Crocs, Inc.(2021 Investor Day)

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Corporate Speakers:

- Andrew Rees; Crocs, Inc.; CEO & Director
- Michelle Poole; Crocs, Inc.; President
- Heidi Cooley; Crocs, Inc.; Senior VP & CMO
- Adam Michaels; Crocs, Inc.; Senior VP & Chief Digital Officer
- Anne Mehlman; Crocs, Inc.; Executive VP & CFO
- Unidentified Company Representative; Crocs, Inc.; Company Representative

Participants:

- Erinn Murphy; Piper Sandler & Co.; Research Division, MD & Senior Research Analyst
- Susan Anderson; B. Riley Securities, Inc.; Research Division, VP & Analyst
- Mitchel Kummetz; Pivotal Research Group LLC; Senior Analyst of Footwear, Apparel Vendors and Retailers
- Laura Champine; Loop Capital Markets LLC; Research Division, Director of Research
- James Duffy; Stifel, Nicolaus & Company, Incorporated; Research Division, MD
- Mauricio Vega; UBS Investment Bank; Research Division, Analyst

PRESENTATION

Andrew Rees^ Welcome to Crocs 2021 Investor Conference, picking up the pace. For those of you who don't know me, my name is Andrew Rees, and I'm Croc's CEO. I'm delighted to have people in the audience here with us in Broomfield, but we also have many people joining us remotely.

I hope you enjoyed the video. I think it does an excellent job charting the cause of Crocs from its inception, through the turnaround, and it brings us to current day. Today, we're going to focus on the future. We're going to focus on the future and picking up the pace.

One of our many strengths at Crocs is our team. We built an incredible team that have deep industry and functional expertise. They have a track record of success here at Crocs and in many other brands.

And I'd like to start by introducing our team members that are going to be presenting with me today. First is Michelle Poole, our Brand President; Second, Anne Mehlman, our Chief Financial Officer; third, Adam Michaels, our Chief Digital Officer; and fourth, Heidi, our Chief Marketing Officer.

Not with us today but also very important parts of our team are Elaine Boltz, our Chief Operations and Transformation Officer; Dan Hart, our Chief Legal Officer -- well, actually he is with us today, keeping an eye on us; Mike Feliton, our Chief Information

Officer; Adrian Holloway, who's our General Manager of our EMEA region; Emma Minto, who joined us earlier this year and General Manager of our Americas region; Shannon Sisler, our Chief People Officer; and Megan Welch, the GM of our Asia region.

In terms of agenda, I will cover our overall growth framework. Michelle will deep dive into our product growth levers. Heidi will review our consumer marketing strategies. Adam will discuss digital growth, I'll return to present our ESG plan before -- and details our long-range financial plan, and we'll lose some time at the end for questions.

Back in 2015, we developed our vision for the Crocs brand. That captures what we stand for as a brand and company and how we aspire to serve our consumers, everyone comfortable in their own shoes. This clarity of vision has been important in our turnaround and will also be important as we realize the full potential of this brand.

As we look back, this team has an -- had an incredible track record of success and value creation. We've created $7.7 billion in shareholder value and achieved cumulative shareholder returns of approximately 870% since mid-2014. You should have tremendous confidence in their ability to create significant shareholder value in the future.

But we're not done. We have great ambition for the future. We believe the Crocs brand has the potential to achieve $5 billion plus in sales within the next 5 years. This translates into a compound annual growth rate north of 17%. The plan we will present today is a logical extension of the strategies that we have used to turn the brand around and stimulate record sales growth.

In addition to confidence in our plan, it's also important to understand that Crocs has a very large addressable market on a global basis due to some key characteristics of the brand and also the company. The Crocs brand has a very broad democratic appeal. We sell to men, women and children.

Our price points are very accessible. We already have a global footprint. You saw that in the video, 80 countries. And we're very much in sync with global megatrends, casualization and personalization. I have already highlighted our incredible team that I have supreme confidence in their ability to bring this plan to life. This may feel very ambitious to you, but as a management team, we are very confident.

While there are many layers to our growth framework, there are 4 critical drivers we'll focus on today: growing digital sales; gaining market share in sandals; our growth opportunities in Asia; and ongoing product and marketing innovation.

I would also note, these are not new strategies. They are the same critical areas of focus that allowed us to create almost $8 billion of value over the last 6 years. I will briefly introduce each of these good strategies. And then I'll leave it to our leaders to give you more detail.

You are well aware that digital has been a priority for the company for many years. Our current digital penetration of 37% is already high amongst our peers. Within the next 5 years, we intend for at least 50% of our sales to come from digital sales.

As a reminder, digital penetration includes sales directly to consumers through crocs.com and marketplaces and also wholesale sales through our global e-tailers. We will achieve this acceleration through elevating our consumer experience, personalizing the consumer journey, and investing in capabilities targeted a growing consumer lifetime value.

We believe our digital connection with our consumers will allow us to remain nimble and maximize the full potential of the Crocs brand. Adam will speak to you in more detail about this later.

Over the next 5 years, we plan to grow sandals -- Sorry, over the next 5 years, we plan to grow the sandal business by 4x. We've also been focused on sandals for some time because we see this as a large and accessible growth avenue for the brand. Sandals represent a large addressable market of at least $30 billion globally.

While we've made significant progress in sandals, resulting in double-digit growth in the 3 years prior to COVID, we believe there is a much, much larger opportunity for the Crocs brand. Discuss how and why we believe we can access this opportunity in the -- later in the presentation.

As a brand with a well-established global footprint, we believe our greatest long-term opportunity -- growth opportunity is in Asia, leading to 30% compound annual growth and 25% of our total business coming from Asia as we conclude this plan. Within Asia, there are a number of critical components.

First and most important is China. China is the second largest footwear market in the world, representing about 20% of global footwear sales. As we look at benchmarks, many of our competitive brands are achieving about 20% of their sales from the Mainland China region. Crocs is underpenetrated.

We have less than 5% of our business coming from Mainland China today. We have a focused strategy around China growth. It focuses on integrated sales -- sorry, it focuses on digital sales, social media communication, recalibrating the portfolio of partners that we have in China, opening and operating a focused set of stores within major cities and also outlet centers.

And I'm pleased to reiterate that the plans we've put in place, the milestones that we're hitting, lead us to believe we're well on track with the plan of growing China in the future. I'm confident this will produce long-term growth in the Chinese market.

Two other opportunities I'd like to highlight in Asia are India and Southeast Asia. India has grown rapidly for the past several years, with significant growth, both digitally and through mono-branded partner stores.

Once they recover from COVID, we're confident this growth will resume. In Southeast Asia, we also believe there is a significant opportunity, mostly through distributors. And once travel restrictions associated with COVID ease, we think that Southeast Asia represents another strong growth opportunity for the brand.

In summary, over the next 5 years, we believe that Asia will be our fastest-growing region.

To touch on product innovation, I'm not going to steal too much as Michelle's thunder, but at a high level, we'll bring to our consumers new silhouettes, compelling collaborations, trend-right colors and graphics and increased personalization through our Jibbitz platform.

I'm very proud of the consumer-centric innovation that our design and development teams are able to produce each and every year. Our innovative and effective marketing has really allowed our brand to stand out, and we have the talent to be able to stay at the forefront of this arena.

Our philosophy has our consumer at its heart, a brand of the people for the people. As you are well aware, Crocs has very high global awareness. Over the past several years, we could focus very clearly on dramatic increases and have achieved dramatic increases in brand relevance.

This has been a key driver of our growth. Looking forward, I'm confident our pipeline of collaborations and our integrated marketing approach that Heidi will explain to you will continue to get the attention of our target consumers.

Our brand purpose: Create a more comfortable world. We've recently made a series of announcements around our brand purpose and sustainability, including today. The intent of these announcements has been to codify and organize the work that has been ongoing within the company for some time and to set some bold goals for the company in terms of social and societal impact.

To organize and effectively communicate our intent, we've established 3 pillars: sustainability; community; inclusivity. We talk about these pillars as comfort without carbon, comfort for our communities and comfort for all people. This gives us a holistic framework to be able to communicate how the Crocs brand will impact our consumers and the world in which we live. I will expand on our bold goals later in this presentation.

So in closing, before I transition to Michelle, let me return to our ambition. We believe the Crocs brand will grow to $5 billion plus over the next 5 years. We will maintain industry-leading levels of profitability and create significant shareholder value. Now I'd like to invite Michelle to come up in detail our product growth drivers.

Michelle Poole^ Good morning. It's great to see you all today. I'm excited to give you more flavor to the product strategies that Andrew just framed up.

