Crocs (CROX) Q2 2024 Earnings Call Transcript

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

Crocs (CROX -0.90%)
Q2 2024 Earnings Call
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Contents:

Prepared Remarks:

Operator

Good day, and welcome to the Crocs' second-quarter 2024 earnings conference call. [Operator instructions] And 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 of Crocs. 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. second-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, which we ask that you limit to one per caller.

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

chief executive officer.

Andrew Rees -- *Chief Executive Officer and Director*

Thank you, Erinn, and good morning everyone. Thank you for joining us today. Before we discuss the quarter, I'd like to start by welcoming Susan Healy to her first Crocs, Inc. earnings call.

We reported second-quarter revenue of more than $1.1 billion which represents the highest quarterly achievement in the company's history, and exceeded our guidance. Coupled with robust adjusted gross margin expansion of 330 basis points, adjusted earnings per share grew by 12% to $4.01 even as we accelerated strategic investments. This performance resulted in record free cash flow for Crocs, Inc., which we utilized to pay down $200 million in debt and repurchase $175 million of our common stock. Our enterprise initiatives remain consistent, and we've focused on three primary levers to fuel durable, long-term growth.

One, ignite icons across both of our 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. Starting with the Crocs Brand, the investments we are making in product and marketing are enabling us to win with consumers around the world.

During the quarter, we saw further growth in global brand awareness and desirability. We have continued to evolve our partnership model with the clear intent to drive engagement, build consumer love, and ultimately fuel brand heat. During the second quarter, we celebrated SpongeBob's 25th anniversary by creating a SpongeBob and Patrick clog, with the official announcement unveiled on the Las Vegas Sphere. Along with this, we released a number of partnerships that range from Pringles to Naruto, to Treasure, a K-pop band, and Minions.

We continue to push into sneaker and lifestyle opportunities as exemplified through our Salehe Juniper sneaker release which sold out within minutes, at $140, and was seen on secondary shopping platforms for multiples of the original price; a testament to the strong consumer response. Looking at product overall, growth in the second quarter was once again led by our icon, the Classic Clog. As we prioritize durable growth, we have built several successful franchises that aim at expanding into new usage occasions to drive new and repeat purchases. The sandal category strengthened in the quarter as the consumer reacted favorably to the newness that we have brought to the market this year.

In particular, our Style sandals are performing well across both new franchises like the Getaway and Miami, as well as established franchises, like the Brooklyn. We introduced a Jibbitable version of the Classic Brooklyn, as well as a woven style leveraging our molded DNA. The growth of our Jibbitz business during the quarter was led by strong double-digit growth in Asia, which was also our highest penetration by geography. Our Jibbitz consumer continues to be one of our most valuable consumers, and we see them purchasing with higher frequency and average order value.

Our strategic priorities within Jibbitz are centered around driving higher penetration in digital and wholesale channels, enhancing speed to market, and continually introducing product freshness. Moving to a review of our business by geography, we saw broad-based strength led by our Tier 1 markets. The North America market performed ahead of our expectations and gained market share with revenue growth of 3% versus the prior year. Strength was driven by better-advanced demand from our retail partners and solid DTC channel growth.

For the first half, our North American revenues grew 6% against a broader market that was essentially flat. International revenue grew 22% versus prior year, supported by exceptional growth in China and Australia. China grew over 70% on top of triple-digit growth last year. While there is evidence in the market that the Chinese consumer is becoming more cautious, we see our accessible, authentic and personalizable brand position as a clear competitive advantage.

Coming off the strength of our Super Brand Day in the first quarter, we emerged as the No. 1 women's footwear brand on Tmall in the days that followed. This momentum drove outside strength in the Midsummer Festival, but Crocs led the conversation and took notable share on Tmall and Douyin despite more promotional period for the industry at large. For the first time ever, Crocs emerged as a top 10 overall fashion brand on Tmall during the festival and was one of only two footwear brands mentioned in the top 10 fashion rankings.

Our direct markets within Europe registered double-digit growth in the quarter, led by the U.K. and Germany. And we continue to see ample opportunity for growth in the future. Turning to the HEYDUDE brand, we remain focused on solidifying the business in North America and establishing the Wendy and Wally as iconic franchises for the consumer.

We've made progress in improving the health of our underlying business in North America, exemplified by pricing on digital up versus prior year, solid recovery in gross margins, and our inventories turning in excess of four turns. That said, our wholesale business for HEYDUDE remains challenging and we expect that to continue through the second half of the year. As we shared in the first-quarter earnings call, sell-in and sell-out are down versus last year, and we're focused on energizing the brand through improved marketing effectiveness and new product introductions. During the quarter, we brought new HEYDUDE partnerships to the market, including Corona, a four-piece collection with the iconic beverage band featuring our Wally, Wendy and Hudson Styles.

