Crocs, Inc.

Fourth Quarter 2023 Earnings

Thursday, February 15, 2024 - 8:30 AM ET

CORPORATE PARTICIPANTS

Erinn Murphy - *Senior Vice President of Investor Relations and Strategy*

Andrew Rees - *Chief Exectuvie Officer and Director*

Anne Mehlman - *EVP & Chief Financial Officer - Incoming Crocs Brand President*

PRESENTATION

Operator
Good morning, and welcome to the Crocs fourth quarter 2023 earnings conference call. All participants will be in listen only mode. Should you need assistance, please signal a conference specialist by pressing the * key followed by 0. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press * then 1 on your telephone keypad. To withdraw your question, please press * then 2. Please note, this event is being recorded.

I would now like to turn the conference over to Erinn Murphy, Senior Vice President of Investor Relations and Corporate Strategy. Please, go ahead.

Erinn Murphy
Good morning, and thank you for joining us to discuss Crocs Inc.'s fourth quarter and full-year results. With me today are Andrew Rees, Chief Executive Officer and Ann Mehlman, Executive Vice President, incoming Crocs Brand President, and Current Chief Financial Officer. Following their prepared remarks, we will open the call for your questions, which we ask you to limit to one per caller.

Before we begin, I would like to remind you that some of the information provided on this call is forward looking, and accordingly, is subject to the Safe Harbor provisions of the Federal Securities laws. These statements include, but are not limited to, statements regarding our strategy, plans, objectives, expectations, and intentions, including our financial outlook. These statements involve known and unknown risks, uncertainties, and other factors, which may cause our actual results, performance, or achievements to differ materially.

Please refer to our annual report on form 10-K and other reports filed with the SEC for more information on these risks and uncertainties. Certain financial metrics that we refer to as adjusted or non-GAAP are not-GAAP measures. A reconciliation of these amounts to their GAAP counterparts is contained in the press release we issued earlier this morning. All revenue growth rates will be cited on a constant currency basis, unless otherwise stated. At this time, I'll turn the call over to Andrew Rees, Crocs, Inc., Chief Executive Officer.

Andrew Rees
Thank you, Erinn. And good morning, everyone. Thank you for joining us today. 2023 was a record year for the Crocs enterprise. And we're starting off 2024 from a position of strength. Our teams are focused on continuing to drive market share gains and sustainable, profitable growth. We ended the year strong, delivering a better than expected fourth quarter. Let me start by sharing a few highlights from the full year of 2023.

Total revenues grew 12%, year-on-year, to almost $4 billion, driven by 19% direct to consumer growth at the enterprise level. Crocs brand revenue surpassed the $3 billion mark, increasing 14% versus last year. HEYDUDE brand revenues were approximately $950 million, and delivered over $200 in operating income. We expanded our gross margins and, once again, delivered industry leading margins, with adjusted operating margins of almost 28%, exceeding our guidance. We grew our adjusted, diluted earnings per share by 10% versus last year, to $12.03.

Our strong cash flow generation allowed us to repay $666 million of debt, and we resumed our share repurchase program during the year. Finally, we're pleased to see that Crocs, Inc., achieved the number 20 spot on Fortune's 2023 Top 100 Fastest Growing Companies. Before I provide strategic updates by brand, I want to speak to the recently announced executive transitions. Michelle Poole, Crocs Brand President, will be retiring from the company, following a distinguished, 32-year career in the footwear industry, the last decade of which she had a tremendous impact on Crocs.

Michelle will remain in her role through early May, and transition to a special advisor through early 2025. In keeping with our succession planning, I'm pleased to promote our current CFO, Anne Mehlman, to Crocs Brand President. Many of you have had the opportunity to work closely with Anne and know she brings a strategic and consumer-focused commercial lens to our leadership. I have strong confidence in her commercial acumen, deep knowledge of the Crocs business, and global mindset.

Anne will remain CFO until a replacement is named. An active search for her successor is already underway. Moving on to our performance against our key, strategi pillars, starting with the Crocs Brand. We continue to invest in our Crocs brand, to our socially led, digitally first marketing playbook and product innovation. Naming a few our accomplishments this year -- our marketing wins range from creating hype to mainstream moments, including the Mischief yellow boot, Asper, K-pop brand that featured on Stomp Lined clog, and we ended the year unveiling our Meta clog, the perfect friend to Lightning McQueen.

Complex, a leading culture publication said it best -- Crocs cannot stop going viral in 2023. We celebrated our most successful Croctober yet, fueled by the span-inspired, Crocs cowboy boot that sold out in 24 hours. We were awarded collection of the year by Footwear News for the Salehe Bembury x Crocs, Polex clog partnership. Moving on to products -- innovation, and ongoing diversification remain important areas of focus. While we've had great success creating consumer moments through partnerships and collaborations, our core franchises are our fundamental growth engines, and all three of our product pillars -- Clogs, Sandals, and personalization grew double digits in 2023.

Clogs grew 12%, supported by solid growth in both our core classic, as well as new Clog franchises, fueled by hype and product innovation. Sandals surpassed the $400 million mark, growing 29% versus last year, and now makes up 13% of our Crocs sales mix. We gained market share across our four sandal segments that we prioritized -- Everyday, Style, Sport Street, and Adventure. Beyond the revenue milestone, the sandals category brings diversification, not only to our overall product mix, but to our customer mix.

