Crocs (CROX) Q3 2024 Earnings Call Transcript

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CROX earnings call for the period ending September 30, 2024.

Crocs (CROX -0.91%)
Q3 2024 Earnings Call
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Contents:

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Prepared Remarks:

Operator

Good day and welcome to the Crocs third-quarter 2024 earnings conference call. [Operator instructions] 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 -- *Senior Vice President, Investor Relations and Corporate Strategy*

Good morning and thank you for joining us to discuss Crocs, Inc.'s third-quarter results. With me today are Andrew Rees, chief executive officer; and Susan Healy, chief financial officer. Following their prepared remarks, we will open the call for your questions. [Operator instructions] Before I 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 quarterly reports on Form 10-Q 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 non-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.'s chief executive officer.

Andrew Rees -- *Chief Executive Officer and Director*

Thank you, Erinn, and good morning, everyone. Thank you for joining us today. We reported third-quarter results that exceeded our guidance in terms of sales and profitability on an enterprise basis. Consolidated enterprise revenues of $1.1 billion grew 2% to prior year, led by 5% growth in DTC.

By brand, Crocs brand grew 8%, with international up 17% and North America up 2%. HEYDUDE revenues contracted 17%, slightly below our expectations. Adjusted diluted EPS of $3.60 a share increased 11%. Today, I will be covering the following topics.

I will first share deeper insights into our third-quarter results, along with what we are seeing from a broader consumer perspective. I will then elaborate on HEYDUDE's strategic priorities and what gives me confidence around the brand's longer-term growth prospects, touching on some of the early wins we are seeing in the business today. Finally, Susan will review our financial performance, our updated 2024 outlook, and our preliminary thoughts on 2025. Now, turning to third-quarter insights, starting with the Crocs brand.

The investments we are making in product and marketing enable us to win with consumers around the world. All three of our product pillars, clogs, sandals, and personalization, grew during the third quarter, led by our icon, the Classic Clog. In August, Footwear News named our Classic Clog, one of the greatest shoes of all time. Embracing the personalization platform that our clog provides, we launched our Live Life Fully Loaded campaign during the back-to-school season.

This campaign created high consumer engagement in our stores and online, both for our Classic Clog as well as our Jibbitz business, as consumers were able to fuel their love for self expression. We are continuing to drive on our clog by introducing new silhouettes and building durable franchises. The Echo franchise, which has developed a breadth of products across clogs, sandals, boots and sneakers, continues to bring in new, largely male explorer consumer to our brand. As we look into spring, we are excited to bring the Echo Wave, Molded Mule and the Echo Search to market.

Both new innovations are priced under $100. Another example of how we have iterated on the clog is our in-motion franchise. We have seen successful results in our test of this franchise on our DTC channels, ahead of a scaled rollout in 2025. This new innovation features our proprietary light ride foam footbed, along with our Free Feel technology.

By applying the learnings from a quick-to-market DTC cosy slipper launch last year, we are able to scale the offering this fall across expanded colorways and with our wholesale partners at an incredible value of $49.99. Sell-out has been strong out of the gates and we are chasing replenishment. In addition to our mainline product, we bought many exciting partnerships to life during the quarter. These included a Bath & Body Works collection, featuring our Classic Clog and a cosy sandal prehibited, with four mystery scent Jibbitz charms.

We also introduced Batman and Squishmallow, and of course, our Crocs Times McDonald's Happy Meal. As a natural extension of our first collaboration with McDonald's, we designed and introduced the McDonald's Times Crocs Happy Meal, with a curated assortment of 17 limited-edition Classic Clog key chains and a sticker pack for personalization. We launched the Happy Meals first in China and saw fantastic results. Within the first 48 hours, over 400,000 Crocs Happy Meals were sold, generating over 10 billion brand impressions.

Since then, we have launched our Happy Meal in over 40 countries, driving significant brand momentum and heat. Last week, we celebrated the 7th Annual Crocs Day on October 23rd, our very owned fan-inspired holiday within the month of Croctober. With a much-awaited debut, we celebrated the release of Pet Crocs, available alongside matching classic line clogs, allowing dogs and dog parents to coordinate their looks in lockstep. Our Pet Crocs, designed in partnership with BARK, were available globally on our own dot-com and in select retail stores.

The release was a huge success. Fan-inspired festivities did not stop there. This year, we released a Crocs costume, which is in the form of a life-sized iconic Classic Clog fully loaded with Jibbitz charms. And just like your favorite pair of Crocs clogs, this costume is available in both left and right versions, making it a perfect pairing opportunity with friends.

In September, we achieved another step forward toward our circularity goals, with the launch of a limited edition Keep It Going Classic Clog. The new clogs featured 25% post-consumer recycled content from the shoes collected through our all Crocs new live consumer take-back program, with the remaining construction of the shoe containing up to 25% bio-based Croslite material. Now for a review of the Crocs brand business by geography. The North American market performed well with revenue growth of 2% versus prior year, led by DTC.

In North America, the consumer has reverted to pre-pandemic shopping patterns dropping closer to need and concentrating spend around key shopping events and holidays. We saw a solid back-to-school season, but since Labor Day, we have seen the consumer pull back. We anticipate the consumer environment being relatively muted in the U.S. until Black Friday/Cyber Monday holiday period.

