S&P Global
Market Intelligence

Skechers U.S.A., Inc. NYSE:SKX

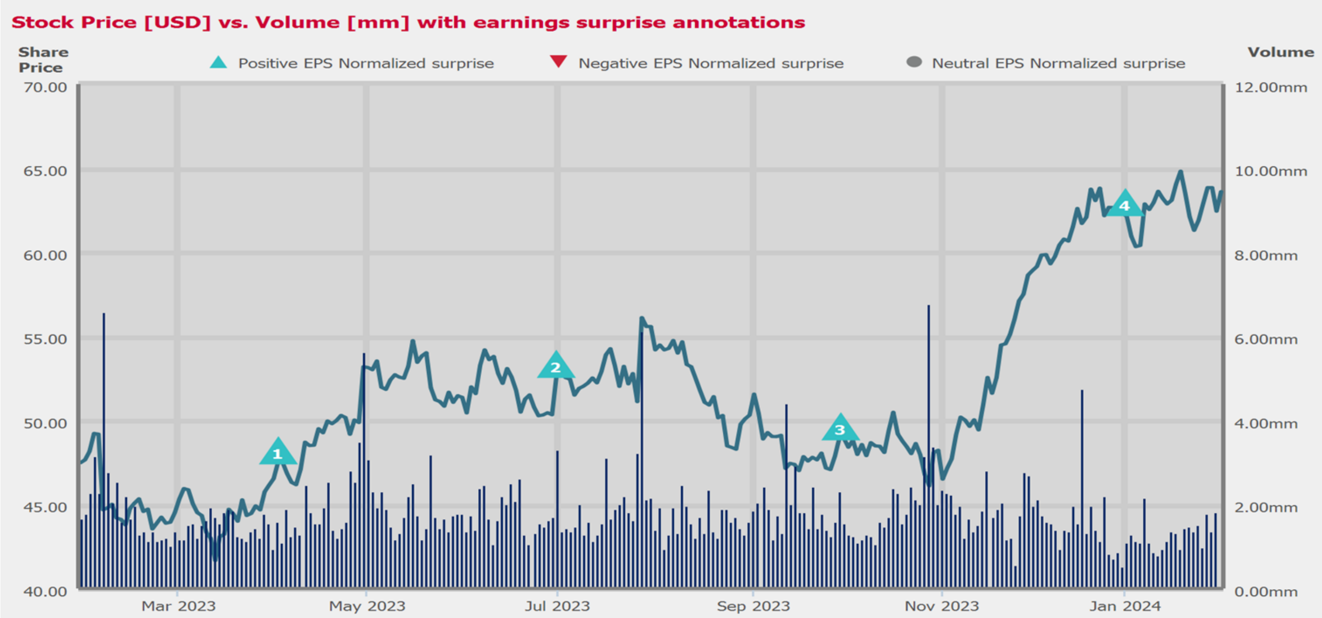
FQ4 2023 Earnings Call Transcripts

Thursday, February 01, 2024 9:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2023-			-FQ1 2024-	-FY 2023-			-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.54	0.56	▲3.70	1.20	3.47	3.49	▲0.58	4.18
Revenue (mm)	2035.34	1960.94	▼(3.66 %)	2201.80	8074.18	8000.34	▼(0.91 %)	8933.92

Currency: USD
Consensus as of Jan-31-2024 5:06 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2023	0.63	1.02	▲61.90 %
FQ2 2023	0.54	0.98	▲81.48 %
FQ3 2023	0.79	0.93	▲17.72 %
FQ4 2023	0.54	0.56	▲3.70 %

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Call Participants

EXECUTIVES

David Weinberg
Executive VP, COO & Director

John M. Vandemore
Chief Financial Officer

Unknown Executive

ANALYSTS

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Presentation

Operator

Greetings, and welcome to Skechers Fourth Quarter 2023 Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn this conference over to Skechers. Thank you. You may begin.

Unknown Executive

Hello, everyone. My name is [Rob Johan] from the FP&A team. Thank you for joining us on Skechers conference call today. I will now read the safe harbor statement. Certain statements contained herein, including, without limitation, statements addressing the beliefs, plans, objectives, estimates or expectations of the company or future results or events may constitute forward-looking statements that involve risks and uncertainties.

Such forward-looking statements involve known and unknown risks, including, but not limited to, global, national and local economic, business and market conditions, including the impact of inflation, foreign currency fluctuations, challenging consumer retail markets in the United States, wars, acts of war and other conflicts around the world and supply chain delays and disruptions in general and specifically as they apply to the retail industry and the company. There can be no assurance that the actual future results, performance or achievements expressed or implied by any of our forward-looking statements will occur.

