

Crocs, Inc.
CROX - \$15.55 – NASDAQ

Recommendation: Sell

Reasons For Sale Recommendation

- **Stock price up almost 50% on no improvement in business in last 3 months.**
- **Recurring, non-recurring charges.**
- **Management departures.**
- **No growth.**
- **Returning to old fad beach sandals.**
- **Closing stores, not expanding.**
- **Most trends still downward, revenue, earnings.**

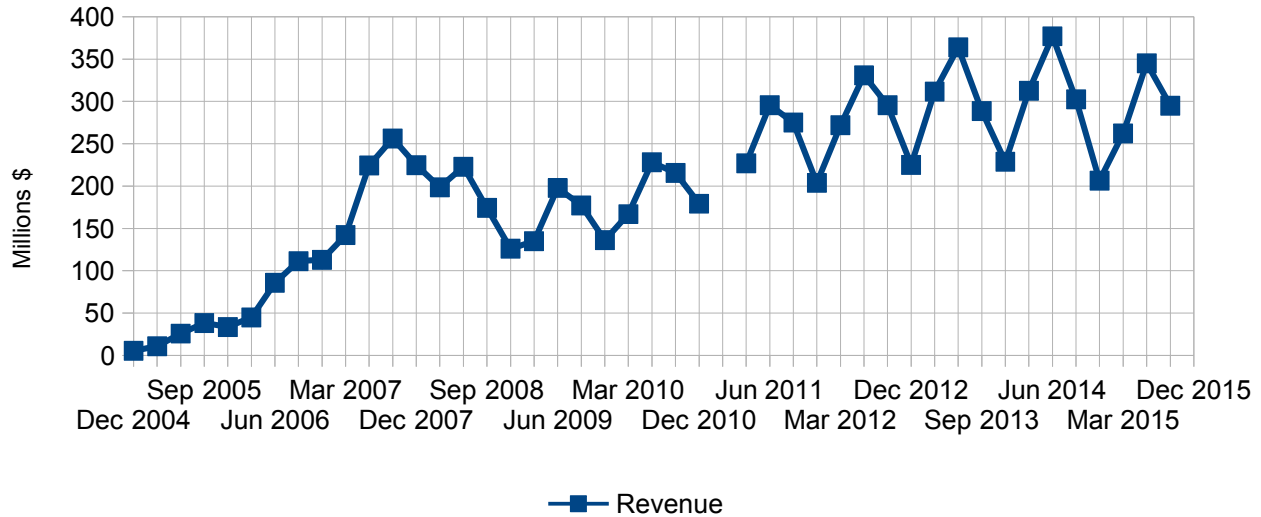
Financials

52 – Week Low 2-27-20015	\$10.25	Book Value/Shr (mrq)	\$5.25
52 – Week high 7-22-2015	\$16.83	Diluted Earnings/Shr (ttm)	-\$0.37
52- Week Change	4.53%	Diluted Earnings/Shr mrq)	-\$0.08
Daily Volume Avg.	1.28M	Sales/Shr (ttm)	\$13.91
Market Capitalization	\$1.18B	Cash/Shr (mrq)	\$2.35
Shares Outstanding	76.98M	Price/Book (mrq)	2.93
Float	75.13M	Price/Earnings (ttm)	NA
Profit Margin (ttm)	-1.44%	Price/Sales (ttm)	1.02
Operating Margin (ttm)	1.77%	Revenue (ttm)	\$1.15B
Return on Assets (ttm)	1.33%	EBITDA (ttm)	\$58.04M
Return on Equity (ttm)	-2.38%	Debt/Equity (mrq)	1.79
Operating Cash Flow (ttm)	\$4.38M	Shares Short 5-29-2015	12.05M
Leveraged Free Cash Flow (ttm)	\$19.55M	% of Float Short	15.70%
Total Cash (mrq)	\$180.7M	Short Ratio	1.5

(ttm) = Trailing 12 months, (mrq) = Most recent quarter, M = Millions, B = Billions, m = Thousands

