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CROX - Q2 2018 Crocs Inc Earnings Call

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OVERVIEW:

Co. reported 2Q18 revenues of $328m, net income attributable to common stockholders, after preferred share dividends and equivalents of $4m, of $30.4m and diluted EPS attributable to common stockholders of $0.35. Expects 2018 revenues to grow in low-single digit and 3Q18 revenues to be $240-250m.

CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Welcome to the Second Quarter 2018 Crocs Incorporated Earnings Conference Call. My name is Paulette, and I will be your operator for today's call. (Operator Instructions)

I will now turn the call over to Marisa Jacobs, Senior Director of Investor Relations for Crocs. Miss. Jacobs, you may begin.

Marisa Jacobs - *Senior Director, Investor Relations*

Good morning, everyone, and thank you for joining us today for the Crocs' second quarter 2018 earnings call.

Earlier this morning, we announced our second quarter results, and a copy of the press release can be found on our website at crocs.com.

We would like to remind you that some of the information provided on this call is forward-looking and accordingly, is subject to the safe harbor provisions of the federal securities laws.

These statements include, but are not limited to, statements regarding future revenues, gross margin, SG&A expense, income from operations, adjusted EBITDA and our product pipeline.

Crocs is not obligated to update these forward-looking statements to reflect the impact of future events.

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

We caution you that all forward-looking statements are subject to risks and uncertainties described in the Risk Factor section of our Annual Report on Form 10-K.

Accordingly, actual results could differ materially from those described on this call.

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

Joining us on the call today are Andrew Rees, President and Chief Executive Officer; and Carrie Teffner, 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 - *Crocs,Inc. - President, CEO & Director*

Thank you, Marisa, and good morning, everyone.

Q2 was another strong quarter, with revenues up 4.7% even with significant reduction in our retail store fleet. Clogs and sandals performed well, and LiteRide, our newest franchise, continued to exceed expectations, resulting in another quarter where we exceeded our revenue and gross margin guidance. Our brand continues to strengthen, as social media engagement grew and Crocs benefited from another quarter of increased PR coverage. At wholesale, we are seeing increased interest from new customers, who would like to add Crocs to their lineup, and our 11.8% DTC comp speaks to growing demand among existing consumers and those who are new to the brand. We feel very good about our Q2 results and we're well positioned for the back half of the year.

As you saw in the earnings release we issued earlier this morning, Carrie has announced her decision to leave Crocs on April 1 next year. In anticipation of her departure, we are excited to announce that Anne Mehlman will be joining us as our new EVP and CFO. Her experience as a CFO at Zappos, as well as her prior experience at Crocs, makes her a great choice.

I want to thank Carrie for the contributions she has made to Crocs over the past three years. During that time, we have developed and pursued strategic priorities to put the Company on a sound footing and position it for future success. Carrie was there every step of the way, providing tremendous leadership and counsel. I couldn't have asked for a better partner. When Anne joins us on August 24, Carrie will transition to EVP, Finance and Strategic Projects until her departure, to ensure a smooth transition.

With respect to our business update, we remain focused on creating great product, strengthening our brand and advancing our three strategic priorities to drive sustainable, profitable revenue growth, improve the quality of our revenues, so that we generate annualized gross margins in the low 50s, and simplify our business to bring our annualized SG&A rate down to the low 40s as a percentage of revenues.

This morning, I'll update you on the progress we are making on these strategic priorities and across our distribution channels. Carrie will then review our second quarter financial results and our latest guidance, and then, we will take your questions.

As I mentioned, our first strategic priority is driving sustainable, profitable revenue growth by continuing to deliver great product and strengthening our brand desirability.

With respect to product, in 2016, we narrowed our focus to molded footwear, with an emphasis on clogs and sandals. This was clearly the right decision. This product focus is driving meaningful growth. During the second quarter, we sold 17.8 million pairs of shoes, an increase of 2.4% over last year's second quarter, and we did this with a significantly smaller retail fleet. Our average selling price of footwear increased 2.2% to $18.05.

Our clog revenues grew 11.4% and represented 52% of our footwear sales, up from 48.9% in last year's second quarter. Sales of our iconic Classic clog and Crocband clogs increased, driven by consumer demand for traditional colors along with new seasonal colors, graphics and on trend embellishments. Sales of Crocs@Work were also up, supported by new styles and more affective account management.

We grew our clog revenues in every region. In North America, our great DTC results were helped in part by high school and college students purchasing Classic clogs to wear at pre and post sporting events. We also continued to strengthen our brand in Europe, generating robust clog silhouette growth following significant reduction of our discount channel business. And in Asia, we're driving increased clog penetration as we continue to prioritize clogs over cut and sew product.

Q2 is a key quarter for sandals and we performed well. Sandals grew 17.9% in the quarter, generating 26.2% of our total footwear revenues, an increase of 300 basis points compared to last year's second quarter. Asia and Europe showed the most meaningful growth, while Americas was hampered by the late start to spring. Standouts for the quarter include our sport sandal, Swiftwater, and our women's Capri and Sanrah styles. Since we increased our focus on sandals, we've consistently experienced double-digit growth in this silhouette, and we continue to be excited about the opportunity ahead.

Our innovative new LiteRide collection, which launched in March, continues to exceed our expectations. To anyone new to the story, LiteRide combines a revolutionary new material with Croslite, to produce an extremely lightweight shoe with a highly-cushioned footbed and clean modern styling. The collection includes clogs, sandals, and athletic silhouettes.