Our overall international revenues grew 17% versus prior year, supported by notable growth in Australia, China, France, and Germany. Our China business grew over 20%, on top of more than 90% growth last year in the third quarter, with approximately two-thirds of the growth driven by mono-brand partner stores. As we shared during our second quarter call, the industry was more promotional during the mid-season festival. It is clear that the Chinese consumer is being far more conservative in their purchase behavior, and we have seen an even more pronounced pullback within key Tier 1 cities like Shanghai and Beijing.

In light of the broader macro environment in China, we are taking a more cautious view for the rest of the year. Despite this backdrop, our brand continues to gain share in China, which we believe is a direct result of our accessible, authentic and personalizable brand positioning, serving as a meaningful competitive advantage. Turning to HEYDUDE, our third-quarter results came in slightly below our guidance, with revenues declining 17%. Before I provide further detail on the quarter, I want to start by sharing the progress we have made toward building HEYDUDE into a consistent and profitable growth brand.

In September of last year, we made a pivot to prioritize brand health, clean up channel inventory, while right-sizing our account base and began building a fleet of premium outlet stores to showcase the best expression of our brand. Since then, we have elevated ASPs, shutted more than 50% of our accounts improved inventory turns to four times a year and opened 29 premium outlet stores. In addition, we invested in talent across the brand, while accelerating our market investment as we work toward driving higher awareness and relevance to generate brand heat. We strongly believe these are the right decisions to build a solid foundation for profitable growth at HEYDUDE.

While we recognize HEYDUDE's performance this year has not yet reflected these investments and actions, let me share a little bit more about what has given me confidence. As we spoke about last quarter, we sharpened our strategy to focus on three strategic imperatives: driving used female culture and creating a HEYDUDE brand community, building the core of Wally and Wendy and adding more, then stabilize and accelerate North America. Against these imperatives, we have seen the following green shoots. First, we believe the female youth culture is a key driver of influence, brand connectivity and a catalyst to build community.

In August, we were thrilled to announce Sydney Sweeney as our global brand ambassador and our director of Dudes. This partnership has generated the best-performing content HEYDUDE had seen to date and we have plans to ignite further content with Sydney Sweeney. During the quarter, we launched TikTok Shop and we have an excellent response, bringing a new, younger consumer. In fact, on select launch days, our brand emerged as the No.

1 global key account on TikTok Shop. Baidu's number of TikTok followers surpassed Instagram in the quarter, further underscoring our opportunity to reach the younger audience. We were also named the official comfort shoe of Barstool Sports in time for our refreshed collegiate collection. Second, we are focused on our icons, the Wendy and Wally.

Our three core offerings include stretched stocks, stretched canvas, funk mama. During the quarter, we iterated on these core offerings through our collaboration engine, successfully introducing Beetlejuice and SpongeBob to name a few. In October, we announced a long-term partnership with Country Music singer, Jelly Roll. Our initial collab with this famed artist featured our Wally was sold out in minutes.

Since the launch, we've seen the product show up in the secondary platforms for up to $6,000. As we discussed on our Q2 call, the company has the new product innovation that is an extension of our Wendy and Wally DNA with added cushioning and height. In the third quarter, we began scaling this across select global accounts. As we look beyond our core, we are seeing very healthy demand signs in our women's Austin Lift and our men's pole silhouette, with plans to scale them in 2025.

Third, we are hyper-focused on stabilizing the North American market to drive a sustainable foundation from which to grow. We've streamlined our account base and are focused on building relationships across our strategic retailers, similar to that of Crocs. We have worked to improve our inventory position in channel and improve ASPs across the build. In the third quarter, our digital ASPs were up 10% to last year and we saw improving weeks of supply across our key strategic accounts.

Our premium outlet stores are performing in line with our expectations. While we are encouraged by these early positive indicators, HEYDUDE's recent performance and the current operating environment are signaling it will take longer than we had initially planned for the business to turn the corner. We continue to have confidence about the long-term potential of the brand and the green shoots we are seeing give us positive reinforcement around our opportunity. I am incredibly proud of the HEYDUDE team and the urgency with which they have executed against our sharpened strategy.

I will now turn the call over to Susan to walk through our financials for the quarter.

Susan Healy -- *Executive Vice President, Chief Financial Officer*

Thank you, Andrew, and good morning everyone. Our third-quarter results exceeded the high end of our enterprise guidance on the top and bottom line, supported by a combination of better underlying operating performance, a lower-than-expected tax rate and lower share count. For the Crocs Brand, revenues were $858 million, growing 8% to prior year, and channel growth was balanced, with DTC and wholesale, each growing 8%. The growth was volume-driven, with units increasing 11% versus last year to a total of 32.1 million pairs of shoes sold, while brand ASPs decreased 3% to $26.48.

ASPs were below last year tied largely to product mix and slight price erosion. North America revenues grew 2% versus the prior year to $491 million. Growth was led by DTC, which was up 4%, while wholesale was down 2%. Underlying North American brick-and-mortar growth was up mid-single digits.

International revenues of $367 million grew 17% versus prior year, led by DTC growth of 18% and wholesale growth of 15%. In China, we saw growth in excess of 20% on top of last year's 90% plus growth rate, while our direct European markets continued to show healthy growth in the quarter, led by Germany and France. Turning to HEYDUDE, revenues were $204 million, down 17% from last year. Wholesale revenues were down 23% and DTC revenues were down 9%.

