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Crocs, Inc.

First Quarter 2021 Earnings Conference Call

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CORPORATE PARTICIPANTS

Corinne Lin, *Vice President, Corporate Finance*

Andrew Rees, *Chief Executive Officer*

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

CONFERENCE CALL PARTICIPANTS

Erinn Murphy, *Piper Sandler*

Jay Sole, *UBS*

Jonathan Komp, *Baird*

Sam Poser, *Williams Trading, LLC*

Susan Anderson, *B. Riley*

Mitch Kummetz, *Pivotal Research*

Laura Champine, *Loop Capital Markets*

James Duffy, *Stifel*

PRESENTATION

Operator

Thank you for standing by and welcome to the Crocs, Incorporated First Quarter 2021 Earnings Conference Call.

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

I would now like to hand the conference over to your speaker today, Ms Cori Lin. Thank you. Please go ahead.

Corinne Lin

Good morning, everyone. Thank you for joining us today for the Crocs First Quarter 2021 Earnings Call.

Earlier this morning, we announced our latest quarterly results, and a copy of the press release may be found on our website at crocs.com.

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

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

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

Joining us today on the call today are Andrew Rees, Chief Executive Officer; and Anne Mehlman, Executive Vice President and Chief Financial Officer. Following their prepared remarks, we will open the call for your questions.

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

Andrew Rees

Thank you, Cori, and good morning, everyone.

We are thrilled with our Q1 results. The strength of the Crocs brand is exceptional experiencing growth across all regions and all channels. In Q1 our global brand momentum continued to strengthen and we benefited from economies starting to emerge from the pandemic and government stimulus in select important markets. I'm proud of our performance and I'm incredibly confident in our ability to deliver sustained highly profitable growth.

Highlights from the first quarter of 2021 include: for the third consecutive quarter we achieved record revenues with first quarter revenues of $460 million, up 64% versus prior year. Our Americas business had another tremendous quarter with revenues increasing 87% and DTC revenues growing 131%. Our EMEA business has increasing momentum with 49% revenue growth, and Asia showed strong double-digit growth of 26% in the quarter.

Digital grew 75% to represent 32% of total revenues. Adjusted operating income was $126 million, increasing by approximately $100 million, and adjusted operating margins expanded to 27%.

Adjusted diluted earnings per share grew from $0.22 to a quarterly record of $1.49.

On top of these outstanding financial results, the Crocs brand ranked the highest that it's ever been in Piper Sandler's Spring Taking Stock with Teens survey.

The strength of our brand remains unabated. We continue to drive brand relevance and consideration for our multifaceted marketing approach that leverages digital and social marketing, celebrity and influencer campaigns, and collaborations.

We kicked off 2021 with an award-winning collaboration with French EDM artist Vladimir Cauchemar that featured his signature skull mask. To celebrate St. Patrick's Day, we posted a rainbow of crocs and a pot of Jibbitz across social media and released Lucky Charms Jibbitz that quickly sold out.

In March, we launched a second global collaboration with Justin Bieber and his Drew House brand that confirmed Crocs with socks are indeed better together. And to continue accelerating the Crocs brand in China, Justin Bieber sent fans on a mission, to locate arcade games in nine cities, giving them a chance to win free Crocs, Drew House plush toys and socks.

We are incredibly proud that the Crocs brand and business has a positive impact on our communities. Most recently, we were pleased to partner with the United Nations Foundation as it launched its 2021 #equaleverywhere campaign to promote gender equality around the world. From a Free Pair for Healthcare program that allowed us to provide comfort to those on the front line, to partnerships with Feeding America, the NAACP, UNICEF and Glad, that let the world know we are all in this together. We have accelerated our mission of everyone comfortable in their own shoes by remaining focused on doing the right thing.

In addition for doing the right thing for our communities, we strive to do the right thing for our employees. We recently raised entry level wages to an average of $15 per hour for our front line employees in our U.S. distribution center and U.S. retail stores in recognition of their contribution to the success of the Crocs brand.

We were honored last week to be named to Forbes Best Employers for Diversity for 2021.

We were also recently named Fast Company's annual list of the World's Most Innovative Companies for 2021, that recognized organizations that not only found a way to be resilient in 2020 but also turned those challenges into impactful initiatives. Our ability to make a difference also resonates with our consumers, including teens who are socially and environmentally conscious.

I am confident that the strength of the Crocs brand and our mission of everyone comfortable in their own shoes will continue to drive accelerated growth this year and beyond.

Now let's turn to first quarter operating highlights.