Users of forward-looking statements are encouraged to review the company's filings with the U.S. Securities and Exchange Commission, including the most recent annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all other reports filed with the SEC as required by federal securities laws for a description of all other significant risk factors that may affect the company's business, financial conditions, cash flows and results of operations.

With that, I would like to turn the call over to Skechers' Chief Operating Officer, David Weinberg; and Chief Financial Officer, John Vandemore. David?

David Weinberg
Executive VP, COO & Director

Good afternoon, and thank you for joining us today for our fourth quarter and full year 2023 conference call. We ended the year with a new annual sales record of $8 billion, an increase of $556 million compared to last year. This milestone was the result of 4 quarterly sales records, including $1.96 billion for the fourth quarter.

We also achieved a new annual gross margin record of 51.9%. These impressive results were driven by the worldwide demand for our products, our innovative marketing efforts, growing base of loyal consumers, strong relationships cultivated throughout our partner network and the hard work of our dedicated team worldwide. As always, we remain focused on our core design principles: style, comfort, innovation and quality, while at a reasonable price.

In 2023, we pushed our technologies to new heights with the introduction of 2 new categories: football and basketball. These new categories expand the breadth of our award-winning Performance division, which also includes running, walking, golf and pickleball. We partnered with Harry Kane, last year's top goal scorer in Europe, to launch Skechers Football. Harry, along with a roster of athletes, including recently announced Arsenal defender, Oleksandr Zinchenko, are generating excitement and elevating awareness of Skechers boots at key football specialty retailers, select Skechers stores and online in Europe. Today, I'm pleased to announce that Skechers Football is now available in the United States and will be coming to markets around the world.

We also signed New York Knicks all-star Julius Randle and LA Clippers' Terance Mann for Skechers Basketball. The collection has been launched in the world's largest basketball markets, North America, China and the Philippines, and will expand to new markets in 2024. Athletes are a growing force in our marketing plans, but we remain committed to growing our successful lines like Skechers Hands Free Slip-ins, GOwalk and Uno and continue to focus on expanding our proven business.

This past year, we introduced more standout collections to further expand our reach, including capsules with partners, Martha Stewart and Snoop Dogg. For 2024, we are working on more initiatives and collaborations, including a global agreement with John Deere that will unite 2 trusted brands for a new technical footwear offering. These key initiatives are supported by targeted and unique marketing campaigns to drive awareness and purchase intent. This includes athletes and brand ambassadors recognized globally as well as locally such as Cha Eun-woo, a K-pop star and actor, who we will be using extensively across the Asia Pacific region.

Our accomplishments in the year were numerous, including becoming a Fortune 500 company and surpassing 5,000 Skechers retail stores. Together with our team and partners, we are designing and efficiently delivering our comfort products to the world, meeting our consumers' footwear needs and enhancing the Skechers shopping experience in an impactful manner as we further grow our Direct-to-Consumer and Wholesale businesses.

Looking at our fourth quarter results. Sales increased 4.4% to $1.96 billion. International sales increased 7%, representing approximately 64% of our total sales in the fourth quarter, and domestic sales were flat. We continue to see strength in our Direct-to-Consumer segment, which increased 20% and for the first time exceeded 50% of our total sales.

Our Wholesale sales decreased 8% primarily due to some retailers conservatively managing inventory levels and taking goods closer to season. Domestic Wholesale decreased 10%, though retail sell-throughs at our major accounts were actually up single digits. International Wholesale declined 7% primarily due to EMEA, which faced inventory congestion at a handful of retailers. The decrease was partially offset by improvements in APAC, including double-digit improvements in China, which had a healthy return to growth over the key fourth quarter holidays.

In all, 2023 was a challenging year for Wholesale, particularly in the United States. But our key indicators give us optimism that our Wholesale business will return to growth in the first half of 2024.

Turning to our Direct-to-Consumer segment, where sales grew 20%. International was up 27% due to strong performance across both physical and digital stores, and domestic increased 12% driven by strong sales during the key holiday selling period. In the fourth quarter, we reached a new milestone with our 5,000th Skechers store opening in Bogotá, Colombia.

At year-end 2023, we had 5,168 Skechers-branded stores worldwide. We opened 67 company-owned Skechers stores in the quarter and closed 12, bringing us to 1,648 locations. We continue to expand our global reach with the addition of 27 stores in China; 9 stores in the United States; 4 locations in Colombia; 3 each in Italy, Mexico, Thailand and the United Kingdom; 2 each in Chile, Malaysia and Peru; and 1 in France, Spain and Vietnam.