Our Lee partnership, Denim and Dudes, marked the first HEYDUDE collaboration with international reach. From a product perspective, we're bringing more focus around our core across the Wendy and Wally and we're leaning into three primary offerings, Stretch Subs, Stretch Canvas, and Funk Mono. While leading from the core is our focus, we'll make calculated bets with key sneaker and boot styles that the brand is also known for. As we look into 2025, we see an opportunity to optimize our SKU count, while still improving our channel segmentation and bringing new innovations to market.

For example, we introduced the COMPF this quarter, leveraging our Wendy and Wally D&A and added cushion and height reselling for $85. We initially tested this product in DTC and will bring it to wholesale in time for back-to-school. From a distribution perspective, we opened 13 new HEYDUDE outlet locations in the quarter, bringing our total year-to-date openings to 19. We are pleased with our new stores and see growing consumer engagement and shopping across genders and ages as consumers can experience the full breadth of the line.

During the quarter, we also introduced Haymakers, our personalization proposition within our direct channels. These stations are creating buzz in our stores as consumer explore self-expression with the brand. For the year we plan to open approximately 30 outlet stores. On the wholesale side, we'll continue to optimize our account base and focus on improving customer segmentation.

Internationally, we're making progress in our direct markets in Europe as we build the brand in the U.K. and Germany. We're also introducing the HEYDUDE brand in Australia this quarter and have plans to expand into select distributor markets in 2025. We're working on elevating our reach and effectiveness of our marketing to drive bigger brand moments geared at accelerating awareness and creating community.

We plan to introduce the brand in a methodical and consistent way and get more shoes on feet. In addition to igniting our icons and focusing on the core, we're bringing her to the center of the conversation. We believe female youth culture is one driver of influence and brand connectivity and plan to accelerate our influence opportunity as we move into the fall. We plan to significantly accelerate our marketing investment and effectiveness in the second half of this year to drive more brand heat for HEYDUDE.

Before turning the call over to Susan to review our financial results, I want to call out the publication of our 2023 Crocs Inc. Comfort report released in June. This annual report highlights our commitment to and progress on our purpose to create a more comfortable world for all through action-orientated ambitions of inclusivity, climate stability, circularity, and community. I would encourage you to check out the report for more information against these initiatives.

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. Before I review the quarter, I'd like to say what an honor it is to have the opportunity to serve as the CFO of Crocs, Inc. This is a company with strong financial performance brought to life by its culture, brands, people, and purpose. I look forward to working with Andrew and our talented management team to further advance the company's strategic and financial goals, as well as to get to know many of you in the investment community in the weeks ahead.

Now, for a review of our second-quarter financial performance, we generated over $1.1 billion in consolidated revenues in the quarter, growing 5% over last year, led by the Crocs brand. Adjusted gross margin improved 330 basis points from prior year to 61.4%, and adjusted operating margin was 29.3%, resulting in adjusted earnings per share of $4.01. Our second-quarter results exceeded the high end of our guidance for the enterprise. For the Crocs brand, revenues were $914 million, growing 11% a prior year, driven by DTC growth of 14% and wholesale growth of 9%.

The growth came from a mix of volume and ASP, with units increasing 6% versus last year to a total of 35 million pairs of shoes sold, and brand ASP increasing 4% to $25.96. As Andrew noted, North America revenues came in ahead of our expectations, growing 3% versus the prior year to $489 million. Growth was led by DTC, which was up 7%, while wholesale was down 4%. Underlying North American brick-and-mortar growth was up mid-single digits.

International revenue of $425 million was up 22% from prior year, led by DTC growth of 28% and wholesale growth of 18%. China led the way, growing over 70% on top of triple-digit revenue growth last year. And we also saw exceptional growth in Australia. In addition, our direct European markets grew by strong double digits.

Turning to HEYDUDE, revenues were $198 million, down 17.5% from last year and within our guidance range. Consistent with our strategy to strengthen the HEYDUDE brand for the long term, brand ASPs were up 7% to $30.76, while volumes were lower. We sold 6 million pairs of shoes, 23% below last year. Wholesale revenues were down 24% from last year, since which time we have strategically reduced our account base and right-sized channel inventories.

The DTC channel was down 8%, supported by retail contribution, offset by digital contraction as a result of prioritizing brand health through higher ASPs. Consolidated adjusted gross margin for the second quarter was 61.4%, up 330 basis points from last year. Crocs brand adjusted gross margin was 64.1%, or 210 basis points higher than the prior year. The primary drivers of margin expansion were favorable product costs, lower freight costs, and higher international pricing.

HEYDUDE Brand gross margin was 49.1% and 200 basis points higher than prior year, driven by lower freight costs, channel mix, and higher ASPs, partially offset by investments in infrastructure. Our second-quarter adjusted SG&A dollars increased 19% the prior year. Our SG&A rate was 32%, up 420 basis points compared to prior year, driven by continued investment in talent, marketing, and DTC to support long-term market share gains. Our second-quarter adjusted operating margin declined 100 basis points to 29.3% compared to 30.3% for the same period last year, but was favorable to our expectations on higher gross margin and revenue.