From a product perspective we experienced strong growth in our key product pillars, clogs, sandals and Jibbitz. Sales of clogs were exceptional this quarter, increasing 87% year-over-year representing 76% of total footwear revenues versus 65% last year. We continue to experience success with seasonal offerings and trend right drops such as Out of this World and Marble Prints. At the same time, sandal revenues increased 17% to represent 17% of footwear sales versus 24% last year. We are very encouraged by our initial results with sandals that feature personalization, including our classic Slide and our newly introduced Classic two-strap sandal. While we expect clog growth to outpace sandals this year, over the longer term sandals will grow faster than clogs.

Jibbitz sales continue to be outstanding, more than doubling for the quarter versus last year as global personalization megatrend continues.

From a channel perspective, global DTC revenues which include revenues from e-commerce and company-owned retail stores grew 93%. Both e-commerce and retail had extraordinary performance and this was our 16th consecutive quarter of double-digit e-commerce growth.

Digital, which combines e-commerce that is reported in DTC and e-tail that is reported in wholesale grew 75% to represent 32% of our first quarter sales compared to 30% last year. Digital remains our top priority and our digital presence remains a competitive advantage relative to other footwear brands.

Our wholesale channel, which includes brick and mortar, e-tail and distributors, grew 50% versus prior year, fueled by growth in all segments. E-tail and our top 20 brick and mortar accounts experienced exceptional sell-through. Distributors had the highest growth as they replenished inventories in preparation for a strong 2021.

With our continued momentum we remain focused on positioning our brand for long-term sustainable growth. After careful consideration, we recently decided to prioritize wholesale partners who are aligned with our brand strategy and desired positioning in the marketplace. As such, we began terminating select North American wholesaler relationships, a strategy many major brands have also used to maintain strong marketplace health. Looking forward, we'll remain focused on our strategically important accounts comprised of leading e-tailers, sporting goods and family footwear and specialty footwear retailers.

Our record revenues in the first quarter were achieved despite challenging global logistics that impacted many industries around the world. We're not immune to these challenges, with blockage of the Suez Canal and significant bottlenecks in West Coast ports leading to delays. Global logistics are expected to remain congested and we're being as proactive as possible.

Our new EMEA DC in the Netherlands has opened and the transition is running smoothly. The expansion of our U.S. DC is also proceeding as planned. These investments will support our competitive advantage in Digital and our future growth.

Finally, profitability was exceptional as we achieved record quarterly adjusted operating margins and record quarterly adjusted EPS. We're incredibly optimistic about the balance of 2021 and have substantially raised guidance for the year.

Before I turn the call over to Anne, I want to express my gratitude to the entire Crocs organization for their dedication to our brand and to our communities. I'm proud of how they have executed as a team and the results that we have delivered for our employees, our customers and our shareholders.

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

Anne Mehlman

Thank you, Andrew, and good morning, everyone.

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

Our first quarter results were extraordinary. Fueled by all regions and channels, we delivered record quarterly revenues.

Profitability was outstanding as we expanded gross margins, leveraged SG&A and increased earnings per share.

First quarter revenues came in at $460.1 million compared to $281.2 million in the first quarter of 2020, a 63.6% increase, or 60.5% on a constant currency basis.

We sold 25.9 million pairs of shoes, an increase of 51.5% over last year's first quarter. Our average selling price during Q1 increased almost 8% to $17.64, with the increase attributable to increases in DTC revenue as well as fewer promotions and discounts. As we have shared previously, we look at our brand positioning market by market and in Q1 realigned pricing on certain products in select markets globally.

Now, let's review our results by region.

As Andrew mentioned earlier, the Americas had another exceptional quarter, with revenues at $276.4 million, up 87.1%. DTC growth of 131.3% was phenomenal. Strong traffic, conversion and ATV, as well as store closures last year contributed to triple digit growth in both company-owned retail stores and e-commerce. Wholesale growth was 59.4% as high sell-through more than offset challenging logistics.

In Asia, Q1 revenues were $82.6 million, up 26.2% or 20.1% on a constant currency basis from last year's first quarter. DTC increased 20.6% while wholesale grew 28.6%. Digital revenues grew 60.1% and penetration increased significantly from 24.4% to 30.9%. We saw balanced growth across most of our key countries. India revenues were a standout, increasing triple digits. Distributors also returned to growth, albeit at a slower rate.

EMEA revenues increased 48.8% or 41% on a constant currency basis to $101.1 million with growing brand heat offsetting any global logistics disruptions. DTC revenues increased 29.2% with e-commerce strength driven by higher traffic and ASPs, partially offset by retail declines due to COVID-19 closures. Wholesale revenues grew 52.7% fueled by strength in e-tail and distributors.

Our EMEA business overall continues to benefit from our focus on digital commerce which represented 41.8% of EMEA revenue this quarter versus 38.2% last year.

Our first quarter adjusted gross margins were 55.2%, up 720 basis points from last year's 48%. Currency favorably impacted margins by approximately 100 basis points while the majority of the improvement was driven by fewer promotions and discounts, channel mix and supply chain efficiencies.