While we did plan for wholesale declines in the third quarter, our guidance anticipated stabilization of DTC. To support the strategies Andrew outlined earlier, we changed our investment strategy around performance marketing, shifting investments toward brand marketing, which impacted our digital performance negatively. We believe we are making the right decisions for the long-term health of the brand, highlighted by the continued strengthening of our ASPs, up 4% to $30.94 in the quarter. Concurrently, volumes were lower with 7 million pairs of shoes sold, 21% below last year.

Consolidated adjusted gross margin for the third quarter was 59.6%, up 220 basis points from last year. Crocs Brand adjusted gross margin was 62.5% or 40 basis points higher than prior year. The primary drivers of margin expansion were favorable product costs and select international price increases, offset in part by channel mix. HEYDUDE brand adjusted gross margin was 47.9% or 510 basis points higher than prior year, driven primarily by freight, favorable channel mix, and pricing.

Overall, adjusted gross margin was below expectations as the channel mix benefit was not as favorable as expected, given softer-than-anticipated digital trends in the quarter. Our third-quarter adjusted SG&A dollars increased 19% to prior year. Our adjusted SG&A rate was 34.2%, up 510 basis points compared to prior year, driven by continued investment in talent, marketing, digital and retail to support long-term market share gains. Our third-quarter adjusted operating margin was 25.4%, down 290 basis points from 28.3% in the prior year, driven by planned investments and SG&A.

Third-quarter adjusted diluted earnings per share increased 11% to $3.60. Our non-GAAP effective tax rate was 12.6%. Our lower-than-expected tax rate was largely tied to cash tax savings from the refinancing of our intercompany debt that occurred in the quarter. Our inventory balance as of June 30th was $367 million, a decline of 6% since this time last year.

Both of our brands achieved inventory turns above our goal of four times on an annualized basis. Our liquidity position remains strong, comprised of $186 million of cash and cash equivalents and $559 million of borrowing capacity on our revolver. During the quarter, we repaid approximately $110 million debt, reducing borrowings to approximately $1.4 million. year to date, we have repaid $248 million of debt, and we ended the quarter at the lower end of our long-term net leverage target range of 1 to 1.5 times.

Enabled by our best-in-class free cash flow generation, we also completed $151 million of share buybacks during the quarter, repurchasing 1.1 million shares, at an average price of approximately $135 per share. year to date, we have completed $326 million of share buybacks, reproducing 2.3 million shares. We currently have $549 million remaining on our share repurchase authorization. Now turning to 2024 guidance.

Based on our third-quarter results and the visibility we have heading into the fourth quarter, we are adjusting our full-year outlook. Our full-year enterprise revenue growth is now approximately 3% versus 3% to 5% prior, assuming currency rates as of September 30th. For the Crocs Brand, we are narrowing our revenue range from 7% to 9% growth to approximately 8%. For HEYDUDE, we are lowering our revenue range from down 8% to 10% to down approximately 14.5% based on lower-than-previously assumed sellouts in both wholesale and digital.

We are maintaining our guidance for consolidated adjusted operating margins of more than 25% for the year, powered by our strong adjusted gross margins, which we continue to plan up to prior year across the enterprise. Resulting in part from our lower-than-expected annual tax rate and incremental share repurchase in the quarter, we are raising our 2024 adjusted diluted earnings per share from $12.45 to $12.90 to the high end of our prior range at $12.82 to $12.90. Consistent with our previous guidance policy, this range reflects future debt repayment, but does not assume any impact from future share repurchases. We are now expecting an underlying non-GAAP effective tax rate, which approximates cash taxes paid to be approximately 16% and the GAAP effective tax rate to be approximately 21%.

We are lowering our annual capital expenditures guidance from $100 million to $110 million to $90 million to $100 million, tied to the cash timing of select operational projects. Turning to our guidance for Q4. We expect consolidated revenues to be in the range of flat to up slightly at currency rates as of September 30th. We expect the Crocs Brand to grow approximately 2%, like double-digit international growth.

Our fourth quarter international growth rate is below our year-to-date growth rate based on, one, a more cautious consumer in China; and two, ongoing regulatory pressure in India, which is impacting our ability to meet demand. Turning to North America. We expect a slightly negative fourth quarter, which includes our expectations of a more choiceful consumer as well as the timing of wholesale shipments between quarters.

For the second half, North America is expected to be flat to prior year, in line with our previous expectations.

We expect Q4 DTC to remain positive. For HEYDUDE, we expect revenue to be down between 4% and 6% in the quarter, below the former implied range of up low to mid-teens. The largest driver of our lower revenue outlook is tied to lower-than-expected sellouts on both digital and wholesale. Our assumptions around our non-comp drivers, including our retail stores and our international distributor sell-ins, are in line with our former forecast.

Adjusted gross margins are expected to be up for the enterprise, with Crocs Brand up slightly and HEYDUDE slightly down versus prior year. We expect adjusted SG&A spend to be in the high-teen range in Q4 and adjusted operating margin to be approximately 19.5%. Adjusted diluted earnings per share is expected to be between $2.20 to $2.28. While we are not guiding to 2025 yet, I want to provide some preliminary shaping for your models based on the visibility we have thus far.

