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CROX - Q1 2017 Crocs Inc Earnings Call

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OVERVIEW:

Co. reported 1Q17 revenues of $267.9m and net income attributable to common stockholders of $7.2m or $0.08 per diluted share. Expects 2017 revenues to be down low-single digits vs. 2016 and expects 2Q17 revenues to be $305-315m.

CORPORATE PARTICIPANTS

Andrew Rees *Crocs, Inc. - President*

Carrie W. Teffner *Crocs, Inc. - CFO and EVP*

Gregg S. Ribatt *Crocs, Inc. - CEO and Director*

Marisa Jacobs *Crocs, Inc. - Senior Director, Investor Relations*

CONFERENCE CALL PARTICIPANTS

Benjamin Barry *Robert W. Baird - Analyst*

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

Mitchel John Kummetz *B. Riley & Co., LLC, Research Division - Senior Analyst*

PRESENTATION

Operator

Welcome to the First Quarter 2017 Crocs, Inc. Earnings Conference Call. My name is Sylvia and I'll be operator for today's call. (Operator Instructions) Please note that this conference is being recorded.

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

Marisa Jacobs - *Crocs, Inc. - Senior Director, Investor Relations*

Thank you.

Good morning, everyone, and thank you for joining us today for the Crocs' First Quarter 2017 Earnings Call.

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

We would like to remind everyone that some of the information provided on this call will be 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 or SG&A expenses and our product pipeline. We caution you that these statements are subject to a number of risks and uncertainties described in the Risk Factors section of the Company's annual report on Form 10-K. Accordingly, all actual results could differ materially from those described on this call.

Those listening to the call are advised to refer to Crocs' annual report on Form 10-K as well as other documents filed with the SEC for additional discussions of these risk factors. Crocs is not obligated to update these forward-looking statements to reflect the impact of future events.

The Company may refer to certain non-GAAP metrics on this call. An explanation of those metrics can be found in the earnings release filed earlier today and on our investor website located at crocs.com.

Joining us on the call today are Gregg Ribatt, Chief Executive Officer; Andrew Rees, President; 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 Gregg.

Gregg S. Ribatt - *Crocs, Inc. - CEO and Director*

Thank you, Marisa, and good morning, everyone.

This morning, I will briefly touch on our first quarter progress and financial results before turning the call over to Andrew and Carrie. They will go through the quarter in more detail and also speak to our expectations for the second quarter and the full year. We will then take your questions.

During the first quarter, we continued to execute against our strategic plans to strengthen the Company and brand. In March, we recapped the progress made in 2016, and described ongoing initiatives to:

ensure that our product is fresh and relevant,

that our marketing builds engagement and drive sales,

that our wholesale, retail and e-commerce sales channels are being optimized to drive profitable growth, and

that our organization is being continually strengthened from both an operational and a talent perspective.

We are continuing to focus on each of those areas and I am confident that further improvements will be realized.

To that end, we're pleased to report that our first quarter results exceeded our revenue and gross margin guidance and were in line with our SG&A guidance. Revenues were $267.9 million and our gross margin was 49.9%, an increase of 350 basis points from Q1 last year. SG&A was $118 million, which includes $2.2 million of costs associated with our SG&A reduction plan, and our income from operations rose 9.4% over Q1 last year to $15.6 million.

We turned in solid first quarter results by delivering improved product, launching a new and engaging marketing campaign and realizing early benefits from the operational improvements that we've been focused on.

Our spring/summer 2017 line has been well received by customers and consumers. We'll continue to keep our clogs fresh and exciting and grow our business in the sandal, flip and slide category. Each of these categories represents a significant opportunity for growth for us.

We launched our "Come-As-You-Are" marketing campaign at the beginning of April. This campaign represents a new approach for us that utilizes celebrities and influencers, and primarily employs digital and social media. We're pleased with the response to date.

Our operations continue to perform at a high level. The improvements we've discussed in the past are enabling us to consistently achieve high on-time and in-full deliveries. We have additional opportunities to drive further supply-chain efficiencies in the future. We are confident in the roadmap for 2017 and are on track to deliver the SG&A savings of $75 million to $85 million over the next two years that we discussed on our last call.

Looking ahead, I want to remind you that on June 1, Andrew will become our President and CEO. I will continue to serve on the Board of Directors, which means that this will be my last time speaking with you in my current capacity. I'm confident in, and excited about, Crocs future. We've elevated our product and marketing capabilities, improved our finance and operating functions, and built a very talented team, all in support of the strategy that we're confident will deliver shareholder value. Crocs will be in great hands under Andrew's leadership.