Also in the period, 217 third-party stores opened, including 160 in China and 11 each in Australia and Indonesia, bringing our third-party store count to 3,520. In the first quarter to date, we've opened 4 company-owned stores in the United States and China; 2 each in Colombia, Thailand and South Korea; and 1 each in Chile, Costa Rica, India, Malaysia and Panama. We expect to open 140 to 160 company-owned stores worldwide in 2024.

Following last year's supply chain congestion, we remain focused on carefully managing our inventory levels, which resulted in a 16% year-over-year reduction. We also continue to invest in our logistics capabilities. We began shipping from our new 600,000 square foot facility in Mumbai as well as our newly opened distribution center in British Columbia, which we expect to become a primary source of shipments for Canada this year, reducing delivery times and cost. Further, we expect our new distribution center in Panama to be operational this quarter, which will meaningfully increase our South American capacity.

As always, we are committed to delivering the ultimate in comfort technology, enhancing the Skechers shopping experience and operating in an increasingly efficient manner. And now I would like to turn the call over to John for more details on our financial results.

John M. Vandemore
Chief Financial Officer

Thank you, David, and good afternoon, everyone. 2023 presented several challenges. There were significant macroeconomic headwinds, including inflation and rising interest rates as well as wholesale challenges, particularly in the United States, largely stemming from inventory congestion. Against this backdrop, Skechers delivered strong performance for the full year, achieving sales of $8 billion, gross margins of 51.9% and earnings per share of $3.49, each of which are records for our brand.

We also made meaningful progress toward our goal of double-digit operating margins reaching 9.8%. Collectively, these accomplishments demonstrate the strength of the Skechers brand around the world and our ability to deliver profitable growth. Our talented global team remain focused on expanding our brand presence, developing exceptional product for our consumers and executing against our growth strategy.

Turning to the quarter. Skechers delivered another fourth quarter sales record of $1.96 billion, growing 4.4%. Robust consumer demand for our distinctive comfort technology products and compelling value proposition drove continued strength in our global Direct-to-Consumer business, which grew 20% year-over-year to $998.3 million. For the first time in our history, this segment represented over 50% of total sales.

This remarkable performance was driven by an increase of 27% internationally and 12% domestically with both our physical and digital stores achieving double-digit growth. The momentum in our Direct-to-Consumer segment is indicative of strong consumer demand driven by the combination of our fresh and innovative product paired with effective brand marketing. We are excited about our omni-channel growth opportunities as we continue to deliver on our strategy to expand our direct-to-consumer presence worldwide.

Wholesale sales decreased 8.3% year-over-year to $962.6 million. As expected, Domestic Wholesale sales declined 10% versus the prior year as customers continued managing inventory levels conservatively. International Wholesale sales declined 7.1%, primarily due to lower shipments in Europe, reflecting both the difficult comparison to last year as well as inventory congestion in certain markets. However, we continue to be encouraged by positive shipping and order trends we see in the first half of 2024, both domestically and internationally.

Now turning to our regional sales. In the Americas, sales for the fourth quarter increased 3.2% year-over-year to $955.4 million, driven by continued strength of our Direct-to-Consumer business, particularly in our retail stores, which grew double digits across most markets. This was partially offset by the aforementioned Domestic Wholesale market dynamics.

In EMEA, sales decreased 7.3% year-over-year to $383.6 million, due in part to lapping robust growth of 29% in the prior year. Direct-to-Consumer channels grew double digits year-over-year in nearly every country. Unfortunately, this was not enough to offset lower Wholesale sales, which were impacted by difficult comparisons as well as inventory congestion at certain customers.

In Asia Pacific, sales increased 15% year-over-year to $622 million, led by double-digit growth in most markets. In China, sales grew 22% driven by double-digit growth across channels, including improved sales during the critical holiday period. We continue to be encouraged by the progress we see in China.

Similar to last quarter, India saw challenges due to higher inflation as well as shipment delays associated with our transition to the new Skechers distribution center outside of Mumbai. However, we expect the market to return to normal growth trends over the course of 2024.

Fourth quarter gross margins were 53.1%, up 470 basis points compared to the prior year. The improvement was driven by higher average selling prices from our product and channel mix in addition to improved freight costs. Operating expenses increased 270 basis points as a percentage of sales year-over-year to 46.5%. Selling expenses increased 90 basis points as a percentage of sales versus last year to 9.3%, primarily due to increased marketing globally, including investments focused on brand building and driving consumer awareness for our comfort technology products and newly launched categories.

General and administrative expenses increased 170 basis points as a percentage of sales to 37.1% primarily due to deleverage in our Wholesale operations from lower sales, particularly in the United States. Overall, spending rose as a result of higher rent, depreciation and labor to support growth in our Direct-to-Consumer segment.

