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Crocs (CROX) Q1 2024 Earnings Call Transcript

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CROX earnings call for the period ending March 31, 2024.

Crocs (CROX -0.91%)
Q1 2024 Earnings Call
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Contents:

Prepared Remarks:

Operator

Good day, and welcome to the Crocs Inc. first quarter earnings Call. [Operator instructions] Please note this event is being recorded. I would now like to turn the conference over to Erinn Murphy, vice president of investor relations and 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. first quarter results. With me today are Andrew Rees, chief executive officer; and Anne Mehlman, executive vice president, Croc's Brand president and 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 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, as 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 -- *Director and Chief Executive Officer*

Thank you, Erinn, and good morning, everyone. Thank you for joining us today. We reported very strong first quarter results, which well exceeded our guidance on both the top and bottom line. Revenue grew by 7% to prior year for the enterprise, led by outsized Crocs brand growth of 16% and HEYDUDE brand also performed ahead of guidance.

Adjusted gross margins of 56% improved 180 basis points versus prior year, and we grew our adjusted earnings per share by 16% and to $3.02. Our growth strategy remains consistent, and we are focused on three primary initiatives from an enterprise perspective to fuel durable and consistent growth. One, ignite our icons across both brands to drive awareness and global relevance for new and existing consumer. 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. Before I discuss more detail on the quarter, I want to start by saying how pleased I am to announce the hiring of Susan Healy as executive vice president and chief financial officer. Susan is a seasoned financial professional and a Wall Street veteran with broad exposure to the consumer sector, including Ulta Beauty, where we served as the SVP of Finance for five years. Most recently, Susan served as a public company CFO for IAA, a global marketplace for automotive buyers and sellers.

We have a deep finance bench, and I'm excited about Susan's leadership and expertise. I look forward to working with her and for the investment community to get to know her in coming months. Starting with the Crocs brand, our socially led digital-first marketing playbook continues to win with consumers across the world. And the first quarter was no exception.

In the U.S., we ranked in the top 10 footwear brand in the Piper Sandler taking stock with Team Spring Survey, taking the number seven spot and maintaining our mind share year over year. This marks over four years of being a top 10 brand for the U.S. teen consumer. The democratic nature of our brand allows us to create a broad array of consumer moments that drive brand affinity and engagement through our partnership model.

During the quarter, our successful range from Toy Story and Hello Kitty to Clog, a Chinese streetwear brand. Our Toy Story Collection was one of the most successful licensing partnerships to date with global offering available across select wholesale partners and our own DTC. In addition, we launched our second collaboration with Simone Rocha, a luxury brand. Our 7-Style collection was priced between $175 and $225.

It launched in 20 markets and sold out globally almost immediately. As we think about product, we continue to prioritize our three pillars: clogs, sandals and personalization. Growth in our first quarter was led by our classic clogs and we are seeing both new and existing consumers come to the brand through our icons. Our kids business was another highlight with double-digit growth in the quarter.

We continue to create multi-product franchises that broaden usage occasions for the consumer. Building on the success of our Echo Franchise, we launched the Echo Storm, a fully molded sneaker. This launch in our DTC channel as well as Foot Locker and JD Sports during the quarter and performed well. In fact, 59% of our Echo Storm purchases and our own dot-com with new consumers.

Just in time for NBA All Star weekend, we further expanded visibility of our Echo Franchise through the Crocs NBA slide and players like Nikola Jokic to Steph Curry were spotted wearing them. During the first quarter, we rolled out two new sandal franchises, the 2.0 Version of our Classic Slide and Two Trap and the Getaway. The Getaway leverages our newest proprietary material known as free-fill technology. Within this franchise, we have seen positive momentum with the strappy and the flip styles and have found that these resonate with a broad consumer segment.

For the year, we continue to expect sandals to grow in excess of our overall growth and increase in penetration. Our personalization vehicle Jibbitz grew double digits in the quarter, led by growth in Asia. We continue to see ample white space for personalization and our strategy is focused around three pillars: number one, driving higher penetration within digital and wholesale, two, continuing to create product freshness through our elevated Jibbitz, including metallic, texture and shimmery; and three, speed to market. Moving on to distribution strategy.

We are pleased by the broad-based strength across geography and particularly in several of our Tier 1 markets. The North American market was well ahead of expectations and took meaningful market share during the quarter. North America revenues grew 9% versus the prior year, supported by underlying strength in wholesale sellout and better-than-expected trends in our DTC channels. International grew 24% versus prior year.

And once again, we saw triple-digit growth in China and Australia. Our direct markets in Western Europe grew double digits, led by growth in the U.K., France and Germany. We continue to have significant opportunity in China, and we remain bullish on our long-term growth prospects. During the quarter, we won our First-ever Super Brand Day on Tmall and announced our two new brand ambassador for 2024, Liu Yuxin and Junkai Wang.

Liu Yuxin announcement came ahead of International Women's Day and featured a classic Geo Clog. This campaign drove substantial reach and continue to create buzz with the domain community. Junkai Wang played into our Clog relevance with a robust campaign on Super brand A, generating one million views during a one-hour live stream and drove Crocs to the number one spot within the women's footwear category on Tmall. Our corporate responsibility efforts continue to progress.

