So one -- I think what you're highlighting is our capital investments over the last several years have been substantially less than our deprecation. So we have historically made significant investments in the business. We haven't needed to do that in recent years. So this is a very highly cash generative business. We don't believe that in the future we have very significant capital requirements given our operating model. We use outsourced manufacturing, we do some of our own distribution, but we also use third parties for distribution. And so we're relatively capital-lite. So that means that when we take the double-digit EBIT margins, add back the deprecation, you get an EBITDA that is substantially higher, typically about $30 million higher than that. And while we think CapEx will be a little higher in the next few years than it has been in the most recent years, it's a relatively capital-lite model, so it's highly cash generative.

Carrie Teffner: I think what we've said is about 13% EBITDA margins once we get to that double-digit EBIT margin, equates to about 13% EBITDA margin, so you can kind of back into the cash from that. And then normalized CapEx we've said is about $20 million. And then also our D&A has been overburdened because we did an SAP implementation a few years ago that was in the range of $100 million. So we carry that additional D&A until about 2022 and then D&A comes down a bit.

Unidentified Participant: One follow-up. The balance sheet is in fantastic shape, sitting on a lot of net cash. As the free cash flow builds up, how do you think about uses of that free cash flow?

Andrew Rees: Yeah, so that's a good question. What we're focused on today is building the brand that we have. And we can see lots of opportunities and avenues to grow that brand. But we don't think it will take the free cash flow that we're able to generate, so as it continues to build up, we'll look at opportunities to return that cash to shareholders.

Carrie Teffner: I will say that we have been doing share repurchase, so we have around $200 million left on our current board authorization. I think we've done 66 million shares, I'm sorry, $66 million worth of shares over the trailing 12 months at an average of like $10, so it's been a relatively good investment for us.

Alex: If we stick on margins for a moment, you guys have executed a number of efficiencies in recent years. As we look forward, what further SG&A efficiencies are there to lever and how do these differ from the progress that you've made historically?

Anne Mehlman: I think what we've said is that we've announced an SG&A cost reduction plan in early 2017 that gives in the range of $75 million to $85 million in cost reductions. And a lot of that was due to the 160 stores that we closed and we just finished that in Q2, so now we have a pretty normalized store base at 398 stores. So we have about $45 million of SG&A reductions we've taken, so we have the rest of that and that should be finished in 2019. And that takes us to more normalized SG&A structure and I will say also this year from an SG&A standpoint, we have $18 million of one-times sitting in our SG&A guidance for the year.

Carrie Teffner: I think I'd just add a little bit more in terms of, as Anne said, the store closures have been a significant proportion of those SG&A reduction plans. The other opportunities are really around standardizing processes and really leveraging the global ERP implementation that we put in in 2015. So we've reaped some of the benefits, but there's more benefits to come from that. And I think as the company has grown up, one of the things that is important to keep in mind, it's about 15 years old. So we're still evolving and maturing and I think that gives us additional opportunity to drive efficiency as we continue to mature some of our processes.

Alex: Maybe this is a good time to ask about the strategy with the store fleet. You talked about store closures. As you look forward, what does the store fleet look like and how is that different from the past?

Anne Mehlman: So, as we've discussed, we've closed 160 stores in the last 18 months. And we've also shifted our fleet significantly from full price stores to outlets, so that now outlets make up over half of our fleet. So we think the number, we're close to right. We'll continue to evaluate stores as they come up on natural lease breaks to make sure they still make sense and we may have some, a few openings in Asia or outlets in geographies where they make sense. So we don't see as dramatic store reduction like we just had, although we may still optimize over the next couple of years.

Unidentified Participant: I have a question. How do you learn the needs of your consumers? From what channel? From your e-commerce platform or from your own stores or through your distributors?