During the second quarter, we expanded our wholesale distribution of the LiteRide collection in addition to featuring the entire collection on our own e-commerce sites and in stores. Just like last quarter, demand was very strong. With four months of sales now under our belt, we're exceptionally pleased with the rollout. In fact, LiteRide has already become one of our top five franchises, and we see significant growth opportunity ahead.

As we head into the back half of the year, we feel good about our fall/holiday 2018 collection. We have incorporated seasonally appropriate colors and graphics, including a new platform clog, which launched last week. And while it's still very early, we are pleased with the initial feedback from our wholesale accounts on our spring/summer 2019 collection.

Our COME AS YOU ARE marketing campaign continues to raise the profile of our brand and drive demand for our product. Let me share some metrics with you.

Interest in Crocs is accelerating and we continue to increase our digital footprint and attract more PR coverage.

During the 1st week of June, the number of Google searches for Crocs hit a five year high, and has remained at elevated levels since then. And when we launched our first Snapchat filter, over six million people used the Snapchat lens to see themselves in a giant Classic clog hat!

Our on-line musical, featuring Drew Barrymore, is our most viewed content EVER, and the second most widely viewed content Drew has ever posted.

Our collaboration with A-life, a highly regarded streetwear brand, generated over 400 million PR impressions in just a few months.

And from a financial perspective, our return on ad spend is up almost 50% year-to-date, as we continue to refine our digital marketing capabilities.

The COME AS YOU ARE campaign is continuing to resonate with customers and consumers. It is bringing heightened attention to the Crocs brand and boosting brand consideration.

Our second strategic priority is to improve the quality of our revenues. Maintaining discipline around our gross margin goes hand-in-hand with our drive to top line growth. Over the past two years, we have phased out unproductive product, cleaned up inventory in the channels and took a highly disciplined approach to promotions. We've delivered meaningful gross margin gains, including a 110 basis point increase in Q2. With the significant improvements we have made on this front, over the past two years, we expect future gains to be more modest.

Our third strategic priority is to simplify our business, so that we can operate more efficiently and reduce costs. We intend to bring our SG&A, as a percent of revenues down to the low 40s. We are on track to achieve this, as we continue to execute against our SG&A reduction plan.

A key component of our SG&A reduction plan was closing 160 stores between 2017 and 2018. We've done exactly that. During the quarter, we closed a net 27 stores, ending the second quarter with 398 company operated stores.

Outlets, our most profitable format, now represent over half of our store fleet, up from approximately 40% at the end of 2016, while our less profitable full price retail stores now represent about a third of our fleet compared to over 40% at the end of 2016. Shop-in-shops and kiosk locations make up the balance. Although this transition is a headwind to our revenues and gross margin, it is contributing to our growing profitability as we eliminate unproductive SG&A.

In May, we announced that in connection with our ongoing efforts to simplify the business and improve profitability, we closed our manufacturing facility in Mexico. In June, we moved ahead with plans to close our manufacturing facility in Italy. When these closures are complete, we will outsource our entire production to third-party manufacturers. I want to thank each of our Italian employees for their dedication and commitment; they are talented individuals whose contribution to the Company since its earliest days has been greatly appreciated.

Turning to our wholesale, e-commerce and retail distribution channels, I'm pleased with our ongoing progress.

As we described on our last call, our wholesale channel is made up of e-tail accounts, distributors, and traditional brick-and-mortar accounts and, in certain countries, partner store operators. The business we do with e-tailers and distributors contributes approximately half of our wholesale revenues, and we expect high single-digit growth from this portion of our wholesale channel. We expect the brick-and-mortar accounts and our partner stores, which make up the other half of our wholesale revenues, to grow more modestly.

During the second quarter, wholesale revenues increased by 7.2%. More wholesale doors carried Crocs and customers allocated more shelf space to our product than at the same time last year. A great example is ABC Mart in Japan, an important multi-brand retailer we began to work with last year in a limited number of doors. Since then, ABC Mart has expanded the placement of Crocs into several hundred of their doors, and more will be added next year.

Turning to e-commerce. We had another outstanding quarter with revenues up 23.8%. Results were particularly strong in Asia, where the fastest growing countries grew at 30% to 40% rates. We are benefiting from our highly successful digital marketing activities and the continued migration of consumers to online shopping. And, since appointing a global head of e-commerce and deepening our bench of local experts, we've delivered a more compelling online experience to our consumers, featured more product exclusive to our DTC channel, and improved our conversion rates.

In retail, we delivered a 7.1% comp. The right product, well-managed inventories and an energized sales force totally focused on delivering a great customer experience, resulted in an outstanding quarter.

Through the first half of 2018, we continued to make significant progress against our strategic priorities. Our spring/summer 2018 collection was a clear winner and LiteRide significantly surpassed our expectations. Our marketing is delivering on two key objectives - elevating our brand positioning and increasing brand consideration to drive sales. We're growing our top line, improving the quality of our revenues and taking cost out of the business. In short, we're doing exactly what we committed to do.

Looking ahead, we're optimistic about the future. We will continue to focus on molded footwear, particularly clogs and sandals, which are the best reflection of Crocs DNA and have long-term growth potential. From a channel perspective, our digital business, whether embedded in our e-commerce or wholesale channels, is expected to drive robust growth. A reinvigorated network of well-placed, highly-qualified distributors will bring Crocs to more people around the world. And lastly, our retail channel will benefit from the elimination of underperforming stores, as our remaining stores effectively showcase our product and our brand. With a clear strategy in place and a detailed roadmap to follow, we have returned the Company to top and bottom line growth, and we are generating increased shareholder value. Looking ahead, we believe we're well positioned for continued success.

I'll turn the call over to Carrie now, and she will take you through our second quarter results and discuss our guidance for the third quarter and full year of 2018.