This morning, I'll be walking you through the following, our view on global consumer trends; our key product pillars and how we'll win; how we think about the role of innovation; and lastly, I'll share the additional opportunities that we've identified outside our 3 key pillars.

I'll start by outlining our view of consumer trends and the macro environment. Global consumer trends are in our favor for the foreseeable future. There are 4 global macro trends driving consumer consumption, and Crocs is well aligned to leverage all of these trends.

First is casualization. The global consumer shift to casual dressing has been in motion for many years, pre-COVID and it's here to stay. COVID has accelerated that trend as work from home has driven even more casualization.

And recent studies show that more than 2/3 of consumers plan to address just as or even more casual than they did prior to the pandemic once they can return to work and other activities. Next is comfort and functionality. These remain critical purchasing drivers for consumers. They want product to look good and expect it to feel good and work for their lives.

The third is sustainability, an increasingly important purchase driver. Global consumers are demanding transparency from the brands they buy from and consumers of all generations want to know how and where the product is made and the footprint it creates. And lastly, personalization.

Personalization is a growing global macro trend impacting many sectors of consumer goods. Consumers are increasingly looking for ways to express their individuality through how they dress. Jibbitz is part of our unique brand proposition.

Only Crocs can be personalized on the spot, on clogs, on sandals, and we're exploring other relevant categories that I'll expand upon shortly. We see these trends influencing consumer behaviors for years to come, and we're confident that Crocs is well positioned to take advantage of them across the globe.

Let's move into our product pillars. Our line architecture is really simple to understand and will drive the majority of our future growth. As Andrew laid out, we have 3 key product pillars: clogs; sandals; and personalization.

Let's start with clogs. At the heart of our brand is an incredibly powerful and globally recognized icon, the classic clog. The clogs silhouette is comfortable, versatile, accessible, and it provides a blank canvas for self-expression. As you will hear from Heidi, we have successfully built brand and clog relevance with consumers across the globe.

And the success we're creating in clogs is now providing a much bigger brand halo for the overall Crocs brand. We're highly confident in our ability to drive continued growth in clogs and take share of the category in the long term.

Let's talk about sandals. As Andrew framed up, sandals represents an exciting and very large market opportunity for us. It's the single biggest product growth opportunity for Crocs in the future, and we're committed to achieving 4x growth over the next 5 years.

The sandal's category allows us to access new consumers and broader wearing occasions as well as convert our existing clog consumers. And because of our growing brand halo, we can quickly increase awareness and consideration to drive accelerated growth.

Sitting between clogs and sandals as a key growth enabler is Jibbitz. Jibbitz enables us to drive overall consumer engagement and retention. It's a key enabler of self-expression, allowing our consumers to Come As You Are in all channels and in all regions.

Now I'll give you a little more dimension to those 3 critical product pillars. Starting with clogs. Crocs is the market leader of the clog category. We've been able to drive incredible clog relevance in recent years, igniting demand for our iconic classic clog around the world.

Our success has helped grow the overall total addressable market for clogs to an estimated $8 billion in 2021. We anticipate the clog market will continue to expand as many new brands enter the category in luxury, in sports and in the fashion space. And we see this as a positive as it further validates the silhouette with consumers.

We remain confident in our ability to continue to drive future growth. We'll continue to drive clog relevance around the world. We'll acquire more customers to the brands through compelling product design and marketing activations.

We'll accelerate purchase frequency with consumers collecting and buying multiple times a year. And of course, we'll continue to innovate extensively in this space. The silhouette is incredibly versatile and lends itself to a great deal of innovation, including silhouette expansion into height, sport and adventure as well as enhanced visible comfort technologies like light wide -- LiteRide.

On-trend color and prints create highly compelling newness, and we have a great track record of nailing the latest trends in our seasonal launches. Importantly, we have made our clog a year-round silhouette via innovations such as Fuzz. Next, let's expand on sandals a little more.

Sandals represent a huge opportunity for Crocs. As we've reiterated now, we plan to grow the business by 4x in the next 5 years. Today, the addressable sandal market for Crocs is worth an estimated $30 billion with some important dynamics. It's a very fragmented category with no single dominant player.

The large global footwear players are not focused or investing in the category and the smaller players lack investment capabilities and marketing expertise. As you're aware, sandals has been a key growth lever for Crocs for several years, and we've seen great success with 3 years of double-digit growth prior to 2020 and 38% growth in the first half of this year.

Unlike clogs where our focus has been about driving relevance, with sandals, our opportunity is driving awareness and consideration. Our confidence in the future potential is driven by several factors. Firstly, we see our growing clog relevance moving into the sandal category.

Our recent brand metric studies show high levels of sandal consideration from consumers. One that now matches clog consideration in many markets. We have the ability to drive awareness and consideration through our powerful marketing playbook in deep marketing investments. You'll hear more on that from Heidi in a moment.

Also, sandals can be a year-round opportunity, particularly in the digital channel and our warmer markets. And lastly, it's important to remember, sandals is not a trend-driven business. It's based on wearing occasions that never go out of style.

To achieve 4x the growth over the next 5 years, we've identified 4 large and distinct subcategories of sandals that are aligned to the broader sandal market and consumer purchase drivers. Let me walk you through those 4 subcategories and how we think about the line architecture and the key opportunities to gain market share. Firstly, I'll start with Icon.

This is about leveraging our core molded DNA to create key mainstream silhouettes with global appeal. We'll capitalize on what works for us, lightweight, comfort, value, color and importantly, personalization with Jibbitz Charms.

We've already established some strong winners in this space in the last 18 months, namely our classic slide and our 2 strap sandal, clear proof of the power of personalization in sandals. Icon product with its high brand DNA and sharp price points will drive high volume and strong margins in the future.

Next, let's talk about style. Style represents a large part of the sandal market predominantly targeting women who drive 2/3 of the entire sandal market. Purchase frequency and ownership is high in this category.

We have the opportunity to gain market share through offering on-trend silhouettes with great comfort and incredible consumer value. Height represents over 50% of the women's sandal market. And we've had proven success in recent years with franchises like Brooklyn that feature our LiteRide technology.

And with growing brand consideration, we have a great opportunity to unlock market share in this space. Moving to comfort. This is a broad category in the sandal space, primarily targeting what we call the field good female and male consumer for whom comfort is a high priority.

Our comfort innovation gives us a clear competitive advantage and drives brand loyalty and consumer retention in this space is high. We have a proven track record with some large and very successful franchises like LiteRide and Capri. The fourth subcategory we've identified is adventure.

The outdoor and the active sandal market has strong momentum, driven by growing consumer wearing occasions as well as fashion trends moving in this direction. We are a go-to brand in this space, and we're investing substantially in new product introductions for the future. Again, molded technology, a great comfort proposition and strong price value are a winning combination to unlock future market share.

We're confident in our ability to gain market share in all 4 of these subcategories across the globe in the coming years, leveraging our brand heat and powerful product DNA. The third pillar is personalization in Jibbitz. As I teed out, this pillar is a key growth enabler of both our clog and our sandal categories.

Personalization is now squarely positioned as the heartbeat of the brand. It's part of our DNA, and it's a unique selling proposition. No other brand has this opportunity to enable consumer self-expression. Jibbitz drive high levels of engagement and purchase frequency.

And Crocs consumers who engage with personalization have twice the average lifetime value of Crocs consumers who don't. We'll continue to position personalization at the heart of brand experience. It will continue to be a strong driver of success in both the clog and the sandal categories.

And we'll also be looking to extend our personalization franchise into categories beyond footwear in the future. At the heart of our past and our future success is innovation. As Andrew shared, we have high confidence in our ability to innovate, and it's one of our brand values. It's what we're really good at.

And it's been part of our culture since the very first pair of Crocs was created. What drives our innovation is leveraging our powerful brand attributes and DNA and combining it with a deep knowledge of our consumer.

We have a high success rate of bringing innovation to our consumer from fried chicken centered KFC Jibbitz and visible comfort technologies like LiteRide to sky high Balenciaga platforms and translucent Classic Clogs. We'll continue to invest in innovating our product, staying close to our consumer and leveraging our DNA.

We believe there's more opportunity than ever for our brand. I just walked you through our 3 key areas of focus. In addition to these 3, we believe there are some natural extension opportunities for our brand in footwear and beyond footwear. Starting with footwear.

There are a number of large and stable global footwear categories that we can successfully play in and have done so successfully in the past. Athleisure, were casual and athletic looks fused. Shown here as a highly successful LiteRide Pacer. Casual loafers, which is a large and growing category, shown here is our Santa Cruz loafer, a Crocs customer favorite.

Next, we have flat, a global women's category where our molded technology and our comfort proposition create a great product for our consumer. And other key items, for example, rain. These are mainstream items that are in demand with our consumer base and where Crocs DNA works really well.