CROX Revenue

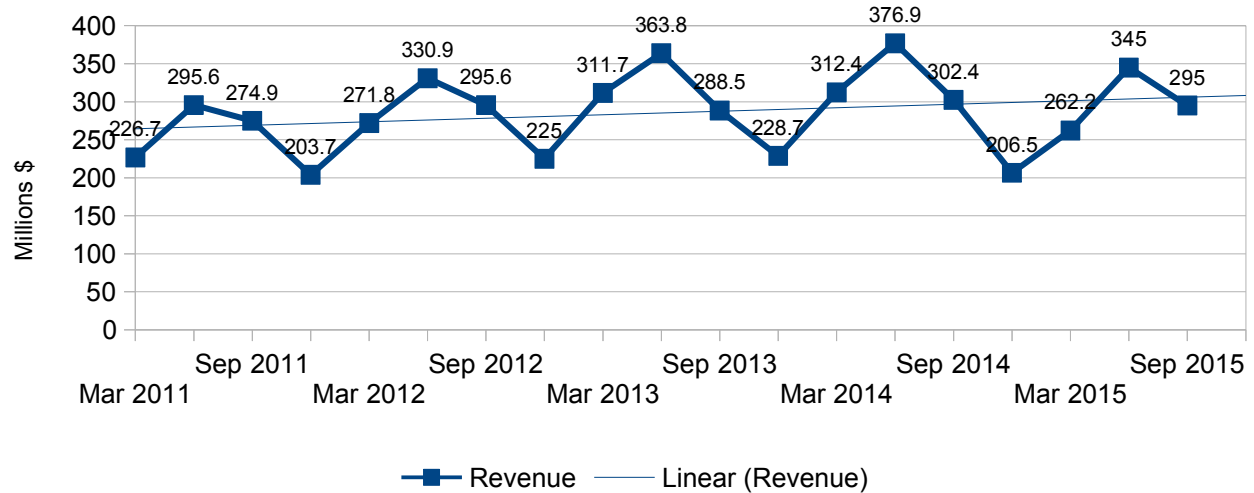
2005 To 2015



Crocs had their heyday back in 2007. After the shoe fad wore off, sales collapsed and the stock price went as low as \$1. Then they made a slow comeback. We went long the stock in 2013 when it looked like they had overcome their problems. Their chief problem was the clog shoe was a fad, but they started to make more normal looking shoes and we were hopeful that given the nice technology that they have, non-bacterial, comfortable shoes, it was a good bet that they would succeed. Unfortunately, they have done very little over the past two years, except change management and strategy and take charges every quarter. Now their strategy is to go back to the clog shoes, which we call “clown shoes”. We believe that this is a bad strategy.

CROX Revenue

2010 To 2015 Est.



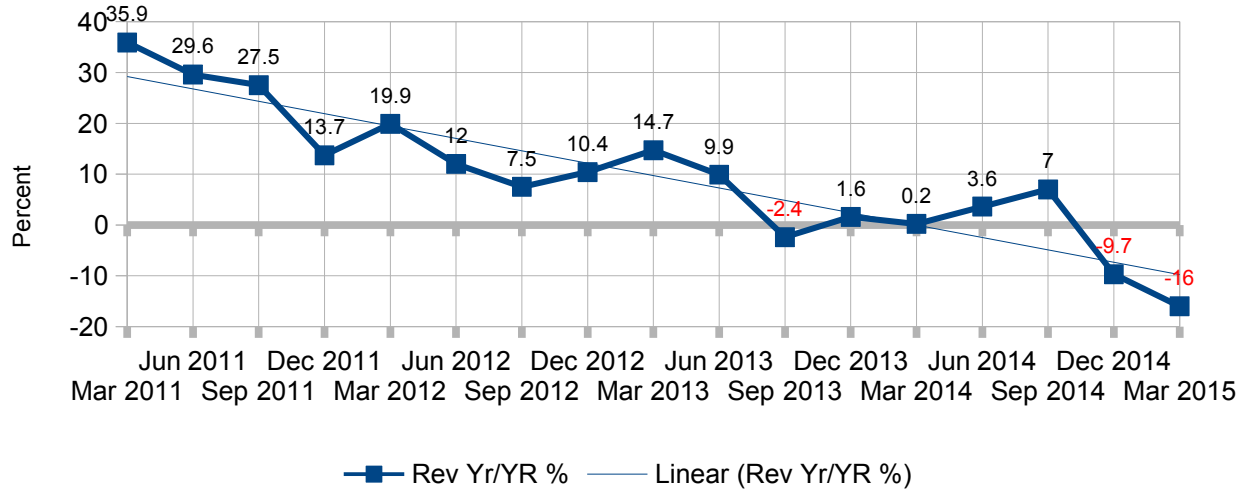
It is clear from the above chart that revenue growth since 2011 has been very poor. The September quarter is usually their best quarter. For this September 2015, the revenue estimate is \$345 million, 8 percent below the previous year. Clearly this is not a growing business.