Carrie W. Teffner - *Crocs, Inc. - Executive VP & CFO*

Thank you, Andrew. I appreciate the kind words.

I joined Crocs fully aware that it would be a challenge, but knowing that it would also be extremely rewarding. And, I have not been disappointed thanks to all the fantastic people I've gotten to work with. The Company is in a great place, and I'm very confident that I'm leaving it in good hands. I've enjoyed getting to know many of you, and I know you will enjoy getting to know Anne.

Now let me review our second quarter results. Revenues were $328 million, up $14.8 million or 4.7% from a year ago and above our guidance of $315 million to $325 million. Store closures and business model changes reduced revenues by approximately $22 million. Excluding the impact of those events, our revenues would have grown by approximately 12%, a clear sign of the underlying strength of our business. Currency positively impacted second quarter revenues by $7.7 million versus last year's second quarter.

The positive response to our spring/summer 2018 collection drove solid results across each of our distribution channels as well as our geographic regions.

Wholesale revenues grew 7.2%. After experiencing strong sell-throughs on their initial spring/summer orders, customers placed additional fill in orders to restock shelves and meet consumer demand.

Looking at retail and e-commerce combined, our DTC comp was a positive 11.8%.

Our retail comp was 7.1%, and comps were positive in every region. This was our fourth consecutive quarter of positive comps. We continued to close stores, which accounts for the 8% decline in our global retail revenues. Specifically, we operated 105 fewer stores during this year's second quarter compared to the same period in 2017.

Our e-commerce business grew 23.8% during the quarter, representing our fifth consecutive quarter of double-digit e-commerce growth. Along with in demand product and impactful marketing, we are benefiting from better execution. Improved in-stock levels contributed to higher conversion rates, and our use of increasingly sophisticated analytical tools is boosting the effectiveness of our digital marketing, which is translating into higher revenues.

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

The Americas generated revenues of $137.8 million in the second quarter, an increase of 1.2% over last year's second quarter, with outstanding results in the retail channel.

Wholesale revenues in the second quarter declined 5.9%. Our results were impacted by three factors. In North America, sandal reorders were muted due to the late start to spring, and some orders which were expected to ship in Q2 did not ship until early Q3. In South America, a number of countries experienced economic disruptions stemming from the significant depreciation of their respective currencies. Because we expect the currency situation to continue, this has been factored into our guidance for the remainder of the year.

Our Americas DTC comp was a positive 10.4% with great retail and e-commerce results evidencing robust consumer demand for our clogs and sandals.

Our retail comp was a positive 7.5%, up for the fifth quarter in a row. Total retail revenues grew 1.8%, despite having 15 fewer stores than in last year's second quarter.

E-commerce revenues increased 17.1% due to higher site traffic and higher unit sales per transaction.

Turning to Asia, second quarter revenues of $128.4 million increased 3% compared to last year's second quarter. This is a great result for Asia given the significant store closures in the region. Currency favorably impacted the region by $4.7 million.

Wholesale revenues increased 9.8%, as we continue to gain traction across the region.

Our Asia DTC comp was a positive 11.6%.

Our retail comp for Asia was a positive 2.9%, driven by an increase in average selling prices and units sold as we increased penetration of built for outlet product. Retail revenues declined 21.9% as a result of operating 67 fewer stores compared to the second quarter of 2017.

E-commerce revenues increased 29.7%, with particularly strong results in our key countries.

In Europe, revenues grew 17.6% to $61.5 million over last year's second quarter. We delivered terrific results across each distribution channel, reflecting the increasing popularity of our brand, better execution and great summer weather. Currency positively impacted the quarter by $3.1 million.

Wholesale revenues grew 25.4% due to high demand for core product and enthusiastic buy-in of LiteRide, and notably stronger results with our European e-tail partners. Some customers took additional product in Q2 rather than waiting until Q3 to ensure availability into the fall.

Our Europe DTC comp was a positive 18%.

Our retail comp was a positive 16.4%, benefiting from heavy demand as well as better availability of our built for outlet product. Our retail revenues decreased 7.6%, due to operating 23 fewer stores.

Our e-commerce business grew by 28.2%, as we benefited from the strength of the collection, reduced promotional activity and higher traffic driven to the site by more effective marketing.

In terms of other items on our P&L, gross margin of 55.3% came in above guidance and 110 basis points above last year's 54.2% rate. We continued to benefit from the shift to molded product and from a more disciplined promotional cadence in our DTC channels.

Our SG&A expenses - at $144.3 million - were higher than our guidance by $4 million. This was due to higher nonrecurring charges associated with the closure of our Italy manufacturing facility, which had not been included in our prior guidance, and higher incentive compensation. Total non-recurring charges in the second quarter were $8.4 million, $7.1 million related to the termination of manufacturing operations in Mexico and Italy and the remaining $1.3 million was associated with our SG&A reduction plan. This compares to $1.8 million of non-recurring charges in last year's second quarter. If we deduct the one-time charges, our SG&A actually declined $2.7 million and improved by 290 basis points as a percentage of revenue.

Our income from operations, which includes our nonrecurring charges, was $37.1 million, an increase of 25.9% over last year's second quarter.

Net income attributable to common stockholders after preferred share dividends and equivalents of $4 million was $30.4 million. After adjusting for the preferred share participation rights of $5.1 million, adjusted net income available to common stockholders came to $25.3 million. Our diluted EPS attributable to common stockholders was $0.35, a 75% increase from $0.20 in last year's second quarter.

Turning to the balance sheet, we ended the quarter with $171.5 million in cash and no outstanding borrowings on our credit facility. This compares to $157 million in cash and no outstanding borrowings at the end of Q2 2017.