In addition, we'll exploit our expertise in personalization to extend beyond footwear into other focused categories that leverage our brand DNA. The most recent example being Socks, which we launched this summer. We'll approach these in a thoughtful and sequenced fashion and have high confidence in leveraging our brand DNA, and we have amazing product creation talent to bring these categories to life in a compelling and unique way.

In closing, let me sum up. We are highly optimistic Crocs has a very strong growth potential and are planning for a bold future. We have a clear product pathway, and our 3 focused product pillars will drive the majority of long-term growth. Clogs will continue to grow and will continue to drive and lead a growing category.

With a focused 4 category approach, we're confident in our ability to capture more and more of the large addressable sandal market. We have the ability to double our Jibbitz business and drive incremental market share through additional opportunities in personalization.

And all of this will leverage our powerful Crocs DNA of comfort, casual, democratic nature and self-expression. Rest assured we'll be strategic, disciplined and focused with high levels of executional excellence. And we have a world-class talent on the team to enable us to unlock the full potential of the opportunity ahead.

And now I'd like to turn it over to Heidi Cooley, our Chief Marketing Officer, to describe our consumer and our marketing strategy.

Heidi Cooley^ Thanks, Michelle. Hello. I'm Heidi Cooley, Chief Marketing Officer, and I'd like to start today with our global brand awareness. Like many of these great brands, our brand is synonymous with an iconic silhouette. A silhouette that consumers easily recognize as Crocs around the world.

With that as our foundation, we've been able to build brand momentum by focusing on creating brand relevance, because brand relevance is about showing consumers how to wear Crocs and it's about creating meaningful consumer connections with them as individuals.

As you know, this team has driven a dramatic increase in global brand relevance for the last 4 years consecutively. These results have been the outcome of a brand strategy that is first and foremost grounded in a consumer-centric approach. Consumers or croc nation as they've lovingly named themselves, they are at the center of everything we do.

We intentionally leverage consumer interest in conversations to authentically be as close to the consumer and as close to market as possible. We have a clear brand vision, a vision that everyone should be comfortable in their own shoes. It's that vision that's informed our global brand invitation to Come As You Are.

It's also that vision that's been further reinforced by our newly introduced brand purpose, a purpose to create a more comfortable world. We've been a digitally led social-first brand for years now. That's enabled us to ensure that innovation is at the forefront of how we go to market as we tend to create deeper and more meaningful consumer connection.

From the products that we design to the experiences that we create to engage friends, we always take a digital-first approach. Lastly, we know that globally integrated campaigns drive impact. We believe that our creativity, when it's paired with our intent to meet the consumers where they are, well, that's what's maintaining our industry-leading consumer engagement.

If we had to summarize we would say that imaginative agility is our competitive advantage. We take insights and turn them into memorable moments for fans all over the world. And we intentionally do it in a way that is authentic to our brand, our partners and most importantly, our fans.

We have a clear architecture for how we think about our consumers. Unlike some brands, we intentionally serve a broad and democratic group of consumers. Because we know that comfort and self-expression, well, that's relevant to many. We have 2 key consumer groups: the explorer; and the feel good. First and foremost, our explorer consumer is one who is an early adopter of trends.

They care most about self-expression and personal style, but they are really, really confident being comfortable. We've driven double-digit increases in consideration with this consumer year-over-year, as we continue to give them new and authentic reasons to choose our brand.

Our second key consumer is who we call the feel good. They are an early majority consumer to care about style, but only if it's comfortable and versatile, 2 functional benefits that are core to our DNA here at Crocs.

Across both key consumer groups, we have 4 focused affinities that further guide how we bring product and our brand to market. Our consumers or fans, as we like to call them, are at the heart of everything we do because we are a brand of the people, for the people. We live for our fans, a beautifully diverse tapestry of one-of-a-kind for all walks of life and from every corner of the world.

And we stand with those who bravely inspire others to embrace these beliefs and celebrate what it truly means to Come As You Are. We've intentionally aligned our brand positioning toward our shared interest across our key consumer affinities. Come As You Are successfully launched 5 years ago will remain our brand platform.

It successfully connects the ethos of our brand to the insight that self-expression and being one of a kind is what makes both Crocs and our fans unique. We'll continue to strengthen activities around our brand purpose with an ongoing drumbeat across sustainability, inclusivity and community.

Of course, with self-expression at our core, you can expect that we'll continue to be digitally led and social first, as we continue to bring fans creative reasons to engage with Crocs. As a brand, imaginative innovation is core. It's core to how we approach consumer engagement.

And we intentionally set out to give consumers experiences with our brand. And because everything we do is grounded in our (inaudible), our fans give us permission to try new things. An example, we were the first footwear brand to market globally with TikTok's new augmented reality experience, an experience where consumers could virtually try on a classic sandal, a Classic Slide or a Classic Clog and pair it with their favorite Jibbitz.

In less than a week, we and our fans drove over 8 billion global impressions on the platform. Again, we believe that our biggest competitive advantage is our imaginative innovation. We are bold.

We are willing to take risks that others will not because we believe that agile innovation will enable us to continue to create deeper and more meaningful consumer connections. A critical component of our success is our integrated marketing model, a model that we believe delivers impact at global scale.

You may think that we're all about collaborations, but they are only one of the strategic priorities that bring this brand to market for fans all over the world. Again, with the consumer and our brand DNA at our heart, we create 360-degree marketing activations that start with social and digital, activations that intentionally leverage brand ambassadors, collaboration partners and influencers to continue to show consumers how to wear what was one of the most polarizing shoes in the industry. In addition, we own our own narrative.

We do that through public relations across all of our sales channels and consumer touch points. Every campaign is globally led and intentionally adapted for local relevance. So our model can drive scale and repeatable success.

Andrew introduced you to our growth framework, a framework that drives actions throughout our brand. From a marketing perspective, this growth framework enables us to focus on propelling each of these initiatives with specific efforts. It is this framework that informs how we go to market and how we accelerate investment to fuel our growth.

Let's start with digital. As you'll hear from Adam, we are a digitally led brand. And we believe our social first approach. Well, that enables us to create powerful brand connections through consumer-driven activations. As an example, if you happen to follow us on social media, you'll notice that our fans are obsessed with adult Lightning McQueen Crocs.

What started back in 2019 with a Change.org petition, to make Lightning McQueen Crocs in adult sizes has turned into one of the most highly demanded restocks ever. We have fans that have slid into our DMs over 1,000 times to try to get a pair of these beloved classics.

And we're a brand that gives the fans what they want. As you've heard from Michelle, our second strategic growth priority is sandals. With personalization and self-expression at the heart of our brand, we're quickly igniting new sandal silhouettes that draft from our core DNA.

In 2021, we set out to leverage our proven year-round Icon playbook and expand it to sandals. Every single campaign this year has featured our Classic Sandal and Classic Slide. As have 5 collaborations, from Yang Mi in China to Diplo and most recently, Benefit Cosmetics. In the first half of this year alone, we've delivered double-digit increases in sandal consideration. And in many of our Tier 1 markets, sandal consideration is now on par with clogs.

As Andrew briefly discussed, Asia remains our strategic growth region. And what we know at Crocs is that momentum is built by movement, which means that we will accelerate brand momentum in Asia by increasing investment to create more consumer moments throughout the year.

In China specifically, we more than doubled our brand investment to accelerate this always-on approach. We're now committed to an ongoing drumbeat of key opinion leaders, or KOLs, and key opinion consumers, KOCs, as well as collaborations and social activations throughout the year.

This activity has already started to create dividends as our followers on Douyin, China's TikTok, continue to grow. Our last strategic pillar is innovation. Innovation is not only core to our brand values. It's at the forefront of how we drive consumer acquisition and engagement on platforms where we know fans are spending the majority of their time.

I'd actually be hard-pressed to name a campaign where social or digital innovation was not a critical component of our strategy. We dropped the Diplo collaboration through a live stream on Twitch. Our Justin Bieber collaboration had its own Snapchat lens.

In Korea, we partnered with Universal Music and YouTubers to create a Come As You Are soundtrack featuring Jibbitz. And we even created a Crocs world in Minecraft to introduce our tie dye collection.

In summary, we are a brand that listens to our fans. And then we do what a lot of great brands don't. We, at Crocs, actually respond quickly, because our fans are the heartbeat of our brand, and it's our mission to continue to give them new and innovative reasons to continue to choose Crocs.

Because we, at Crocs, intend to pair insights with creativity and innovation to inspire consumers to join, not just transact with our brand. So before we take a 15-minute break, I'd like to first pass the mic to, you guessed it, our fans.

