CROCS inc

Q2 2023 Investor Presentation

Forward Looking Statement

This document includes estimates, projections, and statements relating to our business plans, commitments, objectives, and expected operating results that are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.

These statements include, but are not limited to, statements regarding potential impacts to our business related to our supply chain challenges, cost inflation, our financial condition, brand and liquidity outlook, and expectations regarding our future revenue, margins, non-GAAP adjustments, tax rate, earnings per share, debt ratios and capital expenditures, the acquisition of HEYDUDE and benefits thereof, Crocs' strategy, plans, objectives, expectations (financial or otherwise) and intentions, future financial results and growth potential, statements regarding third quarter and full year 2023 financial outlook and future profitability, cash flows, and brand strength, anticipated product portfolio and our ability to deliver sustained, highly profitable growth and create significant shareholder value. These statements involve known and unknown risks, uncertainties, and other factors, which may cause our actual results, performance, or achievements to be materially different from any future results, performances, or achievements expressed or implied by the forward-looking statements. These risks and uncertainties include, but are not limited to, the following: our expectations regarding supply chain disruptions; the COVID-19 pandemic and related government, private sector, and individual consumer responsive actions; cost inflation; current global financial conditions, including economic impacts resulting from the COVID-19 pandemic; the effect of competition in our industry; our ability to effectively manage our future growth or declines in revenues; changing consumer preferences; our ability to maintain and expand revenues and gross margin; our ability to accurately forecast consumer demand for our products; our ability to successfully implement our strategic plans; our ability to develop and sell new products; our ability to obtain and protect intellectual property rights; the effect of potential adverse currency exchange rate fluctuations and other international operating risks; and other factors described in our most recent Annual Report on Form 10-K under the heading "Risk Factors" and our subsequent filings with the Securities and Exchange Commission. Readers are encouraged to review that section and all other disclosures appearing in our filings with the Securities and Exchange Commission.

All information in this document speaks only as of July 27, 2023. We do not undertake any obligation to update publicly any forward-looking statements, whether as a result of the receipt of new information, future events, or otherwise, except as required by applicable law.

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Q2 Highlights

"We achieved record quarterly revenues of over $1 billion, representing growth of 12.0% on a constant currency basis to prior year. Both the Crocs and HEYDUDE brands continue to gain share and bring in new consumers with our comfortable offerings, as evidenced by DTC growth of 26.0% in the second quarter. We continue to invest behind our strategic priorities that are driving profitable growth."

– Andrew Rees, CEO

Q2 2023 Highlights

- Revenues of $1,072 million, +12% CC[1]
  - Crocs Brand revenues of $833M, +15% CC[1]
    - Asia revenues up +39% CC[1]
    - DTC comparable sales growth +20%
    - North America revenues +13% CC[1] driven by sandals and new product introductions
  - HEYDUDE Brand revenues of $239M, +3% CC[1]
    - DTC growth of +30% CC[1]
    - Digital growth of +37% CC[1]
- Adjusted diluted EPS +11% to $3.59 per share[2]
- Gross leverage was 1.8x at quarter end, allowing us to repurchase $50M of shares in July
- Crocs, Inc. was named to the Time100 Most Influential Companies of 2023

1. Revenue growth on a constant currency basis, which is a Non-GAAP Financial Measure. See further details in Appendix.
2. See reconciliation to GAAP equivalents in Appendix.

Diversifying the Crocs Clog Silhouette

Echo

Dylan

Siren

Q2 HIGHLIGHTS

Importance of Sandals to the Crocs Brand

- $30B global footwear category
- Our molded technologies, accessible price points, and strong go-to-market allow us to compete effectively
- Additional entry point for the Crocs Brand
- High purchase frequency
- Crocs Brand sandal consideration is on par with that of clogs
- Crocs has a sizeable business, with 2022 sandal revenues of ~$310M
- We expect sandal revenues to grow 29% to ~$400M in 2023

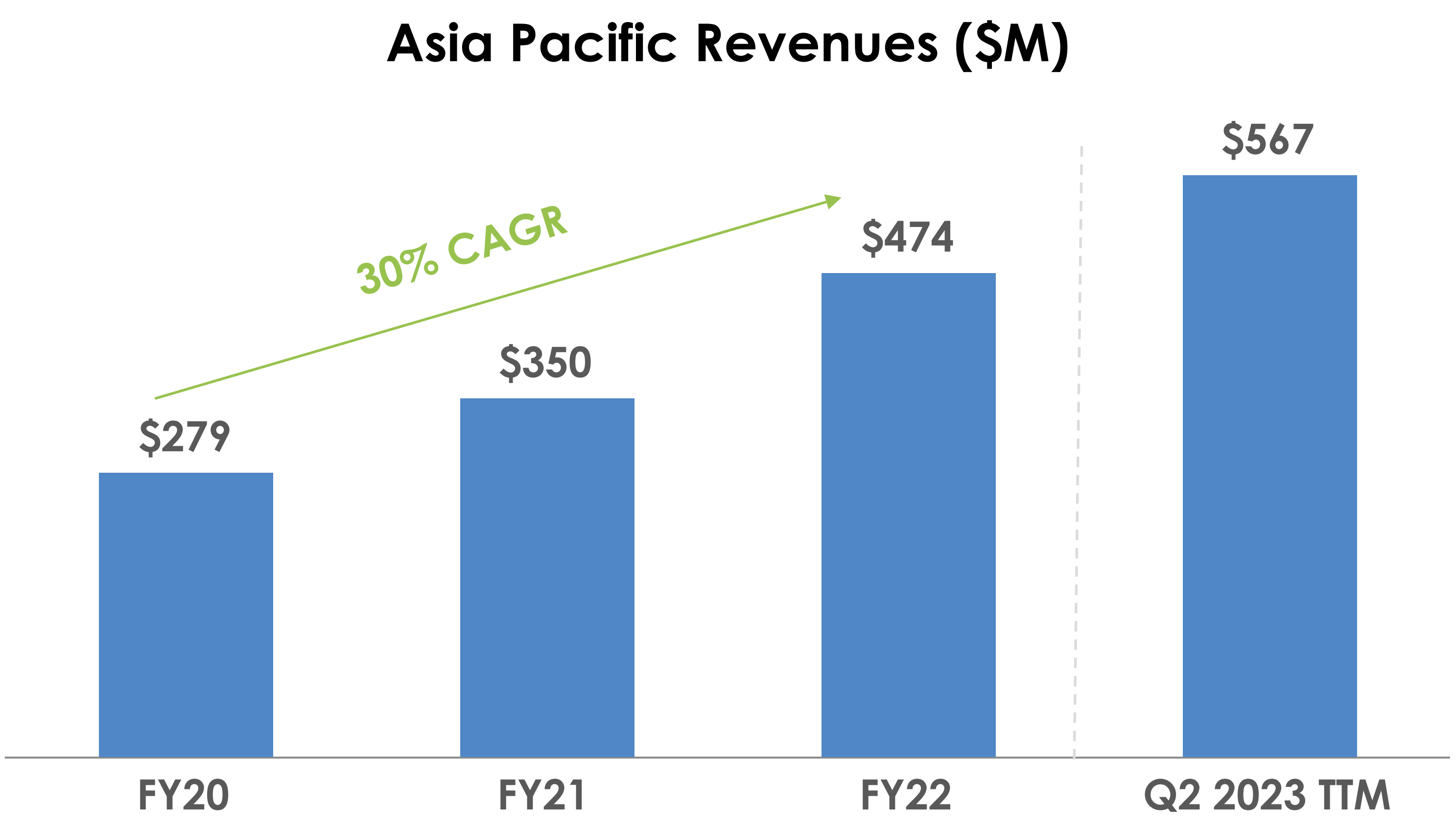
Q2 HIGHLIGHTS

Recent Crocs Collaborations

Asia is an Important Driver of Long-Term Growth

In Asia, growth was broad-based with strong brand momentum throughout the region including China, Australia, South Korea and Southeast Asia.

China revenues grew triple-digits in the second quarter.



	FY21	FY22	Q2 2023 TTM
CC GROWTH[1]	+22%	+47%	+47%

1. Revenue dollars in millions. Revenue growth on a constant currency basis, which is a Non-GAAP Financial Measure. See further details in Appendix.