Stock up 50%

CROX stock price has rallied 50 percent since February 2015. We see no catalysts or events that warrant this 50% increase in three months. Accordingly we are recommending selling this stock. Earnings estimates for 2015 are \$0.26, down from \$0.58 in 2014. And these estimates exclude all the charges that CROX takes every quarter. With the charges, CROX loses money.

CROX

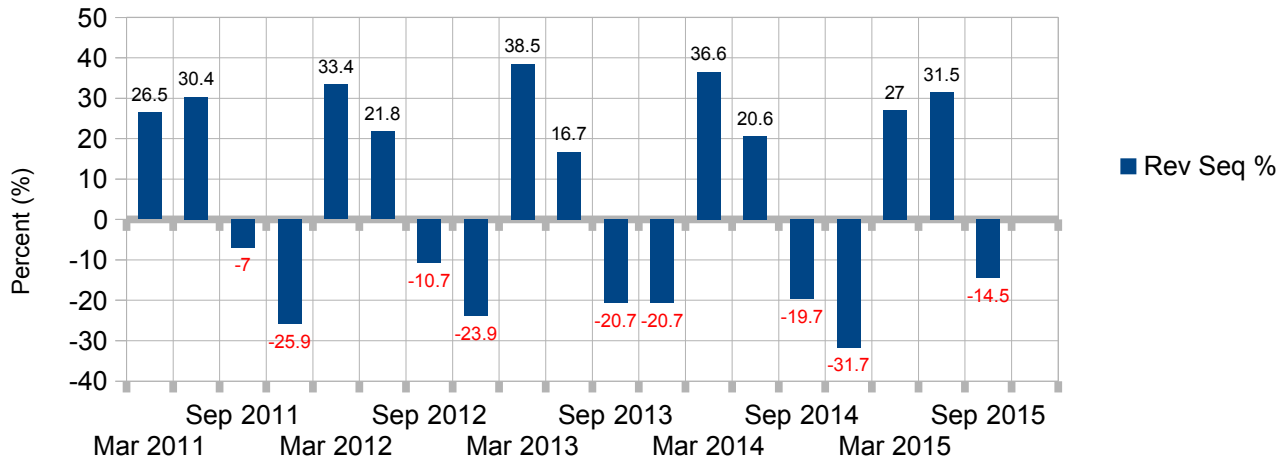
Year Over Year Revenue Growth



Does this chart above warrant a 50% increase in the stock price the past 3 months?

CROX Sequential Revenue Growth

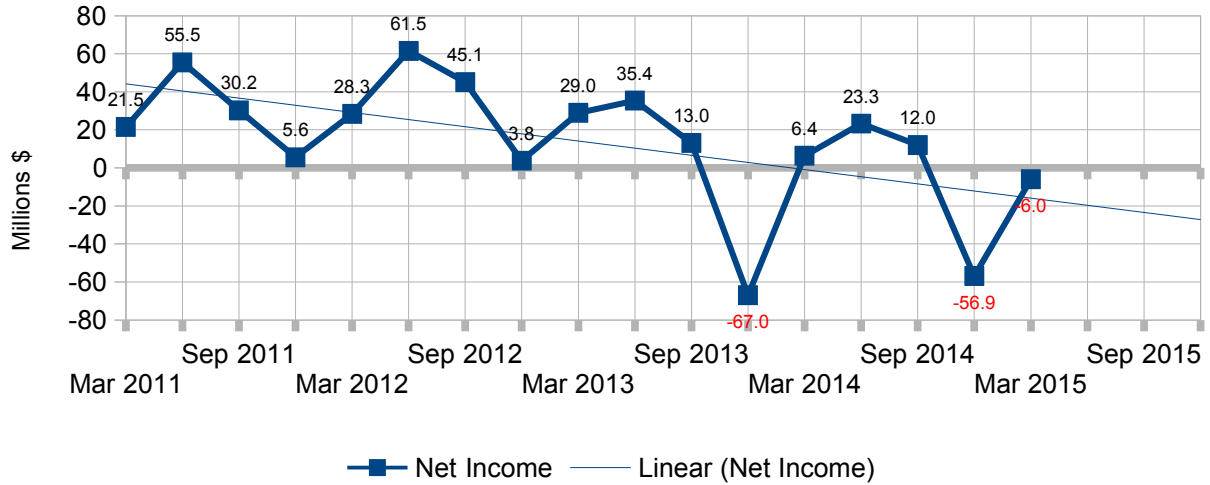
2011 To 2015



We say no.