For Crocs, we expect revenue growth in 2025 to be led by international. As a reminder, we will be negatively impacted by the timing of Easter moving back into Q2. This will have an outsized impact in our North America region in the first quarter, in addition to lapping leap year. For HEYDUDE, next year is about brand stabilization.

As Andrew shared, we are seeing green shoots around the brand receptivity from a broadening group of consumers, but note that financial results will lag the marketing momentum we are currently seeing. With the visibility we have into 2025, we expect the first quarter to be sequentially down from the fourth quarter size of wholesale. In 2025, we plan to continue to invest behind talent, marketing, digital, and retail in order to create sustainable long-term growth, which will put incremental pressure on our EBIT margin rate versus 2024. In closing, we are making near-term decisions that we believe are in the best long-term interest of the company and our shareholders, and we will continue to focus on what our company does best, delivering growth with industry-leading margins that generate significant free cash flow.

I will now turn the call back over to Andrew for his final thoughts.

Andrew Rees -- *Chief Executive Officer and Director*

Thank you, Susan. Our company's initiatives remain consistent, and we'll focus on three primary levers to fuel durable long-term growth: one, ignite our items across both brands to drive awareness and global relevance for new and existing consumers; two, drive market share gains across our Tier-1 markets through strategic investment behind talent, marketing, digital and retail; and three, attract new consumers to our brands through methodically diversifying our product range and usage occasions. At this time, we'll open the call for questions.

Questions & Answers:

Operator

[Operator instructions] The first question today comes from Jonathan Komp with Baird. Please go ahead.

Jonathan Komp -- *Analyst*

Yeah. Hi. Good morning. Thank you.

I'll stick with one topic here. I want to ask about Crocs North America. Could you just give a little more detail? Susan, I know you mentioned a shift in Q4 on wholesale, but expectations for DTC to remain positive. Could you just remind us of some of the moving parts for DTC? And what's driving the forecast? And then maybe a bigger-picture question.

As we look forward into 2025, what role will North America play in the total Crocs outlook for 2025? And what are some of the drivers that you see, Andrew?

Andrew Rees -- *Chief Executive Officer and Director*

Great. So let's do it in that order, Jonathan. Susan will kind of give you the mechanics around the remainder of this year, and I'll take a picture.

Susan Healy -- *Executive Vice President, Chief Financial Officer*

Great. Thanks, Jon. When we think about North America, we are unchanged in our expectation that North America will be flat for the second half, and we were really pleased with the underline performance in the third quarter of the Crocs brand in North America, but for the full-back half, our expectations are unchanged. So by channel, fourth quarter DTC is expected to be positive, offset by wholesale, which is planned down as retailers took product earlier in Q3 than we planned.

And overall, we're mindful of current consumer shopping patterns as well as macro headwinds in the fourth quarter, and we're taking a prudent approach.

Andrew Rees -- *Chief Executive Officer and Director*

Yeah. So if we step back to the big picture, so North America this year, based on all the guidance we provided for the fourth quarter, will grow about 2.5% for the year. And so what role does this play within our overall business? So the North American business, as we look at it, is a well-managed, stable business. It's highly profitable.

It's cash generative. And it really is, obviously, a large business, the absolute size of it. So it generates the income, the cash flow that we can use to fund, one, is the international growth for Crocs, but also some of the investments we're making in HEYDUDE. It's balanced across channels.

So we have a wholesale business. We have a retail business. We have a digital business. We've made some strategic shifts over the past year within digital, going more to 3P on our Amazon platform.

We think that's been highly productive, and we think that will be attractive in the future. So -- and we kind of think about the business as really being very well-positioned to continue the role that it's playing today. We're confident that over the short to longer term, we'll be able to grow the business modestly, and it plays an important role in our overall portfolio.

Jonathan Komp -- *Analyst*

Great. That's helpful. Thank you.

Andrew Rees -- *Chief Executive Officer and Director*

Thank you.

Operator

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

Jim Duffy -- *Analyst*

Thank you. Good morning. Multipart question on HEYDUDE. First, you mentioned streamlining the account base for HEYDUDE.

Can you elaborate on those distribution actions? And then I'm hoping you can speak to HEYDUDE brand operating profitability and your willingness to continue to invest against profitability to strive for brand inflection?

Andrew Rees -- *Chief Executive Officer and Director*

OK. Great. So from an account base perspective, we really talked about this almost a year ago now, where we cut off some of the smaller customers to really focus back on the large national strategic accounts, or alliance partners as we call, where we want to make sure that we have adequate segmentation and differentiation and we can grow with a broad base of accounts. We do keep a lot of what we can kind of smaller, more strategic, well-positioned, or regional customers we think are important in terms of reaching select consumers and also giving a broader consumer base and some attractive points of distribution.

So that has happened probably just a year ago at this point. So we feel really good with where we are from an account-based perspective. In terms of profitability, there is a couple of key drivers there as we think about the future. One is gross margin.

You've seen us start to elevate gross margins from a low in '23 to some substantial improvements in '24. Based on some of the infrastructure investments we've made, based on some pricing decisions we've made that have impacted gross margin in the past, we think long-term gross margin is around 50%. We're not going to get there in the next couple of quarters, but that's in the midterm. We think that's a very strong place for a brand to be.