I want to thank the incredible Crocs' team whose talent, hard work and dedication to the company is inspiring. Our organization is significantly stronger than the one in place when I joined back in 2014.

Finally, I want to thank each of you for your interest in Crocs over the past few years. It's been a true pleasure getting to know you.

At this time, let me turn the call over to Andrew.

Andrew Rees - *Crocs, Inc. - President*

Good morning everyone. Gregg, thank you for your kind words. I'm looking forward to your continued contribution and support as a board member.

As Gregg said, we're pleased with our first quarter performance. Our spring/summer 2017 collection is being well received, and the "Come-As-You-Are" marketing campaign is effectively drawing consumer attention to the brand. Our financial results demonstrate ongoing improvement as we deliver higher-quality revenues, improve our gross margin, control our SG&A expenses and generate higher income from operations than we did in last year's first quarter.

I'm going to spend the next few minutes discussing our financial results in total and from a channel perspective. Then, I'll provide some color around the Middle East and China transactions we announced this morning. I will conclude with an update on our product and marketing activities.

The reported 4% revenue decline in our first quarter relates to three intentional steps we took to elevate our brand and improve our profitability. The first relates to our reduction of discount channel sales, the second reflects the impact of our store closures, and the third, the disposition of our South Africa and Taiwan businesses in 2016. Absent these actions, our revenues were essentially flat year-over-year.

At wholesale, our spring/summer 2017 sell-throughs were solid. We saw healthy prebooks and at-once orders, and we're pleased with our in-market performance. The 4.1% reduction in wholesale revenues versus Q1 last year primarily relates to the lower discount channel sales and business dispositions mentioned a moment ago.

Retail sales declined 6.1%, and our retail comp was down 4.8%. You may recall in January 2016, we ran a large sale with deep discounts to clear out excess and EOL product. This year, with our cleaner inventory position, we did not repeat that event. As a result, our revenues were lower on a year-over-year basis. At the same time, because we were able to be less promotional, we generated stronger gross margins. In addition, we absorbed the impact of the Easter shift.

During the first quarter, we continued to rightsize our retail store base, closing 16 net stores. In addition, consistent with our overarching strategy, we continue to explore opportunities to transition stores in certain geographic regions to distributors.

Accordingly, I'm pleased to announce that last week, we entered into an agreement with The Apparel Group. This is a Dubai-based fashion and lifestyle company with more than 75 international brands in its portfolio. Beginning June 1, The Apparel Group will also assume responsibility for our 13 company-operated stores in the UAE. The Apparel Group will become our new exclusive distributor in the UAE, with distribution rights extending to Bahrain, Saudi Arabia and Oman.

In China, we entered into agreements to transition our 11 Company-operated retail stores to existing distributors. These transfers are expected to take place in the second quarter as well.

Although these transactions were included in our long-term store closing and SG&A cost-reduction plans we discussed last quarter, we projected them to occur later in 2017.

The Middle East and China transfers will lead to a reduction in our Company-operated store count, which will reduce our retail revenues. This reduction will be partially offset by an increase in wholesale revenues. We will also benefit from lower SG&A, since the cost associated running those stores and the infrastructure in place to serve them will be eliminated. We're delighted to close these transactions sooner than anticipated. Carrie will provide color as to the full year financial implications of these transactions in a moment.

Our e-commerce business grew 2.7% compared to last year's first quarter, while generating a 4.3% comp. The two growth rates varied due to the impact of currency and the sale of Taiwan, which took place at the end of Q4 last year. We're pleased with these results, coming on top of last year's exceptionally strong 33.6% comp, which was driven by the inventory liquidation I mentioned previously.

In terms of our product and marketing initiatives, we continue to make progress on all of these fronts as well. We now have a globally aligned product assortment and the consistent offering presented is important to our brand building under way.

From a style perspective, our primary focus is on clogs, as well as on sandals, flips and slides. We're emphasizing new styles and updates in these categories, while offering modern styling, exceptional comfort and leveraging our proprietary materials. As noted previously, customer response to our spring/summer 2017 line is strong.

In our high-priority categories of clogs, sandals, flips and slides, sales were up nicely for men, women and kids during the quarter. We saw this particularly in Classic and Crocband, and in our expanded Swiftwater and Isabella collections.