Q2 HIGHLIGHTS

Crocs Brand China Update

Bai Jingting

Zhou Yutong

Crocs x Labelhood

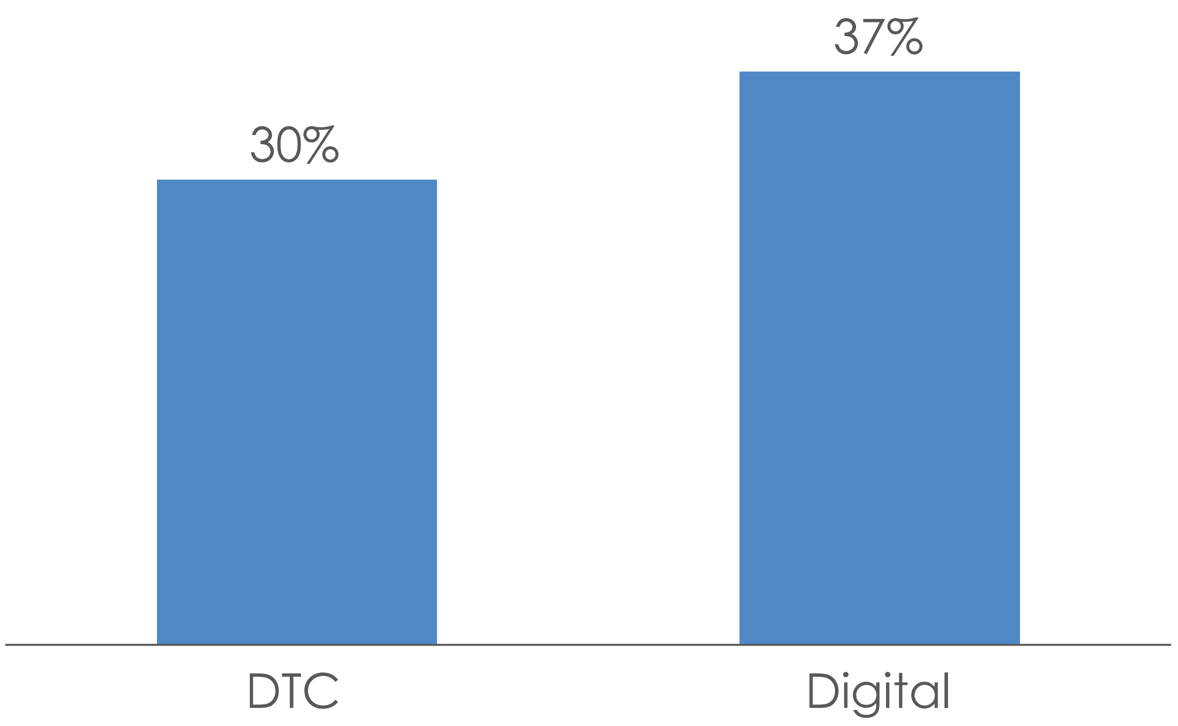
#1
in sales on Douyin during Mid-Season Festival

#2
in sales of casual footwear on Tmall during Mid-Season Festival

Q2 HIGHLIGHTS

Exceptional HEYDUDE DTC Growth

Q2 Revenue Growth[(1)]



1. Revenue growth on a constant currency basis, which is a Non-GAAP Financial Measure. See further details in Appendix.

Q2 HIGHLIGHTS

Creating Excitement with New Product Introductions

Americana

Funk

Washed Canvas

Sirocco

Driving Increased Brand Awareness

Mossy Oak

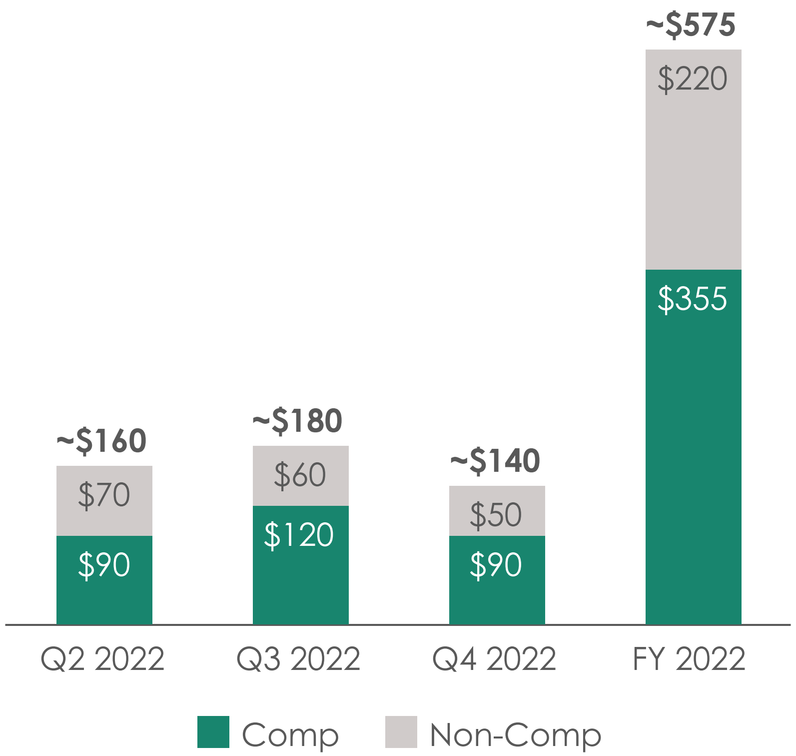
Back to Campus

HEYDUDE Wholesale Transformation

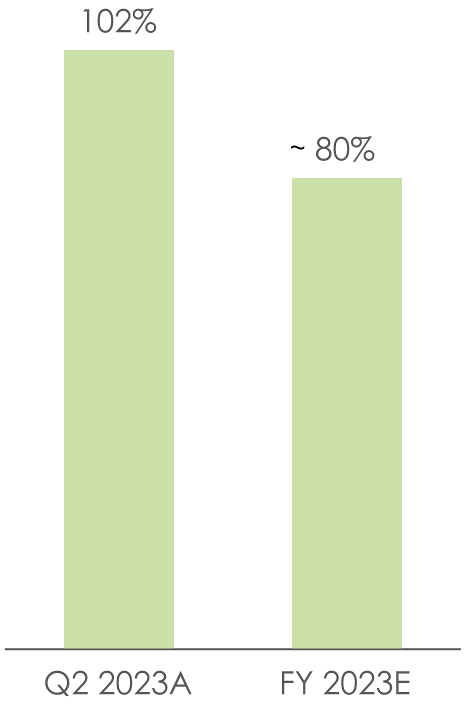
In 2022, we began to open strategic US Wholesale accounts and eliminate non-strategic accounts.

This will result in challenging Wholesale comparables in 2023. However, 2-year brand growth remains strong.

2022 Wholesale Revenues[1] ($M)



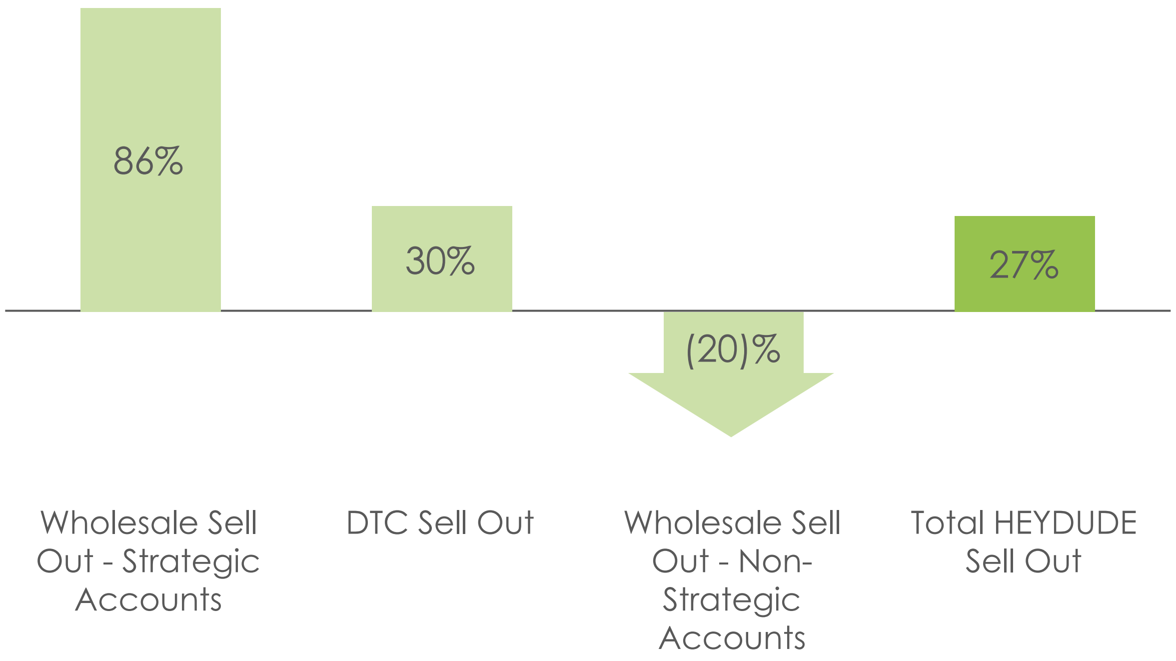
2-Year Total Brand Revenue Growth[2,3]



1. Non-comp includes pipeline fill revenue from strategic accounts that is one-time in nature as well as revenue from non-strategic accounts that we are/will eliminate.
2. Pro forma ("PF") includes HEYDUDE revenues for the period prior to acquisition close (assuming the acquisition had closed on January 1, 2021.)
3. FY2023E based on mid-point of guidance.