Our adjusted SG&A improved to 27.9% of revenues versus 38.7% in last year's first quarter. The decrease in adjusted SG&A rate is a result of strong sales growth and operating leverage. We realized significant leverage, even as we continued to invest to support our strategic initiatives.

Our first quarter adjusted operating income increased nearly fivefold to $125.7 million versus $26.4 million last year with robust operating profit growth in all regions. Adjusted operating margin rose from 9.4% to 27.3%, benefiting from gross margin expansion and SG&A leverage on strong sales growth.

For Q1, we recorded $24.2 million of income tax expense with an effective tax rate of 19.7% versus 40.9% last year.

First quarter non-GAAP adjusted diluted earnings per share increased to $1.49 compared to $0.22 a year ago.

Our liquidity position and balance sheet remains strong. We completed the quarter with $255.9 million of cash and cash equivalents in addition to $499.7 million of borrowing capacity on our revolver. In March, to opportunistically take advantage of historically low interest rates, we issued $350 million in 4.25% senior unsecured notes due 2029 and used a portion of proceeds to repay the balance on our senior revolving credit facility.

During Q1 and excluding the impact of the final ASR share delivery that we entered into in Q4, we repurchased 600,000 shares for $50 million at an average price of $76.95 per share. This month, the Board approved an increase to our repurchase authorization such that a billion dollars remains available today for future repurchases.

Inventory at March 31, 2021 was $196.5 million, up from $195.8 million in the first quarter last year. Inventory was lean throughout Q1 and we ended the quarter with higher in transit inventory due to global logistics challenges.

Turning to the future, I would like to share our current outlook for the second quarter and full year 2021. For Q2 we expect revenue to grow approximately 60% to 70% and adjusted operating margin to improve to between approximately 21% and 23%. Strong growth is expected in all regions as brand momentum continued and we anniversaried some COVID-related closures that were most prevalent in the second quarter of 2020.

Barring a reversal in the pandemic recovery trend, we expect 2021 revenue to grow between 40% and 50%. As revenue grows, we expect to be able to leverage SG&A, leading to adjusted operating profit margins of approximately 22% to 24% for 2021. We now expect our underlying non-GAAP tax rate to be approximately 20%, which is higher than previous guidance due to greater than expected profit in our U.S. business. Our GAAP tax rate will also be approximately 20%, which is lower than previous guidance due to the release of additional valuation allowances following greater than expected profit in our international businesses.

In summary, we delivered outstanding revenues and profitability that exceeded expectations while strengthening our balance sheet and investing in our future growth.

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

Andrew Rees

Thank you, Anne.

Consumer demand for the Crocs brand remains exceptional, as you can see from our first quarter results and our increased guidance for 2021. We have a tremendous momentum in our business and we are excited about the long-term future of our brand.

Operator, please open the call for questions.

Operator

Your first question comes from the line of Erinn Murphy of Piper Sandler. Your line is open. Please ask your question.

Erinn Murphy

Great. Thanks. Good morning, and really incredible job to the whole team there.

I guess my first question is on what you're seeing currently at wholesale between sell-in and sell-through. I was pretty surprised by how lean inventory was, but you still have incredible Q2 guidance, so could you just talk a little bit about kind of the balance between the two right now?

Then, maybe Andrew, can you share a bit more about kind of the timing and maybe of the strategic pullbacks at wholesale? What type of account should we expect that you're kind of pulling back from and how is that kind of contemplated in the full-year guidance.

Andrew Rees

Great. A lot of questions there.

Erinn Murphy

Sorry.

Andrew Rees

No, a pleasure, a pleasure.

From wholesale perspective, look, we are seeing very, very strong sell-out, right? We continue to see strong sell-out. We're seeing that strong order. Frankly, it was also strong last quarter. In terms of sell-in, that is also strong as you can see in our current revenue growth from wholesale perspective; 50% growth is very, very strong, particularly strong in North America. That is affected by shipping delays. There are a great deal of logistics issues around the world as I'm sure you're well aware of, but net-net we're still able to achieve that growth and we're able to keep our wholesale partners certainly in stock, probably not in stock to the degree they would like to be, quite frankly.

From a timing of and overall inventory balances, yes, inventory balance is relatively flat from last year, but don't forget that was an elevated position. If you compared it to end of Q1 2019, I think that would be about a 50% growth in inventory, right? As you look at inventory relative to future guidance, we still believe we're in a good position to meet the guidance that we have provided.

In terms of the actions and the work that we've done with wholesales partners, that's really in the broader context of our marketplace management. If you think about earlier this year we instituted (inaudible) pricing on select styles here in the U.S. and we're really focused on making sure that we have a healthy, long-term marketplace, particularly for our core Classic product, which is obviously the backbone of our brand. So we made the decision to pull back from certain wholesale partners. I would say these were generally partners that didn't feel they were consistent with our future strategy and I think that was—it's really in the context of our broader marketplace management strategy that we're working through. We think that will put us in a great place for the future.