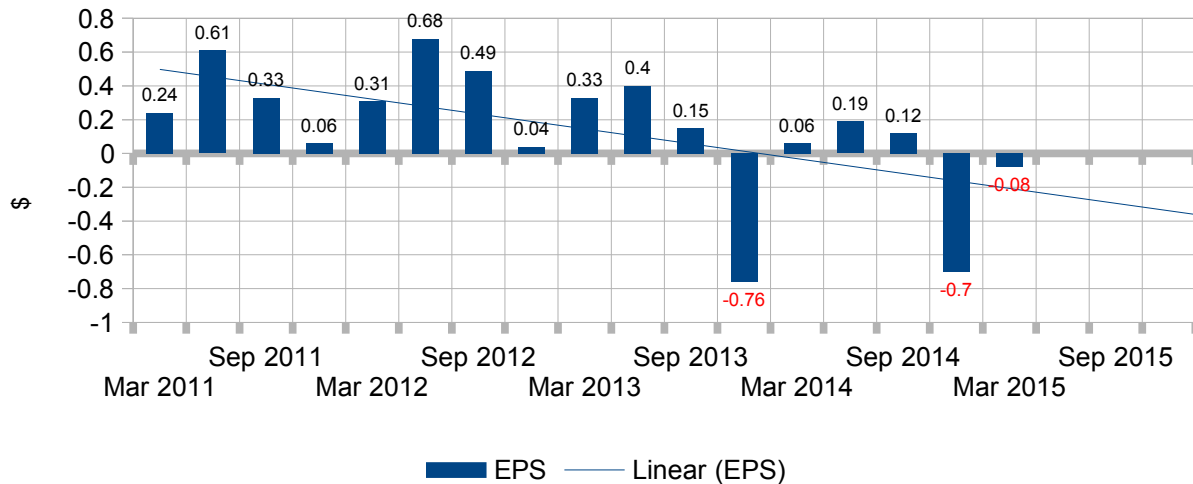
CROX Net Income

2011 To 2015



CROX Earnings Per Share

2011 To 2015



Are either of these charts above a reason to get excited about this stock?

Recurring, Non-Recurring Charges

CROX takes charges virtually every quarter, but claims they are non-recurring. Wall St tends to overlook these charges and the earnings estimates you see are without charges. **This is a con game. CROX loses money.**

2014 First Quarter:

The company reported net income of \$0.06 per diluted common share on a GAAP basis in the first quarter of 2014. **Excluding certain charges**, the company reported a non-GAAP net income per common share of \$0.14.

The company recorded \$8.1 million in non-GAAP charges (of which \$1.1 million were non-cash charges).

2014 Second Quarter

GAAP net income per common share was \$0.19, and **excluding certain charges**, the company reported a non-GAAP net income per common share of \$0.36.

The company recorded \$16.8 million in non-GAAP charges (of which \$7.3 million were non-cash charges).

2014 Third Quarter

Net income was \$0.12 per diluted common share on a GAAP basis in the third quarter of 2014. **Excluding certain charges**, the company reported a non-GAAP net income per common share of \$0.30.

The company recorded \$17.4 million in non-GAAP charges (of which \$6.8 million were non-cash charges).

Full Year and Fourth Quarter Financial Highlights:

- **GAAP revenue increased 0.5%** year over year to \$1.2 billion. On a constant currency basis, revenue increased 1.8% as compared to the prior year.
- For the fourth quarter, revenue was \$206.5 million **a decline of 9.7%** as compared to the fourth quarter of 2013. On a constant currency basis, fourth quarter revenue declined 5%.
- **Net loss attributable to common stockholders on a GAAP basis was \$0.22 per diluted share for the year and \$0.70 per diluted share for the fourth quarter.**

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Excluding certain non-recurring and special charges, the company reported non-GAAP adjusted net income attributable to common stockholders of \$50.0 million for the year and a non-GAAP adjusted net loss of \$30.0 million for the fourth quarter.

- **The company recorded \$26.8 million in non-recurring and special charges** (of which \$15.3 million were non-cash charges) **in the fourth quarter of 2014**; compared with \$49.2 million in non-recurring and special charges (of which \$46.5 million were non-cash charges) in the fourth quarter of 2013.

2015 First Quarter

Excluding certain non-recurring and special charges, the company reported non-GAAP adjusted net income attributable to common shareholders of \$4.7 million.