Second-quarter adjusted diluted earnings per share increased 12% to $4.01. Our non-GAAP effective tax rate was 17.8%. Our inventory balance as of June 30th, was $377 million, a decline of 14% versus this time last year. Both of our brands achieved inventory turns above our goal of 4 times on an annualized basis.

Our liquidity position remains strong, comprised of $168 million of cash and cash equivalents, and $559 million of borrowing capacity on our revolver. During the quarter, we repaid approximately $200 million of debt, reducing borrowings to approximately $1.5 billion. We ended the quarter within our long-term net leverage target range of 1 to 1.5 times. We completed a $175 million of share buybacks during the quarter.

Repurchasing 1.2 million shares at an average price of $149.53 per share, we currently have $700 million remaining on our share repurchase authorization. In the second half of 2024, we plan to continue to buy back stock and pay down debt, enabled by our best-in-class free cash flow generation. Now, turning to 2024 guidance, we are reaffirming our full-year top-line guidance range and raising our operating margin and EPS expectation to reflect to be in Q2, partially offset by continuing investment in talented marketing in the back half of the year. We are maintaining our full-year revenue outlook of 3% to 5% growth despite $11 million of incremental FX headwind, underscoring the underlying strength of our business.

Our guidance assumes currency rate as of June 30th. For the Crocs brand, we continue to expect revenue growth between 7% and 9% led by international. For HEYDUDE, we continue to expect revenues to contract between 8% to 10%, and expect wholesale to be negative for the year and DTC trends to be better than wholesale as we communicated last quarter. We are raising our guidance for consolidated adjusted operating margin from approximately 25% to more than 25% for the year.

We are maintaining our guidance for enterprise gross margin as well as Crocs and HEYDUDE brand gross margins to be up for the year versus 2023. We remain focused on investing behind brand accretive and strategic SG&A initiative, which we believe will drive second-half SG&A dollar growth to be above the first-half. We are raising our 2024 adjusted diluted earnings per share guidance from a range of $12.25 to $12.73 to a range of $12.45 to $12.90. Our updated full-year range balances the strength we saw on 2Q along with appropriate caution around consumer spending trend and the geopolitical landscape as well as the timing of our SG&A investments.

Consistent with our previous guidance policy, this range reflects future debt repayment, but does not assume any impact from future share repurchases. We are maintaining our expectations underlying non-GAAP effective tax rate, which approximates cash taxes paid to be approximately 18% and the GAAP effective tax rate to be 21.5%. Our annual capital expenditures are now planned between $100 million to $110 million, down from a $120 million to $130 million tied to the cash timing of select operational projects. Turning to our guidance for Q3, we expect consolidated revenues to be in the range of down 1.5% to up a 0.5% at currency rate as of June 30th, with the Crocs brand growing 3% to 5% led almost entirely by international growth.

We expect HEYDUDE revenue to be down between 14% to 16% in the quarter, showing modest sequential improvement versus Q2. Embedded in our HEYDUDE guidance is the impact of lapping significant discounting on our marketplace for most of Q3 last year as well as timing of wholesale orders. We expect SG&A spend to be up on the low-to-mid 20% range in Q3, with talent and marketing investments elevated versus the year-to-date trend. We expect adjusted operating margin to be approximately 24.5%, and adjusted diluted earnings per share to be between $2.95 and $3.10.

As we look to the fourth quarter for the HEYDUDE Brand, we expect revenue growth to be supported by, one, easing comparisons; two, the timing of wholesale shipments; three, the contribution from new retail stores; four, sell-in to new international distributors; and five, lapping last year's pricing reset on digital late in Q3. In summary, we had a record second quarter. We have clear plans to invest further in our business to fuel long-term profitable growth, and I am confident in our ability to achieve our 2024 objectives. I will now turn the call back over to Andrew for his final thoughts.

Andrew Rees -- *Chief Executive Officer and Director*

Thank you, Susan. We were pleased by the results our teams have delivered through the first half, including our ability to pay down debt and return significant capital to shareholders. We believe the strategic investments that we are making in talent and marketing will set our brands up for durable, long-term share gains. At this time, we'll open the call for questions.

Questions & Answers:

Operator

[Operator instructions] Our first question comes from Jonathan Komp of Baird. Please go ahead.

Jonathan Komp -- *Analyst*

Yes. Hi. Thank you. Good morning.

I want to ask about the second-half revenue outlook. Could you maybe talk, Andrew, about your assumptions and what you're seeing in terms of the core North America Crocs sell-throughs, and how you're expecting that to trend? And then, Susan, just to follow up on the fourth quarter HEYDUDE outlook, I know you highlighted, I think, it was four or five reasons for the inflection in year-over-year performance. Could you maybe just talk about the underlying assumptions in terms of the sell-through rates or the consumer end demand that's needed to hit the guidance in Q4 for HEYDUDE? Thank you.