Earnings from operations were $130.3 million, a 50% increase compared to the prior year, and our operating margin for the quarter was 6.6% compared to 4.6% last year. Our effective tax rate for the fourth quarter was 20.3% compared to 9.6% in the prior year when we were able to utilize foreign tax credits and benefited from certain discrete items. Earnings per share were $0.56 per diluted share, a 17% increase on 155.6 million diluted shares outstanding.

And now turning to our balance sheet. We ended the quarter with $1.39 billion in cash, cash equivalents and investments, an increase of $598.1 million versus the prior year, primarily from improved working capital management and operating efficiency. Inventory was $1.53 billion, a decrease of 16% or $292.6 million compared to the prior year when we faced capacity challenges and processing constraints at our distribution centers. Notably, we lowered inventory levels domestically by 1/3 compared to the prior year, and we believe our current inventory levels are healthy and well positioned to support demand in early 2024.

Accounts receivable at quarter end were $860.3 million, essentially flat compared to the prior year. Capital expenditures for the quarter were $85 million, of which $32.9 million related to investments in new store openings and direct-to-consumer technologies, $25.1 million related to the expansion of our distribution infrastructure and $10.8 million related to the construction of our new corporate offices. Our capital investments are focused on supporting our strategic priorities, which include growing our Direct-to-Consumer segment and expanding our brand presence globally.

During the fourth quarter, we repurchased approximately 1.1 million shares of our Class A common stock at a cost of approximately $60 million. We continue to deploy our capital consistent with our stated philosophy while maintaining a durable balance sheet and abundant liquidity.

Now turning to guidance. As we enter 2024, we have the unique ability to serve consumers around the globe with our collection of comfort technology products, coupled with our compelling value proposition. Taken together, we are confident in the strength of our brand. However, we are also keenly aware of the uncertainties that remain in such a dynamic operating environment, most notably geopolitical and macroeconomic risks, and have factored these into our initial guidance for 2024.

For the full year 2024, we expect sales in the range of $8.6 billion to $8.8 billion and net earnings per share in the range of $3.65 to $3.85. For the first quarter, we expect sales in the range of $2.175 billion to $2.225 billion and net earnings per share in the range of $1.05 to $1.10.

Our effective tax rate for the year is expected to be between 20% and 21%, and we expect total capital expenditures to be between $350 million and $400 million as we continue to invest in our strategic priorities, including opening additional stores, expanding our omni-channel capabilities and adding incremental distribution capacity in key markets, including constructing our second distribution center in China, a 2 million square foot facility, which will likely elevate our capital expenditures this year and next. We remain confident in our long-term growth strategy and are well positioned to drive profitable growth.

We thank you all for your time today and look forward to updating you on our first quarter financial results, which we expect to release on Thursday, April 25. With that, I will now turn the call over to David for closing remarks.

David Weinberg
Executive VP, COO & Director

Thank you, John. In 2023, Skechers delivered record quarterly and annual sales, became a Fortune 500 company and surpassed 5,000 Skechers stores worldwide. We partnered with top-tier talents for collaborations and marketing campaigns that resonated with consumers. Importantly, we are committed to delivering comfort that performs with our footwear expansion to 2 of the largest sports worldwide, football and basketball, and extended our offering of Skechers Hands Free Slip-ins to a broader audience by integrating this technology into both new and proven styles. All were notable milestones and achievements. We thank our entire supply chain and the Skechers team for delivering another successful quarter.

As we enter 2024, we remain confident in the strength of our brand worldwide and the ongoing consumer demand for our exceptional product. We expect some domestic and international partners will continue to conservatively replenish inventory and that macroeconomic concerns will remain. We are focused on working with our global partners to return to growth within Wholesale, enhance our Direct-to-Consumer business and further grow our international sales.
It is our belief that with our many product initiatives and our diverse roster of athletes and ambassadors, we have numerous opportunities to tell the Skechers story and grow our business worldwide. Now I would like to turn the call over to the operator for questions.

Question and Answer

Operator

[Operator Instructions] Our first question is from Laurent Vasilescu with BNP Paribas.

Laurent Andre Vasilescu
BNP Paribas Exane, Research Division

I would like to ask about the U.S. Wholesale business. It was a little bit of a surprise to see it down 14%. John, can you maybe talk a little bit more about the growth that you're seeing for the first half of the year? And I think you've also commented a little bit about overseas growth. That would be very helpful.