(Video Presentation)

Heidi Cooley^ We'd now like to invite you to take a 15-minute break before Adam Michaels takes you through our digital strategy.

(Break)

Adam Michaels^ Hello. My name is Adam Michaels, our Chief Digital Officer. And today, I'm excited to take you through our digital ambition and how we expect to achieve it. As Andrew mentioned, digital has been a key priority and investment area for us for years.

Digital represents an opportunity for us to connect more directly with our customers to test and scale new ideas, products and experiences and is critical to our next phase of growth. As we look toward 2026, our expectation is that our digital channels, crocs.com our wholesale e-tail partners and third-party marketplaces will reach $2.5 billion and represent 50% of total company revenue.

And while our ambitions are high, it's important to note that digital is already a sizable, fast-growing channel for us with revenue more than doubling in the trailing 12 months from 2019 and penetration increasing from 31% in 2019 to approximately 37% this year. Additionally, the popularity of our brands and our online demand continues to grow.

When we look at Google search volume for both the term Crocs and Jibbitz, we can see that search volumes have been growing over time and today are at record highs. This means more people are searching for our brand online than ever before. And our early investments have allowed us to capitalize and -- on this demand and to dramatically increase the size and contribution of our digital business.

Now as we think about our ambitions for the future of $2.5 billion and 50% penetration, there are some critical keys to success I'd like to discuss. Specifically, how we view our digital ecosystem, how we think about digital distribution, the importance of creating compelling consumer experiences and how we'll leverage data to drive better decisions and better outcomes across the organization.

As the brand has grown, so too has our digital ecosystem. From what was a channel-driven strategy with a narrow focus on crocs.com to a much more consumer-centric strategy, leveraging a wide spectrum of digital and physical touch points. Over the past several years, we've added over a dozen marketplaces around the world, including Rakuten in Japan, Wildberries in Russia, Zalando in Europe and Flipkart in India.

We've also enhanced our presence on globally and locally relevant social channels like TikTok, WeChat in China, and Line in Japan. We've successfully leveraged live streaming, and we'll soon be launching our own app, which I'll talk about a bit later.

These investments have allowed us to engage with our consumers in ways we never could before. In the coming years, you can expect us to expand the depth and the breadth of this ecosystem, ensuring we can engage with our consumers on the platforms most relevant to them.

As we've discussed, we have 3 key digital distribution channels: crocs.com, our owned and operated websites around the world; our wholesale e-tail partners; and third-party marketplaces. Similar to the evolution of our digital ecosystem, we've taken a very consumer-centric approach as it relates to distribution.

As Heidi mentioned, one of our greatest strengths as a brand is our democratic consumer base. And we believe our distribution should reflect that. Our customers don't shop in any one of these channels alone.

And we believe they each play a unique role in a consumer journey, whether that's through product discovery, research or ultimately purchase. Crocs.com will continue to be the best representation of our brand, where you'll find the broadest assortment, great brand content and the most unique and exclusive products like collaborations. E-tailers and marketplaces help us reach consumers we don't serve through crocs.com, and often offer a value proposition we can't.

And in many markets like China, these channels represent the vast majority of current digital sales and projected future growth. Our goal is to create experiences that are as compelling and as brand centric as possible on these platforms.

Ultimately, we need to be where our consumer is but we'll continue to be strategic about with whom we partner and thoughtful about our product assortment and segmentation strategy across these platforms.

As we think about future growth across these channels. In 2026, the Americas will still be our largest geography, representing 50% of digital revenue. However, we will see a more balanced mix geographically, with Asia representing our longest long-term growth opportunity.

Our focus in the Americas and EMEA will be on scaling already matured businesses and leveraging the incredible brand momentum we have to drive consumer acquisition and retention. Asia will be about leveraging the best practices from our more mature markets.

But increasingly, we expect Asia to be a region that leads us in terms of digital innovation in areas such as live streaming, social commerce, and the intersection of physical and retail touch points.

As such, we'll be investing heavily in the region and also in our ability to scale these innovations globally across all markets. Now regardless of the market or the channel, our success will be dependent on our ability to create compelling experiences that resonate with our consumers. Three of the important I'd like to highlight today are collaborations, personalization with Jibbitz and loyalty.

Now you're all familiar with the success we've had with collaborations and the incredible consumer response they've generated. But in addition to the record sell-outs, collaborations represent an opportunity for us to bring new consumers into the brand, even if they don't purchase.

The excitement around these collaborations, the PR generates drives increases to our global websites through traffic and e-mail subscriptions. This allows us to grow our consumer database, providing a strong foundation for future growth as we can engage with these consumers over time.

We'll continue to invest in the technologies that enable these experiences, including virtual waiting rooms and recently with our Lightning McQueen launch online drawings. As Michelle discussed, Jibbitz is our third key product pillar and represent an amazing opportunity for us to engage with our consumers digitally.

We'll be investing in creating experiences that allow consumers to interact with Jibbitz in new and exciting ways, including through the use of virtual and augmented reality. We know that when consumers personalize their footwear with Jibbitz, they become more valuable to us through higher average order values, and as Michelle mentioned, a lifetime value higher 2x higher than our regular consumers.

Ultimately, our goal is to create an environment where personalization becomes the norm. And the question isn't, should I buy Jibbitz? But rather, which Jibbitz should I buy?

Finally, as we continue to grow and bring new consumers into the brand, loyalty and customer retention will be critical areas of focus and investment for us. We'll be expanding the value proposition of our loyalty program and aggressively scaling it globally.

These consumers are our most valuable, but they're also the ones we know the most about. This allows us to make their engagement with our brand more personalized. We can show them the products, the content, the experiences that are most important and most relevant to them. We can offer them access to exclusive products, collaborations, even in-store experiences.

And each interaction builds upon the next, whether through crocs.com or soon to be launched app or our retail stores. Those experiences become more valuable, and we drive better outcomes through them. Now key to our success here will be data. And really everything we do, our ability to collect and leverage data will be critically important.

We spent the last several years building our team, putting in place a best-in-class infrastructure with world-class tools and partners that help us drive insights not only to our digital business but across the organization.

This enables us to make better, more informed, faster decisions with real-time data that's accessible by all of our teams. This allows us to not only better understand our customer today but more importantly, help us predict what our customers want from us in the future, whether that's new experiences, new features, functionality, even new product offerings. Our investment in data will allow us to become more agile as an organization and help us unlock even greater business potential.

Now as we look to the future, we'll continue to be thoughtful about the investments we make, ensuring they make sense, both for our brands and our consumers. A few on the road map, I'll highlight today. First, our app, which we'll be launching later this month.

And while we explored launching an app in the past, it wasn't until now, we felt like we had a strong enough consumer value proposition for an app to be successful in an increasingly crowded marketplace.

But today, with our diverse collaborations, the popularity of Jibbitz, a highly engaged fan base, we believe we have a compelling offering and one that I'm confident will drive consumer adoption. An app represents an opportunity for us to create more direct connections with our consumers and to create more impactful interactions with our brand.

We'll be developing app exclusive content that gives users unique insight into our brand and our partners. We'll have app exclusive products, and we'll leverage geolocation technology to better connect the digital world with our physical stores. We also believe the app will be a successful commercial channel for us, generating incremental revenue.

Next is customization. As we think about increasing consumer demand for personalization in general, we believe customization is a platform that can unlock significant growth for us. Unlike almost any other footwear, our shoes providing incredible canvas for self-expression especially when combined with Jibbitz.

We imagine an environment where individual consumers, companies, teams can create personalized products with both footwear and Jibbitz with custom designs and logos that are meaningful to them.

As such, we'll be investing in both the front-end and back-end capabilities to bring this program to life and expect to be scaling it next year. Finally, we'll continue to make investments in the technology and the infrastructure that allow us to create improved customer experiences.

We've recently enhanced our omnichannel capabilities by allowing consumers to reserve product in-store via crocs.com and we'll be rolling out full buy-online, pick-up-in-store technology throughout the U.S.

We're also expanding the footprint and capabilities of our global distribution centers to better support our growing digital business as well as expanding our digital payment offerings around the world like Afterpay, which has been a huge success for us. We'll also be investing in our ability to service our customers with technology like chatbots that have both improve the customer experience but also reduce inbound calls to our customer service center.

In summary, the investments we've made in our digital business have generated incredible results and have us well positioned to achieve $2.5 billion and 50% of total company revenue.

We'll continue to grow and scale our largest markets in the Americas and EMEA, while unlocking the great potential we have in China and Greater Asia. And we'll continue to invest in the people, the tools, the technology and experiences required to meet the needs of our consumers today and in the future. Now I'll hand it over to Andrew, who will review our future plans for ESG.