Andrew Rees -- *Chief Executive Officer and Director*

Yes. Thank you, Jonathan. So look, before I start, obviously, we're really thrilled we had an exceptional Q2. And we're thrilled to announce those results today.

In terms of the back half for Crocs, we're obviously not adjusting our overall expectations for the Crocs Brand. But -- and we had an exceptional first half with the Crocs Brand. As we look at the back half, in North America, I think we're very satisfied with the share gains that we've achieved in the first half. We've grown about 6% on -- through the first half, that's against a market that is approximately flat; so substantial share gain.

In the back half, we are more cautious, right? I think we definitely see the U.S. consumer behaving cautiously. We think our brand is well-positioned relative to a cautious consumer environment. We excel at exceptional value, we give the consumer exceptional value.

But we are planning to back-half for North America, from a Crocs revenue perspective, approximately flat. And I'll let Susan talk about HEYDUDE, and I'll maybe add something at the end.

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

Yes. Hello, Jonathan. So when you think about HEYDUDE in the back half of the year, you've got to really think about Q3 and Q4 in tandem. So we expect Q3 wholesale to be down to last year and below Q2 versus last year.

And we anticipate Q4 sell-in to be up. Part of what's driving that is the fact that, last year, we had some orders that we shipped in Q3. And we deliberately did that to get them ahead of our planned ERP implementation just to avoid any potential disruption. And so, when you look at Q4 then, on is you're going to see more normalized wholesale flow between Q3 and Q4.

And there's also some other sort of non-comp compares, things like our rollout of retails stores, which are ramping up this year, our sell-in to new and international distributors, and then you're also lapping last year's pricing reset in digital which took place late in Q3.

Jonathan Komp -- *Analyst*

Got it. Thank you.

Operator

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

Adrienne Yih -- *Barclays -- Analyst*

Yes. Thank you very much, and congrats on a nice quarter. I guess my question is on the SG&A, the talent, and brand-accretive marketing. Can you give us examples of what has worked thus far in the year-to-date tie-in, where you're placing those incremental investments in the third quarter, and when you do see the type of payback, the return on that ad spend and the talent investment? Thank you very much.

Andrew Rees -- *Chief Executive Officer and Director*

Yes. Yes, Adrienne, I would say these are long-term investments we're making. Our company, as it stands today, is exceptionally profitable. Our four-year guide for EBIT is now 25.5%, this is an exceptional number.

And we've grown extremely rapidly over the last several years, both organically and across then also through the acquisition of HEYDUDE. At this time, we're making a series of investments in talent to enable us to grow in the future. Some examples around that would be enhancing our international teams for Crocs, where we're growing very rapidly in Asia and also in Europe, and investing in our marketing functions for both Crocs and HEYDUDE in terms of talent. We've historically made some meaningful investments in terms of distribution infrastructure, and we're actually seeing some nice benefits from efficiency of our distribution infrastructure.

And I think really the big one is really marketing, right? We see a consumer that's obviously, I think, somewhat cautious here in the United States. We're a little concerned about the cautiousness of the consumer in China as well. And we believe it's extremely important in these environments to engage the consumer. So we're upping our marketing investments against Crocs, but we're also meaningfully upping our marketing investment against HEYDUDE where we've obviously got new talent in place in terms of HEYDUDE leadership.

And I think we've got some really great ideas and a strong point of view about how we can bring that brand to life.

Operator

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

Jim Duffy -- *Analyst*

Thank you. Hi, Andrew. Welcome, Susan. Susan, looking forward to working with you.

With respect to the guide for the remainder of the year, the fiscal third quarter guide, I think more cautious than most had expected. Can you, Andrew, speak to what you saw across July and key considerations in your outlook for the back-to-school seasons? Then also perhaps speak to tactical strategies, product flow, and considerations as it relates to holiday?

Andrew Rees -- *Chief Executive Officer and Director*

Yes. Thanks, Jim. In terms of inter-quarter, we don't really give any perspective on that, we never have. But what I would say, the consumer is behaving cautiously.

We anticipated that, we expected that as we thought about this year. And that is definitely true. So I think it's definitely prudent to plan the rest of our year that way. And we've done that from a Crocs perspective.

And then, obviously, there's a lot going on with the HEYDUDE guide between Q3 and Q4. I think Susan thoroughly elucidated what that looks like. So it's not really inter-quarter trends that we're calling out because I'd note that we really haven't changed that full-year perspective. We expected this, and have planned accordingly.

Operator

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

Rick Patel -- *Analyst*

Thank you. Good morning and great to have you on the call, Susan. For the Crocs Brand, can you talk about how the D2C strategy on Amazon may be affecting how results are being reported as we think about wholesale versus direct-to-consumer? And just given the lumpiness of the results implied for the third quarter, can you provide additional color on what you might be seeing in terms of changes in the trend line for the wholesale channel versus three months ago?