During Q2, we repurchased approximately 378,000 shares of our common stock for approximately $6 million at an average price per share of $15.55. And over the 12 month period ending June 30, we repurchased approximately 6.1 million shares for approximately $66 million, at an average price of $10.86 per share. This leaves approximately $193 million available for future repurchases.

Inventory at the end of the second quarter was $129.9 million, a $25.8 million or 16.6% decrease compared to last year's second quarter ending inventory. This reduction reflects our continued focus on improving the quality of our revenues as well as our lower store count.

Cash provided by operating activities during the six months ended June 30, 2018 was $40.9 million, an improvement of 3.8% compared to the same period last year.

Before providing our guidance for Q3 and the full year, I want to remind you that our guidance is on an "as-reported" basis, based on current currency rates.

For the third quarter of 2018, we expect revenues of $240 million to $250 million compared to $243.3 million in last year's third quarter. This includes the loss of approximately $15 million of revenue associated with our reduced store count and business model changes.

Gross margins for the third quarter is expected to be about 50 basis points above last year's 50.8% rate.

Our third quarter SG&A is expected to be slightly higher than last year's $120.8 million. This includes approximately $6 million of non-recurring charges, consisting of approximately $5 million relating to the closure of our manufacturing operations and $1 million associated with our SG&A reduction plan. Nonrecurring charges in last year's third quarter were $3.6 million.

Let me now turn to our full year guidance.

With respect to revenues, we continue to expect a low single-digit increase. We are maintaining this guidance despite the strengthening of the U.S. dollar since our last earnings call, which we estimate will reduce our sales in the back half of the year by approximately $11 million as compared to our prior guidance. Double-digit e-commerce growth and moderate wholesale growth are expected to more than offset the lower retail revenues associated with store closures. Store closures and business model changes will reduce 2018 revenues by approximately $60 million compared to 2017. Absent those changes, we would expect revenues to be up high single digits for the year.

We continue to expect our gross margin to increase 70 to 100 basis points over last year's 50.5% rate.

SG&A for the full year is now expected to be slightly higher than our prior guidance of $485 million, reflecting an approximately $3 million increase in non-recurring charges to support the closure of our Italy manufacturing facility. This compares to our 2017 SG&A of $499.9 million. For the full year, we now anticipate incurring approximately $18 million of non-recurring charges compared to our prior guidance of $15 million. Approximately $14 million of this amount relates to the closure of our manufacturing operations, and $4 million relates to the implementation of our SG&A reduction plan. After adjusting for the non-recurring charges and the currency impact, our full year [2018] (corrected by company after the call) SG&A reduction would be approximately $45 million against our SG&A reduction goal of $75 million to $85 million.

We are maintaining our guidance with respect to income from operations at approximately $50 million, compared to $17.3 million last year.

And we are maintaining Adjusted EBITDA guidance at approximately $95 million compared to $67 million last year. We define Adjusted EBITDA as income from operations plus depreciation and amortization and nonrecurring charges. 2018 Adjusted EBITDA is expected to include approximately $30 million of depreciation and amortization and $18 million of non-recurring charges.

2018 income tax expense is still expected to be approximately $17 million, compared to $7.9 million in 2017.

Looking beyond 2018, we see a clear path to double-digit EBIT margins, which, based on our current level of depreciation and amortization, would translate into a 13% Adjusted EBITDA margin. The strengthening of our brand, our relentless focus on operational improvement and our commitment to drive profitable top line growth is how we will get there.

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

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

Thank you, Carrie.

We had a very good second quarter, bringing the first half of our year to a successful close. I want to express my thanks to everyone on the Crocs team. We wouldn't be making this progress without their hard work and continued dedication.

The success of our spring/summer 2018 collection validated that there is growing demand for clogs and sandals, and with LiteRide, we are successfully meeting the consumer's desires for product incorporating comfort technology. Our COME AS YOU ARE marketing campaign is driving brand perception and consideration higher and contributing to revenue growth. And our strategic priorities provide the roadmap for future growth in shareholder value as we continue delivering the product our customers and consumers want, simplifying our business, and delivering strong financial results.

Operator, please open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Erinn Murphy from Piper Jaffray.

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

My first question was around LiteRide. You talked about it consistently exceeding your expectations. Could you share a little bit more about what kind of customers it's attracting and then, since it's been one of your larger launches that you've done in the last few years, how have the learnings of this launch really shaped how you're thinking about the product development calendar and the launch cadence going forward?

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

We're really pleased with the LiteRide launch this year. I think we talked about it last quarter and this quarter and the momentum has continued. In terms of learnings, I think this is the first time and we talked about it last quarter, it's the first time for a number of years we've really put together a comprehensive launch, globally coordinated, supported by appropriate marketing and coordinating through both our wholesale and DTC channels. And I think that was extremely successful in creating a great deal of interest and a great deal of momentum behind the product. It was also a relatively large suite of products that we launched at the same time, so it really created an impact in the marketplace. And we think the U.S. piece or the unique features of the product, the high comfort, the light weight, et cetera, really resonated with consumers. So it's been very successful. I think there are a lot of really good learnings from that. And I think, as we look into '19 and beyond, we will be looking at other key launches to anniversary this and build up on this. I would also emphasize, as we plan LiteRide forward, we see it growing. This is not a one time deal for us, it's a suite of products that's really resonated with consumers. We see it growing in the fall, and we see it growing into next year.

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

Okay. That's helpful. And then, I think Andrew, you had said in the beginning of your prepared remarks, you're starting to see some interest from potential new customers on the wholesale side. Can you just expand upon that statement? And then, just are there specific characteristics of types of accounts you'd be willing to work with? New accounts that is.