And then obviously, we're investing substantially in SG&A. So we're investing at an elevated rate in terms of marketing. You saw a lot of the activities. We talked about them on our prepared remarks.

I think you've seen them in the -- on social media and in the press, especially in this quarter. We're investing in marketing to engage younger consumer, to pivot to a more female-orientated consumer and also to create broader awareness for the brand. We are also making SG&A investments to fuel growth, both in our outlet stores that we've opened this year in North America and also preparing for our international growth. So I think what this tells you is that we're supremely confident in the long-term growth potential of HEYDUDE.

We're prepared to make these investments. We're confident they will pay off. And frankly, the broader financial profile of the Crocs, Inc. business allows us to do this, and we think they are prudent investments that will pay off for shareholders in the medium to long term.

Jim Duffy -- *Analyst*

OK. Just to follow up on that, Andrew. In the context of valuing Crocs, Inc., many people are looking at the contribution of the Crocs brand profitability and trying to isolate that for valuation purposes. And so additional perspective on the HEYDUDE brand profitability would, I think, help people get to that assessment of the size of the different profit pools?

Andrew Rees -- *Chief Executive Officer and Director*

Yeah. I mean I guess I would encourage our investors to look at the totality, right? So our total company is highly profitable, highly cash generative. And as you kind of think about investing in the company, I would encourage people to look at the totality and look at the future potential of those cash flow streams and the optionality that provides us to continue to deleverage and reduce risk within the company, but also return cash to shareholders in a sustainable basis. I think that's a pretty good investment profile.

Jim Duffy -- *Analyst*

And then with the outlook for HEYDUDE, have you at all tempered the SG&A investment plans?

Andrew Rees -- *Chief Executive Officer and Director*

I would say no. We haven't. We -- I'll go back to what I said sort of in my first answer. We're extremely confident around the mid- to long-term potential of the HEYDUDE brand.

And as we analyze each of the investments we're making, we feel that they will provide a very strong return.

Operator

The next question comes from Adrienne Yih with Barclays. Please go ahead.

Adrienne Yih -- *Analyst*

Yes. Great. Thank you very much. Andrew, you had talked about sort of the back-to-school season being kind of back to the highs are high and the lows are kind of, I guess, a toppy background.

I'm wondering if you can sort of talk about how you operate in that environment? How you think the retail channel partners are kind of managing through that? And if you think that we're pulling up some sales for holiday? And then my last question is how long does it take for the sell-through to work through itself? Do you think that you're having -- well, you have the spring order book some futures? Can you give us some color on that? Thank you very much.

Andrew Rees -- *Chief Executive Officer and Director*

Yes. Yeah, I suspect you've heard others talk about this, and you're probably, as our retail partners report in a week or so a month or so, you'll hear a lot more about this. But look, I do think the consumers return to a more traditional shopping pattern. We will kind of say it's kind of pre-pandemic.

They're going to shop when they need it. They're going to shop at key events, whether they be holidays or promotional. And in some cases, they need a little extra incentive to transact. So I think that's what we were familiar with before we got into the sort of lack of supply oversupply components of the pandemic.

I think they're back there -- they've been getting back there over the last year or so. We are anticipating that into the fourth quarter. And I think our retail partners, certainly in this country, are pretty adept. I mean they're highly sophisticated.

They're seeing this happen. They have probably more data than we do to really understand this. So I think they're pretty intact there and they're transitioning pretty quickly, and I think they'll do a good job. And in terms of order books, pretty prudent.

We try to make sure our order books are very much lined up with expected sell-out. We think the timing that sell out was a little bit shifted, but we try to calculate the aggregate sellout. We don't want excess inventories in the market. And I think we're on top of that for Crocs.

As we've talked about from a HEYDUDE perspective, we have had excess inventories in the market, and we've been aggressively trying to work those down this year, and we've made good progress, but frankly, not quite all the progress we want to make.

Adrienne Yih -- *Analyst*

Great. Thank you very much and best of luck.

Andrew Rees -- *Chief Executive Officer and Director*

Thank you.

Operator

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

Chris Nardone -- *Analyst*

Thank you, guys. Good morning. Can you just elaborate a little bit more on your confidence in growing your Crocs North America direct-to-consumer business in the fourth quarter, maybe based on what you're seeing quarter to date? Then switching your Amazon business to a 3P model, I think you fully lapped that now. Can you just elaborate on the rationale around doing that? And just how you view your Amazon business relative to like your crocs.com business? Thank you.

Andrew Rees -- *Chief Executive Officer and Director*

Yeah. I would say that's a hard question to answer, Chris. So look, I think all the plans that we put in place for our Crocs North America DTC business, we feel great about it, right? We feel great about the product line. We feel great about our holiday planning.

We feel great about our back-end logistics, etc., but growing that business and comping is based on all those things going well. And -- so no product line up on marketing. So we feel really good about it. I would say that's a combination of obviously our stores, which are predominantly premium outlet stores, a combination of our dot-com business and also our marketplace business.

And so we feel really good about it. And fingers crossed, everything will play out how we think it's going to play out, but there's, obviously, some uncertainty there. And I would also say we kind of try to plan it prudently as well. We've got backup plans for if things don't go 100% to our expectations.

