THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

CROX - Q3 2017 Crocs Inc Earnings Call

EVENT DATE/TIME: NOVEMBER 07, 2017 / 1:30PM GMT

OVERVIEW:

CROX reported 3Q17 revenues of $243.3m, net loss attributable to common stockholders of $2.3m and loss per diluted share of $0.03. Co. expects full-year 2017 revenues to be down low-single-digits YoverY. 4Q17 revenue is expected to be $180-190m.

THOMSON REUTERS

CORPORATE PARTICIPANTS

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

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

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

CONFERENCE CALL PARTICIPANTS

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

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

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

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

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

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

PRESENTATION

Operator

Welcome to the Third Quarter 2017 Crocs, Incorporated Earnings Conference Call. My name is Ellen, and I will be your operator for today's call. (Operator Instructions) Please note that this conference is being recorded.

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

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

Good morning, everyone, and thank you for joining us today for the Crocs' Third Quarter 2017 Earnings Call. Earlier this morning, we announced our third quarter results, and a copy of the press release can be found on our website at crocs.com.

We would like to remind everyone that some of the information provided on this call is forward-looking and accordingly is subject to the safe harbor provisions of the Federal securities law. These statements include, but are not limited to, statements regarding future revenues, gross margin or SG&A expenses and our product pipeline. 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 a number of risks and uncertainties described in the Risk Factors section of the Company's Annual Report on Form 10-K. Accordingly, actual results could differ materially from those described on this call. Please refer to Crocs' Annual Report on Form 10-K as well as other documents filed with the SEC for more information relating to these risk factors.

Joining us on the call today are Andrew Rees, President and Chief Executive Officer; and Carrie Teffner, Executive Vice President and Chief Financial Officer.

Following their prepared remarks, we will open the call for your questions.

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

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

Thank you, Marisa, and good morning, everyone.

I'll begin with some introductory comments about our third quarter financial results. Then I'll discuss the strategic initiatives we are focusing on to drive the business, and update you on the results of our 3 distribution channels. Carrie will then take you through our financial results for the third quarter in greater detail and our expectations for the fourth quarter of 2017.

The third quarter was another strong quarter for us, both in terms of financial performance and the progress we have made against our strategic initiatives. Consistent with our first half of this year, we again met or exceeded each of our financial metrics in Q3. Furthermore, the perception of our brand continued to rise, with results from our latest annual brand survey showing double-digit increases in brand desirability, relevance and consideration, compared to the same period last year.

Our third quarter revenues were $243.3 million, and we achieved a 50.8% gross margin, which represented a 100 basis point improvement over Q3 of last year. Our income from operations was $2.7 million compared to last year's loss of $1.2 million. Our diluted loss per share was $0.03 compared to last year's loss of $0.07. We ended the third quarter with $140.3 million in inventory, $29.1 million or 17.2% less than the end of the third quarter last year.

We continue to execute against our SG&A reduction plan, and we remain on target to eliminate between $75 million and $85 million of SG&A expenses annually and to deliver an incremental $30 million to $35 million in income from operations in 2019 as compared to 2016. These results continue to demonstrate that by focusing on our key strategic objectives, we are improving our financial performance and moving closer to our objective of generating double-digit EBIT margins.

Over the past several quarters, we have been speaking to you about our focus on products, specifically clogs, sandals, flips and slides; marketing, where we're amplifying our reach and impact through our digital and social focus; and distribution channels, where we're focused on growing e-commerce and wholesale, while rationalizing our store fleet.

Let me give you a little bit more detail on each of these areas.

Starting with product. Since the beginning of the year, we have been discussing our enhanced focus on clogs, along with our intention to grow sandals, flips and slides. These silhouettes fully embrace Crocs' DNA. They also represent categories where we can drive substantial sales and margin growth. Based on year-to-date results and the positive response we are seeing to our Spring/Summer 2018 line, we know that this narrowed focus is working well for the brand.

With respect to clogs, this category makes up the largest segment of our sales. During the third quarter, clogs represented 52% of our sales, up from 51.5% in last year's third quarter. The Classic and Crocband continue to be our best-selling clog styles. New colors and graphics, embellishments and licensed images are resonating with consumers and driving growth in these styles.