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

Yes. I think the resurgence of the brand and the higher profile that we're getting really globally, both at the consumer level and also at the wholesale customer level, is driving some new customers our way. What I would say is in the U.S., we're, I don't want to get into specific names, we're working closely with some significant mall-based retailers, where we've got some test programs and we look to drive some expansion on those in the back half of this year, into next year, as well as big-box retailers here in the U.S. where we think we've got new placement and significant growth in placement opportunities. And as we look across the world, we also talked about ABC Mart as an example in our prepared remarks. We look across both Europe and Asia, we can see interest from significant family channel players. So I would say it's kind of a global phenomenon and it gives us, obviously, a great deal of confidence.

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

Okay. And you said some retailers here in the U.S. this fall, would that be already embedded in the guidance?

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

Yes, absolutely, that's embedded in our current guidance.

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

And then, just a last question for me and I'll turn it over. I didn't hear you guys mention anything on the work opportunity as well as Jibbitz? Can you just talk about how both of those categories performed in the quarter? And kind of how you see the longer term opportunity for both of them?

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

Yes. Let me talk about Work because it's obviously bigger in terms of its quantum than Jibbitz. So work, I think we've highlighted, consistent with our clog focus, work is primarily our clogs silhouette, obviously with a nonslip outsole for the work environment. That continues to perform extremely well. It's definitely tracking at or ahead of our expectations. We see that category as growing, it's more in the U.S. and Europe and Japan in terms of locations. It's less in the developing world, but that's definitely growing for us. We're happy with its progress and it's where we will continue to put marketing effort and product innovation behind that. Jibbitz, obviously this is a brand that's existed within Crocs for some period of time, that's really benefiting from a significant trend towards personalization. I think you can see it across many product categories where the consumer is increasingly interested in personalizing and making the product something that's special for them and Jibbitz is our vehicle to do that. So particularly within our U.S. stores, within our e-commerce environment, that has made great progress. So we're seeing significant growth there but obviously, it's a small but very high margin business.

Operator

Our next question comes from Mitch Kummetz from Pivotal Research.

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

So let me start with a follow-up on Erinn's question about new customers. So it sounds like that's already having some impact on the business but it sounds like you're expanding that into the back half then maybe more so next year. Is that an accurate assessment that this becomes more impactful on a go forward basis versus the results that you've reported for the first half?

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

Yes, Mitch, I think this is a good way of thinking about that. Obviously, most significant retailers these days will take a trial and expand approach, and I think we're in trial mode with a number of new customers that we're excited about. And the potential that would come from that with expansion would be more in '19 then in '18.

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

Okay. And then, Carrie, it sounds like there were some orders that were pushed out in the Americas from Q2 to Q3 and there were some others that were pulled forward in Europe from Q3 to Q2. Is there any way to quantify that? Or do those sort of net against each other? How do we think about the impact on the quarter and then also in the third quarter?

Carrie W. Teffner - *Crocs, Inc. - Executive VP & CFO*

Yes, I think it's a fair way to look at it; they relatively offset each other. Not huge dollars but enough to make a difference in the quarter. And hence, the reason we felt it was important to call out, especially as we think about the North America performance. And so maybe I would comment a little bit on the wholesale performance in North America just to give it a little bit more color. As noted in the prepared remarks, overall wholesale has performed extremely well in the quarter, but in the Americas specifically, we had a couple of things going on. In North America, we did have a late start to the spring and I think you've heard that from other folks as well. But what we did see with that is once we got shipping sandals, we saw really strong sell-throughs, so we feel really good about that. And then we did have that timing shift at the end of the quarter, that kind of shifted from Q2 into Q3. I think the other important thing to really call out is with respect to Latin America. And we've had significant currency depreciation in a number of Latin American countries. And then the economic disruption that has been caused by that. So if we think about the first half for wholesale in North America, we're up in North America low single digits, but in LATAM we're down double digits. So that I think that is important to understand, and the currency impact is something that I want to make sure everyone understands as we think about our full year guidance. We're calling revenues up low single digits, that's consistent with what we called at, at the end of Q1 when we provided guidance. But the U.S. dollar strengthened meaningfully against a number of other currencies since then. And so, we're losing approximately $11 plus million of revenue in the back half of the year -- as compared to the guidance that we provided at the end of Q1. And we feel really good about our retail and DTC performance, and have factored that in to offset the revenue decline in the back half associated with currency. I think the other thing that's important to call out around currency is, in the first half we have benefited year-over-year from currency. In the back half, it's a drag for us year-over-year. So I don't want that to get lost, especially given that more than half of our revenue does come from outside the United States.

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

Got it. And then, on the guidance, I think you're seeing moderate wholesale growth for the year. You're up, I want to say like, 6%, 7% through the first half. I'm not really sure what your definition of moderate is, but are you assuming that the wholesale business is actually down in the back half? Or is that just a function of tougher compares? Or is there something else going on?

Carrie W. Teffner - *Crocs, Inc. - Executive VP & CFO*

Yes, everything about wholesale in the back half of the year... We've seen good, as you commented, good results in the first half. I think we see something similar going through Q3. I think we're a little bit softer in Q4, just because of the year-over-year compares. I think that will continue to evolve as we continue to work the order book.

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

Yes. Obviously the currency is, as Carrie talked about, the currency is going against us for the back half of the year. That is a factor and we have maintained our revenue guidance despite that.

Operator

Our next question comes from Jonathan Komp from Baird.

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

A couple of questions. A little bit of a follow-up, but I just wanted to ask on the revenue outlook overall. I know on the underlying basis you've been tending kind of double-digit growth, and for the third quarter, you're implying something slower than that kind of mid- to high single digits underlying. And just wanted to maybe fully understand the moving pieces as you see them there?