Big picture on Amazon, I would say, look, Amazon, a super important customer. We're a broad democratic brand. We want to reach our consumers where they are. They're clearly on Amazon.

They start a lot of their shopping on Amazon, their initial searches on Amazon when they're looking for a pair of Crocs, but also many other things. And from participating on that very important marketplace, both here in North America and other parts around the world, we think this is an opportunity for us to have more emphasis on our brand, a little bit better control of the products that we bring to market, etc. And so we are liking the transition we think is productive, and I think the consumer is enjoying it, too.

Chris Nardone -- *Analyst*

Thanks, Andrew. And just one quick follow-up on the operating margin outlook. I think you mentioned it should be a little bit lower next year. Just wanted to hear your rationale about balancing investment spend to grow both of these brands for the long term, but also trying to maintain an operating margin around the mid-20% range, close to your longer-term 26% plus target?

Susan Healy -- *Executive Vice President, Chief Financial Officer*

Yeah. So I can take that one. This is -- we're really planning on continuing to invest. We see revenue generating opportunities for both brands.

We look, as Andrew said, very disciplined about what we see the return on investment. And when we see these opportunities we're investing, 2024 has been an investment year. We're very early in the planning process for next year, but we're going to continue to invest behind talent, marketing, digital and retail. And as we said, that's going to put incremental pressure on our EBIT margin rate versus 2024.

And we'll give you more guidance about 2025 on our fourth-quarter call.

Andrew Rees -- *Chief Executive Officer and Director*

Yeah. And I would say, big picture, Chris, look, I would say mid-20s. I think we'll be above 25% according to our guidance for this year. We've been significantly above that in recent years.

These are extraordinary levels of profitability. If you look at our competitive base, there are very few players that come close. Nobody is above. So we have got to balance maintaining high levels of profitability and cash flow generation, which obviously underpin our overall valuation.

We are actually investing in attractive mid to long-term growth opportunities, and we will toggle backwards and forwards between those.

Chris Nardone -- *Analyst*

Thank you. Good luck.

Operator

The next question comes from Bob Drbul with Guggenheim Securities. Please go ahead.

Robert Drbul -- *Analyst*

Hi. Good morning. Two questions actually. The first one is, can you talk about the change in the investment marketing strategy for HEYDUDE in the quarter, and what KPIs you are seeing? And the second question is, can you just clarify for Crocs for North America, do you expect growth in North America market for 2025?

Andrew Rees -- *Chief Executive Officer and Director*

OK. Two different questions, so the first one actually is a super important question, Bob. Glad you asked it. So one of the key decisions that we made in the third quarter is we pulled back on performance marketing for the HEYDUDE brand.

As we have looked at the sort of multiyear trajectory, our level of performance marketing had been creeping up. I would say the marginal ROIs were still positive, but they were not where we wanted them to be. And we wanted to push more of a marketing investment into the brand and into the long-term future of the brand. So we made a pretty distinct pullback in performance marketing.

So that's ad dollars, Google Search, or all of those kind of things that you can spend money on a short-term basis. You can measure the returns, but if your marginal return dips to a level that you don't really feel comfortable with, so we pulled back on that. And then we used that money to fund Sydney Sweeeny, Jelly Roll, Barstool Sports, some of the TikTok activations that we have been doing, starting up the TikTok Shop. And we think that will be much more attractive from a brand return and investment perspective over the long term.

That has had a short-term impact, and it's probably the biggest explanatory for our miss in Q3 from a HEYDUDE revenue perspective, and also the biggest explanator for the reduction in Q4 guide for HEYDUDE. That's the biggest dollar change, and we think it's the right thing to do in the long term. And then your question on Crocs, I think it was a clarification on North American -- yes, we think we will grow modestly slightly for North America Crocs in 2025. That is our current plan.

But I would say the real value creator and the value driver for Crocs is international growth. You have seen that come through for the last two years, and we are very confident that will continue into 2025.

Robert Drbul -- *Analyst*

Thank you.

Operator

The next question comes from Rick Patel with Raymond James. Please go ahead. Rick, your line is now open. You may ask your question.

Rick Patel -- *Analyst*

Hi. Sorry about that. Thank you. Good morning.

I was hoping you can expand upon what you just ended with in terms of Crocs' international growth potential in 2025. So given the slowdown that you are seeing in

China that you expect to continue, how should we think about the building blocks of growth next year? In which market you have the most confidence and to do the heavy lifting?

Andrew Rees -- *Chief Executive Officer and Director*

Yeah. So thank you, Rick. So what I would say is we have definitely seen a slowdown in China, but I would point out, we are still growing in China, and we still intend to grow in China next year, right. So it's not the 80%, 90% growth that we saw in '23.

We grew 20%-plus growth in Q2 -- sorry, Q3 that we just reported, but we do intend to continue to grow in China, really underpinned by a lot of the mono-brands store openings that we have done in China. So we have grown our digital business successfully. We have opened some select retail stores. We operate ourselves, and we also work with a range of brand partners who opened mono-brand stores.

I think we have opened -- by the end of the year, we will have close to 400 mono-brand stores, and we have opened in excess of 150 stores year to date. Obviously, as those have grown open through the year, that will provide growth for next year as well as we think our positioning in the marketplace are accessible price points, personalization, comfort, etc., is going to be a competitive positioning. So we will grow in China. In addition to China, I think we are confident around India.