Strong Sell Out and Exceptional Brand Health

Q2 2023 Sell Out Increased Strong Double-Digits[1]



Exceptional Brand Health[2]

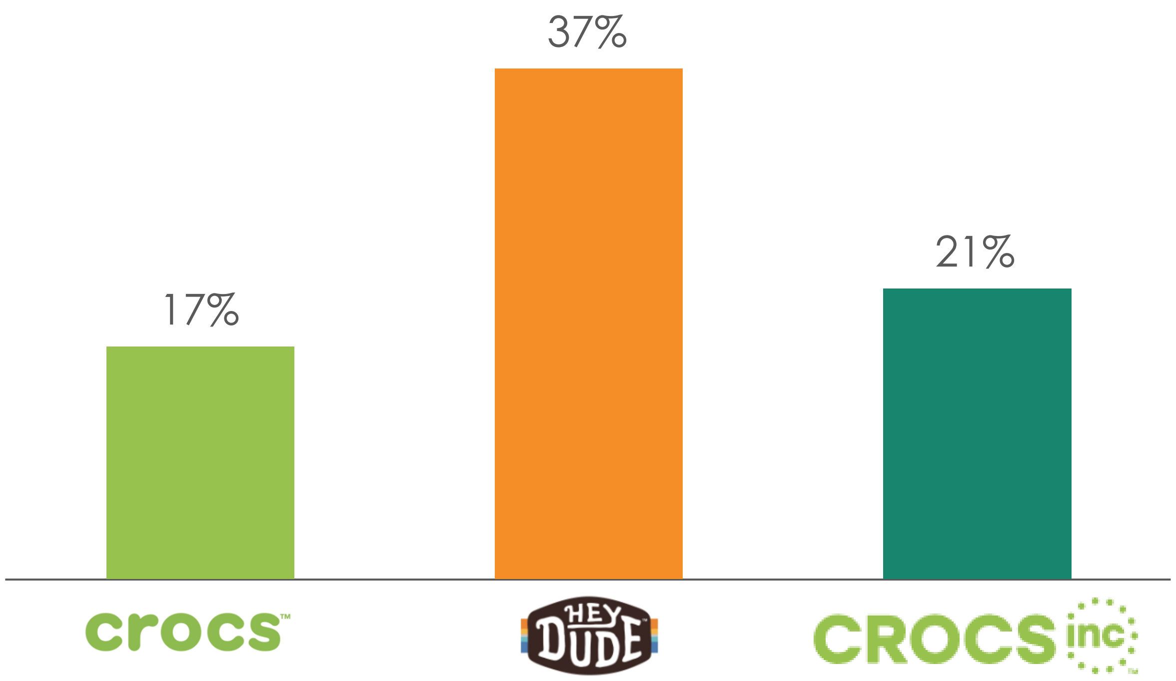
- Best-in-class NPS of 71, which is 50% higher than competition
- #1 casual brand for US men and women
- #7 favorite footwear brands for US teens
- Top growth brand in US Wholesale in 2022, up 255% per Circana (formerly NPD)
- HEYDUDE moved to #8 brand in Q2 in Circana (formerly NPD), up from #15 brand last year
- Average 4 pairs per closet, 2x higher than competition
- Increasing brand awareness

We estimate that HEYDUDE sell out grew ~27% during Q2

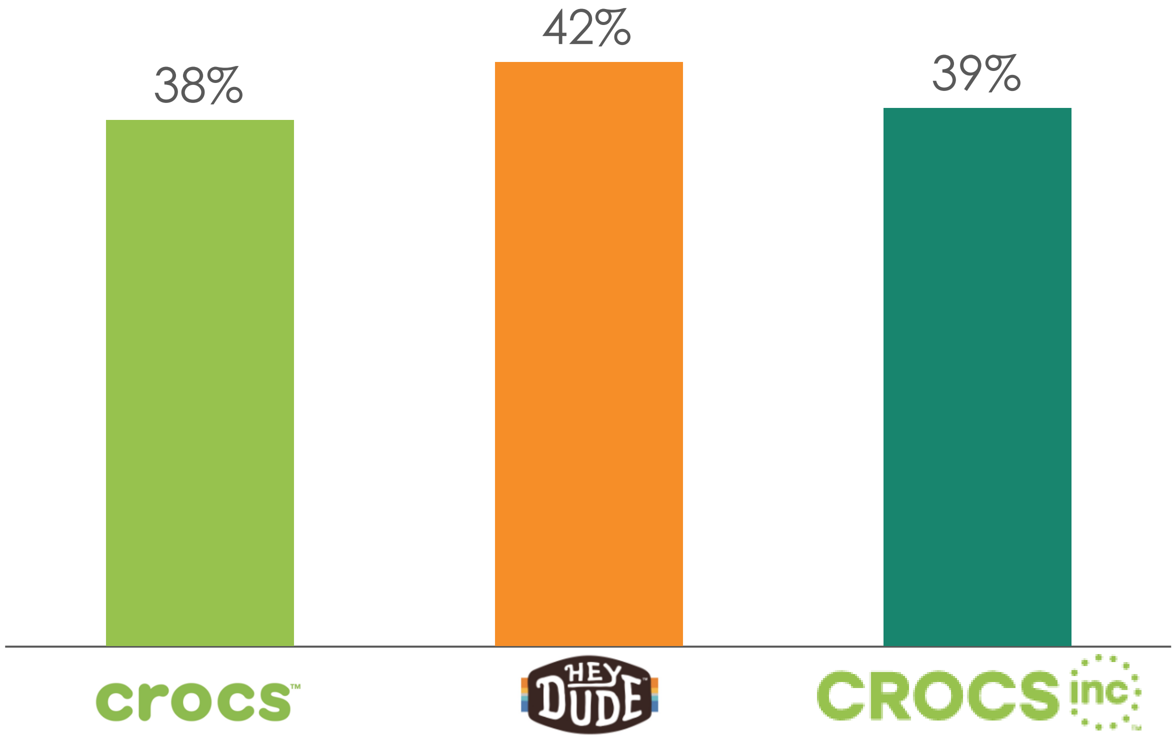
1. Sell out revenue for wholesale based on SPS and excludes gray market sales. DTC growth on YoY reported basis.
2. Source: LEK Brand Heat Index. Piper Sandler Spring 2023 Taking Stock with Teens Survey. The NPD Group/Retail Tracking Service, Annual 2022. Internal brand studies.

Digital-First Approach for Both Brands

Q2 Digital Revenue Growth(1)



Q2 Digital Share of Revenue



1. Revenue growth on a constant currency basis, which is a Non-GAAP Financial Measure. See further details in Appendix.

Q2 Financial Review

Q2 2023 Financial Highlights

	Q2	B/(W) vs. PY
Revenues ($M)	$1,072	+12%[1]
Gross Margin	57.9%	+630 bp
Adjusted Gross Margin[2]	58.1%	+290 bp
Adjusted SG&A as % of Revenue[2]	27.8%	(270) bp
Operating Margin	29.7%	+400 bp
Adjusted Operating Margin[2]	30.3%	+20 bp
Diluted EPS	$3.39	+31%
Adjusted Diluted EPS[2]	$3.59	+11%

1. Revenue growth on a constant currency basis, which is a Non-GAAP Financial Measure. See further details in Appendix.
2. See reconciliation to GAAP equivalents in Appendix.

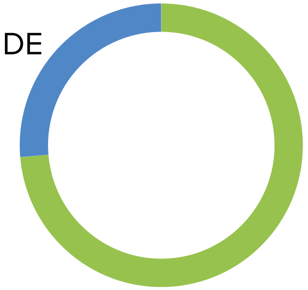
Q2 FINANCIAL HIGHLIGHTS

Diversified Sources of Growth

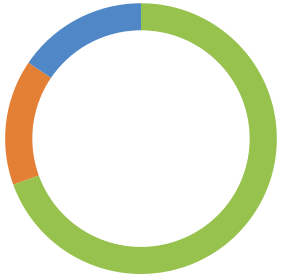
TTM Q2 2023 Revenue Breakdown

40% of Crocs Brand TTM sales were from International markets

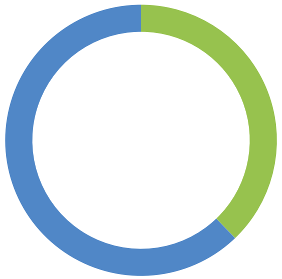
Brand



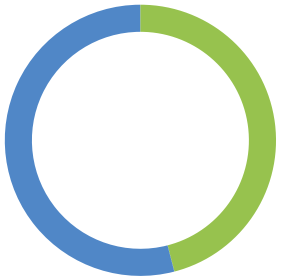
Geography



Digital Penetration[1]