Erinn Murphy

Great, thank you. If I …

Anne Mehlman

Just to clarify, the 15% (phon) inventory is Q2 is Q2 balanced versus Q2 '19.

Erinn Murphy

Got it. Thank you. I appreciate that.

Then just my second kind of question is around pricing increases. We picked up at the end of March you were taking pricing here in North America in the core Classic. It feels like the messaging was a little bit different, Andrew. I think earlier around IPR it seemed like you guys were kind of tapped out at where pricing could be here in North America, so I guess we were a little surprised to see that. Curious what you're seeing kind of post the pricing actions, and then what percent of your higher guidance today contemplates this pricing increase? Thank you.

Andrew Rees

Let me Anne address what percent of—the proportion of our guidance is impacted by the pricing increase. But before we do that, yes, in terms of the pricing impact, yes, we did take some pricing increases this quarter, Classic, and I would say derivative and related products. We have a lot of products that ladder together, so we moved actually quite a few products. That was really based on looking at market-by-market around the world. It was here in the U.S. and we also highlighted it was in other markets around the world as well. The impact of those price changes will take anywhere between six to nine months to flow through to our overall financials.

As we look at pricing, we're really looking to make sure that we, A, number one, are giving an incredible value to our consumers. That's the first thing that we're focused on. The second thing that we're looking on is appropriately matching supply and demand, and we really felt like we had an opportunity to take some pricing action. I think that pricing action has been well received. We monitor that closely in our DTC channels. We also monitor it closely with our wholesale partners. We feel like it's been well received but we will continue to monitor it as time goes on.

Anne Mehlman

Yes, and then just on the guidance piece, I think obviously the increase in guidance does reflect the pricing increases that we took, but it also just reflects the increasing brand momentum because our brand just continues to accelerate. I think we've really seen the overperformance in Q1. We expect a strong Q2, and then we have more visibility into the back half and so that really is the reason for the increase in guidance.

I think we've gained more confidence now that markets are reopening globally, and the health of the U.S. consumer is obviously continuing to improve, which seems to have been supported by government stimulus. I think it's a mix of those pieces.

In addition to that, we also have evidence that the brand trajectory in EMEA I think was up almost 50% in the quarter. It's following what we've seen in the U.S.

So, it is a mix of price but it is also volume, so it's a mix of both of those from a guidance increase perspective (cross-talking?

Erinn Murphy

Thank you both and I'll let someone else hop in. Thank you so much.

Andrew Rees

Thanks, Erinn.

Anne Mehlman

Thanks, Erinn.

Operator

Your next question comes from the line of Jay Sole of UBS. Your line is open. Please ask your question.

Jay Sole

Great. Thank you so much.

I want to ask about sandals. I think I heard you mention that sandals grew 17% in the quarter. Can you talk about how you viewed that result? Were you pleased with that? What signs did you see that give you confidence that you see long-term growth potential in sandals to help you capture a bigger market share in that $30 billion global category?

Andrew Rees

Yes. We saw a lot of signs, Jay, that were very encouraging. I would say we were very pleased with the 17% growth. It is obviously behind our clog growth and as we said earlier in the year, we do expect sandals to grow less quickly than clogs this year, but over the long term we expect sandals to be a higher growth category than our underlying clog business.

The signs that we saw that were particularly encouraging, I would say number one personalization. The Jibbitzable or the personalizable sandals that we released last year and this year continue to do really well. Classic Slide that we released last year, that is really strengthening this year. The two-strap Classic sandal that we released this year has had a very strong kind of initial introduction. Personalization on sandals is definitely working really well with that for consumer and so we're very pleased by that.

In addition to that, I would say the reintroduction of some major franchises that we launched last year into the sort of core of the pandemic, so Brooklyn, Tulum and Monterey, and we reintroduced them this year, a few new colors, but frankly, a lot of the same products are also doing really well. You look at the combination of personalization, you look at our other core platforms, we feel really optimistic about sandal.

As we look to the future, you mentioned it in your question, this is a huge global market, right? Thirty billion dollar global addressable market for us from a sandal perspective, so we're very confident about our future in this category.

Jay Sole

Great. Thank you, Andrew. That was really helpful.

If I could ask you one more, the brand relevance just continues to increase. Can you just talk about what some of the key drivers were, some of the key actions that you took in the quarter that continues to drive the incredible momentum behind the brand right now?