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

Yes. I think I'll start and then hand it over to Carrie. Yes, you're absolutely right, Jonathan, if you look at the first half of the year and you exclude our store closures and our business model changes, across all channels we actually did achieve double-digit underlying growth. As we go into the back half of the year, Carrie can give you a little bit more detail, one of the big factors is still that currency.

Carrie W. Teffner - *Crocs, Inc. - Executive VP & CFO*

Yes. So specifically to Q3, if we think about the currency, adjust for the business model changes store closures, we're still at mid- to high single digits despite the currency headwind. And then, as we go into Q4, we'd be up mid-single digits excluding the business model changes and store closures in Q4. I think the other thing that is important to think about with respect to Q4 is the business model and store closures have a much bigger impact because Q4 is a smaller base, so it does have a bigger impact.

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

Okay. Great. That's helpful. And then, specifically on the Americas segment in the wholesale business, I just wanted to follow-up and clarify. I know last year Q3 and Q4 for the wholesale business in the Americas, you shipped essentially, or you sold essentially, the same dollar amount in Q3 and Q4, which was pretty unusual historically. Q4 usually has been the much lower period. And I just wanted to ask is that more reflective of what you expect going forward? Or was that unique last year?

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

Yes, I think you're right. We definitely saw a significant pickup in the North American wholesale business last Q4. That was really the key issue, as we look forward, we think that pattern basically repeats. Yes.

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

Okay, great, helpful. And then, maybe just last bigger picture question on the margin. I know you've been talking for some time now about a 13% Adjusted EBITDA margin target and I was hoping to clarify any kind of update in thinking around the timing of when you think that might be achievable?

Carrie W. Teffner - *Crocs, Inc. - Executive VP & CFO*

Yes. I would say, we could have a clear line of sight to achieving that, and I think as we get ready to provide 2019, we'll certainly provide more color on that. So stay tuned.

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

Okay. I thought you might take the bait and setting the bar high for your replacement Carrie.

Operator

Our next question comes from Steve Marotta from CL King & Associates.

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

Carrie, I wanted to just clarify the $95 million in adjusted EBITDA estimated for fiscal '18 excludes the onetime cost associated with SG&A. Is that accurate?

Carrie W. Teffner - *Crocs, Inc. - Executive VP & CFO*

That's correct.

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

Okay, great. And as it relates, Andrew to the fall and winter assortment, in recent years instead of endeavoring to really delve deeply into fall and winter product, more heavier weight product, there's been some of that on the margin, and I think the goal has been a little bit more to sell further into third quarter on a buy now wear now basis and deliver earlier into spring later in the fourth quarter into the warmer weather markets in order to even out the seasonality a little bit. Is that the same this year in anticipation next year? Or do you see a little bit more heavier weight product becoming a larger percentage of the mix in the second half of the year?

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

Yes. I think strategy that we applied last year it definitely worked. So essentially, we're planning to repeat that, which is exactly what you said. So it sounds longer into the third quarter, and try and deliver in fourth quarter for some warm weather markets. Outsell our clogs throughout the year, which I think have performed extremely well year-round. I think that the key product that we do offer in the fall/holiday, unique to fall holiday, which has been building over the last couple of years has been in our lined clogs, as we've cleaned up that line and as we presented it more clearly. So yes, it's clogs, sandals, lined clogs. I also would note that as you think about fall holiday or think about that season for the Crocs brand, we do a lot of business in portions of the world where there is no cooler weather, right? As you think about Southeast Asia, as you think about Asia so we have a lot of year-round business, and so tailoring our assortment to northern hemisphere is less productive for us. I think that's something we've corrected and we continue down that path, Steve.

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

Okay. I know Andrew you are reticent to speak about quarter-to-date trends and understandably, to the extent that you could speak broadly about back-to-school and what you have seen, again, broadly from an inventory and channel standpoint, from the popularity of the Crocs product and clogs product, and even perhaps the digital activity in the back-to-school period that might be helpful?

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

You mentioned a few things, Steve. So first is, as we kind of look at the overall environment, we feel pretty good about the consumer environment, the retailer environment, here in North America but also in a lot of other places around the world. We think the consumer is much more apt to spend, interested in spending, can be enticed to do so. We think the vast majority of retailers that we do business with are in much better shape than they were last year. As we think about back-to-school specifically, a few things would come up. I think we mentioned in our prepared remarks, we are seeing a particular segment of the market, which is high school and college age students buying the clog, particularly the Classic clog for pre and post sporting events. So that has been a really nice focus for us and has really driven some significant business. So we see that continuing to back-to-school. And then we also launched a platform clog last week, which is a platform version of our Classic clog inspired by some collaborations we had last year, and we're excited about that and it's got potential to sell into that younger consumer that's oriented around back-to-school. So yes, I think we've got a little bit of wind on our back from that perspective, and we generally feel good about the retail environment.

Operator

Our next question comes from Jim Duffy from Stifel.

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

Carrie, congratulations to you on a productive and successful leadership tenure.

Carrie W. Teffner - *Crocs, Inc. - Executive VP & CFO*

Thank you

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

It occurs to me you're stepping down with fairly clear sight lines to the double-digit EBIT margins and low-teens EBITDA margins. I recognize this could fall into the category of front running Anne's view, but with Andrew on the call, it seems fair game. The question is, how do you guys think about margin opportunities beyond this, is revenue the key lever for further improvement? Or can you take the SG&A rate lower? How much is left in the gross margin? Thoughts there would be helpful.