On our last call, we told you about our new marketing campaign, Come-As-You-Are. We are leveraging celebrities for the first time and focusing all of our media buys on digital and social channels, which allows us to extend the reach of the campaign. The campaign launched officially in early April, and the videos featuring our celebrity ambassadors, Drew Barrymore, John Cena, Yoona Lim and Henry Lau are creating consumer excitement and engagement.

As I look back on the first quarter, I'm pleased with our results and the traction we're beginning to achieve. We are improving our product line, brand perception and go-to-market capabilities. Specifically, we are:

focusing on clogs, sandals, flips and slides by bringing newness and innovation to these important silhouettes for Crocs,

leveraging our "Come-As-You-Are" campaign to enhance our brand relevance and drive sales,

concentrating our efforts on geographies with the greatest potential for the brand, specifically the United States, Japan, China, Korea and Germany;

strengthening our wholesale and e-commerce channels, while right-sizing our retail footprint, as we work towards our goal of reducing our Company-operated stores by approximately net 160 over the next 2 years.

In addition, we are making significant operational improvements as we have discussed on prior calls. A variety of projects are underway to drive efficiencies and cost reductions across the Company.

At this time, let me turn the call over to Carrie to review our first quarter financial results and present our second quarter and updated full year 2017 guidance.

Carrie W. Teffner - *Crocs, Inc. - CFO and EVP*

Thank you, Andrew.

As you've already heard, 2017 is off to a good start with a solid first quarter.

First quarter revenues were $267.9 million, down 4% from a year ago, impacted by the items Andrew spoke about. Currency positively impacted our revenues by $1 million.

We sold 16.4 million pairs of shoes in the quarter, a 0.8% increase from the prior year. The average selling price of our footwear was $16.11, down 4.4%. This was anticipated as we increased our focus on core molded product, which carries a lower ASP, but generates a higher gross margin.

Turning to our regions. Let me note first that given the limited impact of currency in the quarter, the following revenue amounts are as reported.

In the Americas, our revenue came in at $117.7 million, down 5.2%, which was in line with our expectations. Wholesale revenues declined 4.2%, reflecting lower close-out sales and the ongoing shift to more molded product. Retail sales declined 8.2%, and comps were down 6.0%, with 10 fewer stores compared to last year's first quarter. E-commerce sales declined 2.5% in the face of a 42.6% increase in Q1 last year. Overall, our DTC comp in the Americas declined by 5.0%. We knew this would be a soft DTC quarter since we were up against the deep discounting of excess and EOL products that drove particularly high DTC revenues in last year's first quarter.

In Asia, revenue was $98.3 million, down 5.9% versus prior year. Wholesale revenues were down 8.1% reflecting the sale of our South Africa and Taiwan businesses as well as our ongoing work with distributors to clear old and unproductive inventory. Retail sales declined 4.4% even though our net store count increased by 6. This occurred because revenues from newly opened stores were more than offset by the closing of larger but unprofitable stores. Our retail comp declined by 1.4%. E-commerce sales grew by 21.7% even though we were up against last year's heavy promotional cadence. We are continuing to improve our e-commerce capabilities, while consumers in the region are rapidly adopting online shopping. Overall, our Asia DTC comp increased 5.5%.

In Europe, revenue was $51.7 million, up 2.6% versus prior year. Our wholesale revenue grew by 3.9% despite the reduction in discount channel sales, due in part to the movement of some orders from Q2 into Q1. Retail sales in Europe declined 1.8%, with 4 fewer stores than Q1 last year. Our retail comp was negative 7.7%. The difference between retail sales and retail comp is related to currency and the sales from new noncomp stores.

E-commerce sales declined 1.9% in the face of last year's heavy promotions. Our overall Europe DTC comp declined 5.2%.

Our gross margin was 49.9%, improving 350 basis points. The year-over-year improvement reflects the positive impact of various initiatives we have been discussing with you, including our focus on higher-margin molded product, reducing sales to discount channels and less promotional activity. Our gross margin also came in better than we had expected due to fewer discount channel sales and a mix of higher-margin product.

Our SG&A expenses were $118 million, up $2.9 million from the prior year and in line with guidance. Consistent with our guidance, this amount includes $2.2 million of charges associated with our SG&A reduction plan.

On our last call, we discussed our efforts to continue right-sizing our retail fleet and our intention to close approximately 160 net stores over the next 2 years. We moved quickly during the first quarter of 2017, closing a total of 16 net stores. We also accelerated the transfer of 24 stores to distributor partners in the Middle East and China.