In 2023, 61% of consumers that purchased sandals on owned, e-com channels, were new to the brand. These consumers shopped more frequently, carried a higher average order value, and purchased multiple silhouettes. Our sandal consumer skew more female versus our other buys. Our Jibbitz business grew 17%, to over a quarter billion dollars, making up approximately 9% of our total mix. We continue to view personalization as a mega-consumer trend, and see opportunity to further grow our Jibbitz penetration in 2024, notably through improved wholesale execution, deeper international penetration, and increased speed to market.

We're elevating our franchise management capabilities, and have built several, sustainable, multi-product platforms, including the Echo, Brooklyn, and Crush, to name a few. Each of these franchises caters to unique customer groups and diversified wearing occasions. The Echo franchise, which has developed a breadth of products across Clogs, sandals, boots, and now sneakers, is bringing in a largely male explorer consumer. In fact, 71% of consumers who shopped our Echo franchise on our owned, e-com channel in 2023 were new consumers.

We're becoming faster and more agile, and we see opportunities to further capitalize on these attributes in 2024. In the fourth quarter, we tested slippers in four color ways, and were able to get these to market 60% faster than our normal product cycle. This test sold out in 2.5 weeks and we're building this into our full line for 2024. We're expanding our speed to market capabilities across other areas of our product portfolio, including emerging new franchise, such as the Getaway assortment.

As we think about distribution, I am pleased by the broad-based growth of the Crocs brand for the year. For 2023, North America grew 8%, and international grew 23%. In fact, fourth quarter represented our 12th consecutive quarter of strong, double-digit growth outside of North America. Globally, South Korea and the U.K. grew double digits, and Australia and China each grew triple digits. While we reported a record revenue in China, it still only represents 4% of revenues, underscoring the untapped potential we have in the region.

We continue to see our organic fan base in China grow, as evidenced by our hashtag known as Dongman, or Clogs followers. We now have 70 million Dongman hashtag, on red, highlighted in the consumer engagement and excitement for the brand. Three weeks ago, I had the opportunity to visit several of our tier 1 countries in Asia, alongside a broader leadership team. It is evident that the brand's trajectory is taking hold across the region. The Asian consumer is embracing personalization at a rater higher than other parts of the world.

Another anecdote that gives me confidence, broadly, in our international growth agenda is that South Korea, our most established market in the region, carries the highest market share of any discreet market, globally. It is one of the best representations of our core strategies across Clogs, sandals, and personalization. This strong market position highlights the potential upside of opportunity across our other international markets.

The Crocs brand has entered 2024 with momentum. From a product perspective, we expect to deliver more Hype for Her, Street for Him, and drive personalization, at scale. We expect sandals to continue to gain as a percentage of sales, driven by newness, as we re-launch the classic sandal 2.0, and scale our recently introduced getaway sandal franchise. From a sustainability perspective, I'm incredibly pleased to announce that we achieved our 2023 goal to reach 20%, bio-based, Croslite material across our portfolio -- a significant milestone on our journey to 50% bio-based Croslite by 2030.

We also saw promising results in our pilot shoe recycling program that we launched in late October. And we now plan to expand this initiative to all stores. We will share more on these and many other initiatives in our mid-year comfort report. Turning to HEYDUDE -- we generated almost $950 million of revenue and over $200 million in operating income in 2023. This year had its share of learnings, but I'm very confident that the HEYDUDE brand benefits from the lightweight, comfortable, easy on and off, and value remain top of mind with consumers. While our brand awareness significantly improved year-over-year, reaching 32% in the second half, it is still low by any global brand standard.

But our brand love and affinity are high. As we talked about in our third quarter call, we made a number of strategic pivots in September, which impacted our sell-in within the wholesale channel, curtailed small and non-strategic accounts, and focused our efforts around improving full price through our digital. We're pleased with the initial impact of our decisions, as evidenced by improved gross margins and healthy channel inventories, and expect sell-in and sell-through to normalize as we move throughout the second half of 2024, and prioritize returning to a full-market position.

In the fourth quarter, and on a full-year basis, we gained market share among our key, strategic accounts, underscoring our confidence in the brand's underlying demand with consumers. In 2023, the HEYDUDE brand gained approximately 200 basis points of U.S. market share versus 2022, in the casual fashion category, according to Circana's retail tracking service. During the fourth quarter, the HEYDUDE brand had some big moments, with DUDE Perfect as the face of our Happy Holi-Dudes! Holiday programming. Leveraging our consumer insights, we know that 50% of our buyers give HEYDUDES as gifts, and we saw evidence of this during the fourth quarter.

Looking forward, we plan to create consumers moments through scaling our collaborations and partnerships. We recently collaborated with actor Chase Stokes, from the popular, Outer Banks Netflix show, to launch the Walley Mid . Later in Q1, we'll be expanding our collegiate program to more schools during March Madness, to deepen consumer engagement. From a product perspective, during the fourth quarter, our icons, the Walley and Wendy, were top sellers. Our Bradley boot rounded out our top three selling styles overall, with exceptional sell-through, as consumers responded to its compelling price point, light weight and attractive styling, despite a soft, overall industry boot season.

Once again, our seasonal, ugly sweater Christmas styles were standouts. As we move into 2024, we'll focus on continuing to invest in core, and expect the Wally and Wendy franchises to remain the lion share of our offerings, driven by newness in color, graphic, and hypes. We will capitalize on our successful sneaker franchises, including the Karina and the Siroccoand build on our fashion boot offering in the fall. We're taking a focused approach to how we allocate inventory by account, and expect to see more evidence of account and channel segmentation as we move throughout the year.