Channel



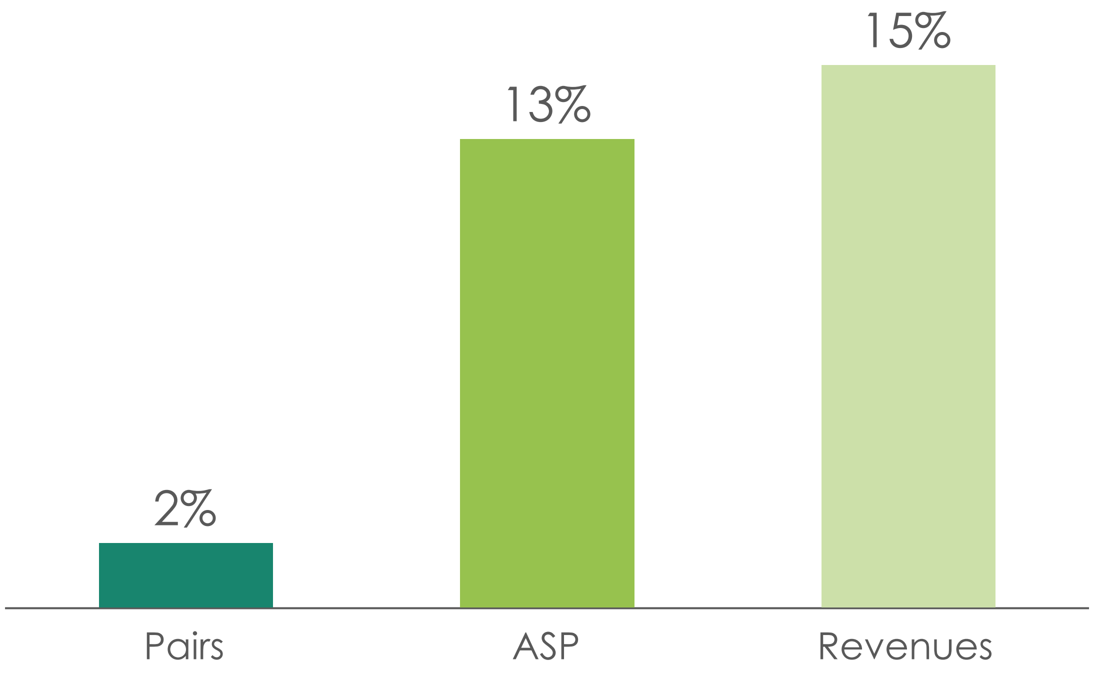
Note: Data is for trailing twelve months ended June 30, 2023

1. Digital sales include crocs.com, heydude.com, third-party marketplaces (e.g. Tmall), and e-tailers (e.g. Amazon, Zappos, Zalando).

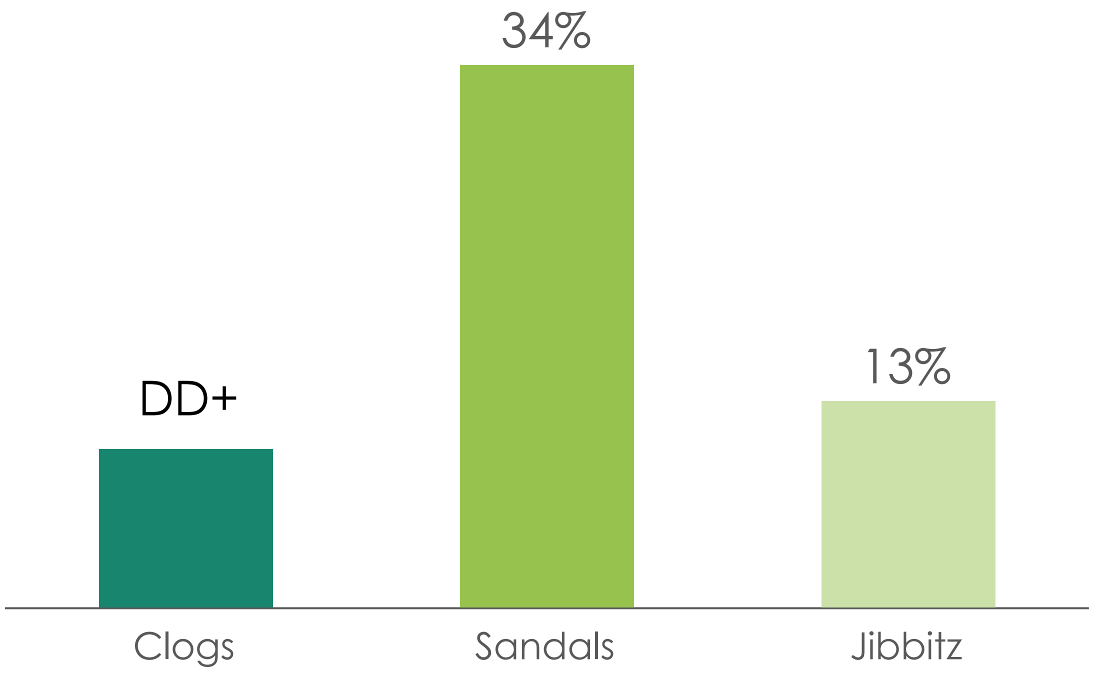
Crocs Brand Q2 Revenue Highlights

Q2 Revenues of $833M

Q2 Revenue Driver Growth Rates[1]



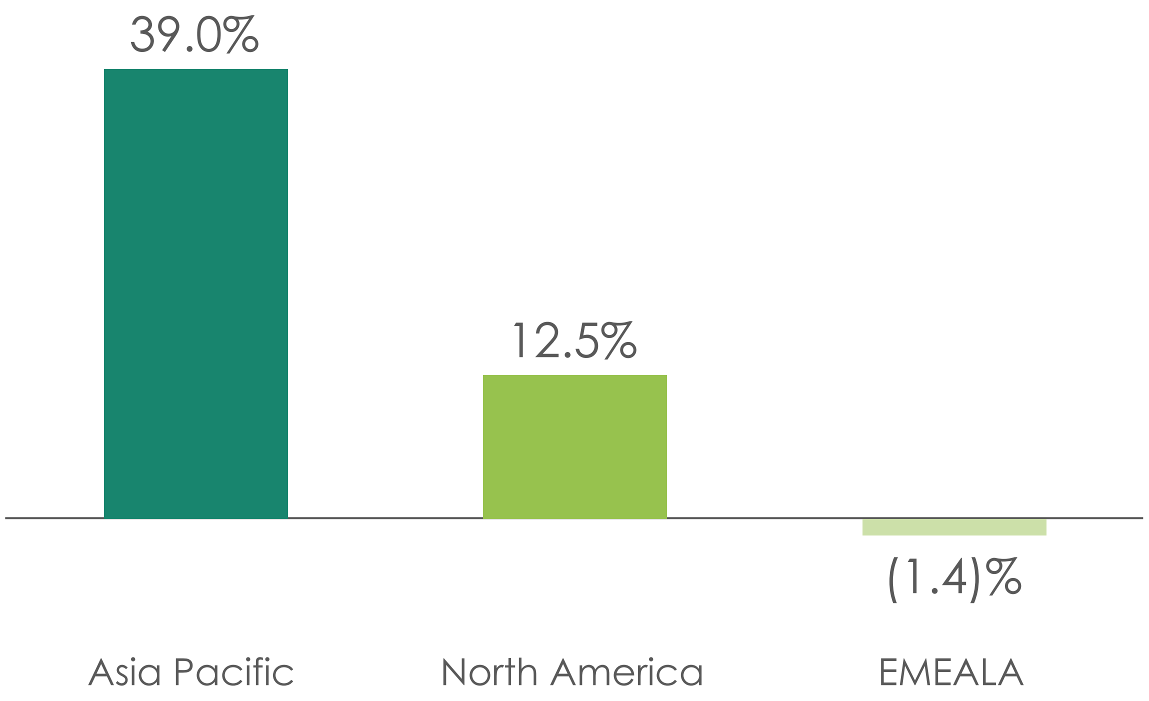
Q2 Product Growth Rates[1]



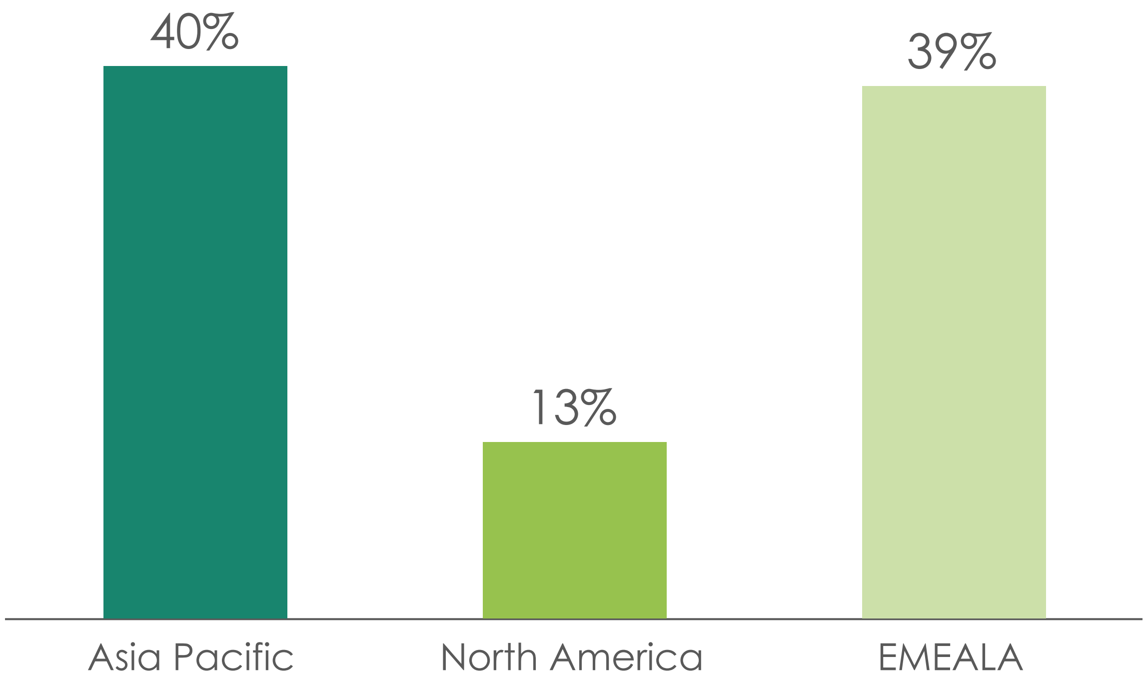
1. ASP, revenue, and product growth on a constant currency basis, which is a Non-GAAP Financial Measure. See further details in Appendix.