Sandals, including flips and slides, remain our second area of focus. Globally, sandals represent a large and growing category. It's a natural expansion area for us, given our high-brand relevancy in the category and the fragmented competitive environment. During this year's third quarter, sandals represented 18.6% of our sales, up from 13.8% in last year's third quarter. This illustrates that significant progress has been made in a very short time.

Key sandal franchises include Swiftwater for men, women and kids; Isabella for women and kids; and Sloane and Sanrah for women. Our broad-based offerings satisfy multiple wearing occasions and appeal to consumers with different style preferences. At the same time, they are comfortable, lightweight and trend right, reflecting our key brand attributes.

Looking ahead to Spring/Summer 2018, I am particularly excited about the introduction of LiteRide. This new collection is a fresh addition to our line, bringing newness, innovation and a premium offering to clogs and sandals. The LiteRide collection uses a proprietary new material to create an extremely lightweight, highly cushioned footbed, while introducing simple, modern styling. By incorporating innovative new technology and great new styling, the LiteRide collection helps us elevate the Crocs brand.

I have spoken to you previously about our intent to de-risk the Fall/Holiday season and extend the selling season for Spring/Summer product. We did so for Fall/Holiday 2017 by reducing the number of cold weather styles being offered and by successfully keeping our Spring/Summer product on shelves well into Q3, demonstrating that clogs and sandals are in demand even after the summer season ends.

From a brand-building and marketing perspective, we're also making measurable gains. We recently completed our annual brand survey. The results were terrific. We achieved double-digit gains in brand desirability, brand relevance and brand consideration, demonstrating that our new product and marketing initiatives are resonating with consumers.

In terms of marketing, our COME AS YOU ARE campaign officially launched in April of this year. Since its kick off, the campaign has encompassed four key components: brand ambassadors, digital and social media content, designer collaborations and grass roots social activations. Our brand ambassadors are raising the profile of Crocs and getting us in front of new audiences. Social and digital marketing are amplifying our marketing spend by reaching existing and potential consumers in a more targeted and impactful way. Our Christopher Kane and Balenciaga collaborations led to invaluable PR coverage. And grass roots social activations like Crocs with Socks and Rock White Crocs are generating fun and excitement. Together, these 4 components of our campaign are generating brand engagement and driving sales.

Let me turn now to our 3 distribution channels.

Our wholesale business continues to reflect the impact of business model changes, particularly in Asia. At the same time, ongoing accounts continue to be pleased with the performance they are experiencing, highlighted by strong sell-throughs at good margins. This is leading to SKU and door expansion. In addition, clogs and sandals are being sold longer into the fall season with our Always Summer initiative.

Retail performed in line with expectations. We made good progress rationalizing our store fleet, closing or transferring 29 stores net of openings during the quarter. Furthermore, we operated 80 fewer stores in this year's third quarter than in the same period last year.

In e-commerce, we delivered double-digit growth in the quarter across all 3 geographic regions. As you may recall, in the Spring, we organized this channel under the new direction of a global leader, and since that time, the adoption of best practices across the globe is translating into revenue gains. Particular progress is being made in terms of improved stock levels, customer service and more effective price and promotional strategy.

In closing, I want to thank our associates for their ongoing enthusiasm, support of the brand and hard work throughout the year. We've made meaningful progress strategically, operationally and financially, and I'm confident we'll continue to do so in the future.

At this time, let me turn the call over to Carrie. She will review our third quarter financial results and present our latest guidance.

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

Thank you, Andrew.

As Andrew just mentioned, we are pleased with the strength of our third quarter results, as we continue to execute against our key priorities and drive improved financial performance.

Third quarter revenues were $243.3 million, down $2.6 million or 1.1% from a year ago. These revenues exceeded the top end of our guidance, which was $240 million. Foreign currency translation increased revenues by $1.3 million compared to Q3 last year.

The modest decline of revenues from last year's third quarter primarily relates to store closures and business model changes, specifically last year's fourth quarter sale of our Taiwan business and this year's second quarter sale of our Middle East business. Absent the business model changes, revenues would have been relatively flat year-over-year as e-commerce growth essentially offset the decline in retail sales due to the rationalization of our store fleet. These results are consistent with our focus on driving higher-quality revenues and improving our profitability.