From a distribution perspective, we're in the early days of implementing our outlet retail strategy for the HEYDUDE brand, leveraging Crocs' successful retail playbook. On the HEYDUDE side, we opened five outlet locations in the second half, and have been pleased with the results, thus far. We plan to open up 30 outlet stores in 2024, spread throughout the year. For context, retail is roughly one third of our North American business for the Crocs brand, and is highly profitable.

Turning to wholesale -- while our spring order books are down versus last year, as we discussed on our November call, we expect sell-in and sell-through to normalize as we move throughout the back half of the year. As it relates to international, we remain in test mode in a few direct markets in Europe, as well as in several distributor markets, leveraging the success of the Crocs brand playbook. This will lay the groundwork to expand its new, international markets in the next two to three years.

We're coming into the year from a position of strength. While there are question marks around the global, macro backdrop and the broader, consumer health, I'm confident in our brands, our people, and our purpose, and are looking forward to another year of out-sized share gains, industry leading profitability, and top-tier cash flow generation. Anne will now review our financial results in more detail.

Anne Mehlman
Thank you, Andrew. And good morning, everyone. I'm very pleased by our fourth quarter results, which exceeded the high end of our guidance, across all metrics. We generated $960 million in consolidated revenues, growing 1.5% over last year, led by the Crocs brand. We delivered top

tier profitability, with adjusted gross margin up 240 basis points, to 55.7%, adjusted operating margin of 24.1%, and adjusted earnings per share of $2.58, ahead of our guidance of $2.05, to $2.35.

Our strong profitability and focus on networking capital enabled us to repay $277 million of debt in the fourth quarter. We also repurchased $25 million of stock in the fourth quarter, at an average cost $86.34 per share. As discussed earlier in January, at the ICR conference, we made a change to our segment reporting that will now be reflected our 10-K. Our reportable operating segments will now be the Crocs brand and the HEYDUDE brand. We plan to continue sharing our progress against our strategic growth pillars, key country call-outs, and channel dynamics.

Turning to the Crocs brand in the fourth quarter -- revenues were $732 million, growing 10%, relative to prior to year, driven by strong, PTC growth of 12%, and wholesale growth of 7%. Brand ASPs were up 12%, to $26.76, led by both channel and product mix, higher international pricing, and lower discounting. The brand sold 27 million pairs of shoes, a decrease of 1% to Q4 last year, or up 5%, excluding the impact of the termination of our African distribution.

For the year, the brand sold 120 million units, up 3.5% versus last year, and ASP growth was 10%. Now, let’s review the Crocs brand highlights by country and channel. In the quarter, North American revenues of $471 million, were up 3% from 2022, as strong DPT growth of 7% was partially offset by a 5% decline in wholesale. The decline in wholesale revenues reflects a full quarter of impact from our e-tail distribution model change, partially offset by double-digit growth in our brick and mortar wholesale.

Crocs brand, in the fourth quarter, was led by international, with revenues up 25%, driven by DTC, which grew 37% in the quarter, against 2022. In fact, all six of our tier I markets grew in the fourth quarter -- China, India, Japan, South Korea, The U.S., and Western Europe. As Andrew noted, two of our countries grew triple digits for the year -- Australia and China. China was a record revenue year, ending the year at $120 million. In Western Europe, we saw strong, double-digit growth in the U.K. and France, while Germany ended the year flattish, despite a tough, macro backdrop.

Turning to HEYDUDE -- revenues were $228 million, down 19% from last year, but ahead of our guidance. During Q4, the brand sold 7.4 million pairs of shoes, a decrease of 18% from last year, as we lacked pipeline sale and as we took decisive actions to reduce channel inventories. HEYDUDE average selling price during Q4 was roughly flat to last year, at $30.65. Relative to Q3, our e-commerce ASPs were up 15%, as we pulled back on price matching online. We continue to make progress against grey goods clean-up, and expect to be in a substantially better position exiting the first half of 2024.

Wholesale revenues were down 28% from Q4 last year, as we lacked 2022 pipeline fill, right-sized, or non-strategic wholesale accounts, and faced a more challenging wholesale environment. The DTC channel contracted 9%, as we forfeited sales for better pricing and margin. Consolidated, adjusted gross margin for the fourth quarter was 55.7%, up 240 basis points from last year, as freight was a key tailwind for both brands. Crocs brand adjusted gross margin was 59.5%, or 340 basis points higher than prior year. The increase in adjusted gross margin is attributable to approximately 240 basis of freight tailwinds, increases in international pricing and favorable promotion, and customer mix, partially offset by negative currency impact of 100 basis points.

HEYDUDE brand adjusted gross margin for the quarter was 45.5%, and came in better than expected. The margin decrease of 170 basis points from Q4 2022 was driven by excess distribution costs and product mix. This was partially offset by reduced rates and storage costs. Our Q4, adjusted SG&A, at 31.6% of revenue, deleveraged by 430 basis points compared to prior year. For full-year 2023, adjusted SG&A deleverage 200 basis points, to 28.7%. The significant increase in adjusted SG&A rate for the quarter and the full year is attributable to continued marketing investment, talent, and infrastructure to support future growth and durable, market share gains.

Taking these drivers together, our fourth quarter adjusted operating margin declined 190 basis points, to 24.1%, compared to 26% for the same period last year. In Q4, the company reported a one-time, GAAP tax benefit of approximately $112 million, primarily related to the closing of our HEYDUDE activity in Hong Kong, and the related transfer of our intellectual property. Fourth quarter adjusted, diluted earnings per share decreased 2.6%, to $2.58, when reflecting our non-GAAP tax rate of 19.6%.