Andrew Rees^ I'm incredibly proud to introduce our comprehensive approach to ESG. As I mentioned in my introductory section, we have created a 3-pillar approach based on our core brand values and how we operate as a company.

The work behind these pillars has been ongoing for some time, and I'm thrilled that we can showcase them and how the brand will impact both the world in which we live and the consumers that we serve. We're deeply committed to having a positive impact on our environment and our society.

Our brand purpose: creating a more comfortable world. Our brand purpose not only feels genuine to our consumers and our employees. It has allowed us to lay out bold commitments for the future.

Our ESG agenda is supported by 3 integrated pillars: sustainability; community; and inclusivity. In our words, comfort with our carbon, comfort for our communities and comfort for all people. I will now tell you a little bit more about each of these pillars.

Starting with sustainability. It is probably a little shocking to many of you that the carbon footprint of our Classic Clog is 3.94 kilograms of CO2 equivalent, one of the lowest footprint of any issue in the market.

As you can see in the graphic, the carbon footprint of the Classic Clog is about 1/3 of the impact of a typical shoe. The reasons for this are the simplicity of the product, just 3 components. It's lightweight and our unique manufacturing process. We recently announced a very bold commitment to net zero by 2030.

That is just 9 years away and a very aggressive goal. But we have a clear plan to get that. I would emphasize this scope includes not only the operations of the company, but all of the products that we produce. We will focus on 4 areas to dramatically reduce our CO2 emissions.

The biggest and most important is sustainability ingredients. Today, we announced the start of production of bio-based Croslite. We're partnering with Dow, a major global material science company to replace a significant portion of the primary ingredients with EQUILIBRIUM, their patented green component.

This will replace a lot of the hydrocarbon or natural gas derived product that goes into our product today. We're confident that we can reduce the already low carbon footprint of our products by 50% per pair by 2030, and we'll mitigate the balance with carbon offsets.

In terms of broader resource use, we'll focus on a broad range of more sustainable sources to support our company operations.

Packaging has been a long-term focus, and we've had huge success. 80% of our products shipped today without a box, but we can do even better. We're also focused on product after life and we're partnering with Sole Tribe App to enable resell and reuse of Crocs.

We'll continue to work with Soles4Souls, For Souls on donation programs of excess and lightly used products, and we're actively working on opportunities for recycling. Today's announcement of bio-based Croslite is very exciting. Not only will bio-based Croslite allow us to reduce our CO2 emissions by 50% per pair.

We are not making our consumers choose between a sustainable product and a less sustainable product. We are blending equilibrium into every pair of shoes that we make. So that every purchase the consumer makes will be more sustainable. In our language, green comes in every color. In a moment, we'll share some of the consumer communication around this exciting announcement.

Turning to community. We're focused on comfort for our community. We do this in a number of ways. Number one, giving shoes, for example, to UNICEF, the American Red Cross and frontline health care workers, giving funds to support important social movements and causes such as Black Lives Matters and Glad. Recently, we denoted both shoes and money to the American Red Cross to help support the resettlement of Afghan refugees as well as the impact of Hurricane IDA.

Giving time, our associates around the world participate in a variety of fun and enriching events in the local communities. Throughout the pandemic, we've had an 18-month commitment to Feeding America, collecting substantial funds as well as helping out at many food banks across the country.

We're working hard to become a more inclusive employer to reflect our consumers and the communities in which we live and work. I would like to highlight a few key statistics and initiatives we're proud of. More than 2/3 of our global workforce are women.

More than half of our U.S. workforce -- sorry, more than half of our U.S. workforce identify as people of color. Earlier this year, we increased our average hourly wage for all associates in the U.S. to an average of $15 per hour.

I would also like to add that our Board is both diverse and representative. As a company, we try to live true to our brand values, Come As You Are. Let me close by sharing a short video that introduces our new campaign. Green comes in every color.

(Video Presentation)

Andrew Rees^ Finally, the segment you've all been waiting for. Let me ask Anne Mehlman, our CFO, to come up and take you through a long-range financial plan.

Anne Mehlman^ Good morning. While I know most of you, I'm Anne Mehlman, CFO of Crocs. And today, I'm going to walk you through a little more detail on our long-range plan, focusing on the financial implications.

Thinking back to 2014, when we embarked on our brand transformation, one of the key tenets was to build a platform on which we could drive sustainable, profitable growth. We have been successful in doing exactly that, growing revenue for the last 4 years from $1 billion to the over $2 billion implied in our full year guidance provided in July, improving our operating margins every year to industry-leading levels by improving both gross margins and leveraging SG&A.

In addition, we have optimized capital allocation and returned cash to shareholders through our significant and successful share repurchase program. Since 2014, we have repurchased $663 million worth of shares, approximately 36 million shares at an average price of $18.36.

Combining all these actions, we have created a tremendous amount of shareholder value, over $7.7 billion and more than 870% total shareholder return. Our ambition is to grow revenues from over $2.2 billion this year, which is the midpoint of our July guidance to over $5 billion by 2026.

This represents a 17% CAGR from 2021 and squarely positions us as one of the largest mono-branded footwear companies in the globe. When we think about what the brand will look like from a channel perspective, we will have a very balanced route to market and approach to grow.

Our strategy is to be where consumers want to shop. Digital will continue to take share, and we expect it to grow to be 50% of our business by 2026. We see growth playing out on our own dot-coms, marketplaces where the consumer purchase our product from us on a third-party website, and with our various e-tail partners around the world.

We expect our direct-to-consumer business or DTC, which includes our dot-coms, marketplaces and owned retail stores will represent approximately 45% of overall revenue.

Again, dot-com and market price growth will outpace retail growth as consumers continue to migrate to digital, and we will continue to invest in our digital strategy, while our retail growth will come from comp growth and select store openings mostly in Asia.

Wholesale will take share as our e-tail business sits within our wholesale channel and is expected to continue to drive strong growth. We also anticipate strong growth in our distributor markets as they start to recover from the impact of COVID.

Many of these markets are currently underpenetrated and have large populations and growth within our target demographics. Since wholesale carries a lower gross margin than DTC. This will drive some headwinds to gross margin but also enables us to continue to leverage SG&A as it carries de minimis variable SG&A.

In regards to product, as Michelle discussed earlier, we will grow in line with our key product pillars: clogs, sandals and personalization. Sandals are going to gain penetration, and we project them to drive the highest growth rate of any of our product pillars. We expect our sandals to take share of a large fragmented growth market and grow 4x in revenue versus where they are today.

As sandals take share from our clog product, we will have some gross margin compression as sandals carry a lower gross margin than clogs, although this will be somewhat offset by the increase of personalizable sandal product. The clog, our iconic silhouette is currently about 70% of our overall revenue on an LTM basis.

We expect to continue to grow clog relevance as we expand clog relevance globally and drive both market expansion as well as share gains. Jibbitz comprises over 6% and of Q2

LTM sales and is a growth driver in of itself, but most importantly, drives consumer engagement and relevance.

We expect Jibbitz to more than double as we continue to drive Jibbitz's penetration particularly in international markets as well as create more opportunities to personalize other silhouettes.

Other revenue, approximately 7% today, is primarily other footwear at this stage along with a small amount of nonfootwear revenue, excluding Jibbitz. As Michelle elaborated on, we have the ability to enter into new consumer territories. As you can see, we are extremely focused around where we know we can win, which has been a proven driver of our success thus far.

From a geographic standpoint, Americas will remain the largest part of our overall business, but we do expect penetration outside of the Americas to reach approximately 44%. Our Asia region has the largest long-term growth potential, and we expect it will grow the fastest, with China moving from less than 5% of overall global revenue to approximately 10% in 2026.

We expect EMEA will also grow nicely as we have seen the brand continue to gain relevance and accelerate growth through the back half of last year and into this year. We expect EMEA will also gain share as a percentage of our total revenue as we see growth, particularly strong in digital and distributors.

As we grow key markets in EMEA and Asia, we will continue to drive leverage as demonstrated with our Americas market as well as expand gross margins as we gain scale and the brand continues to strengthen. As you saw in our opening video, we identified 5 top markets in 2015, the United States, China, Japan, Germany and South Korea.

We focus our investment here, particularly our marketing investment. Historically, these markets represented approximately 75% of our revenue in 2020, and we expect these markets collectively to grow at a compound annual growth rate of over 20% through 2026 with the fastest CAGR growth in China.

We have laid out what we intend to look like by 2026, and our growth drivers remain consistent. Digital, sandals and Asia will power our growth and be the fastest growth drivers, while all regions, channels and product pillars will grow. Culminating in strong revenue growth to over $5 billion in revenue in 2026 and at a constant annual growth rate greater than 17%.