In terms of our channels, third quarter wholesale revenues declined 2.2%. I'll discuss regional performance shortly, but the overall decline is primarily due to the business model changes I just mentioned.

Our global third quarter DTC comp was a positive 7.0%.

At retail, our comp was up 0.4%, illustrating the continued improvement in our underlying business. Overall, retail sales declined 7.2%, reflecting the declining store count. Consistent with our store rationalization plans, we operated 80 fewer stores compared to the end of last year's third quarter and ended the quarter with 474 stores.

Our e-commerce business continued its rapid expansion as it grew by 25.2% over last year's third quarter with double-digit comps in each region.

We sold 13.1 million pairs of shoes in the quarter, a 7.5% increase from the prior year. The average selling price of our footwear was $18.17, down 9% as our product, store and channel mix continues to change.

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

In the Americas, our revenue was $120.5 million, up 5.1%. We saw growth in each channel, reflecting increasing brand strength across the region. Wholesale revenues grew by 0.6% with improved profitability as we focused on higher-quality revenue and had limited excess and end-of-life inventory. Our Americas third quarter DTC comp increased by 9.2%. Our retail comp was up 2.8%, and retail sales increased 1.4%, despite having 12 less stores compared to last year's third quarter. E-commerce sales increased 28.5%. Our enhanced use of digital marketing and the build-out of our social commerce capabilities is driving growth in this area.

In terms of our business in Asia, overall revenues in the region were $80 million, down 12% versus prior year. Robust e-commerce results did not offset the business model changes and store closures. Wholesale revenues declined 10%. This reflects the sale of the Taiwan business in Q4 last year. In addition, we are continuing to pursue business model changes to drive higher-quality revenues and improved profitability across Asia.

In Japan, where our wholesale accounts have operated single-branded stores, we are transitioning to a multi-brand model. This necessitates closing those single-branded wholesale stores. And while that process is well advanced, the expansion of our multi-brand business is in an earlier phase. This transition, which will bring the Japan business model more in line with the country norms for global brands, will continue to be a headwind for us through next year.

Our Asia third quarter DTC comp was 3.7%. The retail comp declined 2.9% as conversion gains and increased units per transaction did not offset lower average selling prices due to the mix of full-price and outlet stores. As compared to Q3 last year, we operated 61 fewer full-price stores, while we increased outlets and kiosks by 3, for a net reduction of 58 stores. Retail sales declined by 20.8%, reflecting the lower comp and the lower store count. E-commerce sales increased by 17.8% as we continue to drive improved results through better management of promotions and heightened consumer engagement.

Europe delivered a solid third quarter with revenues of $42.5 million, up 6.2% over last year's third quarter. Wholesale and Internet channels grew, while our retail results were negatively impacted not only by store closures, but by the terrorist activity in Russia. Wholesale revenues increased 8.9%, primarily due to improved FX rates compared to the prior year. Our European third quarter DTC comp was 4.8%. Our retail comp declined by 2.1% due to the negative impact on our Russia business in the aftermath of the terrorist attacks. Excluding Russia, our retail comp was up 4.1%.

Total retail sales declined 5.8% as a result of the retail comp and operating with 10 fewer stores than in last year's third quarter. E-commerce sales increased by 26.2% as we successfully drove more traffic to the site and conversion rates held steady with last year's third quarter.

Turning to other items on our P&L. Our gross margin was 50.8%, up 100 basis points over our guidance and last year's gross margin of 49.8%. Our SG&A expenses were $120.8 million, down $2.9 million from the prior year and in line with guidance. $3.6 million of charges related to our SG&A reduction plan are included in this amount. This charge was a bit higher than we had guided due to some movement with these charges between Q3 and Q4.

Income from operations was $2.7 million compared to last year's operating loss of $1.2 million. Improved gross margins and lower SG&A more than offset the modest decline in revenues. The net loss attributable to common stockholders, after preferred share dividends and equivalents of $3.9 million, was $2.3 million. Our loss per diluted share was $0.03 compared to last year's loss of $0.07. The weighted average diluted common share count used to calculate EPS was 71.9 million shares for Q3.