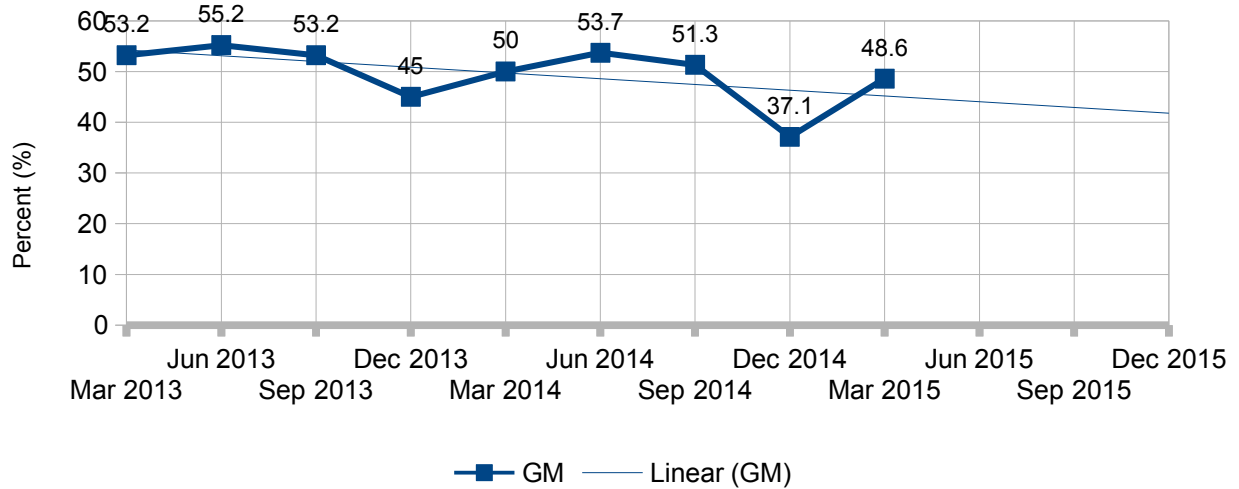
The company recorded \$10.7 million in “NON-RECURRING” and special charges in the first quarter of 2015 compared with \$8.1 million in non-recurring and special charges in the first quarter of 2014.

So, not only do they take non-recurring charges every quarter, now the charges are getting larger.

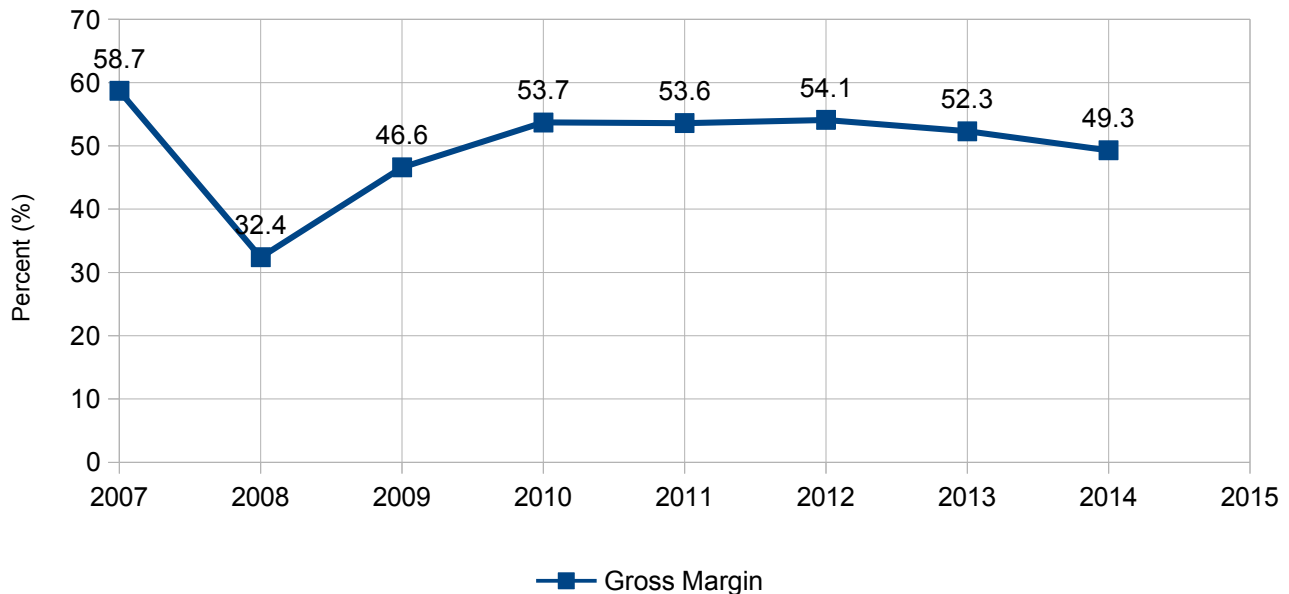
Well, excluding my mortgage payment, car payments and tuition payments, I make a lot of money too.