Crocs Brand Q2 Regional Revenue Highlights

Q2 Revenue Growth[1]



Q2 DTC Comparable Sales Growth

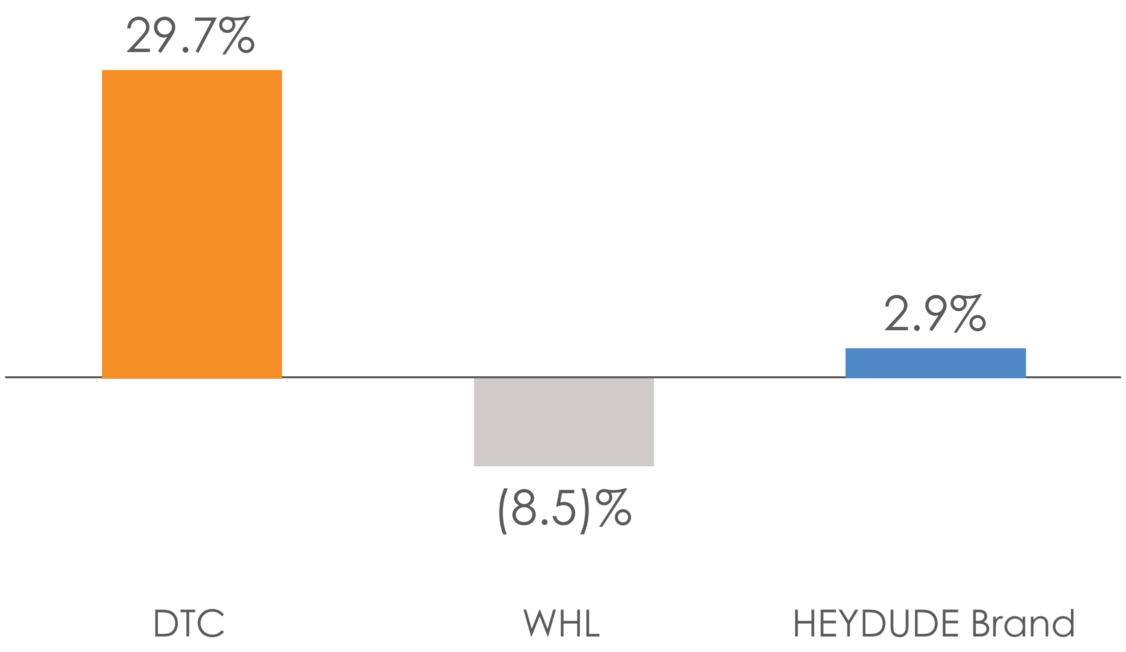


1. Revenue growth on a constant currency basis, which is a Non-GAAP Financial Measure. See further details in Appendix.

HEYDUDE Q2 Revenue Highlights

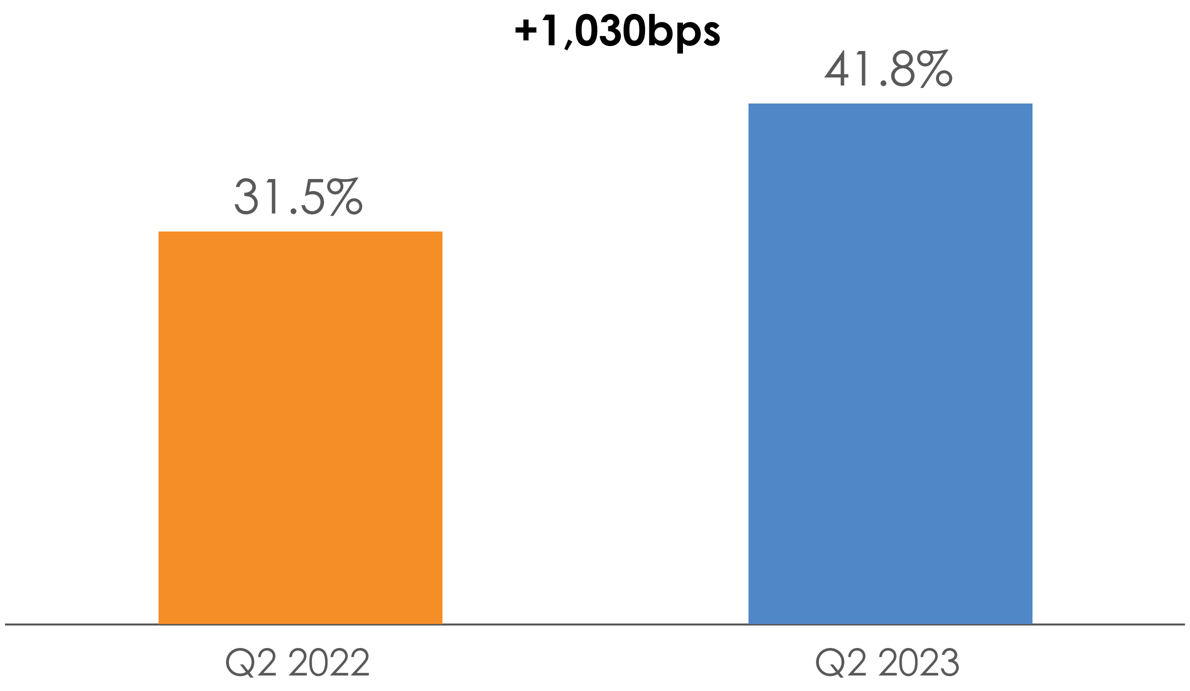
Q2 Revenues of $239M

Channel Growth vs. PY in CC[1]



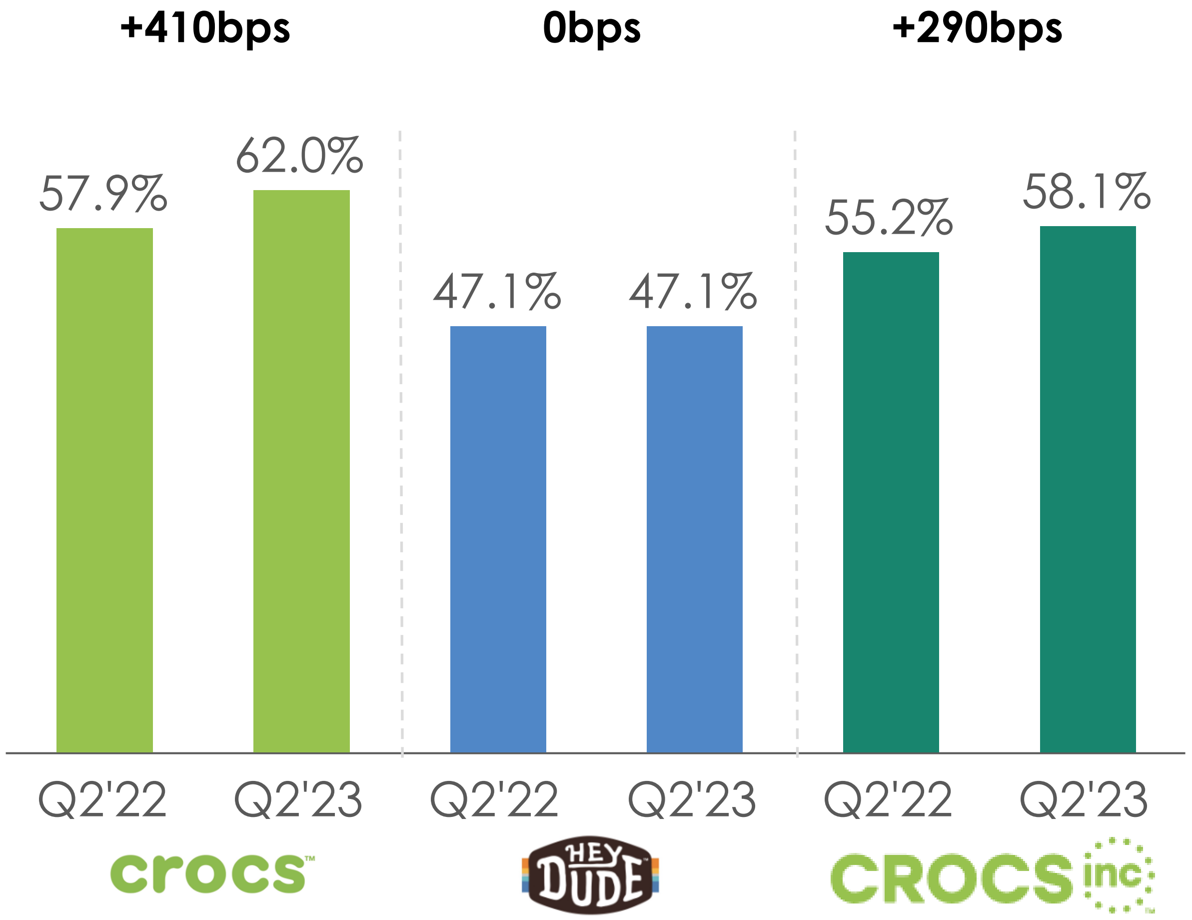
YoY Digital growth of 36.6%[1]