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

Yes. Maybe I'll start Jim, and then Carrie can add a little color. Yes, I think you actually framed the question well which is, as we think about our architecture that gets us to double-digit EBIT margins, it's really been around getting our SG&A down, getting to call the revenues up, and our gross margin up and getting us to a point where we can achieve that with modest revenue growth. As we then start to accelerate our revenue growth, it will provide leverage, a lot of our SG&A will see leverage from revenue growth, particularly in the wholesale business and obviously if we can drive some retail comps, which we now have, for I think four quarters in a row, you get leverage that way. So we do see it going a little bit lower as you get revenue growth but that would be the primary leverage.

Carrie W. Teffner - *Crocs, Inc. - Executive VP & CFO*

Yes. I think the only thing I'd add is getting SG&A in the low 40s is the first step to achieving double-digit EBIT margins. Then it's really what we've driven in the organization and will continue to is the continued focus on operational improvement. And we still have opportunities to continue to drive improvement in the business as well as benefit from the leverage as we grow the top line.

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

Great. That's a good segue in my next line of question, from an optics standpoint, compares begin to get more difficult. You've talked about wholesale distribution expansion opportunities which is encouraging. Can you speak for a moment about opportunities to build on the positive comps and continue to improve retail productivity? And also, maybe touch on some of the progress you're having with analytics and opportunities to leverage that for further digital growth?

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

Yes, let me break that down a little bit. So we talk about retail, yes, obviously, we're going to start to come up against our positive comp trajectory as the fleet has rationalized and as we've closed our more unproductive stores, as we've repositioned the whole retail fleet to be majority outlet stores on a global basis, we remain confident that we can continue to comp on our compare numbers because I think we have the product, the built for outlet product, we have a much greater focus on driving and managing that outlet business specifically and we feel really confident that we can provide ongoing comps in that environment. As you said from a digital perspective, we've obviously achieved double-digit -- strong double-digit digital growth for a good number of quarters now. We see that continuing as the consumer frankly continues to migrate to that environment, particularly in Asia where we see digital commerce really replacing or in some developing markets, preventing the growth of traditional retail. It's really skipping in a significant way. We see that as a strong revenue driver for us and one where as a brand, as a company, we're focused. And I think you also referenced the digital marketing efforts where we've put in place new technologies that allow us to target our marketing efforts, to personalize our messaging and we're seeing very dramatic increases in terms of 50%, I think we mentioned in our prepared remarks, increases in our productivity from that. And I would say that's in its infancy today, so we see that continuing.

Carrie W. Teffner - *Crocs, Inc. - Executive VP & CFO*

I think the only thing I would add to the retail comp comment that Andrew made is that we innovate with product, we're also allows us to bring product to the market at higher price points, right? So that will help, LiteRide it's a great example of that. And as Andrew indicated earlier, we're going to continue to innovate and look for comfort stories that add unique selling propositions that are worth more to the consumer.

Operator

Our next question comes from Jim Chartier from Monness, Crespi and Hardt.

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

First, Andrew, you talked about great returns on advertising. What's the opportunity to continue to grow the ad spend? And if you could talk about that maybe by region? And then in terms of the new potential new distribution, how do you manage the product segmentation by channel going forward as you add new distribution?

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

Yes. So even as we've -- let me deal with ad spend first, so even as we have reduced our SG&A and plan to reduce our SG&A to next year, we have also increased our total investment in marketing. And also skewed more and more of that spend to what we call working dollar. So less on SG&A headcount and agency fees and more on driving digital and social media. So our increases in terms of dollar spend impacting the consumer have grown over the last several years and that has been an important factor in driving the resurgence of the brand. We intend to continue to do that.

Carrie W. Teffner - *Crocs, Inc. - Executive VP & CFO*

Yes, and then I'll just add to that on the analytics. I think as we've shifted to digital social, obviously the trends are an information and our ability to use that information and make our targeted ad more effective is something that Andrew called out in his prepared remarks in terms of return on ad spending up 50%. We think there's still opportunity there as we continue to get better at this.

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

Yes. And then you also referenced by market, but one of the beauties of all the social digital oriented architecture is it's very scalable and applicable by market. We don't break that out, what that spend looks like by market, but it does allow us to take our message from the U.S. to Europe to Asia, and that sales have been really effective. And we probably see the strongest growth in our spend more oriented towards our Asian markets in the future. In terms of product segmentation, we've gone through years where we've really rationalized product and stabilized our product development engine. And now, with the introduction of LiteRide and a lot of new product we've brought to market in the last two years, we're getting more and more sophisticated around product segmentation with different lines associated with our outlets, different lines and unique lines on our e-commerce, and also being able to differentiate and SMU across some of our key wholesale partners. So we see that as highly productive going forward and we'll do more of it going forward and it allows us to provide more differentiation. I would say there is a core of our business, particularly Classic and Crocband, which is like many other brands that have a core, unique franchise,that does show up in every channel. So that will continue to show up in all of our key channels plus there will be differentiation around it.

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

Where? And then, you've previously talked about still a big opportunity to grow the business with an existing distribution. So how has the demand of shelf space you have with your existing wholesale customers changed versus last year? And then, how much opportunity is there still going forward within the current distribution?

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

I would say we have definitely seen growth in shelf space in aggregate. There are key partners that we've grown really rapidly with in terms of shelf space. And others, we have stood still with, they haven't been as forward thinking in our view. But I think that remains, as you look particularly at the developed markets, the U.S. marketplace, we have a lot of distribution and our biggest growth driver is going to be growing representation in that distribution as well as adding select key accounts. So that is still a very important driver. I think we've made good progress, but we want to make more progress in the future.