Andrew Rees

Yes. In a nutshell I would say it's probably three things. It's product, marketing and marketplace management, right? Number one, I think we continue to deliver to the market fresh and innovative products, right? And fresh and innovative for us can be as simple as the right color and the right graphics. We have some of our new colors in Classic, definitely trend right, definitely in sync with where the consumer is performing well. Graphics performing well, so innovative product and as we already talked a little bit about, sandals.

I would say marketing, the integrated marketing program, our use of celebrities, our use of collaborations, our use of social media, amplifying that around the world, both here in this country but also, frankly, in China and all parts of the world has been really important.

Then increasingly, our marketplace management efforts here in the United States and in our key overseas markets where we're being very thoughtful about where our product shows up, how it's priced, what supply we put into the market so that we maintain a really profitable business for us, but frankly also a very profitable business for our wholesaler and distributor partners as well.

Jay Sole

Got it. Thank you so much.

Andrew Rees

Thanks, Jay.

Anne Mehlman

Thanks, Jay.

Operator

Your next question comes from Jonathan Knox from the Crocs. Your line is open. Please ask your question.

Jonathan Komp

Thanks. It's Jon Komp from Baird.

Just if I could start one follow-up on the pricing question. I know you mentioned labor and some wage increases. There's been maybe some questions about resin input costs too, so is there any sort of inflationary offset to the pricing you've taken and any thoughts on updated targets for gross margin for the year?

Anne Mehlman

Yes. Good question. We are seeing a little bit of inflation, as we talked about. I think the biggest pressure right now is really on freight, both on the inbound and outbound side. We also (inaudible) some labor cost pressures, so in key manufacturing origins we haven't seen that yet but we do anticipate that coming. Also in our DCs as Andrew talked in his prepared remarks we did actually raise some salaries and wages there.

Our input costs are a small percentage of our overall product costs, but we are seeing higher commodity costs due to supply and demand imbalances because that is also a little bit of an offset. I will say we've incorporated all of that into the guidance perspective and our gross margins we do expect to be up year-over-year and you can see that kind of coming through as you saw in Q1, so we do expect to have good gross margins for the year.

Jonathan Komp

Just one more clarification. I don't know if Asia Pacific was mentioned for pricing at all. If that market recovers would that be something you might look at beyond 2021? Or any thoughts there on the geographic reach of the actions you've taken so far?

Andrew Rees

Yes. We have taken some pricing actions in Asia already, Jon, in some of our core markets. Some of that was done this year already, but I do think in the future there is potential for price as the brand continues to strengthen in key Asian markets.

Jonathan Komp

Okay. Excellent. Just one broader question from me. I know at some point we'll be having a broader discussion during an investor day, but when you think of this year's performance and the new guidance to get back to low to mid 20s adjusted operating margin, how should we think about the broader context of this performance and is there anything that you see this year as setting sort of a high or unattainable bar going forward? Or do you think there's good opportunity to maintain and grow margin looking ahead?

Anne Mehlman

Yes. Obviously we haven't given long-term guidance. I think we're incredibly optimistic about what we're seeing in the brand. As we've kind of talked about the pieces, we think gross margins are largely sustainable. We've done a lot of work around that. Then from an SG&A perspective we've always said we've been able to leverage the increase in volume because our business model is created that way. We think those pieces won't change but we will obviously look forward to putting out some longer-term guidance in the back half of this year during an investor day.

Jonathan Komp

I look forward to that. Thank you.

Anne Mehlman

Thanks, Jon.

Operator

Your next question comes from the line of Sam Poser from Williams Trading. Your line is open. Please ask your question.

Sam Poser

Good morning. Thanks for taking my questions. Parts of pretty much everything has been answered but I will try to…

Number one, the closures, you've mentioned that those retailers that you've decided to shut down did not fit your long-term plans or the way the brand was being presented. Can you tell us what that expectation is and what that is that you want from these partners? Do they all have to be large retailers now, or is it digital? Is it brand presentation? Digital abilities and so on and so forth that you decided to close.

Andrew Rees

I think the way I'd probably answer that, Sam, is I'd say, look, there are certain categories of retail that we have a fairly strong (audio interference) and we've been really clear about that (inaudible) really clear about that for a long period of time. E-tail, sporting goods, family footwear and large specialty chains, we're fundamentally (audio interference) large retailers are going to win in the long term and those are formats that we think make sense for the consumer over the long term.

In addition to that, we're looking to make sure that we're well placed in strategically important smaller retailers, whether that be Tier 0 influential accounts or regional accounts that have strong penetration into their local markets. We are less interested in undifferentiated small players that don't have particularly good service levels or in-store standards, and potentially are taking advantage of some, I would say, digital distribution that we don't think is accretive to the brand.

It's really kind of putting our resources, putting our time and energy behind the retailers which we think are going to be strategically important in the future.