We anticipate this will be very profitable growth as it is organic and focused, builds on our existing infrastructure and amplifies our existing product pillars channels and geographies. We plan to maintain industry-leading profitability, generating over 26% adjusted operating profit margins over the long term.

We will do this by continuing to leverage SG&A as we scale top markets while still investing in our important strategic growth drivers that drive our growth. And although we do expect some pressures on our gross margin, related to channel mix, product mix and our sustainability initiatives, we do expect to be able to maintain our gross margins at current currency rates.

We think we can offset these margin headwinds through continued product innovation, leveraging personalization, optimizing our global pricing strategies and investing in our supply chain capabilities.

As mentioned on the prior slide, we will continue to invest in initiatives key to our success: building digital to drive 50% of our revenue; Asia, focused on China; brand and performance marketing equating to 7% to 9% of our revenues; innovation and capital expenditures of 3% of revenue, mostly related to our distribution footprint as we build out scalable and cost-effective ways to service our global customers and consumers.

Moving to capital allocation. We will prioritize financial flexibility first. We do have a very capital-light business model that does not require significant capital expenditures. After optimizing for financial flexibility, we will look to invest in the business. And after investing in the business, our next priority is to return cash to shareholders through our very successful share repurchase program.

We have increased our share repurchase program in 2021. And we are announcing today that we intend to enter into a new accelerated share repurchase program, or ASR, to repurchase an additional $500 million by the end of the year. This new ASR reflects the continued confidence we have in our future. With that, our Board has increased our outstanding authorization. So after the $500 million ASR, we will have approximately $1 billion left on our share repurchase authorization.

By the end of Q3, we will have repurchased $500 million this year. Including the just announced ASR and we anticipate by the end of the year, we will have repurchased $1 billion worth of shares or over 8 million shares in total.

Regarding 2021, we are reiterating our full year 2021 guidance provided in July. From a long-term perspective, we now expect revenue to be at over $5 billion by 2026. A strong compound annual growth rate of 17-plus percent, adjusted operating margins at best-in-class levels at greater than 26%, CapEx of approximately 3% of revenue, a tax rate of approximately 25% as we continue to drive profitability in the U.S.

Overall, an extremely strong financial profile. We have and expect to maintain a very strong balance sheet. Our strong cash flow generation this year supports our share repurchase program, and we expect to continue to generate exceptional free cash flow equating to over $1 billion annually by 2026.

In closing, we see another significant value creation opportunity over the next 5 years with high organic revenue growth, industry-leading operating margins and exceptional cash flow generation. Thank you.

At this time, Andrew and Michelle will join me for Q&A.

QUESTIONS AND ANSWERS

Anne Mehlman^ (Operator Instructions)

Andrew Rees^ Erinn's ready.

Erinn Murphy^ All right. I'm ready. Erinn Murphy, Piper Sandler. I have a lot of questions, but I'm going to just start with 2 and let someone else with a chance, I guess, first with the $5 billion plan, can you talk what's implied with -- from a unit perspective as well as what pricing you expect to continue to take globally?

And then secondly, on ESG I guess, Andrew, for you, talk more about the mechanics of displacing natural gas. How does that actually work? And are you saying that the carbon footprint per clog goes from the 3.94 kg to, I guess, whatever 1 point , whatever that is, I just want to make sure I understand the rational.

Andrew Rees^ Why don't I start first with the ESG question, shall I? And then Anne can do the revenue growth units and price.

So yes, so today, our products, our Croslite is made from a natural gas-derived feedstock, right? So we get it from major chemical companies, and it comes from natural gas. We have worked with Dow Chemical or Dow to create and we partner with them. It's taken a couple of years actually to create this ECOLIBRIUM, they derive that from waste products.

So typically, pulp paper processing and other waste products, that produces essentially the same feedstock, but it doesn't come from natural gas, okay? And then we can blend that feedstock with our current feedstock to extrude it to make the product. And yes, the impact of that, as we increase the blend and we'll increase the blend over time, primarily around supply, right?

That will reduce the carbon footprint of that Classic clog to half what it is today, okay? Because that additional component that ECOLIBRIUM is actually carbon negative. Does that make sense? So it's a really important driver.

And when we think about reducing our overall carbon footprint to net 0 by 2030, we're not just buying offsets. We're actually reducing our actual footprint and then using offsets to replace the remainder.

We believe the strategy of kind of just buying offsets, which frankly some companies pursue, it will be seen through by the consumer at some point, and that will be not a great approach. We think you actually have to reduce the carbon footprint.

Erinn Murphy^ May I ask just a follow-up? How (inaudible)…

Andrew Rees^ Yes. Great. So Erinn's question is -- which she didn't have the mic -- was how we're marketing this to the consumer. So we're marketing this to the consumer, we -- you started to see our consumer communication.

The video that you saw today was released today. That will be available. And there'll be a constant drumbeat of consumers. It's a little bit nuanced, but it is important to make sure the consumer understands. And what we see today is the consumer is incredibly receptive to this messaging, and they really want to understand this. So we will be constantly communicating it.

Michelle Poole^ And in addition, it will always net -- it will always ladder back up to our net 0 by 2030, which we launched last month, right? So we'll always be reinforcing that.

Anne Mehlman^ Okay. So moving on from green comes in every color to ASPs and units. So from an ASP unit perspective, as you know, we've increased ASPs and units for the last couple of years. I think we're up approximately 9% ASP today. The rest is units year-to-date.

So when we think about going forward, it will be a little bit more unit led, but we will also continue to increase ASPs. As I talked about a little bit, we will increase ASPs and pricing through continued increase in Jibbitz and then as well as pricing opportunities in Asia and Europe mostly.

But the majority of the 17% will be more unit led. And then finally, on ASPs, I will say that they will increase on a current currency basis.

Susan Anderson^ Susan Anderson from B. Riley. You talked about maintaining margins. I'm curious what you expect from a regional perspective. Do you expect Asia and EMEA to narrow the spread with the Americas?

And then just in Asia, that looks like it's going to be the biggest growth driver, I think, a 24% CAGR. Maybe if you could talk about what you're seeing in Asia right now and how you expect that to play out over the next 5 years. And what gives you confidence in that CAGR?

Anne Mehlman^ So why don't I start with margins, and then I'll let Andrew and Michelle talk a little bit about confidence in Asia. So from a margin perspective, we do expect EMEA and Asia to gain margin share to look a little bit more like the Americas. And on an operating margin standpoint, that looks like driving scale in subscale markets as well as a gross margin standpoint, driving scale helps on that side as well because it leverages your overall fixed cost.

And then finally, as we take price in those markets similar to what we've seen in the U.S., as the market keeps up and we optimize for pricing, which we're starting to already do this year, and we've talked a little bit about, that should even out those gross margins a little bit and then operating margins as well.

Andrew Rees^ Yes. So in terms of -- let me just kind of finish that question. So in terms of confidence in Asia, I think we're seeing a lot of optimism and signs of traction and light, but we're also seeing significant COVID impacts, right?

So in markets that I think have been much stronger in terms of controlling their COVID, so maybe like a South Korea or a China and where our investments are really gaining traction with the consumer, we're seeing growth across all of our platforms.

But we're also seeing regression, temporary regression in India and regression in Southeast Asia because of COVID. But we think those markets, that has a temporary impact and will be perfect for us in the future.

Anne Mehlman^ And even with that year-to-date, we're up in Asia 20%, and we're also seeing growth in China, and we'll grow in China this year. Yes.

Mitchel Kummetz^ Mitch Kummetz, Pivotal Research Group. I got 3 questions. First on digital. Can you maybe speak to owned digital, kind of what percentage it is LTM and what's embedded in the 2026 plan? I guess, secondly, sandals, ForEx growth there. You guys have had some success in sandals, but that would imply kind of an acceleration of the growth.

Kind of what gives you the confidence in that? Is that more marketing? I mean what are you going to do to drive that? And I guess lastly, on Jibbitz. You've given some numbers today on Jibbitz sales and then the projection on sales. Can you say anything more about the margin profile on Jibbitz?

Anne Mehlman^ Why don't I start on the margin profile on Jibbitz, and then I'll let Michelle talk about sandals. So from a Jibbitz standpoint, Jibbitz are extremely profitable, right?

So they're definitely helpful to overall gross margins, and they've been part of us increasing our gross margins to where they are today. However, as Michelle talked about, the most important part of Jibbitz is really just driving that relevance in consumer connection, and they just happen to be very profitable.

On the e-com question, we don't really break those out anymore, Mitch, because we want to look at it from a consumer perspective, which is they're buying our products online. And both of those channels are very profitable for us.