Turning to the balance sheet. We ended the quarter with $178.2 million in cash compared to $150.2 million at the end of last year's third quarter. We repurchased $17.1 million of our common stock during the third quarter, and at September 30, there were no borrowings outstanding on our credit facility. I do want to note that after the quarter ended, we amended our credit agreement to increase the size of the facility to $100 million from $80 million, with more favorable terms.

Inventory at the end of the third quarter was $140.3 million, 17.2% below last year's third quarter. Year-to-date, we generated $80.4 million of cash from operating activities, an increase of more than $50 million compared to the $29.4 million of cash generated during the first 9 months of 2016.

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

With respect to the fourth quarter of 2017, we expect revenues to be between $180 million and $190 million compared to $187.4 million in last year's fourth quarter. This guidance incorporates the impact of the sale of our Middle East business in the second quarter of 2017 and our Taiwan business in the fourth quarter of 2016. Excluding the impact of those changes, and using the midpoint of our guidance range, revenues would be up low single digits. This guidance also reflects the impact of store closures and transfers. We plan to close another net 12 stores in Q4, which will result in a total of net 96 fewer stores at the end of 2017. This will bring our total store count down to 462 from 558 at the beginning of the year.

We expect fourth quarter gross margins to be approximately 43%, or 100 basis points above last year's 42% rate.

Our SG&A for the fourth quarter is expected to be approximately $115 million, inclusive of approximately $2 million of costs associated with our SG&A reduction program. This is approximately $3 million lower than last year's SG&A of $118.5 million.

Based on our fourth quarter guidance, we are reiterating the previously provided full year 2017 guidance. Specifically, we continue to expect revenues to be down low single digits compared to the prior year. Our gross margin is expected to be approximately 50%. SG&A for the full year is expected to be between $490 million and $495 million, which includes approximately $10 million associated with the implementation of our SG&A reduction plan.

In summary, I am pleased with the strength of our third quarter results. Our continued progress driving quality revenue, improving our operational capabilities and reducing our SG&A reinforces my confidence in our ability to get back to double-digit EBIT margins.

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

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

Thank you, Carrie. The third quarter was another strong quarter for us, both in terms of our financial performance and the progress we've made against our strategic initiatives.

We have a strong Spring/Summer '18 collection, and are excited about year 2 of our COME AS YOU ARE marketing campaign. Ongoing operational improvements will lead to greater efficiencies as we continue to focus on our SG&A cost reduction plan. We remain committed to delivering significant improvements in shareholder value in the coming years.

Before closing, let me once again express my sincere thanks to our global team of associates. Their enthusiasm, dedication and hard work is essential to the success of our company.

Now operator, I'll open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Erinn Murphy with Piper Jaffray.

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

I guess I had 3 questions for you guys. I wanted to focus first on the third quarter and just the Asia business overall. I think, Carrie, you talked about a transition in Japan in particular. If you could just provide a little bit more detail on what you guys are trying to accomplish there and then maybe just help us understand the dynamic of what you're seeing in China, South Korea and then broadly on that region, when should we start to revisit growth there?

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

Great, Erinn. Let me take that. So if we look at Asia broadly, as a reminder, we're down 12% in Asia for the quarter, where our strong e-commerce growth wasn't sufficient to offset the business model changes. Asia is our region that's most significantly impacted by all of our changes. There are major strategic shifts relative to last year, and we planned those, and we've also incorporated those in our historic guidance and our future guidance. As a reminder, there are 3 big elements to that transition: the transition of nonstrategic markets, where we sold Taiwan and the Middle East; significant store closures, the majority of our store closures this year have been in Asia; and lastly, we're undergoing a transition in Japan, and I know that was a specific part of your question. But before I get to Japan, if you think about this, the transition of the nonstrategic markets and the store closures are the majority of the decline. There's the majority of that 12% decline.