John M. Vandemore
Chief Financial Officer

Yes. I mean just to be specific, Domestic Wholesale was down 10%, not 14%. Listen, the domestic wholesale marketplace has been rocky all year. As David made mention in his prepared remarks, we're seeing a lot of conservatism still within that customer base. Now what I think is interesting is, as David also mentioned, wholesale retail sales of sell-through at our top tier wholesale accounts was actually up slightly for the year. So what I think you can see in that is exactly what we've been talking about. This has been a year of destocking from a period of congestion last year driven by that post-pandemic surge.

As we look forward to 2024, we're actually really optimistic about what we're seeing, both in terms of shipments thus far now through the first month of the quarter and bookings for the first half, which is about as far out as we're booked at this point. So we're actually pretty optimistic about what we're seeing. I think it reflects cleansing of that inventory situation that clearly predominated for this year. And I think that, along with what is clearly extraordinary consumer demand for the product as evidenced in our Direct-to-Consumer numbers, will continue to power us through to '24. And what we very reasonably expect at this point will be a return to growth in the Domestic Wholesale channel.

Laurent Andre Vasilescu
BNP Paribas Exane, Research Division

Very helpful, John. And if I could follow up as a second question here, 2 parts. So China was up very nice, I think 22%, clearly outpacing some other international brands in the marketplace. What are you seeing in that marketplace right now for January? And how do you think about that for 2024? And here's my second part of my question, John, sorry, but how are you thinking about selling expenses? Is the new resting heart rate like 9% going forward with these new contracts?

John M. Vandemore
Chief Financial Officer

Yes. On China, I mean, we were incredibly pleased with what we saw. We talked about in the quarter with double 11, 12/12, with that holiday selling period, you really need to allow the whole period to mature before you have a good sense of what happened, and we're incredibly pleased with how that market performed overall. Now I would say it's still not back to where we think it will reset eventually. It's still a market in recovery, but in terms of Q4 performance, which you are right, was up 22%. And by the way, China was up 15% for the full year, which is really good, given where they started. We're optimistic about what we see.

I don't want to talk a ton about what we've seen by market or channel to date. But I would say so far, we continue to be encouraged by what we've seen in China in the early January reads, definitely outpacing our early expectations, which is good. There's obviously CNY coming up in a period of time we need to see unfold. But so far, I would say China continues to do better than we originally expected and continues to show every marker of recovery that we could hope for.

In terms of selling, no, I don't think we're setting a new level here. As we mentioned, over the course of this year, we've very consciously been overinvesting in particular in brand building, especially around our new technologies, everything from Skechers Hands Free Slip-ins Technology to Arch Fit Technology. And then we did layer on some incremental work in support of these newer categories.

But you got to keep in mind, we're investing ahead of the curve there as you would want to do when you're opening a new category. So I don't think that represents a new resting point as much as it represents an investment we're making to make sure consumers understand and appreciate our comfort technologies and are aware of our new entrants into very, we think, lucrative performance categories like basketball and football. So where we reset ultimately is determined, but insofar as this year is concerned, I think we've pretty consistently told you we were overinvesting intentionally, and that's what you're seeing in the amount.

David Weinberg
Executive VP, COO & Director

Laurent, I just wanted to point out as well, as far as Domestic Wholesale, there's just some nuances from quarter end into the new year. While the whole quarter, we -- October was the weakest part of the quarter, and I think it led people to believe that they try to take the goods as late as possible and worrying about the season. As we got through November, December, it grew for us and I believe for everybody, it turned out to be a very good holiday season, and December started to pick up shipments for us as well.

And if you look at the shipments we've had in January, that more than makes up at the difference. If you take the shift, we've had a significantly stronger January than we would have originally anticipated across the board by all means as well as Domestic Wholesale, even though weather was kind of difficult. So I think people are coming back and picking up and getting ready to move into the new season. So I think if you put the fourth quarter and January together, we really haven't missed that much and are really getting set for the spring season.

Operator

Our next question is from Jay Sole with UBS.

Jay Daniel Sole
UBS Investment Bank, Research Division

My question is just on the guidance, what's implied in the guidance for this year for EBIT margins? Can you just talk about how the guide for Q1 and then for fiscal '24 splits between gross margin and SG&A?

John M. Vandemore
Chief Financial Officer

Pretty specific. Look, I think what I would say is we still foresee some favorability in gross margin in Q1. Now that's going to be incredibly mix dependent, right? If you think about the mix we had last year, that heavily tilted toward DTC and in this quarter in particular, where we went above 50% for the first time ever from a direct-to-consumer perspective. We got to be mix-conscious here because we do expect the Wholesale business to return to growth.

We still think there's some accretion left in the gross margin. You'll see that in Q1. That should flow pretty nicely down through. We're going to continue to invest in marketing. And just from a marketing perspective, Q1 does tend to have some events in it, most notably the Super Bowl that over-indexed a little bit relative to sales.