CROX Gross Margin

2013 To 2015

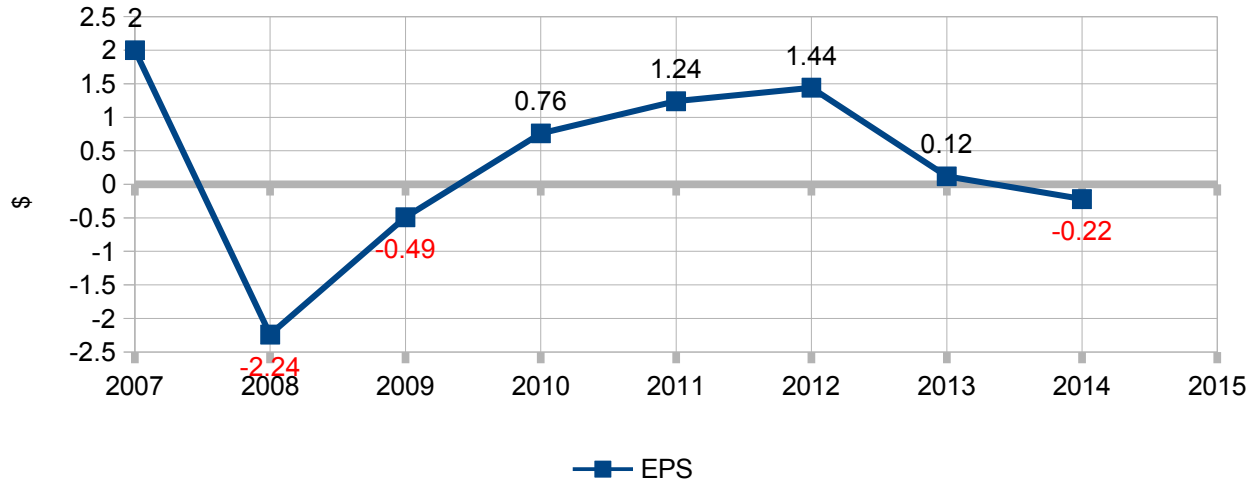


CROX Gross Margin

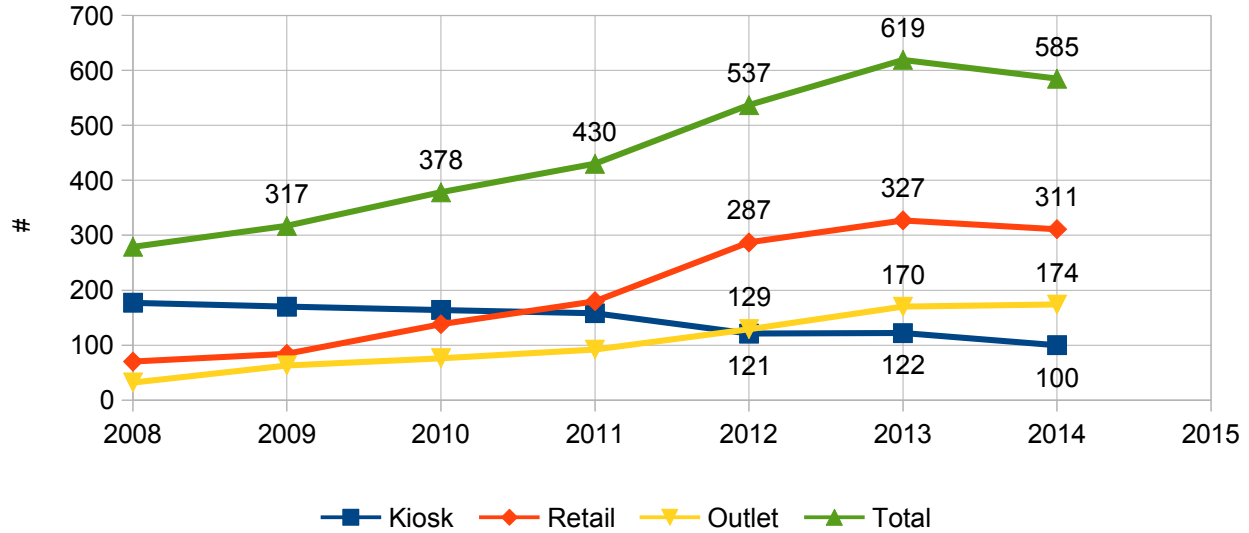


CROX Earnings Per Share

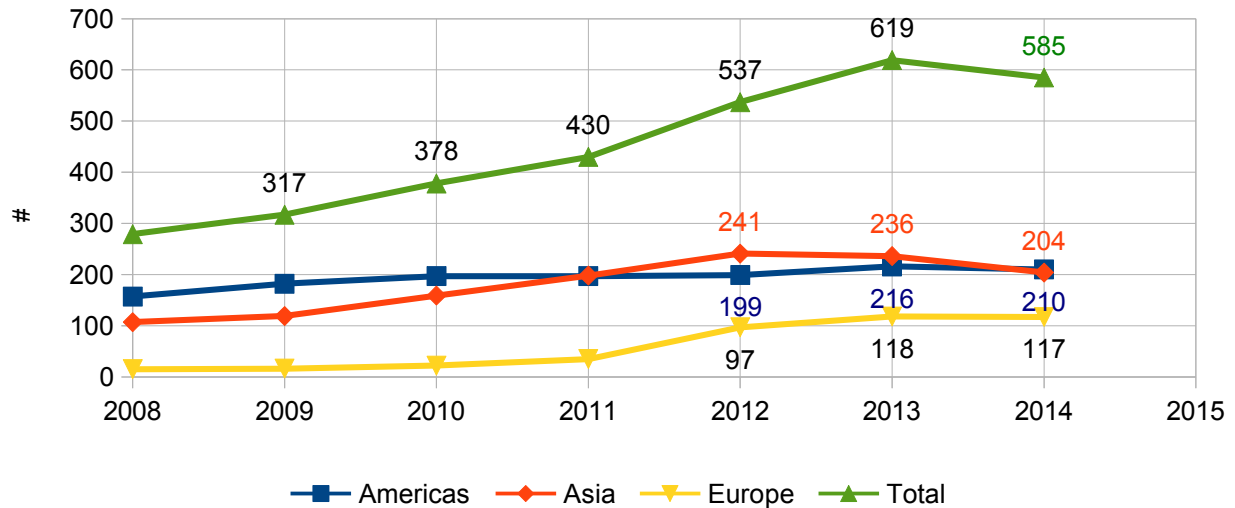
2007 To 2015



CROX Stores



CROX Store Operating Segments



Strategy

CROX plan was to diversify away from the “clown shoes” and make more normal shoes. The management team that implemented that strategy is now gone. The new management wants to return to the “clown shoes” as its main focus. We believe that this is a mistake.

“We continue to make meaningful progress in implementing the strategy including:

- strengthening our brand; (**What does that mean? Meaningless management speak.**)
- elevating our product stories; (**What?**)
- evolving our international business to focus on our six core markets; (**Why aren't you always focused on your core markets?**)
- strengthening our relationships with key wholesale partners; (**How? Are they weak?**)
- improving our direct to consumer capabilities; (**How?**)
- simplifying our business model; (**Why was it complicated in the first place?**)
- building a best in class team. (**Who doesn't?**)

We are confident that these moves are laying the foundation to position the company for sustained growth in the future.”

Management said these same things a year ago.

Management Changes

The company also announced that the Crocs' **Chief Operating Officer, Scott Crutchfield, is leaving the company**. In conjunction with Crutchfield's departure, the company is making a series of senior level organizational changes that include the **elimination of the Chief Operating Officer and the SVP of Global Supply Chain roles.**

So, they are building a best in class team by eliminating the Chief Operating Officer.



The stock price has risen 50% since February 2015. Why?

2015 Second Quarter Guidance

As our business continues to stabilize, we expect Q2 revenue in the \$340 to \$350 million range, **showing slight growth excluding the impacts of our China business and store closings and discontinued product lines."**

Financial Outlook

Mr. Ribatt continued, "Compared to last year, our first quarter financial results reflect the strategic shift to **focus the organization on a narrower range of businesses, less retail stores and a narrowed geographic focus.** The balance of our business continues to stabilize across all of our regions while we **address the continuing challenges of the stronger US dollar, our China business and the impact of the slowdown at the US ports.**

Sounds like more recurring non-recurring charges coming this quarter.

This company is shrinking!