For the full year, our adjusted, diluted earnings per share increased 10%, to $12.03. We ended the year with clean inventory on our balance sheet and in the channel. Our inventory balance on December 31, 2023, was $385 million, a decline of 18% against this time last year. The Crocs brand inventory balance was $281 million, down 7% from last year, and roughly flat to Q3 2023. HEYDUDE inventory was down 38% from last year, to $104 million, and down 6% versus Q3.

We ended 2023 with a strong liquidity position, comprised of $149 million of cash and cash equivalents, and $570 million of borrowing capacity on our revolver. Through strong cash flow generation and diligent management of networking capital, we have reduced total borrowing to $1.7 billion, and our net leverage to approximately 1.3 times. Since acquiring HEYDUDE in February 2022, we have repaid $1.2 billion in debt and resumed our share repurchase activity in the second half of 2023.

On a full-year basis, we repurchased $175 million of stock, at an average price of $104 per share. Our strong liquidity position and best in cash flow generation will enable us to continue to pay down debt and buy back stock in 2024. In February, we successfully refinanced our term loan B, and achieved a 75-basis point reduction in borrowing rate, from SOFR plus 3% to SOFR plus 2.25%, with no change to our leverage covenants or maturity date.

Now, turning to the future, I would to share our current outlook for Q1 and then, full-year 2024. For Q1, we expect consolidated revenues to be down 1.5%, to up 0.5% at year-end currency rates, with the Crocs brand growing between 6 to 8%. We expect HEYDUDE revenue to be down 20%, to 23%, as we lack pipeline sale from last year, and given our aforementioned spring order book trends. We expect adjusted operating margin to be approximately 22%, and adjusted, diluted earnings per share of $2.15, to $2.25.

For the full year, 2024, we are reiterating our revenue outlook of 3% to 5% growth, assuming year-end currency rates. For Crocs brand revenue, we expect to grow 4% to 6%, with growth led by international. For HEYDUDE brand revenue, we continue to expect growth to be flat to slightly up. In terms of shaping, we expect HEYDUDE sales trends to improve throughout the year. We expect gross margin improvement over 2023, at the enterprise level. We expect stable, Crocs brand gross margin, and expect HEYDUDE gross margin to be up for the year, as we start to realize the benefit of our newly opened Las Vegas DC and our planned, ERP implementation.

We expect to reinvest these dollars into brand accretive and strategic SG&A investments, resulting in consolidated, adjusted operating margins for the year of approximately 25%. Following our tax structure changes, for full-year 2024, we expect our underlying, non-GAAP tax rate, which approximates cash taxes paid, to be approximately 18% and GAAP tax rate of 21.5%. We anticipate non-GAAP, diluted earnings per share to be approximately $12.05, to $12.50 in 2024. This range incorporates our recent tax changes and term loan B refinancing, but does not assume any impact from potential, future share repurchases.

We also expect to incur $10 million of one-time charges primarily in the first quarter, related to the completion of our distribution and logistics projects for HEYDUDE. To support growth for both brands, we expect to invest approximately $120 to $130 million in capital expenditures in 2024, and continue to expect best-in-class cash flow generation. At this time, I'll turn the call back over to Andrew for his final thoughts.

Andrew Rees
Thank you, Anne. Crocs, Inc., had a record-breaking year in 2023. As we move into 2024, we are on the offense and proactively making the decision to invest incrementally in our business, to set ourselves up for continued, durable, market-share gains, while delivering top-tier, total shareholder returns. At this time, we'll open the call for questions.

QUESTION AND ANSWER

Operator
We will now begin the question-and-answer session. To ask a question, you may press * then 1 on your telephone keypad. If you are using a speaker phone, please pick up your handset before pressing the keys. To withdraw your questions, please press * then 2. We ask that you please limit yourself to one question.

At this time, we will pause momentarily to assemble the roster. And our first question will come from Tom Nikic of Webush Securities. Please go ahead.

Tom Nikic
Hey, everybody. Thanks for taking my question. I wanted to ask about HEYDUDE. I know you gave some of the reasons why we should expect better performance from HEYDUDE over the course of the year. But seems like you're kind of digging yourself into a pretty big hole in Q1, and you kind of need a pretty significant amount of re-acceleration the remainder of the year.

I guess, kind of -- the consonants and re-acceleration stem from order books or, like feedback you've gotten from wholesale partners, and, I guess, just -- on the wholesale front, I think obviously, last year was a much choppier year than you had expected for the HEYDUDE brand. And I guess, like, what have the wholesale partners seen lately that's gotten them more comfortable to help drive that re-acceleration in the HEYDUDE brand that you're expecting?

Andrew Rees
Thanks, Tom. I think -- and I'll hit the start of this and Anne can pick it up at the end, with a few sort of points around how we think the year will play out for HEYDUDE. So, I think the first thing you've got to do is you've got to separate sell-in from sell-out. Right? So, yes, I absolutely -- you can see that the HEYDUDE brand has been choppy for us, from a sell-in perspective, and didn't play out as we thought it would during the full year. And you heard us our Q3 call talk about how we're going to pivot or how we pivoted some of our kind of strategic actions.

But, if you kind of step all the way back to sell-out and the consumer take-away that we see for the brand -- because that is what our wholesale partners experience. Right? So, I think we can see a few things that are very, very clear. The underlying sell-out for the HEYDUDE brand has been strong. Right? It is a top performing brand for many of our wholesale partners, and it ranks highly in the brand stack. The HEYDUDE brand, during 2023, gained market share in the fashion casual category, actually substantial market share, we believe, based on the Circana data, about 200 basis points.