Relative to Japan, consistent with our long-running strategy of focusing our efforts on higher-quality revenue and improving the overall profitability of the business, we're undergoing a transition in the Japan business from a single-branded business to a business that's far more focused on digital commerce, on e-commerce and on multi-brand wholesale. And to that end, we're focusing on e-commerce growth and we've been successful in driving growth in that arena. We are also closing company-owned stores and partner single-branded stores to reduce our reliance on single-branded points of sale. And we're gaining distribution and growing our distribution in multi-brand wholesale. So accounts like ABC-Mart, Xebio and Chyoda would be great examples. We're making great progress on repositioning the business in Japan. And I think elements 1 and 2 in terms of growing e-commerce and downsizing our single-branded business are going well. As we look at the multi-branded wholesale, it's really going to take us through 2018 to achieve the growth we expect, but we're making good progress. This is pretty consistent with how other brands would operate in this marketplace. And it's executing as we expected it.

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

Okay, great. That's helpful. And then maybe just a quick one for Carrie. On the inventory, at the end of the quarter, down 17%. I think a lot of that is from exiting your non-core categories. Can you talk about how that's trending in the core categories?

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

Yes, so as we think about the overall inventory numbers, certainly, we're pleased with the decline year-on-year. And really, the bulk of the decline is cleaning up excess and obsolete inventories. So what's in the line now or what's in the inventory base now is primarily core in line product, setting us up for fourth quarter and then leading into 2018. So we're focused overall on improving the inventory turns in the business and this is just a result of that. So I think what you've seen all year long is us consistently coming in with inventory levels lower than the prior year. And it's just a matter of improving that flow of inventory both -- to all of our channels.

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

Okay. And then just last question, you guys sounded still pretty confident on a double-digit EBIT over time. I know it's early. We're not quite at the end of this year, but can you just help us think about some of those puts and takes that you're assuming as you start the planning for fiscal '18?

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

Yes, let me talk a little bit about how we're looking at '18, and then I'll come back and talk about our midterm guidance with respect to double-digit EBIT margins.

As we look ahead at 2018, we're not giving detailed guidance at this time, but I think it's important to have an overview of how we're expecting that top line to develop. So the biggest impact to 2018 will be the continuation of our store rationalization effort. And really, that's the impact of the stores that have closed partway through this year as well as the stores that we have planned to close in 2018. So we expect a headwind in our revenue line of approximately $50 million associated with those store closures. We expect that, that revenue decline will be offset by growth in e-commerce as well as growth in wholesale. So if we think about 2018, if we adjust for the store-rationalization effort and lapping on the business model changes, we would be up mid-single digits as compared to this year.

And when we think ahead to double-digit EBIT margins, we've said a few times, we don't expect to achieve that obviously in 2018, but we continue to be confident in our ability to get to that in the midterm.

Operator

The next question is from Jonathan Komp with Baird.

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

First, Carrie, I just wanted to clarify, last quarter I think you said the midpoint of the third quarter revenue guidance would have been about flat on an underlying basis. And now today, I think, you just said the results were roughly flat, and I know you were above the high end on the revenue. So I just wanted to clarify if that's apples-to-apples or if there are any other changes going on during the quarter?

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

Yes. So now it's essentially just adjusting for the business model changes. If you'd factored in store closures, it would have been up over prior year.

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

Okay, great. And then when you look at the bridge to low single-digit growth in Q4, I was hoping you could maybe just give a little more clarity on what you're seeing there, especially since I think you implied selling more spring and summer product into the third quarter than usual, so I'm wondering if that is going to continue into the fourth quarter. I'm just trying to walk through some of the puts and takes.

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

Yes. As we look at the fourth quarter, there's a couple of things that are important factors. From a product perspective, we're focused more and more on our clogs, sandals, flips and slides. Obviously, sandals, flips and slides drop off in the fourth quarter. But we think our clogs and lined clogs have significant traction in that period. We have de-risked our assortments, we have far less boots in our assortments and far less seasonal products in the assortments, so I think we're confident we have the right product mix. As we think about it from a channel perspective, obviously, it's a more of a DTC quarter. Both our e-commerce and retail business become a larger share of the business. And given our recent trajectory on e-commerce and the traction we're getting on a global basis, we feel confident in the guidance that we've provided.