Digital Penetration

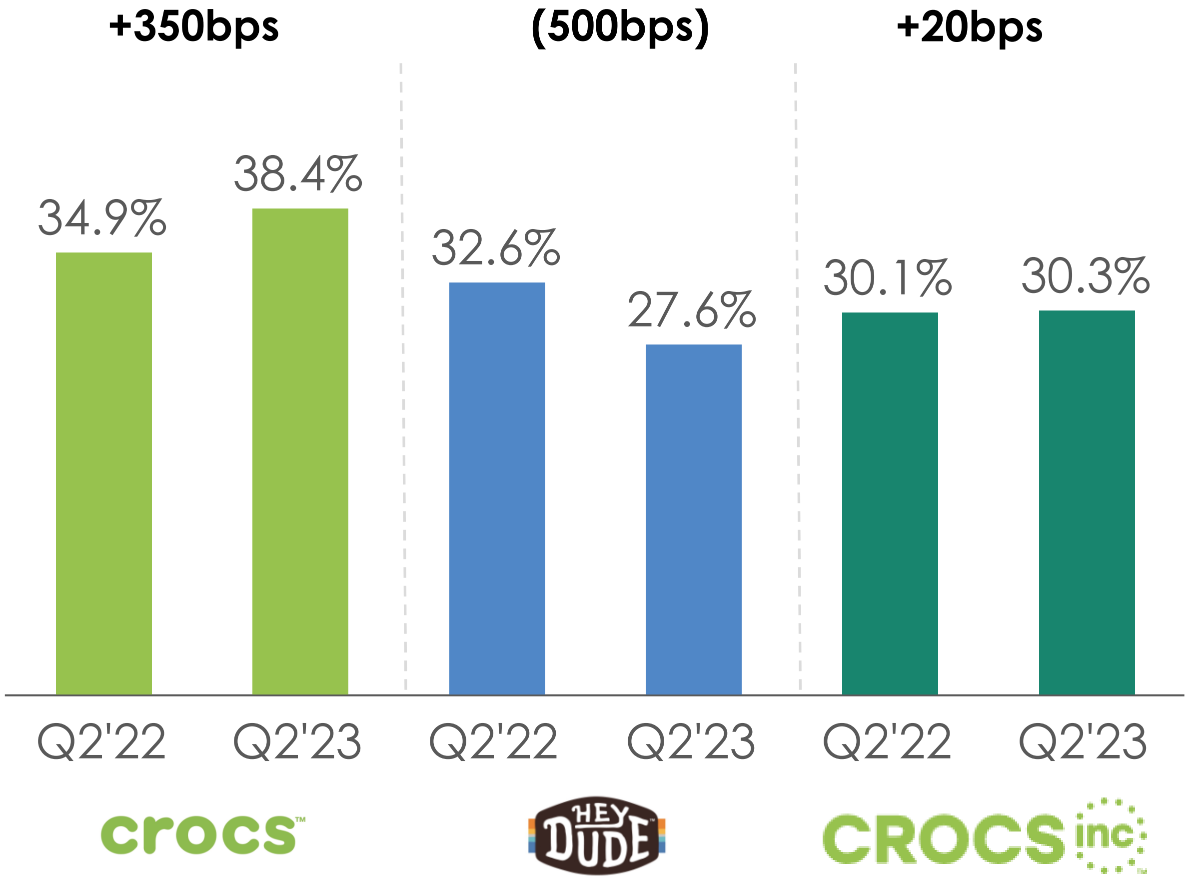


1. Growth on a constant currency basis, which is a Non-GAAP Financial Measure. See further details in Appendix.

Adjusted Gross Margins

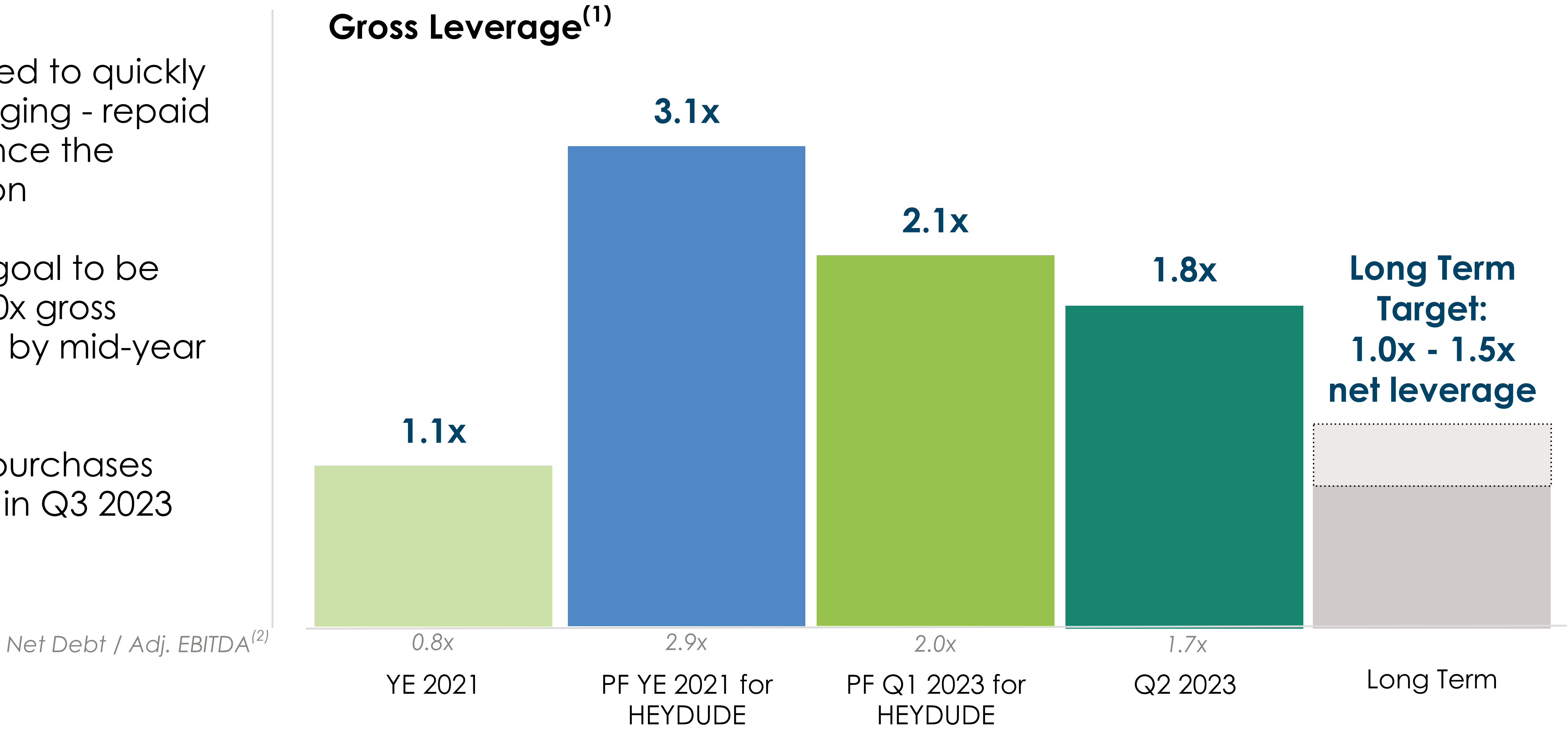


Best-in-Class Adjusted Operating Margins



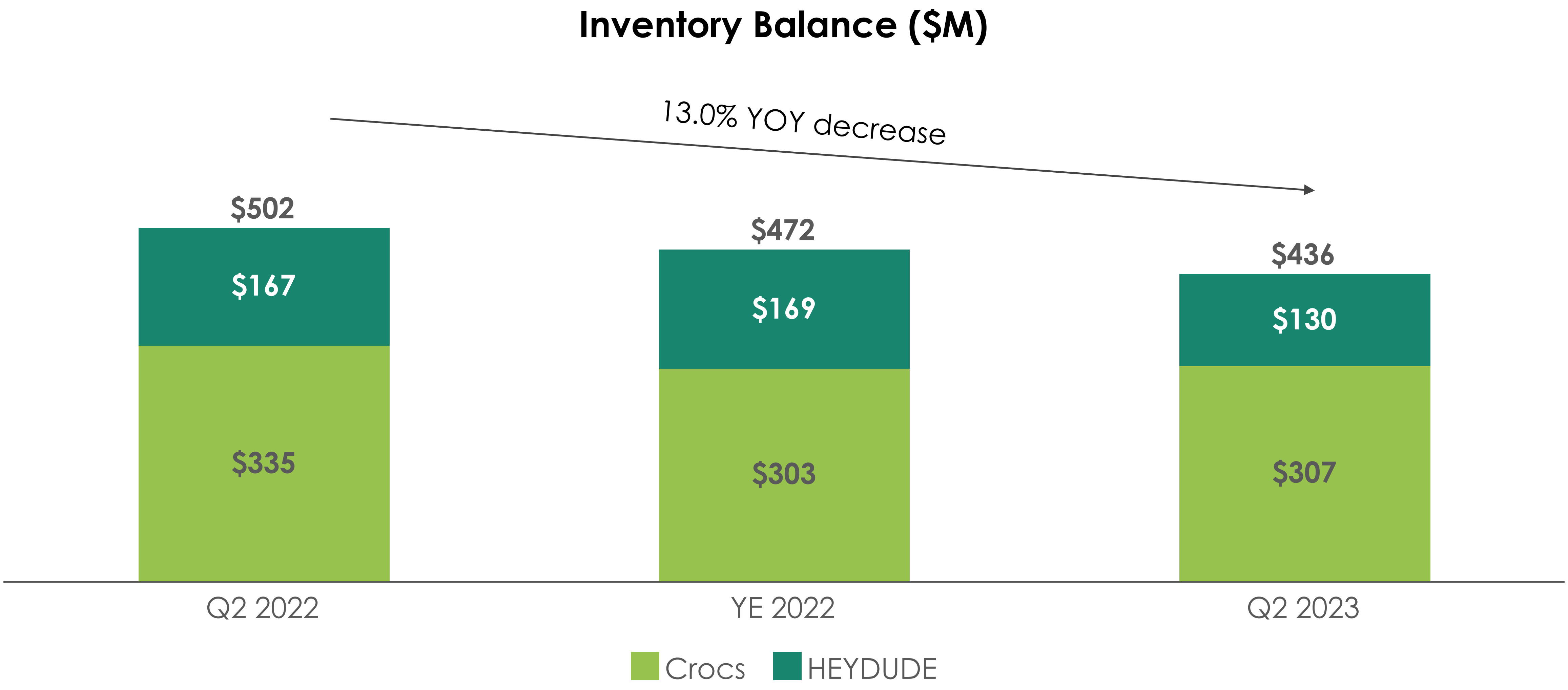
Rapid Deleveraging

- Committed to quickly deleveraging - repaid $850M since the acquisition
- Met our goal to be below 2.0x gross leverage by mid-year 2023
- Share repurchases resumed in Q3 2023



1. Gross Leverage is calculated as: Total Gross Debt / Trailing Twelve Months ("TTM") Adjusted EBITDA.
    a. Adjusted EBITDA calculated as Adjusted Operating Income plus depreciation and amortization. Please refer to Appendix for definition and Non-GAAP reconciliation.
    b. Pro forma ("PF") includes HEYDUDE for the period prior to acquisition close (assuming the acquisition had closed on the first day of such trailing twelve month period).
2. Net Debt / Adjusted EBITDA calculated as: (Total Gross Debt - Cash and Cash Equivalents) / TTM Adjusted EBITDA.

Healthy Inventory Position



FY2023E Guidance

(numbers on reported basis, unless otherwise noted)	Prior Guidance	Current Guidance	B/(W)
Total Revenue Growth	11% to 14%	12.5% to 14.5%[1]	+0.5% to 1.5%
crocs **Revenue Growth**	7% to 9%	12% to 13%	+4% to 5%
HEY DUDE **Reported Revenue Growth** **Pro Forma Revenue Growth**[2]	Mid-20% Mid-teens	14% to 18% ~3.5% to 7.5%	--
Adjusted Operating Margin[3,4]	26.0% to 27.0%	~27.5%	+0.5% to 1.5%
Adjusted One Time Costs[3,4]	$30M	$35M	($5M)
Adjusted Tax Rate[3,4]	~20%	~20%	--
Adjusted Diluted EPS[3,4]	$11.17 to $11.73	$11.83 to $12.22	+$0.49 to $0.66
Capital Expenditures	$165 to $180M	$165 to $180M	--

1. Crocs, Inc. expected FY2023 revenue growth of approximately 12.5% to 14.5% implies expected revenues of $4,000 million to $4,065 million at currency rates as of the end of the latest reported period.
2. Pro forma ("PF") includes HEYDUDE revenues for the period prior to acquisition close (assuming the acquisition had closed on January 1, 2022.) For the prior guidance, assuming that the midpoint of "mid-20s" reported growth is 25% would imply 13.6% growth on a pro forma basis.
3. Non-GAAP adjustments include an expected: $35 million of costs primarily related to capital investments to support growth, and to be fairly balanced across COGS and SG&A.
4. See reconciliation to GAAP equivalents in Appendix.

Q3 2023E Guidance

(numbers on reported basis, unless otherwise noted)	Q3 2023E
Total Revenue Growth	3% to 5%[1]
crocs **Revenue Growth**	--
HEY DUDE **Revenue Growth**	--
Adjusted Operating Margin[2]	~27.0%
Adjusted Diluted EPS[2]	$3.07 to $3.15

1. Crocs Inc. expected revenue growth at currency rates as of the end of the latest reported period.
2. Non-GAAP adjustments include costs primarily related to capital investments to support growth, and to be fairly balanced across COGS and SG&A.

Q&A

Appendix

Non-GAAP Reconciliation

In addition to financial measures presented on the basis of accounting principles generally accepted in the United States of America ("GAAP"), we present "Non-GAAP cost of sales," "Non-GAAP gross profit," "Non-GAAP gross margin," "Non-GAAP gross margin by brand," "Non-GAAP selling, general, and administrative expenses," "Non-GAAP selling, general and administrative expenses as a percent of revenues," "Non-GAAP selling, general and administrative expenses by brand," Non-GAAP selling, general and administrative expenses as a percent of revenues by brand," "Non-GAAP income from operations," "Non-GAAP income from operations by brand," "Non-GAAP operating margin," "Non-GAAP operating margin by brand," "Non-GAAP income tax expense (benefit)," "Non-GAAP effective tax rate," "Non-GAAP net income," and "Non-GAAP basic and diluted net income per common share," which are non-GAAP financial measures. We also present future period guidance for "Non-GAAP operating margin," "Non-GAAP operating income," "Non-GAAP effective tax rate," and "Non-GAAP diluted earnings per share." Non-GAAP results exclude the impact of items that management believes affect the comparability or underlying business trends in our condensed consolidated financial statements in the periods presented.