These actions tie directly to our SG&A reduction plan. We are on track to reduce our SG&A by $75 million to $85 million and to deliver an incremental $30 million to $35 million in income from operations in 2019.

I want to reiterate two points. First, in connection with the SG&A reduction plan, we will incur $10 million to $15 million of charges over the next two years, $7 million to $10 million of which are included in this year's SG&A guidance. As I noted on the last call, the SG&A benefits generated in 2017 are mostly offset by increased marketing and the reset of our variable comp program.

Second, approximately 70% of the SG&A reduction is tied to our store closure plan, and the balance relates to savings from additional operating efficiencies.

Our income from operations grew 9.4% over Q1 last year, increasing to $15.6 million. This reflects our stronger gross margin, partially offset by higher SG&A due to the timing of marketing expenses and charges incurred in connection with our SG&A reduction plan.

Net income attributable to common stockholders after preferred share dividends and equivalents of $3.9 million was $7.2 million, or $0.08 per diluted share. The weighted average diluted common share count used to calculate EPS was 74.6 million shares for Q1.

Turning to the balance sheet. We ended the quarter with $88.9 million in cash compared to $89.1 million at the end of Q1 last year. $3.5 million was outstanding on our credit facility compared to $8.5 million at the end of last year's first quarter. As a reminder, the first quarter of the year is traditionally our peak working capital quarter.

We ended the quarter with $178.5 million in inventory, 4.1% below Q1 last year. In addition, the quality of our inventory continues to improve. We utilized approximately $49.9 million of cash in operating activities compared to approximately $56.9 million last year.

Let me now turn to the guidance.

Regarding currency, I want to note that our guidance is on an as-reported basis. I also want to call out that our guidance does not reflect any meaningful changes to foreign currencies compared to today.

Separately, we continue to expect the retail environment to remain challenging due to the continued global uncertainty in macroeconomic issues. That said, we continue to focus on controlling those items within our control, elevating our brand and improving our profitability.

For the full year 2017, we are updating our guidance and now expect revenues to be down low single digits compared to the prior year. This is due to the impact of the Middle East transaction and the transfer of 11 stores in China to existing partners, along with a further reduction in discount channel sales. Absent these changes, our full year guidance would have remained relatively flat to last year.

Our full year gross margin rate guidance of approximately 50% remains unchanged.

And, our SG&A for the full year 2017 is now expected to be between $495 million and $500 million. This is down from the $500 million to $505 million range provided on our last call, as we reflect benefits primarily derived from eliminating the SG&A costs associated with the Middle East and China stores being transferred.

Please keep in mind that approximately $7 million to $10 million of charges associated with the implementation of our SG&A reduction plan are included in our SG&A guidance.

With respect to the second quarter of 2017, we expect revenues to be between $305 million and $315 million. This range incorporates the impact of the transition of Company-operated stores in the Middle East and China, a lower store count, reduced discount channel sales as we continue to elevate our brand, and the sale of our Taiwan business in the fourth quarter of 2016.

We expect second quarter gross margins to increase approximately 150 basis points over the prior year.

Our SG&A for the quarter is expected to be relatively flat to last year, including approximately $3 million of charges to support our SG&A reduction plan.

As I said before, the year is off to a good start with financial results that are in line with or above our guidance. We remain confident that our strategies will drive better quality sales and enable us to improve our bottom line profitability.

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

Andrew Rees - *Crocs, Inc. - President*

Thank you, Carrie. We have a long runway of opportunity to drive sustainable and profitable growth and increase shareholder value as Crocs. Let me assure you that the entire Crocs team is focused on these efforts.

In closing, I'd like to once again express my sincere thanks to our incredible associates around the globe, whose dedication and hard work is so essential to the success of our company.

Now operator, we'll 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*

I have a couple of questions. First, on the Americas wholesale business. I know it includes Amazon as a pure-play e-com partner, but we're still down 4%. I'm just trying to see what you're seeing from a trend perspective between some of the digital wholesale partners and kind of your core brick-and-mortar partners?

Andrew Rees - *Crocs, Inc. - President*

Erinn, thank you for your question. As we look at Q1, our wholesale business was exactly what we thought it was going to be. We had a combination of prebooks and our at-once business. We continue to focus on what we believe are the three most important channels in the U.S. marketplace, which are the e-tailers, sporting goods and the family channel. And, we're seeing very solid progress across those.