Andrew Rees -- *Chief Executive Officer and Director*

Yes. So I think maybe I'll hit on the second bit first, right? So -- and I think there's a couple of times. But what I would say, and I'm not sure we -- in terms of lumpiness, what are you referring to, Rick?

Rick Patel -- *Analyst*

I'm just talking about the sequential slowing that's embedded in the third-quarter guidance?

Andrew Rees -- *Chief Executive Officer and Director*

Yes. So I think that's pretty simple, right? So as we think about the first half for the Crocs Brand in North America, we had 6% growth, right, against a market that was approximately flat, so significant market share gains. In the back half, we're guiding the Crocs Brand to be approximately flat, right? So that's -- I don't think that's lumpiness, but that's a distinct change in first-half to second-half, and that is due to anticipated consumer softness. So I think that's the piece.

And I think that's only prudent, right? We want to plan our business that way to ensure that we keep inventories clean and fresh in the channel. We want to make sure that we don't get over inventory and then not pouring our cash into inventory versus returning it to shareholders. So that's I think just prudent planning. And then, your first part of the question was the Amazon trajectory.

Look, I think Amazon continues to be a really important global partner. Our perspective associated with we want to be on the marketplaces where the customer shops, that is

Amazon in the U.S. and in fact, in many parts around the world. And we are shifting sometimes how we manage the marketplace in terms of 1P versus 3P.

I don't think that change in terms of where it shows up in our P&L will be phasing out as we go through the back half of this year.

Operator

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

Chris Nardone -- *Bank of America Merrill Lynch -- Analyst*

Thanks guys. Good morning. So regarding your Crocs brand international business, can you discuss where you're seeing some of the momentum and what countries are driving the biggest impact to your back-half growth expectations? Then quickly on HEYDUDE International, if you could also remind us what percentage of your business this year will come from outside of the U.S. And then, Andrew, what gives you confidence that you can avoid some of the gray market issues that impacted the brand previously with this newer international rollout? Thank you.

Andrew Rees -- *Chief Executive Officer and Director*

All right. So three questions there, right? So international for Crocs, right, so, obviously, that is a key driver of our growth, has been for the past couple of years at this point, and that's really the fundamental thing that we're doing there is penetrating underpenetrated markets, like in China, for example, like in Australia, for example, and also in parts of Western Europe. So the fundamental driver is that we've got markets around the world that are large and substantive where the brand is under penetrated and we're now able to invest talent, invest marketing and drive that penetration. The key markets that have been driving growth are China, is our number one and probably our greatest long-term potential.

And we've made substantial investments to enable that growth. Australia has been also a very strong driver of growth. We called that out a couple of times. I think in the prepared remarks, we referenced China is up 70% during the Quarter 2, which is on triple-digit growth last year.

We continue to expect strong growth in China, but we are also calling out the fact that the Chinese consumer is clearly more conservative than they have been in the past. We think our brand is well-positioned against that. In terms of other important markets, I would say some of our key Western European direct markets, the U.K., Germany, etc. have also performed well yielding strong double-digit growth.

And if you look longer term, we're also super excited about our potential in India, which we think is a rapidly emerging market. We've made -- we're making also very coherent investments in that marketplace. All right. So the other parts of your question are HEYDUDE International.

We don't break out the percentage that is HEYDUDE International in terms of percent of the business. But, I think and I've talked about it before, what I would say is our model internationally is essentially going to be mirror Crocs. So we're going to be direct where Crocs is direct and we're going to use distributors where distributors where Crocs use distributors. In terms of where we put, I would say, planted flags for HEYDUDE, right? And bear in mind, from a HEYDUDE perspective, we're starting off with brand awareness that is essentially zero in these international countries.

We've planted flags in the U.K. We've planted flags in Germany. We're planting a new flag in Australia. We think that's going to be a nice market for HEYDUDE.

So those are direct markets and that means that we're opening e-commerce, we're selling wholesale, and we're participating in the market directly leveraging our Crocs team. The second thing we've done is we've initiated new distribution agreements with a range of distributors and Susan called out part of our Q4 benefit is we'll be doing some initial shipments to a range of new international distributors, which will get up and running in 2025. Hopefully, that gives you everything you need, Chris.

Operator

The next question comes from Tom Nikic of Wedbush. Please go ahead.

Tom Nikic -- *Analyst*

Hey. Good morning, everyone. Thanks for taking my question, and Susan, welcome aboard and looking forward to working with you. I want to ask of, on the HEYDUDE side, I know, obviously, it's got a new brand President, Terence, who obviously is very familiar with the enterprise overall.

Can you just talk a little bit about, what, I guess what Terence, brings to the table for the HEYDUDE Brand, like how he can help rejuvenate and reinvigorate the brand and essentially like what part he'll play in getting HEYDUDE back to a growth trajectory. Thank you.