Operator

Our next question comes from Sam Poser from Susquehanna.

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

A few things. Just details on the expectation for domestic, or North American -- Americas wholesale growth for the back half of the year or by quarter? You explained it sort of conceptually but can you give us some direction there as to what's built in?

Carrie W. Teffner - *Crocs, Inc. - Executive VP & CFO*

Yes. -- With respect to North America wholesales, we don't guide specifically by region.

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

Americas, Americas, America's.

Carrie W. Teffner - *Crocs, Inc. - Executive VP & CFO*

Yes. But we don't guide specifically by regions -- for any other regions. We've factored in our forecast for America's into our overall guidance for the rest of the year. And then it is incorporated in, and what we do feel good about is our overall performance in the Americas. It is going to be muted by LATAM, given the currency headwind.

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

And that is factored into our guidance.

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

Okay. And then you're down to 398 stores now. Are there more store closures either within the guidance or planned maybe for next year? Or are we at the level now -- where are we there?

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

What we would say Sam is there are more store closures in the guidance and plan next year. We have completed the plan that we architected and announced and regard that is completed. Go forward, closures and openings will be kind of normal close of business as we assess the fleet and each store as it comes up for lease, whether we want to continue to operate the stores, relocate, open another one, but as we look at the guidance for the back half of the year and our preliminary view on '19, that will be modest net closings.

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

So what becomes sort of the optimum, by the end of '19, I know you haven't guided '19, but what should we think of store base by the end of '19? Is it like 380 or 350?

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

I would say modestly down on what it is today.

Carrie W. Teffner - *Crocs, Inc. - Executive VP & CFO*

I think that's reasonable, Sam.

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

That's the right way to think about it.

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

Okay. And then -- are you going to be involved with Singles Day there or are you not involved with that at all. You have talked I believe, not being involved. Is that something that you're going to be involved with that this year?

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

No. Absolutely. I don't think we talked about not being involved in Singles Day. If you look at what I would describe as major festivals or major digital events on a global basis, mid-summer festivals, single's day, 12/12, and even Prime Day obviously we just had here in the U.S. and Europe, and other Amazon countries, those are really really important to be involved in. What we have looked at is the profitability of those events and how do you transact on those particular events such that you can actually make money. We do believe and as we look, we've seen an erosion in our profitability associated with those events over the last couple of years. We see that in competitive brands, and we're looking at a strategy that will maximize the profitability of those events not just the revenue.

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

Okay. And then my last question is, how do you get to -- I mean what should we think about, sort of a base revenue growth now that the store closures are sort of you'll make his normal decisions and so, can -- are you looking at mid-single-digit revenue growth over the next few year's to get to -- what is the number you're using to get to your margin targets?

Carrie W. Teffner - *Crocs, Inc. - Executive VP & CFO*

I think the way I would answer that without giving guidance on '19 and beyond is, at this point Sam is really if you look at our underlying performance in '17 and in '18, adjusting for the store closures and business model change, which impacted both years by about $60 million, we've seen moderate to high single digit underlying growth. As we move into 2019, we still have a bit of headwind related to store closures that are for the partial year impact as it goes into 2019. But again, we feel good about that underlying growth and that's really driven by the fact that the clogs and the sandal focus is extremely beneficial to our business. It's core to our DNA. We've had many quarters of double-digit sandal growth and we feel like that's something we can look at, that continued growth going forward, as well clogs, it's a growing category, we're taking share so we think the underlying growth of this business is absolutely solid.

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

Yes. I know that is a key question for many and some are skeptical about that, but as you look at the track record, we've got two years of producing underlying growth, and I think we have the ammunition from a product to marketing perspective to continue that into the future.

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

And I promised that was the last one, but one more. You talked about your Adjusted EBITDA but why not just give everybody a non-GAAP reconciliation on the earnings? Because next year a lot of these charges fall away and then you're going to have bad compares unless we take them out this year and so on. So why not just provide a non-GAAP reconciliation, especially when you're talking about basically a non-GAAP EBITDA target?

Carrie W. Teffner - *Crocs, Inc. - Executive VP & CFO*

I know you've talked about this before, Sam, I think what's important is we're explicit about the elements that actually do make up our guidance, and then I think the other element is, it's really important that we meet or exceed the guidance that we give. So I think all the pieces are there for how people to look at, and that's what's critical.

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

But I mean you raised your underlying EBIT guidance by $3 million because that should goes from your $50 million operating margin target now goes to -- was it $65 million because of the onetime charges, now it goes to $68 million because of now that -- because of the charges have gone up. I mean why not -- I mean it's just you're talking both ways, why not just give it one way especially when you start talking about adjusted EBITDA?

Carrie W. Teffner - *Crocs, Inc. - Executive VP & CFO*

I want to say Sam, this is probably something we're not going to agree on. So I think that we probably have to leave it.

Operator

And we do have a follow-up question from Steven Marotta from CL King and Associates.

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

Carry, very quick question on, maybe it's topical, non-GAAP taxes for the quarter. Just a housekeeping standpoint, I know that it was $3 million on the GAAP basis. What would it have been when you exclude those items? On a dollar basis?

Carrie W. Teffner - *Crocs, Inc. - Executive VP & CFO*

On an adjusted -- I have no idea. Off the top of my head, I think it is extremely -- it is lower than it normally would be just because we had the release of the valuation allowances and you will see that commentary in the Q when it comes out later this morning, but there is nothing overly unusual in that number. So we don't look at the tax on adjusted versus non-adjusted.

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

Well, thank you very much everybody for joining us today and for your continued interest in Crocs; we appreciate it.

Operator

Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating, and you may now disconnect.