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

Okay. So, but it being down 4%, could you just put out what you're seeing across those channels, like where was the significant weakness of your growth in the wholesale partner channel or, excuse me, in the digital partner channel?

Andrew Rees - *Crocs, Inc. - President*

Yes, we are seeing growth in digital. We're seeing growth in digital and we're seeing growth across those three focused channels. As you know, there are other channels that we have deprioritized over time and that's predominantly where you see the drag.

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

Okay. Got it. And then, just trying to understand on the guidance. I think you talked about further going back on off-price and end-of-life sales reductions. I'm just curious on what trends you're seeing there. Any opportunity to do this further? And what percent of your total business is now represented by off-price?

Andrew Rees - *Crocs, Inc. - President*

Yes. So it's really what we call discount channels. So the channel we're talking about is predominantly in Europe and is predominantly related to both hypermarkets and discount chains. This is a business that we've operated in Europe for some time. Over a year ago, we started the reduction of this business. You saw that as a drag through the back end of last year. And we think the business is nonstrategic, and we think it inhibits the other elements of growth that we're looking to drive for the brand and it doesn't allow us to elevate the brand to the degree that we wish to. As we got into this year, we had the opportunity to further reduce that business. As we took that opportunity, we think it's definitely the right strategic move for the brand. So it's really that piece of business that we're talking about when we refer to this. There are broader discount channels that you need to clean up inventory, et cetera, but we're not going to do any planned business with this channel.

Operator

Our following question comes from Mitch Kummetz from B. Riley.

Mitchel John Kummetz - *B. Riley & Co., LLC, Research Division - Senior Analyst*

So, my first question is for Carrie. Obviously, you've kind of tweaked the full year guidance a little bit, you brought the sales down, you've taken the SG&A down. I'm just curious from an EBIT standpoint, is the new guidance much different from the old guidance, is it up or down? I guess, it kind of all depends on what your definition of a low single-digit sales decline is, so maybe if you could just elaborate on that?

Carrie W. Teffner - *Crocs, Inc. - CFO and EVP*

Yes. So I would say, if we think about the revenue guidance going down low single digits, what we're thinking about there really is around the fewer discount channel sales and then reflecting the business model changes associated with the Middle East and the China stores. So when we're talking low single digits, we're in the low single digits, so if that's helpful. And then, we do think we're holding our gross margin essentially flat and then we're lowering our SG&A, which is essentially offsetting the impact from a revenue decline. And from an EBIT standpoint, I think we're looking relatively similar to what we guided to a few weeks ago, back in March.

Mitchel John Kummetz - *B. Riley & Co., LLC, Research Division - Senior Analyst*

Okay. And then Andrew, you mentioned that clogs, sandals, flips and slides were up in the quarter. Can you give us a sense as to what percent of the business that business is today? I don't know, I would imagine it's a little bit bigger as a percent of sales in the first quarter versus the full year, but just kind of frame that a little bit?

Andrew Rees - *Crocs, Inc. - President*

Yes. I think the number that we've talked about in the past is our clog percentage of business, obviously it is our iconic clog silhouette. As we look at the first quarter, that was 49% of our business, about 100 basis points higher than it was in the same quarter last year. So we're certainly seeing an increased penetration of clogs. Obviously, sandals flips and slides are seasonal products and they sell most strongly during the spring/summer season. So I don't think we've broken that out historically. But, that piece of the business is performing very well.

Mitchel John Kummetz - *B. Riley & Co., LLC, Research Division - Senior Analyst*

Okay. And -- last question, is there any way you can quantify what the revenue impact will be on the year from -- actually for the second quarter and the year - from the lower store count and fewer discount channel sales? I'm also curious what your reorder assumption is on Q2? I know last year reorders were kind of weak, given some weather challenges in the quarter. I'm just wondering how you are thinking about that?

Carrie W. Teffner - *Crocs, Inc. - CFO and EVP*

Yes. So we have broken out specifics that it's a precise impact of the store closures, but what I'll talk about first is really the impact of the Middle East and China because I think that's the meaningful change relative to our previous guidance. Specific to Q2, we assume it's a fairly limited impact in Q2, and that really relates to the timing of when those transitions will actually occur within the quarter. But for perspective, in 2016, essentially, the 24 stores -- the 13 in the Middle East and the 11 in China -- represented approximately $10 million in revenue last year. Based on the timing of the transactions this year, we're expecting that impact to reduce revenues by approximately -- retail revenues -- by approximately $7 million this year. But that will be partially offset by wholesale revenue, right. I mean, that's rising. Then, there is the SG&A reduction that we talked about. So when I think about the guidance for Q2 and why it's down, the $305 to $315 million level is really two things -- it's 50% -- about half, related to the business model changes, which includes the sale of Taiwan last year that was still showing up in last year's Q2 numbers. The Middle East transaction as well as the transfer of the 11 stores in China. The other half is then reflective of the lower discount channel sales.