So, it was one of the larger market share gainers. And that's in terms of consumer takeaway. And then, we can also see that underlying DTC business. Now we've changed some pricing strategies and dynamics in our DTC business to -- which is causing us to give up some revenue, but also to drive higher margins. So, in essence, what we see, as we kind of read through to the consumer, that we are selling more pairs to more consumers and gaining market share. And so, that's kind of the important read.

Now, we acknowledged that, in the back half of '22, early part of '23, we put too many pairs into the market. And so, we sold more in than we should have done. We also have gone through the process of cleaning up our account base, because I think we had too many accounts, with too much inventory, kind of competing against each other. So, I think we've got real clarity on who our strategic partners are. And I would say, as we talk to those strategic partners -- and, frankly, you've heard it from a number of them, those that are public -- they're really bullish on the brand.

So that's kind of what we see, from a consumer land. I think the second piece, I'd say that drives trajectory for the business, is -- before I hand it over to Anne -- is that outlet business. Right? So, we opened up those five outlet stores in the back end of last year. We're very pleased with the performance of those stores. And we'll open more this year.

And as you go through the year, the cumulative revenues and profit that you get from those stores is substantial. And we'll continue to build that business in the future. And the sort of benchmark we gave you to kind of get some head around it, was the retail business for Crocs North America is about a third of the total business. So, it's very substantial, and we think that it exists for HEYDUDE, too.

Anne Mehlman
And, Tom, just to give you a little context on the shape and a little big more detail -- so embedded in our full-year guidance of flat to slightly up for HEYDUDE, we are assuming that wholesale, right now, is down for the year, in our guidance, although we do assume it improves every quarter throughout, just as we look at the trajectory. In Q1 we would expect a similar channel dynamic to what we saw in Q4.

And then, we really start to see the benefits of retail contribution start to impact in Q2 and beyond. So, I would say '24 is really about -- from a wholesale perspective, focusing on sell-out, as Andrew mentioned, making sure we have the right inventory in the market, and letting that really be a pull market and wholesale revenue will be what it is. And that's incorporated into our guidance.

Tom Nikic
Just I had a quick follow-up on HEYDUDE -- just where -- I'm sorry if you mention this during the prepared remarks, if I missed it -- but where are we at, in terms of cleaning up the grey market and all that?

Andrew Rees

I think we're making great progress. Yeah, we see substantial dips in the grey market, from a sort of earlier in '23. We're not done yet. We think it will take through the first half of '24 to complete that, but certainly, solid progress.

Tom Nikic
All right. Thanks, very much, and best of luck this year.

Andrew Rees
Thank you.

Operator
The next question comes from Jonathan Komp of Baird. Please go ahead.

Jonathan Komp
Yeah, good morning. Thank you. I want to ask about Crocs North America. Could you just share your current thoughts on the health of the business -- any thoughts on the trajectory in 2024, here, and maybe include with that Jibbitz, and your view there? I know you mentioned penetration increases for the year. And then, just one, separate question, more for Anne, as we think about the margin guidance for the year, it looks like you're implying pretty significant SG&A deleverage for the Crocs brand. I want to just see if you can give any more color there, if that's the case, and further -- give detail on what's driving that. Thank you.

Andrew Rees
Yes, Jon. So, I think the Crocs brand continues to be very well positioned in North America. Obviously, it's our largest business. And it is a scale business. We have substantial market share and we're well penetrated, from a wholesale perspective, from a retail perspective, and from a digital perspective. But we do see -- we've -- we're very happy with the performance of the Crocs brand in the market in '23. We see -- we are very positive, I would say, indications of continued support from our wholesale partners.

We have a strong pipeline of product innovation that we'll bring to market. We have a strong pipeline of licensed products, collaborations that we'll bring to market during the year. In fact, I was -- just spend most of yesterday afternoon reviewing new products. So super excited about that. So, I think the brand is well positioned. I think it also does -- and, as you rightly called out -- we do think we have incremental penetration opportunity for Jibbitz. We see the consumer dynamic, with personalization, being incredibly positive.

As you saw in '23, it grew above the overall growth of the business and gained penetration. We think we see opportunities in the wholesale market, where -- look, it is a more difficult product to display and sell in the wholesale market. But we have sort of more creative solutions that we'll be testing and rolling out. We also are bringing the timelines in Jibbitz dramatically, so that we can respond to, I would say, kind of social trends much more quickly. So, we're super excited about using personalization to create ongoing, consumer engagement.

Anne Mehlman
And just, as a reminder, that North America, in 2023, grew 8.3%, on a constant current basis, and 3% in Q4, so pretty good results out of the North America, scaled Crocs business. I think, from an SG&A perspective, as we talked about it, IPR, we are going to invest some of our margin improvements in SG&A this year. We think it's really important. And that goes for both brands. Just to give you context -- we do expect higher SG&A dollar growth in the first half versus the

second half, because we're still anniversaring (ph) some long -- larger investments, on both brands, that we made in 2023.

So, SG&A growth is up mid-20% in both Q1 and Q2, so just something to keep in mind. And while-- we're not going to guide specifically, from a both-brand perspective, on investments -- the investment that we're making, across the board, are really on the marketing side, talent in both brands. On Crocs, it's really focused on our international markets, which we expect to drive the growth this year. And then, on HEYDUDE, some of that is related to our outlet store investment. And that's the biggest pieces. And there's some technology associated with both brands.

Jonathan Komp
Okay. Thanks, again.

Anne Mehlman
Thanks, John.

Operator
The next question comes from Rick Patel of Raymond James. Please go ahead.