Andrew Rees -- *Chief Executive Officer and Director*

Great, thank you, Tom. Yes, look, we're thrilled to have Terence back. I would say it's only been 90 days at this point, so, but we're thrilled to have him back. We all loved working with him when he was here initially and we're all very, impressed by the trajectory he was able to drive at Stanley where he was for a period of time while he was not with us.

So we're thrilled to have him back. I would also emphasize, he's leading what we believe is a strong management team within our HEYDUDE business. So we think we've got all of the pieces in place. And in terms of, I think, what he's able to do, he's driving really, I think, three or four key things.

One is definitely sharpening the brand's focus on their icon, the Wendy and the Wally. So driving investment focus, energy, and innovation into the Wendy and the Wally, he is focusing our attention on North America, which is obviously the biggest market. But if we can leverage brand heat in North America around the world, it also gives us opportunities internationally. And he's really shifting the marketing energy and the focus to the female consumer.

If we can drive, we believe the younger female consumer drives youth culture. If we can engage and energize a female, younger female consumer, we know that's going to spread passion for the brand to a much broader range of consumers and drive the brand overall. And I would say lastly, we're also arming him with significant firepower, right, embedded in our guidance in the back office, an increase in our marketing investments that's substantial. So we will support Terence and the innovation he's able to bring to the HEYDUDE Brand and really be able to drive that in the future.

Operator

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

Sam Poser -- *Analyst*

Good morning. Thank you for taking my questions. I've got -- I have three that I'm going to merge into one since I asked one. Number one, Walmart, how long have you been selling to walmart.com or what's going on there? Number two, can you just talk about, promotional activities you saw in the quarter and then promotional activity you're anticipating in the back half of the year for both brands? And then lastly, how much is lapping Barbie affecting the domestic guidance in North American guidance for the Crocs brand for the back half of the year?

Andrew Rees -- *Chief Executive Officer and Director*

Got it. OK, Three questions. Sam, right? Number one, we have been present on walmart.com for several years now. And the, our philosophy is unchanged on this, which is we believe our brand, particularly the Crocs brand which is a highly democratic brand, should be represented where the consumer is shopping.

Walmart.com is the second largest marketplace in the U.S. market relative to Amazon as Flipkart is in India. So we think those are important platforms for the brand to be represented on. But obviously, the product needs to be appropriately segmented relative to the consumer that's shopping on those marketplaces.

So hopefully that kind of answers that question. In terms of promotional activity, what are you getting at there, Sam? What are you trying to elucidate?

Sam Poser -- *Analyst*

Well, I'm just asking, really it's more about the U.S. guidance. But I mean, are you seeing, you talk about a weaker consumer. So I'm wondering if you need to get, if you're anticipating needing to get more promotional or, I'm just, how you're looking at the marketplace and then how do you look toward Crocs and HEYDUDE responding to that?

Andrew Rees -- *Chief Executive Officer and Director*

Yes, I think, so what I would say is look, the market is more promotional than it was sort of last year, I would say, and certainly more promotional than it was coming out of the pandemic. I would say it's kind of returning from my perspective to what it was pre-pandemic, which is key promotional periods are super important. And the marketplace gets pretty down and dirty during those key promotional periods. As we've talked about with an accessible brand, we believe you have to participate in those promotional periods to get your fair share of consumer spending.

And we've been doing that and we'll continue to do that. I'm not sure at this point we're anticipating an increasing trajectory of promotions in the back half. That is not the reason for the difference in terms of anticipated growth rate for the first half to back half. So I think we kind of see it as status quo and we see our strategy as status quo, hope that helps.

In terms of your specific question about Barbie, look, it was a nice performing product and we really enjoyed the advent of pink being a really great color last year. And we have a lot of color in our brands, it was great. But the specific Barbie collab and comping that or not comping that is not driving any impact in our business.

Operator

The next question comes from Laura Champine of Loop. Please go ahead.

Laura Champine -- *Analyst*

Thanks for taking my question. It's really about the long-term prospects for HEYDUDE with kind of a short-term kicker of when do you think your new leadership there should be able to make a material impact in the growth trajectory of HEYDUDE, but also how has your experience with HEYDUDE over the last nine months, call it, influenced your thoughts on the long-term growth potential of the brand?

Andrew Rees -- *Chief Executive Officer and Director*

Yeah. Great question, Laura. So what I would say is we are extremely bullish against long-term perspective or projections for HEYDUDE and as bullish as we were when we bought the brand. We, obviously over the last several months it has not performed as we had hoped it would, particularly here in the U.S.

marketplace. And I think we've talked at some length about some of the things that I think we did wrong associated with that. That does not change our long-term perspective on the brand. We think the value proposition that the brand brings to the table, lightweight, comfortable, easy on and off product, that is extremely compelling from a -- to the consumer that we can make in many different colors, fabrications, flavors, etc., with a really effective consumer engagement strategy and marketing strategy, we think has a lot of potential against today's consumers.