CROCS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(\$ thousands, except per share data)

	Three Months Ended March 31,	
	<u>2015</u>	<u>2014</u>
Revenues	262,193	\$ 312,429
Cost of sales	134,823	156,202
Gross profit	127,370	156,227
Selling, general and administrative expenses	126,069	137,155
Restructuring charges (Note 5)	3,663	2,250
Income (loss) from operations	(2,362)	16,822
Foreign currency transaction gain (loss), net	494	(2,768)
Interest income	288	477
Interest expense	(219)	(191)
Other income (expense), net	(331)	141
Income (loss) before income taxes	(2,130)	14,481
Income tax expense	(295)	(5,357)
Net income (loss)	(2,425)	9,124
Dividends on Series A convertible preferred shares (Note 12)	(2,833)	(2,133)
Dividend equivalents on Series A convertible preferred shares beneficial conversion feature (Note 12)	(721)	(618)
Net income (loss) attributable to common stockholders	\$ (5,979)	\$ 6,373
Net income (loss) per common share (Note 11):		
Basic	\$ (0.08)	\$ 0.06
Diluted	\$ (0.08)	\$ 0.06

The following table summarizes total revenue by channel for the three months ended March 31, 2015 and 2014 (\$ thousands):

	Three Months Ended		Change		Constant Currency	
	March 31, 2015	2014	\$	%	Change ⁽¹⁾ \$	%
Wholesale:						
Americas	\$61,176.00	\$70,175.00	-\$8,999.00	(12.8)%	-\$7,384.00	(10.5)%
Asia Pacific	72,497	99,044	(26,547)	(26.8)	(21,468)	(21.7)
Europe	44,653	47,780	(3,127)	(6.5)	8,663	18.1
Other businesses	225	258	(33)	(12.8)	(3)	(1.2)
Total Wholesale	178,551	217,257	(38,706)	(17.8)	(20,192)	(9.3)
Consumer-direct:						
Retail:						
Americas	34,617	36,581	(1,964)	(5.4)	(1,766)	(4.8)
Asia Pacific	23,345	28,249	(4,904)	(17.4)	(3,407)	(12.1)
Europe	8,411	10,730	(2,319)	(21.6)	444	4.1
Total Retail	66,373	75,560	(9,187)	(12.2)	(4,729)	(6.3)
Internet:						
Americas	9,976	10,364	(388)	(3.7)	(272)	(2.6)
Asia Pacific	3,933	3,622	311	8.6	665	18.4
Europe	3,360	5,626	(2,266)	(40.3)	(1,353)	(24.0)
Total Internet	17,269	19,612	(2,343)	(11.9)	(960)	(4.9)
Total revenues	\$262,193	\$312,429.00	-\$50,236.00	(16.1)%	-\$25,881.00	(8.3)%

- **Wholesale** business was down across the board with **Asia Pacific declining 26.8%**. This was mostly due to poor results in China. **Total wholesale business was down 17.8%**.
- **Retail** was also down across the board, with Europe being the worst performer at **down 21.6%** and Asia close behind at **down 17.4%**.
- **Internet** was **down 16.1%** in total with **Europe down 40.3%**.

10 out of 11 operating segments were down, some down huge.

Revenue By Area

(\$ thousands)	Three Months Ended March 31,		Change		Constant Currency Change	
	2015	2014	\$	%	\$	%
Regional Revenue:						
Americas	\$105,769	\$117,120	\$(11,351)	(9.7)%	\$(9,422)	(8.0)%
Asia Pacific	99,775	130,915	(31,140)	(23.8)	(24,210)	(18.5)
Europe	56,424	64,136	(7,712)	(12.0)	7,754	12.1
Other businesses	225	258	(33)	(12.8)	(3.0)	(1.2)
Total revenues	\$262,193	\$312,429	\$(50,236)	(16.1)%	\$(25,881)	(8.3)%

Same Store Sales

Comparable store sales	Constant Currency	Constant Currency
	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Americas	(5.8)%	(5.0)%
Asia Pacific	(9.4)	3.3
Europe	5.7	0.6
Global	(5.3)%	(1.5)%

Conclusion

We believe that the stock price of CROX has rallied almost 50% the past three months on hope. We do not see any catalysts to propel the stock from here. The company is retrenching, not expanding. They are closing stores, not opening them. Sales are declining across the board. 10 out of 11 operating segments were down last quarter. There are non-recurring charges virtually every quarter. Street estimates are a joke. **We have a price target of \$10-\$11 within the next twelve months.**
Sell...