We also present certain information related to our current period results of operations through "constant currency," which is a non-GAAP financial measure and should be viewed as a supplement to our results of operations and presentation of reportable segments under GAAP. Constant currency represents current period results that have been retranslated using exchange rates used in the prior year comparative period to enhance the visibility of the underlying business trends excluding the impact of foreign currency exchange rate fluctuations.

Management uses non-GAAP results to assist in comparing business trends from period to period on a consistent basis in communications with the board of directors, stockholders, analysts, and investors concerning our financial performance. We believe that these non-GAAP measures are useful to investors and other users of our condensed consolidated financial statements as an additional tool for evaluating operating performance and trends. For the three and six months ended June 30, 2023, management believes it is helpful to evaluate our results excluding the impacts of various adjustments relating to special or non-recurring items. Investors should not consider these non-GAAP measures in isolation from, or as a substitute for, financial information prepared in accordance with GAAP.

Comparable store status, as included in the DTC comparable sales figures, is determined on a monthly basis. Comparable store sales include the revenues of stores that have been in operation for more than twelve months. Stores in which selling square footage has changed more than 15% as a result of a remodel, expansion, or reduction are excluded until the thirteenth month in which they have comparable prior year sales. Temporarily closed stores are excluded from the comparable store sales calculation during the month of closure and in the same month in the following year. Location closures in excess of three months are excluded until the thirteenth month post re-opening. E-commerce comparable revenues are based on same site sales period over period. E-commerce sites that are temporarily offline or unable to transact or fulfill orders ("site disruption") are excluded from the comparable sales calculation during the month of site disruption and in the same month in the following year. E-commerce site disruptions in excess of three months are excluded until the thirteenth month after the site has re-opened.

Non-GAAP Reconciliation

Non-GAAP Cost of Sales, Gross Profit, and Gross Margin Reconciliation:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(in thousands)			
GAAP revenues	$ 1,072,367	$ 964,581	$ 1,956,533	$ 1,624,729
GAAP cost of sales	$ 451,060	$ 466,848	$ 858,856	$ 802,072
Distribution centers [1]	(1,586)	(1,389)	(4,867)	(2,580)
HEYDUDE inventory fair value step-up [2]	—	(34,323)	—	(62,250)
Inventory reserve in Russia [3]	—	575	—	(1,225)
Total adjustments	(1,586)	(35,137)	(4,867)	(66,055)
Non-GAAP cost of sales	$ 449,474	$ 431,711	$ 853,989	$ 736,017
GAAP gross profit	$ 621,307	$ 497,733	$ 1,097,677	$ 822,657
GAAP gross margin	57.9 %	51.6 %	56.1%	50.6 %
Non-GAAP gross profit	$ 622,893	$ 532,870	$ 1,102,544	$ 888,712
Non-GAAP gross margin	58.1 %	55.2 %	56.4%	54.7 %

[1] Represents expenses, including expansion costs and duplicate rent costs, related to our distribution centers in Dayton, Ohio and Las Vegas, Nevada.
[2] Represents a prior year step-up of HEYDUDE inventory costs to fair value upon the close of the acquisition on February 17, 2022.
[3] Represents a prior year inventory reserve expense in our EMEALA segment associated with the shutdown of our direct operations in Russia.