Sam Poser

Thanks. Then given the supply chain delays and so on, and Anne, you mentioned some of the cost increase would go to help some of those logistics. Does some of this price increase will go to possibly air-freighting goods to play catch-up so you can service some of these businesses better as you await product to come in that is on the water right now?

Andrew Rees

Yes. Yes, that's absolutely right. I mean I think we're very, I would say, focused on not using air freight whenever possible, obviously, especially given air freight costs are even more elevated than what we've seen in the past, but we will selectively air freight goods in order to get them in quicker, particularly where we are really lean. We have been doing that. That's incorporated in our guidance. We still expect gross margins to be up, so yes, part of the price increases will offset some of the air freight that we will need to use.

Sam Poser

Then lastly China. You talked about you expected China to become—to really turn the corner for next year. Is there anything happening there? Any changes there? Any improvements you're seeing there that are better than expected that might make some of that happen this year?

Andrew Rees

I would say from a China perspective, Sam, we're definitely on track. We feel really good about the plan we put in place. We're tracking to that plan. All of the KPIs by channel make a lot of sense and we're right where we thought we would be, so I would say it's broadly on track.

I would say a few things. We were really pleased with the Justin Bieber launch in China that went exceptionally well. He resonated and the activations that we did resonated. Probably had one of the fastest sellouts as we looked at our sellout time across the globe. We're certainly getting some traction in social media in China with some of the things that we're doing and trying to be innovative. I would say our partner transitions are going well, the new concept stores that we've opened are clearly resonating and personalization is at the forefront of those stores, so I think we're definitely on track. I wouldn't say that we're going to see faster acceleration this year.

Sam Poser

Thank you very much and continued success.

Andrew Rees

Thank you, Sam.

Anne Mehlman

Thank you, Sam.

Operator

Your next question comes from the line of Susan Anderson from B. Riley. Your line is open. Please ask your question.

Susan Anderson

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

I'm curious in Europe if you've seen the retail part of things or the wholesale stores start to sequentially improve into April as it sounds like things are starting to open up there, and then also if you could talk about maybe which markets are still shut down for you in Europe?

Anne Mehlman

Sure. Yes, we don't comment on intermonth movements kind of during the quarter, but I will say, you know, from a Europe perspective one of the best things about our EMEA business is it's actually very high from a digital penetration standpoint. So, even though most of our stores in Western Europe were shut down, in Q1 we still saw a really strong trajectory both on our e-tail platform and on our own e-commerce, so driving that 50% growth as well as distributors in Europe we've seen (inaudible) including markets and some of our distributor markets in EMEA. Obviously we're seeing things kind of vary from an opening up perspective there, but again, the underlying—we don't have that many retail stores in Europe so the underlying trajectory that's driving EMEA is really the digital side of things.

Susan Anderson

Great. That's helpful. Then if I could just add a follow-up on the collaboration front. I'm curious if there's any quantitative details around new customers coming in as you do these collaborations, and I guess just drawing buzz to the brand and driving excitement with existing customers. Then also on the sandal front, I'm curious if there's any plans to do any collaborations with the sandal to kind of drive excitement around those products.

Andrew Rees

Yes. Let me start with the last piece because that's the easiest.

Yes, absolutely. We will see a number of collaborations in 2021 that are focused on sandals. Yes, I think that is definitely coming and I think really important. I would also say some of our super high profile collaborators will be on the sandal for the rest of the year.

In terms of new customers and bars, et cetera, from the collaborations, it is really a combination, and I would say each one is unique, right? They're actually designed that way, right? Some are designed to have an opportunity to attract new customers, acquire new customers, and the mechanism of releasing these collaborations does allow you to capture the customer iteration for those new customers and be able to market them in the future, and some of them are designed to be more, I would say controversial—well, controversial is not the right word, but more kind of interesting and buzzworthy. So it is really a tapestry that we try to put together, and so it really works from both perspectives.

I think one other thing that you would note in 2021, we will do more international collaborations. We have already released a number internationally, and we will do far more internationally, both in Europe and in Asia this year. I think you may have noticed on Sunday night that Questlove was also wearing one of our shoes on the Red Carpet at the Oscars.

Susan Anderson

Yes. Great. That is very helpful. Thanks so much. Good luck the rest of the year.

Anne Mehlman

Thank you.

Operator

Your next question comes from the line of Mitch Kummetz from Pivotal Research Group. Your line is open. Please ask your question.

Mitchel Kummetz

Hi. Thanks for taking my questions. Anne, you mentioned that part of the uptick in guidance is just a better outlook for the back half and just I want to kind of run some numbers kind of back of the envelope. It looks like for the back half you are looking for about 30%-ish sales growth, which is not as strong as the first half, but on a two-year basis, it looks like it is 70%-plus which is actually stronger than the first half. I'm hoping you could just tell us what gives you the confidence in that. Is it because the brand is becoming more of a back-to-school brand? Is it because you expect big things for lined clogs in the fourth quarter? Is there anything on the visibility side that you can sort of support that? What you are seeing in the fall order book, just anything there would be helpful.