I would say, look, we continue to aim for that double-digit operating margin. I mean I think we actually, at the end of the day, came in much better than we thought we would this year, much closer. We're 200 bps away. We'll continue to chip away at that. As you know, we don't guide to that level, but it's certainly a guidepost for us, and we'll continue to work towards getting there. And we certainly continue to believe it's entirely reasonable objective for us to hold.

Jay Daniel Sole

UBS Investment Bank, Research Division

Okay. That sounds great. And if I could just try one more. I know this is probably another specific one, but just any color you can give us on revenue growth by segment within the guidance for this year?

John M. Vandemore
Chief Financial Officer

Yes. I would expect -- and again, some of this is going to boil down to timing because as David mentioned, we are really seeing a lot of close-in order activity and pull-up activity. So this could flip. I would say at the moment, our current expectation is you're probably going to see a slight uptick on the Domestic Wholesale side. Wholesale overall should be a good healthy amount, probably a high single digits number.

Direct-to-Consumer, we also continue to expect to do well. Maybe not as well as it's done this year because it's a pretty heady rate at 24% on the full year, but we still expect double-digit opportunities to reveal themselves, certainly to the first bit of the year. So we continue to see good trajectory, good recovery. I think if anything, where we sit today, we think there's probably a lot more opportunity than risk in that, but it's also early. So we're going to watch things unfold.

Operator

Our next question is from Jim Duffy with Stifel.

Peter Clement McGoldrick
Stifel, Nicolaus & Company, Incorporated, Research Division

This is Peter McGoldrick on for Jim. I wanted to ask about store openings. You had 200 net new owned doors in 2023 and you have plans for 160 next year. Could you talk about what you're seeing on new store productivity level, how you're building those stores out, how they compare to your existing footprint? And from a total retail base of 5,000-plus in the total Skechers retail network, how should we think of that progressing going forward in 2024 and future years?

John M. Vandemore
Chief Financial Officer

Yes. Thanks, Peter. Yes, look, we're making an estimate on new stores, but the thing to keep in mind, what's most important to us on new stores is that we're opening the right type of stores globally. And so I would tell you, we tend to give a range and then we work within that range or above or below, depending upon the opportunities that present themselves. I think that's a number you can rely on with, again, a bias towards us probably adding more than that if opportunities reveal themselves. And keep in mind, that's a global number, that's a global company-owned number, so that includes some markets that have a bit more dynamicism than what we see in the United States, shorter leases, lower start-up costs. And so those tend to be a little bit more fluid as we go throughout the year.

In terms of the total number of stores, I can't give you a final resting number, but I can tell you it's well north of where we're at. We mentioned achieving our 5,000th store, which if I remember correctly, was in Colombia, and we're already well past that at north of 5,160. So we're going to continue to expand that. We think that envelope worldwide is significantly above, if not double where we are today at some future point.

New store openings have continued to do well. We have, certainly domestically, a fairly pronounced focus on what we would call big-box stores, so stores that can hold a broader assortment. They can hold accessories, apparel, and that's what we continue to open in the United States. I think that's what you should expect from us, absent an occasional opportunity in an outlet that we may not already be in that we think has an opportunity. I would tell you, again, I think the opportunity in the United States remains fairly robust for stores for a while. And obviously, most important to us is that those stores open the right way, that they have a path to profitability that has them contributing at the level we would normally expect.

I would also just add, though, I mean, it's not just about stores. We are definitely pushing our omni-channel solution globally. It was an incredibly successful channel for us this year, particularly in the markets that we opened last year in the fourth quarter. We saw spectacular growth in many of those markets that had our new platform. And I think that continues to offer us opportunities to satisfy consumer desire for our product across a lot of different avenues. And so that's still going to be a heavy emphasis for us, particularly internationally, but worldwide.

Peter Clement McGoldrick
Stifel, Nicolaus & Company, Incorporated, Research Division

All right. And then there are some comments on inventory congestion in international markets weighing on deliveries in the fourth quarter. Can you tell us more about what's going on there and then quantify any impacts to the quarter? And how should we think about this embedded in the first quarter guidance as well?

John M. Vandemore
Chief Financial Officer

Yes. I would describe them as atemporal. So we don't think that they're durable. We don't expect they're going to last into '24. I would also say it was pretty specific to a handful of customers. What was notable is it also tended to occur in markets where we weren't naturally able to offset through direct-to-consumer what may have been a deficit in the market vis-à-vis the demand we had because unfortunately, not every market has today what I would call the right balance or the ultimate balance of direct-to-consumer and wholesale.