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

Yes, and to take you back to being up low single digits, again if you take the midpoint, which would be $185 million, there are a few million dollars related to the Taiwan business, the Middle East business and the China transfer stores that we outlined to get you to that low single-digit number.

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

Okay, great. And then just a broader question on the Americas and the brand positioning. I know you shared some high-level details on the brand survey you completed. I'd be curious, if you had any more color there for the Americas specifically, but really just looking at 5% growth year-over-year for revenue even with the store closures, I think, wholesale's been up now 2 quarters in a row for Americas for the first time in a while. So is there anything other than some of the -- I know you outlined the product and market initiatives, is there any sort of broader trends you can identify that are helping the business, just looking for any more perspective there?

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

Yes. As we focus on the Americas, I think we are seeing some firmness and some strength in the business that we're excited about. We think that is largely driven by the product and marketing strategies we've put in place. As we look at the growth or the strength of the business, it is driven by clogs and sandals, that's what's driving the business in the Americas. We do see the marketing campaign being certainly well-received in the marketplace. The use of digital and social to reach the consumers is clearly having an impact. And I guess, the 1 other trend that we see is an increasing interest in the brand at the teen-to-college age, student age. We see a lot of athletes wearing the product, pre- and post- sports events. So I think that's a trend that we see, and frankly, we're trying to accentuate it with our social media. And I think the additional thing relative to the brand survey that I'd highlight that was certainly of interest to us , and I am sure will be of interest to you, is the double-digit growth that we've seen in desirability, consideration and relevance. We saw that across all of our 5 major markets where we focus our advertising dollars. So we really believe that the COME AS YOU ARE campaign and the marketing efforts that we've been undertaking this year are driving renewed interest in the brand.

Operator

The next question is from Jim Duffy with Stifel.

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

I have a couple of questions. Andrew, you had mentioned a positive response to the Spring line. Are there any qualitative comments or quantitative comments you can add to this? And then related to that, I'm curious is there any change to your planned shipments for Spring/Summer '18 that might hit in the fourth quarter relative to the previous year?

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

Yes. So, we haven't for some time now released preorder or backlog information. But what I can reiterate is that we are certainly seeing, we're pleased with the response we're getting, relative to the Spring/Summer '18 line. Customers seem to be excited about it. I think they're particularly excited about LiteRide, we've mentioned that in our prepared remarks. It's a new tier to our assortment, where we're bringing in enhanced comfort, enhanced styling at a slightly higher price point. And I think that's resonating with customers and we hope it will resonate with consumers too. In terms of fourth quarter shipments of Spring '18, I would say it's roughly consistent with what it has been historically. We have the opportunity to deliver Spring '18 for warm-weather doors here in the United States, and then obviously, in Southeast Asia, a good amount of Spring '18 gets delivered in the fourth quarter. But it's pretty consistent with what it was last year.

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

Very good. Carrie, a question for you on the inventories. They are very tight. Was that a function of promotion during the third quarter? Or do you feel the third quarter from a gross-margin standpoint is a fairly normalized compare at this point?

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

Yes. So I do think the gross margin rate is fairly normalized at this point. We had a big pop, obviously, in Q3 last year from a gross-margin-rate standpoint, so I think we're at a good -- pretty good landing place right now. In terms of the inventory, it's really just a matter of having clean inventory. So it was not a result of promotional -- highly promotional activity. What it's been is really our internal operations process around the inventory planning has been very disciplined, our open-to-buy by channel, by region, has been very disciplined. So it's really just us managing our inventory better.

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

Very good. And related to that, Carrie, can you comment on the view to operational improvements and gross margin opportunities into 2018? Do you expect to be able to continue to make forward progress?

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

So where we're tracking to be at the 50% gross margin rate for this year, we do believe as we guided in our midterm that we expect gross margins to be in low-50s. I think we've made some significant improvements, both in '16 and in '17, in our overall gross margin rate. I think the gross margin rate improvement going forward will be incremental as opposed to some of the step changes that we've seen with the 150 basis points improvement year-over-year.

Operator

Our next question is from Mitch Kummetz with Pivotal Research Group.