So it doesn't really have a financial impact from an operating margin perspective. So we think about all of our digital business, whether it's dot com, marketplaces or our wholesale, e-tail, all in a digital perspective because that's how we go to market on them to that consumer.

Michelle Poole^ Great. So let me take the sandals question. Hopefully, one of the key takeaways from this morning is a high level of confidence in sandals and the growth ahead. So I think there are a few factors and some of which I touched on. I'll sort of reinforce why we're so confident.

Obviously, overall growing brand relevance and heat is really now we've seen that cascade into sandals. So as I mentioned and Heidi also referenced, in some of our top-tier markets, our sandal consideration is now at the same level as clog consideration, right, which means that we've got a consumer ready to buy from us.

I think some additional factors that we believe we can really leverage, personalization, you've had a lot about personalization. I mean as I teed up, that we've had a couple of really important and successful launches in the last 18 months of sandals that have leveraged personalization and our consumers telling us they love it. They love the opportunity.

I think in addition, we've got the pockets from a marketing point of view. So we, I think, have a very successful playbook around motivating the consumer, engaging the consumer and driving that relevance, and we're confident that we can cascade that into sandals as well.

And then I would say the last one is, as you saw from my presentation, we don't just have one avenue of growth. We've actually got 4 very sizable subcategories of sandals. We believe that we have a high chance of success in gaining market share.

Unidentified Company Representative^ So I think we have one question on the line that you'd like to answer. It's from Sam Poser at Williams Trading. And his question is can you please update us on the current flow of goods from Vietnam.

Andrew Rees^ Yes, absolutely. So obviously, today is about our long-term growth, right? So I would say that the impacts of Vietnam have no material bearing on our long-term growth perspective. They will have some impact from a short-term perspective, but they really don't have any impact on our $5 billion goal.

So a few things I would say. One is, as Anne talked about, we've reiterated our guidance for this year. So we feel very comfortable with our full year guidance for this year. You can be assured that we're following very closely the impact of Vietnam. And certainly, we have had factories that have been closed for a good number of weeks.

We will talk in detail at our Q3 announcement in October about the impact of Vietnam on our first half business next year. But we're doing all of the things that you would expect and you've seen everybody else do associated with this.

We are moving some production to other parts of the world where we've been able to pick up incremental production. We are planning and prioritizing our customers and our channels, and we are also planning to use some additional airfreight to get that product here quicker. So we're on top of it, and we'll give you a lot more detail in October.

I think -- and I think that time frame will help us because the reopening is essentially happening as we speak now. So getting a real understanding of how quickly factories reopen and at what level they reopen, we're going to be super confident about that when we talk to you in October, which I think is just going to be 5 or 6 weeks away.

Laura Champine^ It's Laura Champine from Loop Capital. And it's primarily for you, and it's about longer-term uses of cash. So it stuck out to me. Love the big buyback this year. But what's the longer-term thinking on uses of cash? Should we see more buyback? Is a dividend possible? How are you thinking about, assuming you're thinking at all about M&A?

Anne Mehlman^ Yes. Great question. So we're really pleased to announce the $500 million ASR and that we're going to have bought back $1 billion this year. I think that really shows our confidence in the business and our long-term growth.

We obviously generate a lot of free cash, and we said we're going to be over $1 billion, generating free cash by 2026. In accordance with that, the Board also upped our authorization. So after we finish our ASR, we'll still have $1 billion left for repurchases. So after financial flexibility in investing in the business, we'll continue with our share repurchase program.

It's been a really good program, and we feel really good about the return there. We don't feel that dividends or M&A are really something we're considering.

Andrew Rees^ I think just as a point of emphasis on that, with this kind of growth opportunity in front of us in the brand that we have today, we really feel like keeping our management team focused on growing this brand, executing to the level which we've historically executed, is the most valuable pathway to shareholder value creation.

Unidentified Company Representative^ We have one more question on the line first, and then we'll go back to the room because I believe it's related. And this question is from Jonathan Komp at Baird, and he's asked, given the bold target to reach $5 billion of sales, how do you avoid chasing noncore opportunities, which was a challenge in the past cycles and which elements of the growth plans are the most theoretical and the most proven today.

Andrew Rees^ Yes, that's a great question. So I think our opening video highlighted that trap, right? So we are extremely conscious of that trap. This team has spent, I would say, 5 hard years digging out from the consequences of chasing disparate growth strategies.

So the first thing I'd reinforce is that the majority, the vast majority of our growth is coming from our core businesses, right? It's coming from clogs. It's coming from sandals. It's coming from Jibbitz, right?

That being said, we do believe the brand heat and the comfort proposition and the value proposition that we bring to the table does allow us to do other things. And I think we will be -- not I think. I know we'll be extremely disciplined and cadenced about that.

So as we take on a new opportunity, we'll drive it to conclusion. We'll understand what that opportunity really represents for us, and then we'll think about additional opportunities.

So I think the cadence and the focus is what allows you to do that without getting distracted. I would emphasize that, in the past, what they launched was many, many growth diversifications, all at the same time, which were not adequately funded, which were not supported, which were not well thought through, and they didn't progress particularly well.

Michelle Poole^ And it was at the expense of our core businesses.

Anne Mehlman^ I think the second part of that question, talking about what we've proven, and then I'll let Michelle and Andrew answer a little bit. But just when you think about our international strategies as well, I think what we've really seen and we talked about a little bit is EMEA really starts to follow the U.S. from a brand heat standpoint.

We're up 56% in revenue year-to-date in EMEA. We had strong Q3, Q4 there last year and so really starting to see that follow. And then Asia as well, 30 -- over 30% growth this year. So I think we're definitely seeing some of the strength internationally as well as in other products.

Michelle Poole^ Yes. And we see a high level of consistency across the globe, which is also super encouraging. I talked about our classic clogs. We're seeing growing demand and momentum for that as well as some adjacent products that we see consistently performing across the globe in EMEA and Asia, which has not been the past -- the case in the past. So...

James Duffy^ It's Jim Duffy with Stifel. I was particularly impressed with the digital marketing portion of the presentation. Can you speak for a moment about digital marketing economics and how that fits within your growth strategy given the importance of digital to the growth algorithm? What are the considerations there, particularly as you begin to invest and allocate more to international markets?

Andrew Rees^ Yes. So I can talk about it in broad terms, Jim. So as we think about our marketing, a number of years ago, we committed essentially to all digital and social. And so we kind of think about our overall marketing budget as being separated between some of our brand activations, which are both digital and social.

And then we also have what we think about as kind of working marketing, which is really driving consumers to the website for a given transaction.

So one pool of marketing is really around brand awareness and brand relevance. The other pool is measured in terms of what ROI we're getting exactly on that piece. And we calibrate and juggle kind of both pieces to get to an overall spend that goes down the marketing funnel.

I can tell you, we don't break it out or disclose it, but our marketing ROI is extremely high, and we also are dynamic. We feed into it, right? So we will move money around if we're getting a better return in South Korea than we might be getting in EMEA, so we kind of move money around to make sure that we're getting the optimum possible return.

James Duffy^ In that context, thinking about Crocs versus other brands, you have your large and passionate community. You're introducing an app. Should that indeed help your marketing ROI just by activations via the app?

Andrew Rees^ Yes, we believe it will. Absolutely. It'll allow us to have an ongoing dialogue with those consumers that sign up. It will cost some marketing money, will cost some activation to get consumers to download the app.

And I think we have a lot of compelling reasons for them to do that, but those will increase over time. But it will give -- that's a very cost-effective way to have an ongoing dialogue with your consumers. Essentially, once it's established, it's pretty much free.

James Duffy^ Great. And one more if I may. Michelle, I think you mentioned the clog market at an $8 billion market globally. How does that fit with where it may have been a couple of years ago? And as you think about continued growth of the clog franchise, you see it as growth of that market or share gains within that market, some combination of the both? Anything you could say about that mix would be helpful.

Michelle Poole^ Yes. So I would say last year and prior year, we talked about a $6 billion clog market, give or take, right? So we've really seen a very noticeable acceleration, I would say, in the last 18 months of clog and mule silhouettes popping up alongside us. And as I teed up, I think we feel very encouraged by that because it's really signaling to the consumer an increased relevance of the silhouette.

And I think -- look, I think the clog itself as a silhouette is all about easy-on, easy-off, versatility and comfort. So we do see, I think, a continued growth of the overall clog segment because it fits into consumers' lives, and it fits into these macro trends that I teed up at the beginning of my presentation. Don't know if you'd add anything.

Andrew Rees^ Yes. So I think the clog -- is the marketing to grow or are we going to gain share? We think the market is going to grow, and we think we might gain share but just depends on the speed of the market growth. So we certainly think that clog market, the consumer receptivity for clogs, clogs will gain share of consumer's closet.