So if we see a pullback in wholesale in a market where we don't have a significant direct-to-consumer presence, we can't make that up. And as you've seen in the year, I mean, that's what we've been doing all year. We've been significantly outgrowing on the direct-to-consumer side because consumers want the product, and that's offset some of the challenges on the wholesale side of things. And in the quarter, in particular, because we had some situations where we couldn't recover it vis-à-vis our direct-to-consumer channel because it wasn't quite as mature as in other markets.

But I would also point out, and I'll just use an example, I mean, we had markets last year that grew 100%. So if you take their 2-year stack, they're still growing significantly this quarter, but if you're comping against a market that grew 100%, that's pretty hard, especially if it's a mature market. So I would keep in mind there were definitely some difficult comparisons, particularly in EMEA, that we were facing this quarter that are a bit anomalous and certainly don't, I think, in any way indicate a letdown expected for '24 or beyond.

Operator

Our next question is from John Kernan with TD Cowen and Company.

Alexander Laurence Douglas
TD Cowen, Research Division

This is Alex Douglas on for John. Congrats on a nice quarter. So if I remember correctly, you commented on the last call about consumers trading up within the portfolio as being a driver of higher ASPs. Was there any changes to that trend in Q4? And if that trend did persist, do you expect that to be a driver of gross margin in fiscal '24?

John M. Vandemore
Chief Financial Officer

That trend did persist, which again is, we think, reflective of consumers choosing to buy our products with our comfort technologies embedded in them. So what we've seen is, within our own portfolio, consumers trading up. A lot of that was evident last year, though. So I don't know that, that's going to drive a significant amount of year-on-year gross margin accretion because we're pretty squarely lapping that now. But it is something we continue to see in our portfolio. And as we can deliver more technologies to consumers and, quite frankly, just bring more consumers into those technology solutions in our footwear, it certainly offers opportunities to continue to upsell them. But I don't know that it's going to be a pronounced effect this year simply because we're lapping that effect last year.

Operator

Our next question is from Rick Patel with Raymond James.

Joshua David Reiss
Raymond James & Associates, Inc., Research Division

This is Josh filling in for Rick. I was just curious if you'd be able to talk about the impact, if any, that you're seeing from any of the Red Sea issues. I know it's a very fluid situation, but I'm just curious if you could touch on how it might be affecting shipping times and freight costs as we think about the next few quarters in the upcoming year.

David Weinberg
Executive VP, COO & Director

Well, as far as Europe is concerned, we're no different than anybody else. I think the good news for us is we had a higher demand going in, and I'm showing up in the first -- we brought a lot of goods in early. And feel we're in a pretty good situation depending on how long it goes. There's no way around the additional time it takes to get there and the number of times the ships are out of port and picking up new.

We have some issues in the U.S. as well, obviously, because the West Coast is getting a little backed up because of the issues down in the Panama Canal and going through to the East Coast. But given it all, it doesn't seem to be as extensive as it could be. I don't know what the future holds. But right now, we seem to be in pretty good shape. We had taken our deliveries in early, knowing that we were going to ship very heavily in the end of December and through this whole month of January.

Like I said before, January has held up very well. It was beyond our expectations around the world. So right now, we sit in a good position inventory-wise and with receipt of goods, and we'll see what happens as we go back through the year. But right now, for the month of January and going into February, we sit in a very strong position and shipping very well in our major markets.

Operator

Our next question is from Tom Nikic with Wedbush Securities.

Matthew Julius Quigley
Wedbush Securities Inc., Research Division

This is Matt Quigley on for Tom. You touched a little bit on your prepared remarks about your initial entries into soccer and basketball this past year. Just how should we think about the growth opportunities for those categories for 2024 and beyond?

David Weinberg
Executive VP, COO & Director

Well, there are obviously major growth opportunities for us around the world. I don't know if they're quite a '24 -- certainly not an early '24. This is all just cultivating and getting our players in order and getting our imaging correct around the world. But we do think as we go through the year, as we exit '24 and into '25, the opportunities for us on a worldwide basis both for the footwear and apparel and for signing players and moving into more sports will be significantly large.

And we have a great start for it, there's great reception for the high price and technically advanced footwear we have, and we have a lot of interest from a lot of professional players in a lot of places around the world to try them, get them, use them. So we're trying to be careful and go slow because it is obviously a very high profile and significantly large marketplace, but we're very happy with where we are today, how it's starting and how it's being received and getting ready to take it out around the world in stages as we go throughout this year.

Operator

Our next question is from Abbie Zvejnieks with Piper Sandler.