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

I wanted to go back to the double-digit EBIT margin, because in broad strokes, and maybe I'm getting a little ahead of myself here, but in broad strokes you guys have about a $1 billion business, and it sounds like you're expecting sales to be, sort of, flattish next year. If I think of the business as $1 billion, based on your SG&A reduction plan, you're talking about $30 million to $35 million of incremental operating income. I feel like when I do that math, it kind of puts me at a 3% to 4% EBIT margin business by 2019. And there is still a pretty big gap from there to double digits. And I'm just trying to understand how to think about where you guys have opportunity to bridge that gap over time. Is it on the sales line? Is it on the gross margin line? Is there long-term opportunity for SG&A reduction as maybe you tackle some additional stores that aren't currently in the plan? Could you just help me think about that a little bit?

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

So the way we look at it, starting with 2016 as our base, and to your point, we're slightly down low single digits this year, we're guiding, we've talked about being relatively flat in 2018. With our SG&A reduction plan, with some improvement in gross margin rate, we don't think it's going to take all that long for us to get to double-digit EBIT margins. We feel like the midterm gets us -- in the midterm, we can get there. So I think we can talk after about your model, but I would say 3%, 4% in 2019 seems extremely conservative to me.

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

Yes. And that's definitely too low for '18, Mitch.

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

'19.

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

And then, obviously, if you've got really -- if you believe margins are around 50%, low-50s, we've got our cost reduction plans, which we've laid out and we can go through in more detail, but then you get a little bit of revenue growth and at a 50% margins, the flow-through is significant and the math works.

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

Okay. And then secondly, you talked about some SKU and door expansion. Can you talk a little bit about that and what that might mean to your wholesale business? I'm guessing that's in reference to the Spring '18 orders, is that right?

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

Yes. Yes, I think the biggest thing there is, the way we think about it is, our wholesale partners are economic animals. They do what makes sense for them, right? And as they look at their '17 business, they have seen better sell-throughs, they have seen stronger margins and as a result of that, we feel like in key accounts, where we're really focusing, we have opportunities for greater share of shelf, and we're receiving representation that gives us greater share of shelf. And some door expansion in key accounts where we maybe not have been represented before. So we feel good about the opportunity to grow the wholesale business with a little bit of door expansion. But I would say the majority of the dollars are actually driven by faster sell-through and greater share of shelf in existing accounts.

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

Got it. And then maybe just one last quick one, kind of housekeeping. Carrie, you mentioned, I think it was about a $50 million headwind on store closures next year. What does it end up being on 2017? Because, obviously, there is some impact this year. Can you just give us the number for 2017?

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

Yes, I'll double check it, but give me a minute and I'll just confirm it. I think it's around $40 million in revenue this year as compared to 2016 in terms of store closures.

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

Yes. I think that's what it is, Mitch. We'll come back to you if that's not correct.

Operator

Our next question is from Sam Poser with Susquehanna.

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

A couple of things. As far as the inventory, I know that it's way down, but what's an optimum forward weeks of supply or optimum turn? Because you're still -- using your numbers, you're still running with 17 weeks forward supply, which is well down from last year, but it still seems a bit elevated. Could you give us some color there as to what you think and what your targets are?

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

Yes, Sam. We feel great about the progress we've made, frankly, around inventory as Carrie talked about earlier. It was really around instituting some enhanced planning processes, planning this from the beginning and really, planning each of our channels based on a turn and forward weeks of supply. I think the level we're at is a strong improvement over where we have been. Do we feel like we can make some incremental progress from here? Absolutely, we do. We can certainly see opportunities in certain places around the business. Are we going to see that kind of change again go forward? No, very unlikely. It's going to be more incremental. But I don't 100% disagree with you. There is further opportunity.

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

What is the difference between your direct inventory turn, retail and e-commerce versus your wholesale turn? Because I would assume, as you've shut down more stores, that should really help your inventory.

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

Yes, exactly. Obviously, our wholesale business turns faster than our DTC businesses. And our e-commerce business turns faster than our retail businesses. So all of the transitions we're making, as you are highlighting, will increase turns in the future.