Anne Mehlman

Yes. I mean, again, I think, Mitch, we are really seeing that grow momentum continuing to accelerate, both in the U.S. and overseas which is really exciting for us. I think our distributor business in Asia, while still down for (inaudible) reasons is starting to increase again. Our EMEA distributor business is positive. So, we are seeing all those really good signs.

Obviously, we had huge direct-to-consumer outperformance in Q1 which is our smallest direct-to-consumer quarter, so that really gives us confidence. I think we do have more back half visibility, as well as just seeing how the U.S. consumer is responding to stimulus and other things and with the reopening. I think all of those things lead us to believe that, that trajectory only continues to accelerate. That gives us the confidence to raise our guidance and we are really pleased with that.

Andrew Rees

Yes. From a product perspective, Mitch, we are definitely optimistic about lined clogs; we think it's an important part of the brand, and so that does help support our business in the back half.

Anne Mehlman

Then finally, the pricing increases will actually flow through to revenue as well as margin. Those were also incorporated into the updated guide.

Mitchel Kummetz

Okay. Is there any way to isolate the impact of stimulus on the quarter? When you think about—it was something that occurred really, I guess a little bit in January but then moreso in March and that's continued into April. Do you think stimulus should be equally beneficial in the second quarter as the first quarter, or is it weighted more towards one or the other do you think?

Anne Mehlman

I'm not sure about we did more towards the first and the second quarter, but we definitely saw an impact. I mean I think it was pretty clear and from what I've been reading it looks like others have as well. So certainly, the consumer seems quite buoyant right now in the U.S., and we definitely saw an impact with stimulus.

Mitchel Kummetz

Okay. Then lastly, Andrew, on sandals, you mentioned, it sounds like the slide, the personalization side of sandals is really what drove the quarter, but then you also mentioned the reintroduction of some franchises like Tulum and Brooklyn also did well. I'm curious if you can maybe speak to the trajectory of the sell-through that you are seeing there. I would guess that January and February probably weren't great months for those kinds of franchises. I wouldn't think that maybe the sell-in on the order book was that great there, but now we are getting into the warmer months and things like bellbottom denim is trending again and that is good for wedges. Anything that you are seeing there kind of on the trajectory side that would speak to your confidence in those more fashion franchises as we get further into the sandal season?

Andrew Rees

There is quite a lot there. What I would say probably is, look, sandal delivery and the quantum of sandal sales absolutely increases if you go from the back end of the first quarter into the second quarter, right? That is just kind of the natural seasonal cycle. We are certainly seeing more deliveries and we are certainly seeing the business accelerate.

I would say the personalized sandals frankly did well out of the gate, so I don't think that—and I think one thing that we are seeing in some components of the sandal business, particularly Slide and potentially the 2-strap, it is pretty seasonless; that consumer that is wearing it is wearing it with and without socks depending on the season. We are seeing that be more seasonless in the future, and we think in the future we think the overall sandal business probably is a little less seasonal than it is.

One thing in addition I would say is, in the quarter I think the new introductions like personalize and the reintroduction were (inaudible). They were both components in terms of the driver of the business. It wasn't just strong based on the personalized sandals, both did well.

Mitchel Kummetz

Okay. All right, thanks. Good luck.

Anne Mehlman

Thank you.

Operator

Your next question comes from the line of Laura Champine from Loop. Your line is open. Please ask your question.

Laura Champine

Thanks for taking my question. It is really about operating expense leverage, and especially, how are you planning your sales and marketing expense this year to support that very strong growth that you expect?

Anne Mehlman

Yes. It is a great question. We are obviously pleased to leverage SG&A, and we talked about that on the last call that we would leverage SG&A. Q1 was probably a little bit lower from an SG&A standpoint just because our marketing usually kicks off—our marketing campaigns really start off in Q2, so we do expect that to increase, as well as we have increased some wages for our front line employees, and we will continue to invest in our key initiatives that we have laid out. That's sandals, that's China, that's digital and then relevant products and marketing. We will see those costs start to layer in throughout the year since the big focus is obviously investing to support our growth for next year as well.

Laura Champine

Got it. Is it possible to give sort of a range of sales and marketing expense increase year-on-year? Or to talk about how it layers in seasonally?

Anne Mehlman

I definitely think it all, again, increase in Q2. If you kind of—last year was a weird year, so I would kind of throw that one out and go back and look at 2019 and kind of think about how SG&A looks from a quarterly spread, and I think that will help because we definitely expect it to increase quarter-over-quarter, and we do expect to invest in marketing, so we will continue to see that increase. We can go back and look at our historical marketing costs have been right around just under 7% of SG&A.