Mauricio Vega^ Mauricio Serna from UBS. So I wanted to talk about the operating margin long-term target. Just how should we think about the path to that over 26% operating margin? Because it seems maybe in the short term, you'll have some gross margin pressure, and you're continuously investing in SG&A. So I mean just as we move along towards 2026, how should we think about that?

Anne Mehlman^ Yes. I think we plan -- just thinking through the P&L. So we plan to leverage -- continue to leverage our SG&A. Even while investing in the business, we can still leverage SG&A, which we've done successfully every year at this point for the last 4 years, I think. And we will leverage SG&A, invest in the business. And as I said, as we scale markets, that even -- that helps us leverage that SG&A. We've shown that in our Americas segment.

And then when you think about gross margin, we're definitely at historically high levels from a gross margin standpoint when you look at current consensus for the year, and we're comfortable with that.

We think we can maintain kind of where the current consensus is for this year at current currency rates over the long term. So if you combine those 2 things, that's how we get to over our 26% operating margin.

Mauricio Vega^ And just a quick follow-up. On the gross margin headwinds, the product mix, the channel mix and also the sustainability, how would you rank those in terms of like the impact that it should have on the...

Anne Mehlman^ Yes. We didn't really break those out. I think there's a lot of factors in that, so I think they're all -- obviously, channel mix is sort of it is what it is because we sell something that's not full retail. So depending on how the channel shakes out, that could be a little bit more.

But from sustainability -- and Michelle's team is doing an amazing job around innovation and meeting personalizable sandal product as well as us looking at pricing. So I think there's an equal amount of opportunity versus risk that we can really balance those out and maintain our currently high gross margins.

Unidentified Company Representative^ We have another question from the line. It's another follow-up from Sam Poser. And regarding Vietnam, he's hoping that you could talk about the long-term distribution strategy in relation to the long-term brand strategy and product availability?

Andrew Rees^ Okay. I'm not sure I get the question 100%. He wants a long-term distribution strategy of sourcing or...

Unidentified Company Representative^ Sourcing.

Andrew Rees^ Okay. Yes. So as we think about sourcing mix, yes, that's a good question. We -- sort of the cadence is we've been migrating out of China, which we've done quite successfully. That has driven a good concentration in Vietnam.

But we were already planning migration out of Vietnam to subsequent environments. We have new facilities up and coming up in Indonesia and some under construction. And we also have a signed agreement with a major manufacturer to open a significant facility in India. So we're continuing our diversification.

I would also emphasize we do have a number of close to market facilities in Bosnia and also in Mexico that are smaller than -- not owned by us but are [well played] by our partners that are smaller than those Asian facilities, but they do give us versatility.

So ongoing diversification is essentially the name of the game, and we feel kind of very confident in our pipeline of sourcing to be able to support this kind of growth because it will require, obviously, a lot of incremental production.

But we look at our relationships with our suppliers and new relationships that we're starting to build, and we're a great fit into their portfolio. I think we're relatively profitable for them in terms of the types of products that we manufacture. So we feel really confident of our ability to grow our pipeline.

Anne Mehlman^ Yes. And I think Sam's also asking about what our distribution strategy is related to our product from a scarcity perspective. And I would just remind everybody that we have done a tremendous amount on cleaning up our inventory, which has driven lower promotions and discounts that you see materialize in our margin, has also allowed us to take price.

We've rationalized accounts in the U.S., mostly in the U.S. as well as implemented that pricing. So we've done a lot of work there. So we're already set up really well to take advantage of this type of environment where we continue to see product scarcity.

Andrew Rees^ Mitch?

Mitchel Kummetz^ Mitch Kummetz, Pivotal Research. So I know the product extension is not a big part of this 2026 plan. But can you maybe -- you guys talk a lot about consideration that gives you confidence on the sandals side. Can you talk about maybe where you're seeing strong consideration outside of clogs and sandals and maybe some of these other category opportunities longer term?

Andrew Rees^ Yes. So do you want me to start and then you can take over?

Michelle Poole^ Yes, yes, yes.

Andrew Rees^ I mean I think -- so at the core of our DNA is casual comfort, right? When people think of crocs, they think of casual comfort. They know that Croslite is a footbed material and underfoot material that gives them durability and comfort.

And so when I think about some of those categories such as sort of casual comfort loafers, we've been in that business for a long period of time and actually proactively shrank it because we wanted to focus on the things that were most important.

So I think that's an interesting opportunity. That business is growing quite rapidly. And I think we can bring casual comfort, credibility and newness to that category in a pretty compelling way at a great price point. So I think that's a perfect one for us, and I think I'll let Michelle elaborate.

Mitchel Kummetz^ You said it sort of almost all. I think the only other thing, and I said this in my prepared remarks, but as we see the overall brand halo, the brand heat really building is it's haloing into other categories.

And I think now Crocs is a brand that stands more than just the clog. I think we stand -- as Heidi did a great job of teeing up, we're about self-expression. So I think there's also an overall sort of brand feel and energy and aspiration that we can bring to these other categories as well that I think the consumer believe -- ready to see from us.

Andrew Rees^ Erinn.

Erinn Murphy^ Erinn...

Andrew Rees^ No, we need a microphone. It's coming.

Erinn Murphy^ Awesome. Okay. I've got a couple more. One for Michelle. In your section, you talked about higher frequency, like that's one of your kind of, I guess, framework of what you're going to see in consumer behavior over the planning horizon.

I know in North America, you've seen substantial young people buy a lot of pairs. Can you talk about what you're seeing now in your top quartile of consumers in terms of frequency? How often is kind of your Gen Z consumer or your top Gen Z consumer purchasing? And then what do you expect for normalized frequency of purchase over time?

Michelle Poole^ I think what I would say overall is what we see is that we've moved the clogs from a need to a want. Many years ago, when I joined the brand, I would have conversations with consumers where they say I've got a pair, right? And they didn't buy a pair again for many, many years.

We've now moved our consumers' mindset into want, and we've really got consumers collecting. So I think our strength in really nailing the seasonal trends, as I mentioned in my presentation, is really bringing the consumer back time and time again. So our team are just amazing at really dialing into those really big trends. I think Andrew mentioned tie-dye or marbleized.

You'll see some of it -- for those of you in the room, you'll see on display. The newest color, [a boutique and licensed] idea that we might bring to life. So I think it's really about -- what I would say is I'm confident that we have the ability and the levers to bring our consumers back to our brand over and over again for the foreseeable future and not make it a onetime buy.

Erinn Murphy^ And then the second question just on wholesale, I think you talk about getting to 55% by 2026. Do you need new accounts to get there? And if so, what type of accounts? It looks like you're shaking your head there.

Anne Mehlman^ Yes. No, wholesale is really driven by 2 things why it's growing. One is the rebound in our distributor business, so not new distributors, just existing distributors that have been disproportionately impacted by COVID. So that's one.

And the second is really on the digital side, which is our e-tail business. And so -- and those are very large, well-known e-tail customers such as Amazon, Zappos in the U.S., Zalando in EMEA, Wildberries in Russia.

So we have really big accounts, and we feel like that will grow in accordance with our digital business as that is where the traffic is going and where consumers are shopping. So those are driving the growth. It's not necessarily new doors within our brick and mortar.

Unidentified Company Representative^ Great. And I think this will be our final question, and we'll take it from the line. We've received a couple of questions regarding intellectual property. Can you please elaborate on how you protect your positioning beyond brands such as trademark protection or other significant patents? And can you also please update us on the patent infringement lawsuit?

Andrew Rees^ Great. Thank you. Yes. So look, we have a broad portfolio of intellectual property protection that we use around the world. And obviously, that's more effective in some markets than others, right, particularly effective in some of the sort of more regulated western markets.

And we think we're very confident in our ability to continue to support our brand and utilize those intellectual property protections to prevent copycats and infringements. We're currently pursuing, as you've seen in the press an action with the ITC to try and get a general exclusion order connected with our 3D trademark. That's ongoing. We're very confident about the progress we're making there.

And we're also taking action against a number of, I would say, significant U.S. retailers that have been selling copycats that infringe our -- some of our intellectual property. And I would say those discussions are also going well in terms of both settlements and eventual conclusions.

So we're very proactive on this front, both here in the U.S. and globally. And it's obviously critically important that we protect our brand marks, we protect our uniqueness, and we allow that to accrue to our shareholders versus other people.

So I think that concludes all of our questions. So really appreciate those that made the trip here today and coming and you're very welcome to peruse some of the products and some of the displays that we have set up.

I also want to thank those that have taken the time to join us remotely. We're very excited to have this opportunity to talk to you about our long-term future, and I hope that you're as excited as we are. So thank you.