APPENDIX

Non-GAAP Reconciliation (Cont'd)

Non-GAAP Gross Margin Reconciliation by Brand:

	Three Months Ended June 30,	
	2023	2022
GAAP Crocs Brand gross margin	61.9 %	57.7 %
Non-GAAP adjustments:		
Distribution centers [1]	0.1 %	0.2 %
Non-GAAP Crocs Brand gross margin	62.0 %	57.9 %

	Three Months Ended June 30,	
	2023	2022
GAAP HEYDUDE Brand gross margin	47.1 %	32.4 %
Non-GAAP adjustments:		
Distribution centers	less than 0.1%	— %
Inventory fair value step-up [2]	— %	14.7 %
Non-GAAP HEYDUDE Brand gross margin	47.1 %	47.1 %

[1] Represents expenses, including expansion costs and duplicate rent costs, primarily related to our distribution centers in Dayton, Ohio.
[2] Represents a prior year step-up of HEYDUDE inventory costs to fair value upon the close of the acquisition on February 17, 2022.

APPENDIX

Non-GAAP Reconciliation (Cont'd)

Non-GAAP selling, general and administrative expenses and selling, general and administrative expenses as a percent of revenues reconciliation:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(in thousands)			
GAAP revenues	$ 1,072,367	$ 964,581	$ 1,956,533	$ 1,624,729
GAAP selling, general and administrative expenses	$ 302,818	$ 249,769	$ 544,260	$ 456,016
Information technology project discontinuation	—	—	(4,119)	—
Duplicate headquarters rent [1]	(1,126)	(1,202)	(2,193)	(1,202)
HEYDUDE acquisition and integration costs [2]	(130)	(5,741)	(1,416)	(26,342)
Impact of shutdown of Russia direct operations [3]	—	(570)	—	(5,837)
Other [4]	(3,248)	—	(5,608)	—
Total adjustments	(4,504)	(7,513)	(13,336)	(33,381)
Non-GAAP selling, general and administrative expenses [5]	$ 298,314	$ 242,256	$ 530,924	$ 422,635
GAAP selling, general and administrative expenses as a percent of revenues	28.2 %	25.9 %	27.8 %	28.1 %
Non-GAAP selling, general and administrative expenses as a percent of revenues	27.8 %	25.1 %	27.1 %	26.0 %

(1) Represents duplicate rent costs associated with our upcoming move to a new headquarters.
(2) Represents costs related to the integration of HEYDUDE in the three and six months ended June 30, 2023 and costs related to the acquisition and integration of HEYDUDE in the three months ended June 30, 2022 and the partial period from the acquisition date of February 17, 2022 through June 30, 2022 (the "Partial Period").
(3) Represents various costs in the prior year associated with the shutdown of our direct operations in Russia, including severance and lease exit costs and penalties.
(4) Includes various restructuring costs, as well as costs associated with the implementation of a new enterprise resource planning system.
(5) Non-GAAP selling, general and administrative expenses are presented gross of tax.

Non-GAAP Reconciliation (Cont'd)

Non-GAAP Income from Operations and Operating Margin Reconciliation:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(in thousands)			
GAAP revenues	$ 1,072,367	$ 964,581	$ 1,956,533	$ 1,624,729
GAAP income from operations	$ 318,489	$ 247,964	$ 553,417	$ 366,641
Non-GAAP cost of sales adjustments (1)	1,586	35,137	4,867	66,055
Non-GAAP selling, general and administrative expenses adjustments (2)	4,504	7,513	13,336	33,381
Non-GAAP income from operations	$ 324,579	$ 290,614	$ 571,620	$ 466,077
GAAP operating margin	29.7 %	25.7 %	28.3 %	22.6 %
Non-GAAP operating margin	30.3 %	30.1 %	29.2 %	28.7 %

(1) See 'Non-GAAP cost of sales, gross profit, and gross margin reconciliation' above for more details.
(2) See 'Non-GAAP selling, general and administrative expenses and selling, general and administrative expenses as a percent of revenues reconciliation' above for more details.

Non-GAAP Reconciliation (Cont'd)

Non-GAAP Income Tax Expense (Benefit) and Effective Tax Rate Reconciliation:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(in thousands)			
GAAP income from operations	$ 318,489	$ 247,964	$ 553,417	$ 366,641
GAAP income before income taxes	277,242	214,304	469,008	313,364
Non-GAAP income from operations [1]	$ 324,579	$ 290,614	$ 571,620	$ 466,077
GAAP non-operating income (expenses):				
Foreign currency gains (losses), net	551	(1,202)	148	(722)
Interest income	548	86	719	188
Interest expense	(43,063)	(32,963)	(85,700)	(52,215)
Other income (expense), net	717	419	424	(528)
Non-GAAP income before income taxes	$ 283,332	$ 256,954	$ 487,211	$ 412,800
GAAP income tax expense	$ 64,830	$ 53,989	$ 107,053	$ 80,289
Tax effect of non-GAAP operating adjustments	1,544	8,416	4,614	16,038
Impact of intra-entity IP transfers [2]	(7,695)	(6,799)	(12,516)	(9,906)
Non-GAAP income tax expense	$ 58,679	$ 55,606	$ 99,151	$ 86,421
GAAP effective income tax rate	23.4 %	25.2 %	22.8 %	25.6 %
Non-GAAP effective income tax rate	20.7 %	21.6 %	20.4 %	20.9 %

[1] See 'Non-GAAP income from operations and operating margin reconciliation' above for more details.

[2] In the fourth quarter of 2020, and subsequently in the fourth quarter of 2021, we made changes to our international legal structure, including an intra-entity transfer of certain intellectual property rights, primarily to align with current and future international operations. The transfers resulted in a step-up in the tax basis of intellectual property rights and correlated increases in foreign deferred tax assets based on the fair value of the transferred intellectual property rights. This adjustment represents the current period impact of these transfers. The prior year adjustment also includes the release of the valuation allowance as a result of a tax law change.

Non-GAAP Reconciliation (Cont'd)

Non-GAAP Earnings Per Share Reconciliation:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(in thousands, except per share data)			
Numerator:				
GAAP net income	$ 212,412	$ 160,315	$ 361,955	$ 233,075
Non-GAAP cost of sales adjustments [1]	1,586	35,137	4,867	66,055
Non-GAAP selling, general and administrative expenses adjustments [2]	4,504	7,513	13,336	33,381
Tax effect of non-GAAP adjustments	6,151	(1,617)	7,902	(6,132)
Non-GAAP net income	$ 224,653	$ 201,348	$ 388,060	$ 326,379
Denominator:				
GAAP weighted average common shares outstanding - basic	62,037	61,590	61,937	60,712
Plus: GAAP dilutive effect of stock options and unvested restricted stock units	566	646	679	859
GAAP weighted average common shares outstanding - diluted	62,603	62,236	62,616	61,571
GAAP net income per common share:				
Basic	$ 3.42	$ 2.60	$ 5.84	$ 3.84
Diluted	$ 3.39	$ 2.58	$ 5.78	$ 3.79
Non-GAAP net income per common share:				
Basic	$ 3.62	$ 3.27	$ 6.27	$ 5.38
Diluted	$ 3.59	$ 3.24	$ 6.20	$ 5.30

[1] See 'Non-GAAP cost of sales, gross profit, and gross margin reconciliation' above for more information.
[2] See 'Non-GAAP selling, general and administrative expenses and selling, general and administrative expenses as a percent of revenues reconciliation' above for more information.

Non-GAAP Reconciliation (Cont'd)

Reconciliation of GAAP to Non-GAAP Financial Guidance:

Full Year 2023:

	Approximately:
Non-GAAP operating margin and operating income reconciliation:	
GAAP operating margin	26.6%
Non-GAAP adjustments, primarily related to investments to support growth [1]	0.9%
Non-GAAP operating margin	27.5%
Non-GAAP effective tax rate reconciliation:	
GAAP effective tax rate	23.0%
Non-GAAP adjustments, primarily related to amortization of intellectual property [1][2]	(3.0)%
Non-GAAP effective tax rate	20.0%
Non-GAAP diluted earnings per share reconciliation:	
GAAP diluted earnings per share	$10.95 to $11.34
Non-GAAP adjustments, primarily related to investments to support growth and amortization of intellectual property [1][2]	$0.88
Non-GAAP diluted earnings per share	$11.83 to $12.22

(1) For the full year 2023, we expect to incur approximately $35 million in costs primarily related to investments to support growth and to be fairly balanced across COGS and SG&A.

(2) In the fourth quarter of 2020, and subsequently in the fourth quarter of 2021, we made changes to our international legal structure, including an intra-entity transfer of certain intellectual property rights, primarily to align with current and future international operations. This adjustment represents the amortization of the deferred tax asset related to these intellectual property rights in this period.

Non-GAAP Financial Guidance

Our forward-looking guidance for consolidated "adjusted operating margin," and "adjusted diluted earnings per share" represents non-GAAP financial measures that exclude or otherwise have been adjusted for special items from our U.S. GAAP financial statements. We consider these items to be necessary adjustments for purposes of evaluating our ongoing business performance and are often considered non-recurring. Such adjustments are subjective and involve significant management judgment.

While we are able to estimate full year non-GAAP adjustments, we are unable to reconcile forward-looking adjusted measures to their nearest U.S. GAAP measure quarter-by-quarter because we are unable to predict the timing of these adjustments with a reasonable degree of certainty. By their very nature, special and other non-core items are difficult to anticipate with precision because they are generally associated with unexpected and unplanned events that impact our company and its financial results. Therefore, we are unable to provide a reconciliation of these measures for the guidance related to the third quarter of 2023.

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