Andrew Rees - *Crocs, Inc. - President*

Great. And then, let me just touch on reorders which is the other part of your question, Mitch. So reorders in the at-once business in the first quarter were solid, and were exactly where we expected them. And, if we look at our Q2 expectations and expectations beyond that, we feel good about them. We've essentially planned it flat with last year, and so we think that's a very realistic assumption.

Operator

Our next question comes from Benjamin Barry from Robert W. Baird.

Benjamin Barry - *Robert W. Baird - Analyst*

I think you mentioned something about an order shift in Europe in Q1. I just wanted to know if you could quantify that quickly?

Carrie W. Teffner - *Crocs, Inc. - CFO and EVP*

Yes, we had an order, delivery window change last year. So we have a little bit of shifting. It's only $1 million to $2 million for the quarter, but it's enough to call out relative to offsetting some of the discount channel sales decline.

Benjamin Barry - *Robert W. Baird - Analyst*

Okay. And then, for the full year guidance, it looks like we should start to see revenue at least accelerate a little bit or the decline get less negative as the year progresses. What's giving you confidence in that, is that related to the increased marketing, better product, but just what are you seeing that's giving you confidence there?

Carrie W. Teffner - *Crocs, Inc. - CFO and EVP*

Sure. So as we think about second half of the year, we are assuming that revenue will be up in the low single-digit range and that's how we get to the overall guidance. A couple of things to think about when you think about last year. We are lapping the beginning of when we started reducing our discount channel sales, so we started that in Q3. So we start lapping that. We are also lapping the pullback on shipments to distributors that we started in Q3 last year as well, where we were working with them to help address the inventory overhang in the marketplace, specifically in some of the Asia markets. We're also comping the lowest DTC comp performance for us in 2016, so we're kind of up against a little bit easier compare there. And then finally, to the point that you just made, given our change in our marketing strategy shifting to digital and social, that's allowing us to really support the business in the back half with marketing, which is something we haven't typically done.

Benjamin Barry - *Robert W. Baird - Analyst*

Okay. Great. And then, just finally, promotions are obviously lower year-over-year right now, for you at least. And Carrie, would you characterize the level of discounting in promotion and close-out sales, is it appropriate now or is there still further room to improve?

Carrie W. Teffner - *Crocs, Inc. - CFO and EVP*

I would say , for us Q1 is a good example when you think back to last year, we did our deep deep discounting because we had that excess inventory and end-of-life inventory we were trying to eliminate. We've made a lot of progress in terms of the quality, the inventory improvement, over the last year. And so we don't see the need for that type of activity going forward. And then, when we think about the discounting, the promotional level and cadence throughout the quarter, quite frankly, we typically were not as deep in discounting nor as frequent in the promotional cadence in the quarter as we were in the prior year. And then to your point, where is the right level within our range, right? Obviously, there's flexibility to do a little bit more, but not to the level that we feel would be margin damaging or brand damaging. Do you want to add to...

Andrew Rees - *Crocs, Inc. - President*

Yes, you can obviously see the impact of the improvement in the underlying margins -- gross margins in the business. It's a very competitive marketplace out there, and we manage our promotional cadence relative to the needs of the marketplace, and it's different in the U.S. than it is in other parts of the globe. So we're acutely aware of that and manage it relative to the marketplace.

Operator

We have no further questions at this time. I'd like to return the call back to Andrew for final remarks.

Andrew Rees - *Crocs, Inc. - President*

Great. Thank you. And so, I think in summary, I'd say as a business, we feel like we're in a very different place. We've made a number of key strategic decisions over the past 12 to 18 months. I think we're a more stable business, with much higher quality earnings. And this time last year, we were facing a Q2 that was challenged with our China distributors and managing through that situation. I think we successfully managed through that situation. We were facing a rapidly shifting U.S. marketplace. As we look at where we are today, I think we have a clear plan in terms of product, marketing and distribution. And I would really say very realistic expectations for the brand in terms of the current environment. So we feel confident about where we are. So I would just like to thank you all for joining us here today and your continued interest in the company.

Operator

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