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

Okay. And secondly, sort of a follow-up to the other questions asked. How do we get to this low-50s growth and low-40s SG&A? That's all good and so on. But how do we start seeing the top -- what's going to trigger sort of real top line growth here? As I think Mitch mentioned or Jim mentioned, it's going to be flattish next year. And then, where do we start seeing -- when can we start seeing this business expand from that $1 billion base? As you look out, I mean what are you looking at? Because that's really going to be the trigger to get the EPS to improve once you get through your other projects.

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

Yes, absolutely, Sam. So , obviously, we've been doing a lot of hard work and are very focused on our cost reduction program. We think that's yielding very tangible and significant progress. But ultimately, we need to get the top line moving. I think what's going to cause that is product and marketing. Those are the key drivers. As we look at product, I think we gain more and more confidence around our focus on clogs and sandals. We see it working. We see our customers telling us it's working, we get that feedback from consumers. And we think that will continue to play forward into the future. We see our marketing initiatives working as well, and we think that will continue to build and play forward into the future. The one thing I would point out, if you look at this quarter, we did see growth in both the Americas and Europe, right? So 2 out of our 3 regions grew in absolute terms. Now overseas, we're a little aided by some currency, but we've got 5% growth in the Americas and 6.2% growth in Europe in this quarter. And as I highlighted earlier in answer to Erinn's question, Asia went backwards because of a lot the strategic changes that we're making. So as we get through those changes, we think that we can continue to build the top line and drive growth in the brand and the revenue for the overall company.

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

And I think the key element to add to what Andrew just said is, we'll be building off a quality revenue base, and that's not always been the situation, right? So the cleanup of the discount channel sales, getting out of this low-margin business, making sure that what we're selling is profitable. That's a better place to grow from. And so part of that challenge is essentially getting through 2018 for the most part in terms of that headwind we faced from that cleanup. That said, we continue to improve profitability while we do that.

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

Just a thought, a quick follow-up on that. You said 2 things. You said hitting this double-digit EBIT in the next -- in the midterm, but then, what's the actual target for '19? Are you saying you can get to double-digit EBIT in '19? Or is that extended beyond that? I just want...

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

Yes. So at this point, we're not even guiding -- giving specific guidance on '18. So we're definitely not giving guidance on '19, but what we're reinforcing is that we do believe double-digit EBIT margin in the midterm is achievable.

Operator

The next question is from Steve Marotta with CL King & Associates.

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

Carrie, you mentioned in the fourth quarter that excluding the impact of the sales of the businesses, sales would be up in the low single-digit range. Does that include store closures and if not, what would the number be otherwise?

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

So that does not include store closures. That's essentially the business model change around the Middle East, Taiwan and those things, and that's taking it from the midpoint. The retail store closures we've not called out in the quarter, how much that revenue decline is. But it is meaningful in terms of the overall -- and essentially, what's happening there is e-com and wholesale is compensating for that.

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

Okay. And I was going to ask the same question as it pertains to 2018. I think you said that there is a $50 million headwind pertaining to retail. There's still some residual other internal actions that are occurring. Can you quantify that in total?

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

Yes. So the bulk of the impact in terms of that $50 million headwind is store closures. We did the Middle East transaction in Spring, but that actually is embedded in the store closures, because we sold retail stores. And we've essentially completed the lap in Taiwan. So it's pretty clean, and when we get to 2018, in terms of it primarily just being store closures.

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

And what about, okay, that would include Japan. I understand. Okay.

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

Yes, yes.

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

Yes. Because the majority of the loss of revenue is still our closures in Japan. Yes, so that really in '18, that really captures the majority of the impact.

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

Great. One last little housekeeping question. When was the last time you repurchased shares?

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

So we repurchased shares in Q2, we repurchased shares in Q3. So Q3, we've bought back 2.1 million shares for $17.1 million at an average cost of $8.31 a share, and year-to-date, we've repurchased 3.4 million shares. So we've done about $27 million -- a little over $27 million in share buybacks year-to-date and the average cost was at $7.90. And prior to that, it had been -- I think back to 2015 before we bid in the market.

Operator

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

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

Yes, thanks, everybody. So thank you for joining our call today and your continued interest in the company. We appreciate it.

Operator

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