Andrew Rees: I would say all of the above. Probably most strongly from our own channels, from our e-commerce channels as well as our retail channels. We're constantly gathering consumer feedback. We do a lot of product introductions in those channels prior to releasing them to wholesalers or distributors so that we can test their effectiveness and their adoption. We can test pricing, we can test color, we can figure out what's going to be successful. So we use those channels to test and learn as well as stay close to our consumers. I would say as we go forward we'll be more and more focused on our digital channels for broad based consumer understanding.

Unidentified Participant: I had a question on something you mentioned about your technology on molding. Do you have, is there any patent risk there or patent protection that you have? What's the mote around your business model to not prevent someone in China from doingknockoffs and coming up with their own using your molding technology to do the same?

Andrew Rees: Like every brand, we do suffer from a substantive amount of knockoff business in the places in the world where you are less protected. I would say in the places in the world where your portfolio of IP protection has teeth, so in the US, in Europe and in more developed economics we have I would say a large portfolio of protective measures which would include the dress patents for look and feel of the product, the manufacturing techniques and also usage. So it's really a whole portfolio that's been put in place over the last several years. It's no single piece of intellectual property that protects us.

Alex: The prior question addressed your e-commerce strategy. One of the questions we're asking all the participants at the conference this year, as your e-commerce outgrows the rest of the business, is that margin accretive or is it margin dilutive? Or put another way, have your e-commerce investments reached a point of margin equilibrium?

Andrew Rees: Yeah, we do not think so. We think we have lots of accretive growth in digital commerce. And that's digital commerce as we define it, which is both our e-commerce business which is high margin. If we look at the operating margin of our e-commerce business, it's higher than any of our other channels. So we still think that's a good investment. And frankly, a lot of your investments in your e-commerce business are really not technology. They're really not the front end, they're really the back end these days. And the way you can run your back end, your DCs, etc., you can leverage better across all channels. And then also, as we look at our e-tail business or our marketplace business, it is also accretive to our margins. So we're really all-in on digital commerce.

Anne Mehlman: Yeah, and I think what we said publicly in kind of questions that have come up in the past really is, from an operating margin standpoint, we're relatively agnostic. Whether you buy it at wholesale or whether you buy it on our e-commerce.

Alex: We talked a lot about stores, we've talked about e-commerce and we mentioned wholesale within e-commerce. More broadly, as you think about your wholesale strategy, both brick and mortar and online, how is the role that is playing in your strategy changing?

Andrew Rees: I think it's all about e-tail and digital commerce. We have tremendous partnerships with large brick and mortar retailers, both in this country and other parts of the globe. And we're definitely focused on supporting them and investing in those partnerships. But at the same time, you have to acknowledge that there are very few brick and mortar retailers in our space that are going to grow and be more successful in the future. And if they are, it's going to be through their digital commerce component, not necessarily their stores. So most of our time, attention and investment will be in the digital side of the wholesale business. As well as distributors.

Anne Mehlman: Yeah, and when those two components, the e-tail portion of wholesale, the distributor portion of wholesale, those two make up about half of our wholesale business. And that's the fastest growing element. That's countered with the traditional brick and mortar where you don't necessarily see as much opportunity and a little more challenge. So overall, we feel the combination of those two halves gives us overall moderate growth rate for wholesale.

Andrew Rees: And the other thing I left out I'd add is, as you look at some of the rapidly developing markers, maybe India or Russia, etc., you're really seeing e-tail leapfrog. Their brick and mortar distribution never really got established and is already being leapfrogged by digital.

Alex: That's a nice segue into the question about international different channel strategy. What are the other material differences between the trends in your business or your strategies internationally versus in the US?

Andrew Rees: So I'll talk about it a little bit and then Carrie and Anne can add in. So I think the biggest one is our strategy plays out across all regions. It has different levels of emphasis in different regions. I'll compare and contrast the US to Asia potentially as a way to think about it. In Asia, the high growth portions that we have, both digital, distributors and etrailers, are a bigger portion of our business and the growth rates are faster. So we're more optimistic about growth in Asia. In the US, the same components exist, but the brick and mortar piece is larger, so just the weighted averaging of growth is different. So that's kind of how we think about it.