Laura Champine

Got it. Thank you.

Anne Mehlman

Or revenue, sorry. Yes.

Operator

Your next question comes from the line of Sohit Singh Anand from Stifel. Your line is open. Please ask your question.

James Duffy

Hi. It's Jim Duffy from Stifel. Good morning. Great execution. No doubt a lot of hard work behind this.

I wanted to take a step back with this in mind. I'm hoping you guys can talk more about the infrastructure to support the growth. You have outlined sightline to a $2 billion business this year. That is a big jump in just two years from about $740 million. Can you talk about scaling manufacturing capacity to support this? Have you taken on any new partners? I know you have the new distribution centers. Are there any gaps in the infrastructure that are of particular focus as you look to support that higher revenue run rate? And then I'm curious, as you exit the year, are you still playing catch-up on infrastructure? Or do you feel the infrastructure is in place to support further growth?

Andrew Rees

Yes. Good question. Thanks, Jim.

We have really been investing in our infrastructure now for about two/three years, right? You saw us make substantive investments last year. We are making substantive investments this year. Those capital investments for us are really going into our DC. As a reminder, we opened a new DC in Dayton, Ohi two years ago, we expanded that last year. We will further expand that next year, right?

We have opened a new DC in the Netherlands. That is now open. We are transitioning our operations from old one to our new one through the remainder of the year, and that is a substantial increase in terms of capacity. We also transitioned last year to a new DC which is a 3PL in Japan, etc. We've been making, I would say, some pretty significant investments, expanding capacity, and also expanding efficiency and effectiveness with the use of automation. I think we feel good about that, but frankly, as we continue to grow in these rates, we will continue to need to make those kind of investments, but we have, I think, a good plan for that.

From a sourcing and manufacturing perspective, we have some phenomenal partners. We have major partner groups in Asia that have very significant resources. They have opened new facilities. They have expanded existing facilities. We will continue to do that in the future. And we are in conversations also with a couple of significant new partners as well. We feel really confident in the partner base that we have and our ability to work with new partners in potentially new regions for manufacturing, so we feel like we are in a good place.

As you know, we do try to run our inventories lean, right? We think managing working capital, getting high working capital efficiency and keeping inventories lean such that the marketplace is not flooded with goods is actually a really important component of brand management.

Anne Mehlman

If I could just add on the SG&A side, Jim, I think when you think about how are we supporting the growth, we are definitely adding in one of the investments, we will be adding headcount across our key areas and our key initiatives in order to support this growth, and that obviously is included in our guidance for our operating margins this year.

James Duffy

Great. Very helpful answer. Building on that, any challenges with staffing to support any of this additional capacity? Or are you finding ready availability of labor?

Andrew Rees

I would say no, not really. Look, we are hiring quite a few positions because obviously you need to add positions to—and I would say that is across a broad spectrum of functions. But what we are finding is our brand not only is in demand from a consumer perspective, it is very appealing to employees. They are excited by the trajectory of the business. They are excited by a lot of the things that we are doing from a brand management perspective and I think generally, they are getting great feedback from our employees this is a great place to work. We are attracting a lot of really phenomenal employees.

Anne Mehlman

Yes, and we have been recognized, I think Andrew said in his prepared remarks, by Forbes for inclusivity as an employer, and then I think we are also recognized as one of the best midsize employers. That is also helpful from an employment branding perspective.

James Duffy

Outstanding. Keep up the good work, guys.

Anne Mehlman

Thank you.

Andrew Rees

Thank you.

Operator

Your next question comes from the line of Sam Poser from Williams Trading. Your line is open. Please ask your question.

Sam Poser

Just a quick two follow-ups. Number one, how much bigger on a percent basis do you expect the marketing spend to be in Q2 and Q3, I guess, versus Q1 and versus ’19, as a percentage?

Anne Mehlman

I would take the way to think about marketing is take it as a percentage of our revenue. If you take our revenue guidance and use our marketing percentage historically, it is going to be about right. We might expand that a little bit if things are going well, but that is kind of how I would think about that, Sam.

Sam Poser

Can you just remind us what that is?

Anne Mehlman

Yes, it is almost 7%. We run around 6.8% of revenue from a marketing standpoint.

Sam Poser

Thanks. Then lastly, the gold shoe we saw the other night was that something you guys made or something his stylist did, and will we see that as part of the line?

Andrew Rees

Unclear whether it would be part of the line. It is something that we made in collaboration with his stylist.

Sam Poser

Okay. Thanks very much. Again, continued success.

Andrew Rees

Thank you very much.

Operator

There are no further questions at this time. You may continue.

Andrew Rees

Thank you very much. I just want to thank everybody for joining our call today and their continued interest in Crocs. Thank you very much. Have a great day.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.