Rick Patel
Good morning, everyone. Congrats to Anne on the new role and all the best to Michelle on your new chapter. Just wanted to ask a question about the long-term potential for growth. So, with total revenues being guided up 3 to 5% here, how should we think about the potential to hit $5 billion of revenue by 2026? Just hoping you could add some color on the building blocks there.

Andrew Rees
Thanks, Rick. And I assume you're referring to the $5 billion for Crocs that we guided some years ago.

Rick Patel
Correct.

Andrew Rees
Okay. So, yeah, because I think -- so a number of years ago, we guided -- we thought that the fact that Crocs could be a $5 billion brand. And, I think, at that point, we said -- we thought that could happen by 2026. I think, where we are today, is we absolutely still firmly believe that Crocs is scale business, the Crocs brand, and can easily be $5 billion. And we look at the pillars that we're using to drive that growth, which is Asia, digital, clogs, sandals, and personalization. And we see really, kind of solid progress against all of those pillars, I'd say more than solid progress.

We've seen sort of incredible progress over the last several years against those pillars. I'd say, quite a few things have changed since we provided that guidance, in -- around global supply chain. We had to pull back out of Russia, because of all the issues that you're well aware of. And, frankly, currency, as well, cost us about $200 million in top-line. So, I don't think that it's realistic to achieve the $5 billion by 2026. But -- and so we're really focused on driving continued growth in a profitable and sustainable way.

And it'll probably take a little bit longer. But I think it still drives incredible shareholder returns and value creation for shareholders. And in terms of operating margins, this will be the first year I think we're deviating from the -- or we're projecting to deviate from the 26%. We still think the operating margins for our company are in the mid-twenties, but will not be every, single year above the 26%

mark. We think it's very prudent to invest incremental dollars, from time to time, to create the capabilities that will allow us to grow in the future. (Inaudible) --

Rick Patel
(Inaudible) --

Andrew Rees
-- (inaudible) perspective, in the long-term.

Rick Patel
Very helpful. Thank you.

Operator
The next question comes from Abbie Zvejnieks of Piper Sandler. Please go ahead.

Abbie Zvejnieks
Great. Thanks for taking my question. Just on the Crocs side -- is there any color you can give on quarter-to-date trends, and the Crocs being guided to 6 to 8% versus 4 to 6% for the year? What are you seeing that give you confidence in that number? And does that assume just a continuation of trends that you're seeing, so far? Is there any improvement contemplated in getting to that 6 to 8% for the quarter?

Andrew Rees
I think -- I'll let -- I'll just give you, again, a bit of brand color and Anne can give you some of the more specifics. I would say it's a continuation of the trends from last year, basically. We see -- we don't give a lot of ins -- in-quarter color. But if you think about some of the big drivers that have really been propelling the brand, so Asia and international growth has been super important, we see clog growth, sandal growth, and Jibbitz growth, from a product perspective, important. And as you know, we have visibility to bookings, so we feel real confident around our wholesale bookings. And we see -- we see solid sellouts of the brand. So, I would say it's continuation mostly.

Anne Mehlman
And just, January, we don't really comment on trends, inner-quarter. But January is a very small piece of our overall quarter, when you think about it. It's pretty immaterial for us, as a business.

Abbie Zvejnieks
Got it. That's helpful. And just one follow-up -- more of a housekeeping question. Since you've changed the reporting segments, is there any way you can tell us, kind of what 4Q would have looked like under the old reporting segments? Thank you.

Anne Mehlman
Yes. So, as we did change our reporting segments. So, our new reporting segments are HEYDUDE brand and Crocs brand, as we think that reflects how we should look at the business. So as reported, North America grew 3% in Q4, international grew 25%, led by Asia-PAC, which was up 36%, and EMEA was up 16%. For the year, operating profit dollars, across all regions, increased double digits versus prior year. And the strongest growth was -- came from Asia and EMEA. So, this will be the last time that we'll give the information, as our segments have now changed. But that gives you some -- a full-year picture.

Abbie Zvejnieks

Perfect. Thank you.

Anne Mehlman
Thank you, Abbie.

Operator
The next question comes from Jim Duffy of Stifel. Please go ahead.

Jim Duffy
Thank you. Good morning. Appreciate you taking my question. Hope you guys are doing well. Two questions -- first, can you speak to the outlook for international markets, specifically which are the markets you're excited about for '24? Certainly, China is on that list. Are there are others that you would highlight? And likewise, in the international landscape, are the markets you expect to be more challenging?

Andrew Rees
Absolutely, Jim. So, I think -- let me start with the sort of highlights. China is probably top of the list, as you rightly pointed out. We've had kind of a multi-year investment effort and focus on China, and really thrilled that that started to pay off in 2023, with the triple-digit growth, essentially doubling the business during that year, from a top-line perspective. Obviously, it improves dramatically, from a bottom-line perspective, as well.

But we're just getting started in China. Right? So, 4% of our overall revenues -- if you look at sort of other global brands, their benchmark of sort of greater China, substantially higher than that, maybe four to five times higher than that. So, I would say, second, we're seeing great trajectory in parts of Western Europe, particularly the U.K. We're probably on that two to three -- very strong growth trajectory in that market.

And that's also an important market for influence across the European marketplace. We're seeing strong trajectory in France, also. I would say, thirdly, North Korea. So South Korea, here, has been a very steady growth driver for us. I think I mentioned in my prepared remarks -- it's actually only isolated are countries around the world -- it's our highest market share performance, even above the United States. But we see future opportunities, continued growth opportunities, in South Korea.

Australia has performed very strongly. We've seen a real turnaround in the business there. And so those are probably the highlights. I think the more challenging markets -- Japan remains a slightly more challenging market. I think we're shifting focus in that market, because it is a large market and we do anticipate growth in the future. But we've got some worth to do.