We have I think a very attractive business model in India that has been impeded recently with the BIS. Everybody knows what that is. That's the Indian Government has been imposing some restrictions associated with we need to make your products in India. We will have production up and running for both Crocs and HEYDUDE in India next year.

It started this year, but it will reach -- its reach enough supply to fund market next year. So we are confident about India. We have talked quite a bit about how our key direct markets in Western Europe continued to be successful. Germany and France, we anticipate that continuing.

So those are some of the key drivers. We have had great success in Australia for the last couple of years. We see that as probably a little bit more stable for the next couple of years, but that's obviously attractive business as is South Korea. I would say, to be frank, Japan remains a work in progress.

We are focused on kind of resetting the business and focusing on the Classic Clog and personalization in that market, with evidence that is starting to get traction. But that obviously is a very big market with big long-term potential. So I think there are plenty of growth engines to support our international aspirations from a Crocs perspective.

Rick Patel -- *Analyst*

Thank you very much.

Andrew Rees -- *Chief Executive Officer and Director*

Thank you.

Operator

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

Sam Poser -- *Analyst*

Good morning. Thank you for taking my questions. So can we talk about HEYDUDE? And I mean, Andrew, you reiterate your confidence in it. I guess my question is, what -- how did this all evolve? And what happened different than what you thought was going to happen that was under your control that you have to fix? And how long -- and what are -- what specifically other than switching marketing and cleaning up are you doing to sort of start driving sales again? It looks to me like you have some good stuff going on as far as partners and so on, but the consumer is not responding.

And that's not let's take macro out of the picture, let's say, what's under your control?

Andrew Rees -- *Chief Executive Officer and Director*

OK. So let me start with the last part of your question, and then we can go back to the first part, and you can kind of just clarify. So the last part, I think is, you are kind of getting at what are we doing, why do we think that will help the situation, if you like. So the things that we are doing are multipronged, right.

So one is marketing, which you highlighted. So I think a pretty significant pivot in the marketing agenda, to engage a broader set of consumers, drive brand awareness, drive brand relevance pivot toward a younger female culture -- female consumer, which drives culture in this country, certainly. And we think culture in this country drives culture and resonance in other countries around the world. That's very, very important.

And I think you talked about that or you mentioned that. Second is, I would say, wholesale management, so that is reducing in-market inventories, working proactively with all of our alliance partners to make sure they have the right product at the right time they have adequate differentiation. And I think we are making some good strides there, but there is still work to be done. So I think there is more work to be done, but we are doing the right things, and they will pay off in the longer term.

Number three is building, I would say, complementary channels of distribution, premium outlet stores. We have opened a chain of premium stores I think about 29 year to date to the end of September. We will open another 11 in the fourth quarter. They are performing well.

That is a very attractive investment from our perspective. And it allows the consumers that are in those centers to see the breadth of the brand. We see a much better balance in those environments between Wally and Wendy, between male and female. We also have a kids business in those environments.

So we think that's a very valuable consumer exposure mechanism. Third thing is laying the groundwork for international growth. We opened up four direct markets, two in the quarter, so as you might remember, we are now present in the U.K., in Germany, India, and Australia as direct markets. They are all small.

And when I say present in direct market, that means we have wholesale distribution, we have a digital presence, we don't have any retail presence in those markets just too small at this stage. But I would say what we are seeing, while the numbers are small and we expected them to be small, is a relatively positive reception from those consumers, and that's a pretty diverse set of consumers from the U.K. to Germany, to India to Australia. In addition, the international business in Spain and Italy continues to perform well through a distributor, and we have a range of incremental distributors that we will ship in Q4 and Q1.

Essentially, they are opening orders, so they will be starting up the business. So I would say it's the marketing, but it's building all the platforms that will enable future growth in the future -- well, growth in the future. All right. And now let's come back to what we are getting at the beginning of your question.

Sam Poser -- *Analyst*

Well, I mean I wrote about this a long time ago. At the end of fiscal '20 -- end of calendar '22, and the beginning of '23, you shifted a ton of product into marketplace. So I guess the question is this, how overstated were the sales last year? And what's the right starting point to think about? And how much of just filling shelf space, doing the things you did back then sort of caused what happened now? And should you have taken sort of a more measured growth approach and maybe you would be ahead of where you are today? And what decisions were made that your -- what decisions were made that caused this? And then I know you are confident, but just lowered numbers and I don't know what next -- we will see what happens next year, but I just want to get a little more meat on the bone as to what happened that was in your control versus --

Andrew Rees -- *Chief Executive Officer and Director*

Yeah. I think you kind of said some of it. We definitely grew too fast, right. So out of the gate when we bought the brand, nobody knew how high was up.

We didn't know how high was up and our customers didn't either, right. So they were constantly out of stocking, they wanted more product, we shipped some product. And I think if you think about this sort of '22 into '23 timeframe, in retrospect, we absolutely shipped too much products. So if you are kind of asking what decisions we made that were wrong, that was wrong, that was wrong, right.

And then the other thing I think that we did not do well is the initial marketing activities were ineffective. We spent money, but they were ineffective. They were not sufficiently effective. They weren't focused at the right consumer, and they weren't creating the kind of resonance and impact that we wanted.