And really everything we continue to kind of learn about the brand and the innovation we can bring in certain areas of the product line is reinforcing that. So I would also note, despite the brand not meeting our current ambitions, it's making an extremely solid contribution to our overall financial picture in terms of revenues, margin, and profitability. So but not reaching our ambition for the brand. And I think we're very confident in the team we have in place, the strategy we have in place that we will be able to reach a full ambition for the brand.

And so, I think we're -- in a nutshell, we're as confident and as enthusiastic about the brand as we were when we bought it.

Operator

The next question comes from Ashley Owens of KeyBanc Capital Markets. Please go ahead.

Ashley Owens -- *KeyBanc Capital Markets -- Analyst*

Hi. Thanks for taking the question. I just want to touch on gross margins a bit. We've seen some pretty solid expansion in both brands for the first half of the year.

Just how should we be thinking about modeling that for the balance if we're still seeing similar levels of expansion in the back half as we did in the first half? Just any puts and takes you could provide color on would be helpful. Thanks.

Andrew Rees -- *Chief Executive Officer and Director*

Yes, Susan will answer this.

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

Great. Hello, Ashley. So at the enterprise level, we expect gross margins to be up for the year-end for the second half, but not at the same rate as the first half, basically due to the harder compares. So if we kind of look at it brand by brand, for Crocs, we expect it to be up slightly year over year as we start to anniversary some bigger freight gains from last year.

And on the HEYDUDE side, we're expecting Q3 margin to fully recover when we compare it to two years ago.

Operator

The next question comes from Mitch Kummetz of Seaport. Please go ahead.

Mitch Kummetz -- *Analyst*

Yeah. Thanks for taking my question. Andrew, how is the spring '25 order book coming together and do you expect HEYDUDE North America spring orders to be up or down? And then just as a follow-up to Jonathan's question earlier, Susan, you mentioned the wholesale order shift. Can you quantify that perhaps? Thank you.

Andrew Rees -- *Chief Executive Officer and Director*

Yeah. Thanks, Mitch. I think, look, we don't comment consistently on future order books, but I would say, look we're satisfied with, obviously, as you're well aware, we're outselling spring '25 currently. I would say retailers, as you would expect, are buying somewhat cautiously given the current trajectory of the business and what they see for the remainder of the year.

That's really a domestic comment. As we look at our Crocs order book domestically and globally and the strength of our spring '25 line, we're happy with where it's at and we'll obviously get into spring '25 and we'll tell you more about that in the future. From a HEYDUDE perspective, we're excited about the line that we're bringing to the table in spring '25 and we're getting a lot of positive feedback against some of the innovation that's embedded within our product strategy and we plan to support that with really compelling marketing and drive consumer engagement.

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

And on the specifics about the orders that we shipped earlier last year in Q3, we don't break that out specifically, but that is definitely embedded in our guidance of being down 14% to 16%. And when you think about the impact that has on the year-over-year compares for Q4, that's part of what's providing that lift that the implied guidance gives you for the full year.

Operator

Our next question comes from Jay Sole of UBS. Please, go ahead.

Jay Sole -- *Analyst*

Great. Thank you. Andrew, I'm just wondering if you can elaborate a little bit on the China business. You made a few comments, but China for Crocs brand being up 70% on top of triple digit growth last year, could you talk about your progress in that market, where you're pleased, maybe where there's more opportunity and what kind of growth do you expect going forward? Thank you.

Andrew Rees -- *Chief Executive Officer and Director*

Yes, I think we talked a lot about it over the last 18 months. We're really excited by the trajectory that we're seeing in China. At the heart of it is we've driven brand relevance.

We've made the Crocs brand and particularly the clog and personalization of the clog relevant to the Chinese consumer.

We've done that mostly through, I would say, digital and social marketing. And we've really established a very strong platform in the Chinese market. That's driven strong growth across our channels, right? That's driven strong growth, very strong growth, and triple-digit growth last year, and 70% in Q2, as you highlighted in your question, across channels. So that's been both digital.

So it's Tmall, Douyin, and all the other digital platforms. It's what we book as wholesale, which is to franchise partners that then sell through mono-branded stores. So those mono-branded stores are seeing comp store gains. Those franchise partners are also opening more stores.

So that's been driving the wholesale growth. And we've had some modest incremental growth in our retail fleets, where we're focusing on both what we call energy stores in the major metropolitan areas, China, sorry, Shanghai and Beijing and a couple of other tier one cities, and also tier one outlets, which we think are also important in the Chinese market. So growth across all channels. As we look forward, while we're not quantifying future growth expectations.

Our anticipation is we will see sustained growth over multiple years in the Chinese market. We're still very much underpenetrated relative to the size of the market. And we think that growth will come across all channels, but I think the largest component of the growth will come from our wholesale sales as our partners open more stores and we drive more store penetration across the Chinese market. Our anticipation is we'll penetrate sort of tier one, tier two cities in the next two to three years.