And I think we're very, very optimistic about India, in the long-range, and we're putting substantial investments into that market, a little bit like we did around China. But there are a number of kind of short-term issues around sourcing that are creating some, I think some headwinds in the very short term. But I think, in the long-term, India will be a big success.

Jim Duffy
Very helpful. Thank you, Andrew. And soon you will be above the fray on questions like this, but I do have a question on the tax rate outlook. The -- it came in a little bit lower than I expected. Is that reflective of geographic mix, of the profit pools? And I guess the -- what I'm after here, is that a sustained UVI, a structurally sustainable tax rate, or is there a one-time dynamic related to that?

Anne Mehlman
Thanks, Jim. Yes, I'm very excited to turn talking over to tax. Tracking back (inaudible), but I think our tax rate -- so, at the end of Q4, we moved our HEYDUDE IT from Hong Kong, where we don't have operations, to Singapore and Netherlands. And that created that one-time benefit of $112 million, that we backed out for the purposes of adjusted EPS, so you could have a better of our true, underlying tax rate for the current rate.

That does have underlying benefits for this year. So that's how we get to the 18%. So, it reflects some geographical mix, but also just the restructure in our tax structure. Right now, we're saying we think 18% is right for this year. I would still use 20%, long-term, until we have a better picture going forward.

Jim Duffy
Helpful. Thank you.

Anne Mehlman
Thank you.

Operator
The next question comes from Chris Nardone of Bank of America. Please go ahead.

Chris Nardone
Great. Thank you. Good morning. Can you talk about the underlying assumptions in your outlook for the relatively stable gross margins for your core Crocs business this year? I'm just trying to understand what would be holding that back from expanding on the mid-single digit growth. And if margins do come in better, are you expecting to spend against that strength or will you allow some level of flowthrough to the bottom line this year?

Anne Mehlman
Thanks. That's a great question. So, obviously, we're really pleased with our Crocs gross margins. For the year, they expanded nicely, after what was a tougher 2022 on some -- we had some significant freight tailwinds. We think that's pretty normalized at this point. So, we think that, just given all the puts and takes -- so you've got currency, you've got freight, you've got mix, from a channel perspective, pricing and product mix. We think that about -- where we were last year is a fairly good place to be.

So, on revenue growth -- that's not necessarily where we tend to see margin expansion on revenue growth is your operating margin, because you leverage your SG&A. This year, we've made the conscious decision to take those dollars and really invest. As Andrew talked about, we're investing in India, and remember, other international markets, as well as talent, and really focused on that long-term, sustainable growth. If we exceed what we said, if we have good investments, we will make the call whether we should continue to invest for the long-term or let that flow through to an operating margin perspective.

Chris Nardone
Got it. That's very helpful. And then, just as a quick follow-up, can you provide an assessment of how the Red Sea disruption is impacting your business today? I'm just trying gauge what you're underwriting for freight rates this year in your initial, full-year margin outlook.

Anne Mehlman

So right now, from a Red Sea perspective, we're really seeing an impact, from our -- it's mostly our EMEA business, at this point. We're seeing a couple weeks' delay, overall, from a shipping time perspective. We haven't seen a material change to our freight rates, at this point. So, I would say, I don't know what's going to happen this year, obviously. We don't know how this is going to play out. But at this point, it's not been a material impact to our business.

Operator
The next question comes from Jeff Lick of B. Riley Financial. Please go ahead.

Jeff Lick
Thanks for taking my question. And, Anne, I would extend my congratulations -- incredibly well deserved promotion and increase in roll. Andrew, I was wondering, if you take a step back and look at 2019, as a starting point, where, in North America it was $640 million in -- at the Crocs brand in international with $590. I -- obviously, there's way more people, internationally, than in the U.S. And I think there's an argument to be made that the Crocs brand might even resonate a little better with certain countries and populations than the U.S.

So, I'm just wondering if, all the things that you had done, leading up to the pandemic -- customization, social influencing, the speed to market with distribution -- obviously, you did that in the U.S. first. If you use the U.S. as a, kind of a leading indicator, I'm wondering kind of where you're at, like what you're seeing, internationally? And would you disagree that international should be at least as big, if not bigger than the U.S.?

And then, I guess, like -- the critics might say, well, gee the U.S. is going to come back. That, obviously, hasn't happened. I was wondering if you could speak to, like, what people are missing as to -- if anything, the U.S. has accelerated -- just the dynamics between the U.S. and international -- what you could give us there?

Andrew Rees
Okay. I think -- like, I -- obviously, the Japanese is a great way of thinking about it. Right? So, just as sort of paint the picture for everybody. What we saw -- the Crocs brand really started to inflect in the U.S. marketplace, sort of late '18 into '19, and then grew dramatically through the pandemic. I think a lot of people outside of the company kind of put that down to, well, that was the pandemic and people were happy to wear Crocs at home, but they're not happy to wear Crocs when they're back out in the real world. Right?

So, I think, at this point, hopefully, that has proven to be incorrect, in that people are happy and excited to wear Crocs out in the real world. And I think what's happening there, is we're engaging in the consumer, we're exciting the consumer with innovative, new product, with a high comfort product, with a high value product, with a product that can be personalized in many different ways, and is pretty exciting, and the customer's engaged in it. So that's growth that business dramatically.