Abigail Virginia Zvejnieks
Piper Sandler & Co., Research Division

You talked about that deficit in the wholesale market causing the strength in D2C this year. So just how do we think about lapping that D2C strength domestically as the wholesale channel restock at some point? And then I have a follow-up.

John M. Vandemore
Chief Financial Officer

Yes. Thanks, Abbie. I would just -- I'd be very specific. I don't think it caused the Wholesale challenges. I think it was the solution for many consumers who found that they couldn't get our latest product, our technology-infused product at their favorite traditional retailer. So it was kind of a plan B for many of those consumers that thankfully, we had the inventory and the product available for.

Listen, I think as we look forward to the year, as we mentioned, we continue to expect the Direct-to-Consumer business to grow. It may not grow at heady a pace we saw this year, but it will still continue to grow nicely. It is, for us, one of our strategic imperatives. We see opportunities for stores, for digital to grow. And so again, I don't think it really will have a significant impact on the opportunity to continue to grow Direct-to-Consumer. It just may not be that we have as, again, a significant growth next year as we did this year. But again, I would just ask everybody to keep in mind that growing 24% year-on-year in your Direct-to-Consumer business is pretty fantastic.

So again, we continue to expect growth there. We don't think there's any reason why Wholesale and DTC can't grow together. We've done that innumerable moments in our history, and we expect that to be the profile for this year.

And I would add to that, I mean, it's on the back of incredible product, right? The reason why we're seeing the success at the consumer level we're seeing is incredible product with great technologies that really resonate. And so that's going to be what pulls those sales through both in wholesale and in the direct-to-consumer side.

Abigail Virginia Zvejnieks
Piper Sandler & Co., Research Division

Got it. That's helpful. And then just quickly, the distributor sales were pressured this year. With those coming back, does that put any pressure on Wholesale gross margin? Or is it not material?

John M. Vandemore
Chief Financial Officer

It can be material, it depends. We tend to see more quarterly fluctuations, but it is true that our distributor gross margins are lowest. Now keep in mind, we also bear almost none of the operating costs for that channel. So it's a very good operating margin. It's just a lower gross margin.

Look, we'd love nothing more than to see the distributor business get back to where it was last year. Again, you got to keep in mind last year was a little bit of an anomaly because they had been making up for the year before.

I would also just point out, one of the things to keep in mind as you look at that year-on-year distributor number is that we took one of our major distributors in the Nordic region in-house vis-à-vis an acquisition. So for 3 quarters, I think, or maybe a little bit more than that, we transitioned them to be a fully consolidated entity. So we also took consciously a chunk of our distributor sales and moved them in-house. So some of that decline is just vis-à-vis that transaction.

Operator

Our next question is from Alex Straton with Morgan Stanley.

Alexandra Ann Straton
Morgan Stanley, Research Division

You sound a lot more optimistic than you all have in a number of quarters on the Wholesale order book. So maybe do you guys view this as the Domestic Wholesale weakness as being firmly behind you? And as a quick follow-up on that, say that market does inflect or the demand does inflect further. Do you feel you have enough inventory to fulfill that demand?

John M. Vandemore
Chief Financial Officer

I would say we're cautiously optimistic we're behind what we deviled the Domestic Wholesale business really for the last, I'd say, 5 quarters because this stretches back to when congestion first began. And what we're seeing in orders, what we're seeing in conversations would give us -- gives us that encouragement. Now we'll see because it's been a while, but we're optimistic about what we're seeing. And I think that's good.

I think yes, we feel good about our inventory position. I mean if things go crazy, you're going to be in a catch-up mode. But I'd say, by and large, because of what David mentioned, we brought in some inventory early at the tail end of last year, and we're very efficient right now at the levels we're at, plus we've invested a lot in our distribution, so we have the infrastructure, which is getting increasingly more efficient every day to handle that. We would feel good about our ability to chase opportunity within limits, right? There's obviously a production time line you have to be cognizant of, but we would certainly feel pretty good about our opportunity to chase orders if they came in, particularly towards the back end of the booking window.

Alexandra Ann Straton
Morgan Stanley, Research Division

That's helpful. Maybe one follow-up. How do you guys view like the inventory in total in the footwear market right now? Has that kind of been more so cleaned up, in your view?

John M. Vandemore
Chief Financial Officer

Well, we don't have perfect visibility into the totality of the inventory. I can say, and I think we've said this before, we feel really good about where the Skechers inventory is in our wholesale partners. We felt that way for a while. We felt there was opportunity for those retailers to get even more behind some of the new fresh, technology-infused product. And I would say that's still the case today.

Operator
Thank you. There are no further questions at this time. This does conclude today's conference. You may disconnect your lines at this time. Thank you for your participation.