I think the third thing is the process of integrating the brand and putting in place all of the infrastructure, whether that would be DCs, whether that would be systems and capabilities because it came with very little of that. We knew that, but that took us time. It probably took us a little bit longer than we had hoped, and that delayed some of the, I would say, offensive investments that we are now making around stores and international. So that's taken longer than we thought.

Now, that being said, we bought a business that was approximately $600 million in revenue, and it is now high-$800 million, almost $900 million -- sorry, sorry, $800-ish million in revenue, so it's substantially bigger. It is less profitable on an EBIT percentage perspective because we have invested for what we think is the longer term growth potential, but it has been profitable all along. It's been accretive along and has generated cash, and we paid down the debt associated with the investment or paid down a lot of the debt associated with the investment. So it has not gone if that's what you are kind of trying to get at as we would have hoped and expected, but that doesn't change our confidence around the future, the team that we have in place, the strategies and activities that we have deployed and our willingness to support those -- that team, those strategies, and activities.

So I just want to make sure we are super clear about that. That is what we are going to do, and we are very confident that we will be a positive outcome for investors.

Operator

The next question comes from Jay Sole with UBS. Please go ahead.

Jay Sole -- *Analyst*

Great. Thank you so much. Andrew, if we could just talk about the Crocs brand sort of big picture, obviously talking about a little bit of growth in North America next year. But beyond that, what's the plan to drive growth? I mean do you see an opportunity to raise brand awareness? Are there new wholesale doors you get into? I mean can you open it more maybe of your own stores and your direct-to-consumer channel, new categories you can get into or market share gains in existing categories? Just tell us how growth should trend big picture.

And why maybe we will see growth accelerate beyond sort of in North America beyond whatever rate you expect to get in 2025?

Andrew Rees -- *Chief Executive Officer and Director*

Yeah. That's a great question, Jay. I would say, look, in the very short-term, sort of the one-year to two-year timeframe, the primary growth driver for Crocs will be the international business, right,. I just want to make sure I reiterate that.

And that's a big and attractive business, right. So -- and the underlying strategic issue there is that our penetration in those large international markets is a fraction of what it is here in the U.S., that's not your question. Your question is what drives growth in North America. I don't think there is a huge amount of distribution growth.

I think we are, the places we want to be, there are other places we could go. There are mass retailers that were not represented in. I just don't think that's the right place for our brand as we want to continue to maintain a democratic, but elevated positioning for our brand. So I don't think we are going to go there.

We do think there is continued digital growth and development as the consumer goes more and more digital. We do think there is growth in personalization. We think there is growth in sandals. We had a nice sandal growth here in North America in '24.

We think that continues into '25 and has long-range potential. And we do think there is an opportunity for us to play in a broader set of, I would say, silhouette-wearing occasions. You have seen us experiment there. We will continue to experiment there, but I wouldn't say we are today, have a slam-dunk winner in that arena, but we think we can get there over time.

So for the sort of 12-month to 24-month timeframe, we are really thinking about North America is that cash cow funding that international growth, while we can continue to experiment and engage our consumers in incremental growth opportunities from the silhouette and product perspective.

Jay Sole -- *Analyst*

Got it. That's very helpful. Andrew, thank you.

Andrew Rees -- *Chief Executive Officer and Director*

Thank you.

Operator

The next question comes from Anna Andreeva with Piper Sandler. Please go ahead.

Anna Andreeva -- *Analyst*

Great. Thanks for my question. Good morning. We wanted to follow-up just on the overall profitability of the business given investments at HEYDUDE.

Can you guys talk about what guardrails do you have in place at the consolidated level to offset some of these investments? Andrew, I think you mentioned 25% is the right level for the business. Are there additional opportunities at the Crocs side of things, either with pricing or maybe opex management as we think about next year? Thanks so much.

Susan Healy -- *Executive Vice President, Chief Financial Officer*

Thanks for the question, Anna. This is Susan. One thing I think it's really important to emphasize here is how disciplined we are about our investments. We have mentioned increasing our SG&A, which we continue to plan to do into next year.

But there is a lot -- you mentioned guardrails and KPIs, there is a lot of scrutiny around making sure we are making the right investments. And as Andrew indicated, and talking about HEYDUDE, when we find that we need to pivot, we do that pretty readily and pretty nimbly as we did with the marketing investment on HEYDUDE pivoting from performance to brand when we saw a better opportunity there. So we are super disciplined about it. But when we said we are including 2024 as an investment year, and 2025 continued to be an investment year, that will be -- create incremental EBIT margin pressure.

So the 25% guidance that Andrew reiterated was for this year. And next year, we would expect to be below that.

Anna Andreeva -- *Analyst*

OK. Appreciate it. Best of luck.

Operator

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

Andrew Rees -- *Chief Executive Officer and Director*

I just want to conclude by thanking everybody for their continued interest in our company. We appreciate you spending time with us today. Thank you.

Operator

[Operator signoff]

Duration: 0 minutes

Call participants:

Erinn Murphy -- *Senior Vice President, Investor Relations and Corporate Strategy*

Andrew Rees -- *Chief Executive Officer and Director*

Susan Healy -- *Executive Vice President, Chief Financial Officer*

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