We're not anticipating a lot of business below two-tier cities. We want to really keep the quality of our business high and focused on the higher demographic portion of the market.

Operator

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

Jim Duffy -- *Analyst*

Well, thanks for taking the follow-up. Two quick ones, if I may. With sandals and the more sneaker-like product, what are the important read-throughs on D2C adoption and how's that translating to wholesale engagement? And then secondly, on capital allocation, cash flow has always been one of the hallmarks of the model, net leverage now within your targeted range. Is there any shift in priority between reducing leverage and increasing the share buyback? Thanks.

Andrew Rees -- *Chief Executive Officer and Director*

OK, all right. So I'm going to hit sandals, and then, Susan can hit capital allocation. So from a sandal perspective, we have been happy with our sandal performance during Q2. So I think some strengthening relative to the Q1.

That's driven by that kind of fashion-oriented sandal. So we made introductions of a couple of new collections that have been performing well. The Getaway, which is a comfort fashion sandal, and the Miami, which is more of a fashion sandal, those have been performing well. And, we have been kind of chasing some inventory.

We have also driven some innovation into the Brooklyn, which has been a long-standing franchise as the wedge or elevated fashion sandal. We have introduced a couple of new models in that that have been performing well. Including a personalized sandal where the consumer can add charms to the sandal to really dress it up. So we think that that's been performing well in our penetrated markets or our key Tier 1 markets.

And, we are confident that sandals continue to drive a long-term growth trajectory for the brand. The sneaker-oriented product is really all about testing and experimentation. We did introduce the Juniper with Salehe Bembury during the quarter. We highlighted that in our prepared remarks.

It's small -- very, very small. But it's really the sort of pinnacle offering. And, we continue to experiment and test the whole range of kind of sneaker-oriented silhouettes. That's a longer-term strategy.

But, it's important that we continue to innovate in that arena. Let me hand it over to Susan for capital allocation.

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

Yes. So, Jim, you asked about debt paydown and share buyback. And the short answer is we like both. And, we are planning to do both in the back half of the year.

We are fortunate to have a business with very strong cash flow. And, we are also within our net leverage target range of 1 to 1.5 times. So that gives us the flexibility to deploy capital both ways. And in answer to your question, no change at this point to that target.

We really like where we are from a cash flow and liquidity standpoint.

Operator

Our next question is a follow-up from Baird. Please go ahead.

Jonathan Komp -- *Analyst*

Hi. Thank you. Just one more follow-up, but I wanted to ask a bigger-picture question around the philosophy for the SG&A investments. And, obviously, this year is a year in which you are planning to grow revenue 3% to 5%.

And yet, you are spending almost 20% higher SG&A for the year. So could you just maybe remind us your overall philosophy? And as we lookout, is there hope that these investments drive faster revenue growth, and any color there in terms of the overall strategy? Thanks.

Andrew Rees -- *Chief Executive Officer and Director*

Great question, Jon. So obviously, we are starting off -- I would say we are starting off from a base of extremely high profitability, right? So even this year with that distorted investment profile that you just highlighted in your question, we'll achieve kind of 25.5% in terms of EBITD margin, extraordinary level relative to our peers in the industry which we are in, and obviously, that's due to the very high gross margins we experienced on our Crocs brand and also the efficiency of our business model. In terms of philosophy going forward, I think there will be periods of time when we choose to invest in SG&A. Both variable and SG&A because of our marketing is variable and can be turned on and off at any point in time.

And where we will make investments in talent and people and infrastructure and capabilities that we think would be important for the future. The intent of those investments is to support and -- sorry, support and guarantee -- you know guarantees don't work. But, assure long-term growth. So we are trying to build in a company and a brand that has long-term growth potential and can continue to grow for many years to come.

So I would say there will be periods of time when we distort an SG&A. There were periods of time when we leverage SG&A. And, that's kind of how we think about it from a long-term philosophy perspective.

Jonathan Komp -- *Analyst*

OK.

Operator

That concludes our question-and-answer session.

Andrew Rees -- *Chief Executive Officer and Director*

Look, I just want to say thank you.

Operator

I would like to turn the conference back over.

Andrew Rees -- *Chief Executive Officer and Director*

OK. Sorry, jumped the gun a little bit there. Thanks, everybody for thoughtful questions. And, thank you, everybody, for joining us today and their interest in our company.

So I really appreciate it.

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*

Jonathan Komp -- *Analyst*

Jon Komp -- *Analyst*

Adrienne Yih -- *Barclays -- Analyst*

Jim Duffy -- *Analyst*

Rick Patel -- *Analyst*

Chris Nardone -- *Bank of America Merrill Lynch -- Analyst*

Tom Nikic -- *Analyst*

Sam Poser -- *Analyst*

Laura Champine -- *Analyst*

Ashley Owens -- *KeyBanc Capital Markets -- Analyst*

Mitch Kummetz -- *Analyst*

Jay Sole -- *Analyst*

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