We've seen that trajectory repeated in a number of our international markets. And so, if we look at markets like the U.K., which we're probably in our third year of very accelerated growth. So, we're seeing that trajectory play out. And so -- and then, as I highlighted in an earlier question, and in our prepared remarks, we actually have the highest market share in the Korean marketplace, as of today. So -- even above the U.S. -- so that's to your point around, there might some places in the world where the Crocs brand actually resonates even better than in the U.S. -- easy on and off, kind of key component there, where culturally, there are many markets where people take their shoes off when they go into a building or go into somebody's home.

So, I think that's a viable thesis. We're not guiding the international business, just to be clear, to be bigger than the U.S. business. I mean, I think when we did our $5 billion plan, we were pretty clear that a lot of our growth would come out of Asia and that international would be super important. And you've seen that in the last six quarters. The international business has grown very strongly. So, we concur.

Jeff Lick
Okay. Thank you.

Operator
The next question comes from Sam Poser of Williams Trading. Please go ahead.

Sam Poster
Good morning. Thank you for taking my question -- well, I have two. For Anne, I want -- can you talk about the evolving demand planning, especially with the HEYDUDE brand, in order to get to the pull model that you're working towards? And how that is working within the Crocs brand, and how you, in your new role, intend to make that work -- further work.

And then, for Andrew -- Andrew, you talked about it in the prepared remarks, about promoting Anne to this position. Could you just expand on why she is -- you went through a long process here. It wasn't quick, from what I gathered -- but can you sort of go into sort of some more nuanced discussion of why she ended up being the best person for the job, in your view? Thanks.

Andrew Rees
You mean, other than she's awesome?

Anne Mehlman
Thank you, Andrew.

Sam Poster
Yes, other than she's awesome.

Andrew Rees
I'll let Anne answer the first question.

Anne Mehlman
Andrew's thinking of a good answer for you, Sam, now. I'm just -- I'm kidding. So, yeah, so on the demand planning front -- so, for both HEYDUDE and from a Crocs perspective we have key account planning. We look very thoughtfully at our big accounts. And we plan strategically, what sell-out is. And then, that obviously drives sell-in. We -- as we talked about on HEYDUDE, a couple of the key differences we were making -- remember, when we bought HEYDUDE, we didn't really have the infrastructure in place. So, these are new tools and skills that we're implementing. We worked really hard to do that last year.

So, we're also looking at making sure that that, as Andrew mentioned, that we have the right product in the right account, and that we're thoughtful about seeding product in the right place, and also depth and where we put things. So, we're really focused on, as you mentioned, letting it be a pull model. And if we are a little bit short on some things and it sells out fast, then that's great, and that's more demand for next year. So that's kind of how we're thinking about it. That's how we think it--about existing on the Crocs side.

Andrew Rees
Great. To your second question -- so, look, my flippant answer is important -- right? -- like, we have great confidence in Anne, both in her knowledge in the business, her commercial acumen, her understanding of kind of the consumer trends, beyond her ability as a CFO. So that's important. I would say, this transition is part of the succession plan -- planning that we've been doing for some time. We do it for all of our senior leaders. We do that in conjunction with the board, as you'd expect.

And we have a very thorough process around this. So, it's definitely something we take very seriously. And we think this is -- this -- Michelle is retiring and we wish her well. I mean, she's done an amazing job. And, as I also said in my prepared remarks, she's been doing this, in the footwear industry, for a long time and has some other things that she would like to spend a bit more time doing. So, I think it's a very natural transition and very well planned.

Sam Poser
Thanks. And as a real quick follow-up for Anne -- it was somebody else's question about comfort that the HEYDUDE business would grow in the back half of the year. How much of the, sort of the way this looks like it's going to flow is retailers and you overreacted, put too much product in to the marketplace the beginning of last year, given sort of the way things were in the middle of this year, when they were writing spring, retailers over -- probably overreactive and may not have written enough. And now, they're sort of seeing what's going on and then started to normalize as the orders moved throughout the year. Am I thinking about that correctly?

Andrew Rees
I think mostly, Sam, yes. That's mostly a very thoughtful understanding of the marketplace.

Sam Poster
Thanks very much. Good luck.

Andrew Rees
Thanks, Sam.

Anne Mehlman
Thanks, Sam.

Operator
The next question comes Aubrey Tianello of BNP Paribas. Go ahead.

Aubrey Tianello
Hey, good morning. Thanks for taking the question. I wanted to follow-up on Crocs North America. You mentioned changing a distribution model with Amazon. Could you maybe give a little more detail on what's changing, how those changes flow to the P&L, and also, what the time frame is for that?

Anne Mehlman
Great question. So, as we talked about in our third call, I think, taking a step back, really, at the highest level, globally, we are trying to have more brand control, in global marketplaces, where our brand is sold. So, we talked about marketplaces, from a digital front and those, maybe, Amazon or others. And so, the best way to do that is for us to sell directly to the consumer on those marketplaces. So, it's a direct-to-consumer sale, versus a wholesale sale.

So, the dynamic of how it flows through the P&L, it's a higher gross margin, higher SG&A, higher revenue. But it's really not -- that's not the focus point. The focus is just controlling our brand and how consumer should -- how it shows up to the consumer and making sure that we provide a consistent and best experience for our consumer. I would say the distribution model perform -- has been performing in line with our expectation to these changes. And so, we will expect to continue down this path this year.

Operator
This concludes our question-and-answer session. I would like to turn the conference back over the Andrew Rees for any closing remarks.

CONCLUSION

Andrew Rees
Thank you. I just wanted to express our sincere appreciation for everybody's -- joining us today and their interest in our company. So, thank you so much. And have a great day.

Operator
The conference is now concluded. Thank you for attending today's presentation. And you may now disconnect.