Carrie Teffner: For those of you who are new to the story, about 63% of our sales in 2017 were outside the US.

Alex: If we come back to the US for a moment, some pretty strong growth trends. The US consumer seems to be spending. I know there's a lot of idiosyncratic pieces of your business, but do you feel that's giving a boost to your business? And how would you expect those trends to progress through the back half of this year?

Andrew Rees: Yeah, we're benefitting from that, absolutely. The consumer is in a dramatically different place this year than they were last year. As we look at the footwear category, the category shrank in 2017 and the category is now growing quite nicely in 2018. So there's a big difference in terms of the category. So we're definitely benefitting from that. We've seen it in back to school and we're anticipating we'll see it through the rest of the year.

Alex: One of the things that's helping is your pricing, and you've talked about pricing increases across channels. Again, is that driven predominantly by the consumer or how else should we think about the drivers of your improved AURs?

Anne Mehlman: I think from a pricing standpoint, we hadn't taken any price increase in the US in a number of years, like four years. So, we're pricing to the marketplace and we took a price increase on a couple of our SKUs in the clog space, so a couple of our classic SKUs. And we took those in retail and at wholesale, so that was more US dominated. We've taken price increases in different markets as there's been different inflationary pressures, for example Russia when the ruble fell. So we'll continue to look at places where we can take price where the market dictates that we should take price.

Carrie Teffner: And I think one of the things that's really helped us in that and given us confidence to move forward given the hiatus in pricing for the last four years, especially in the US, has been the increased relevance of the brand. So the work that's been done in terms of marketing, the Come As You Are campaign, the use of brand ambassadors, the use of collaborations as well as influencers has helped elevate the brand. And therefore, it's just coming from a stronger place than we were a few years ago.

Anne Mehlman: And the team has done a lot of work on cleaning up the different markets. We discontinued some of the more Tier 4 mass business which was at a lower AUR and also didn't allow us to hold price very well within the market. So I think cleaning that up also helped as far as the overall market.

Alex: Fantastic. I think we've got time for couple more questions. If anyone has any burning ones, please put your hand up. You mentioned some cost pressures or some inflationary pressures in certain markets. More broadly, is the business seeing inflationary pressures either with commodities or with wages or with the freight environment in the US? And how are you planning to offset that?

Carrie Teffner: I think certainly there has been some inflationary pressures. I think though the team has done an amazing job of offsetting those inflationary pressures with cost reductions. And we'll continue to do so. So I think with our SG&A reduction plan, we can cover the inflationary pressures.

Alex: How comfortable are you with your inventory position and the inventory position of your product at retail?

Andrew Rees: We're thrilled. That's an aspect that we work really hard on; getting our own inventory back in line with where we thought it should be. So one is turning fast. Two is cleaning and making sure that we're cleaning out any old season or obsolete product. So we're really thrilled with the shape of our own inventory. And as we look at most of our retailers, that's kind of the same as well. So that allows you a lot of momentum to go forward.

Alex: Perfect. My final one before we wrap up, we're seeing some changes in shopping habits. We've talked about a few of them. Another one is this increase in the See Now, Buy Now trend. How are you guys harnessing that within your business? And as we make this the last question, any other real changes in shopping habits that we should be aware of?

Andrew Rees: That's huge. So I think the consumer is looking for instant gratification. And so we're really focused on keeping, related to the last question, keeping inventories clean and current so that we can constantly put new products in front of them. And driving shorter product life cycles. And there was a question earlier about our manufacturing technology and one of the beauties of manufacturing the way that we do is that you can change color and you can change your SKU representation really quickly and really cheaply. Which allows you to give freshness to consumers, which gives them something that they have to Buy Now Wear Now. So we feel like we're in a great place.

Alex: Well thank you. Thank you, Andrew, Anne, Carrie, Marisa. And thank you all for join us. Thank you for the questions.