We are expanding our Old Crocs New Life consumer Takeback program to all Crocs stores in the U.S. This fall, we're furthering our circularity commitment by repurposing materials from well-loved Crocs in the form of a new limited edition Classic Clog. As it relates to the HEYDUDE brand, our focus for 2024 is on solidifying the business and establishing the Wally and Wendy as iconic franchises for the consumer. We have worked to maintain price integrity on digital, improved channel inventories and create more segmentation across wholesale partners. Our overall first quarter performance largely played out as we expected.

We strengthened March, driving slight upside to our guided revenue range. That said, performance around Easter and into April has fallen short of expectations with sellout rates softening in wholesale. Based on the visibility, we have quarter to date and given the choppy retail environment, we're taking a more prudent approach around trends for the balance of the year. As we have discussed, our focus is on making sure we end the year with sell-in and sellout trends converging, and we have better segmented inventory in the channel.

Before I discuss a few Q1 highlights, I'd like to touch on our recent leadership announcement. Several weeks ago, we announced a new brand president for HEYDUDE, who we see as a strong leader for the next phase of growth for the brand. We are thrilled to be welcoming back Terence Reilly to our Crocs Inc. family.

Terence started last week and brings with him a best-in-class reputation from brands, including Stanley and Crocs. In addition to providing global leadership perspectives, he has a proven-track record of creating and executing ground building playbooks by leveraging iconic products, driving brand relevance and ultimately building communities. Now turning to Q1 highlights. HEYDUDE was the number eight preferred footwear brand in the Piper Sandler, Taking Stock with Teen Survey this spring, consistent with this rank last year.

From a product perspective, we continue to establish our Wendy and Wally icons through color, graphic, height, which proved successful during the quarter. In Q1, we expanded our collegiate program to five additional schools just in time for March Madness. We also launched the Big Lebowski, an online exclusive, the unique collaboration so in process sellout with 80% of consumers need to brand. Our sneaker franchise gained a new addition with the Hudson for Him and Hudson Lift for Her.

We chose to introduce the new silhouettes in our own DTC channels and with an exclusive wholesale partner. We saw the Hudson Lift quickly become a hit for our younger female consumers who continue to choose height while maintaining a brand promise of lightweight comfort. From a distribution perspective, we opened six new outlet locations with the HEYDUDE brand. Overall performance is in line with our expectations, and we plan to open it approximately at 30 outlets this year.

On the wholesale side, we're pleased with the work we have done to clean up our account base. Our go-forward focus is around improved customer segmentation. Finally, we have introduced a brand to the U.K. and Germany, supported by dedicated digital sites as well as placement with key wholesale partners in both markets during Q1.

These launches were supported by key influencer and media events. While we're starting to see the awareness of the brand internationally, our priority in 2024 is around improving the long-term health of the North American market, as we build our core offering and drive heat for the brand. We have laid plans to continue to invest behind marketing, talent, digital and retail to further support our market share opportunity. While our near-term plans for HEYDUDE are taking longer to play out, our record Q1's performance led by Crocs, showcases, the diversification of our portfolio and enabled us to raise our earnings per share outlook for the year.

We will continue to make offensive investments fueled by strong gross margins to set ourselves up for long-term growth and durable market share gains. I will now turn the call over to Anne to walk through our financials for the quarter.

Anne Mehlman -- *Executive Vice President, Chief Financial Officer*

Thank you, Andrew, and good morning, everyone. I am extremely pleased with our first quarter results, which exceeded the high-end guidance across all metrics. We generated $939 million in consolidated revenues growing almost 7% over last year, led by the Crocs brand. For the quarter, adjusted gross margin gained 180 basis points to 56% and adjusted operating margin was 27.1%.

Adjusted earnings per share of $3.02 came in well ahead of our guidance of $2.15 to $2.25. For the Crocs brand, revenues were $744 million, growing 16% relative to prior year, driven by DTC growth of 19% and a wholesale growth of 14%. Brand ASPs were up 11% to $23.36. The brand sold 32 million pairs of shoes, an increase of 3% versus last year. By geography, North America revenues were ahead of our expectations and gained market share, growing 9% versus the prior year to $383 million.

Growth was led by DTC at 13% and wholesale was up 5%, driven by strong double-digit growth in brick-and-mortar. During the quarter, our North American wholesale partners opted to take product earlier than we had previously anticipated based on the strong solid performance of the Crocs brand. International revenues of about $361 million were up 24% from 2023, led by DTC growth of 37% and wholesale growth of 20%. As Andrew noted, Australia and China grew triple digits again this quarter.

We saw strong double-digit growth in our direct markets in Western Europe with growth led by the U.K., France and Germany. Turning to HEYDUDE. Revenues were $195 million, ahead of our guidance but down 17% from last year. The brand sold seven million pairs of shoes, a decrease of 21% from last year, as we last pipeline fill and focused on improving our full price selling.

HEYDUDE average selling price was $27.68, up 5% from last year. Relative to Q4, our Q1 marketplace ASPs were up 10%, a continued tailwind from reduced price matching online. Wholesale revenues were down 20% from last year as we focused on continued inventory management in the channel. The DTC channel was down 11% as a result of prioritizing brand health through higher ASPs.

Consolidated adjusted gross margin for the first quarter was 56%, up 180 basis points from last year. Crocs brand adjusted gross margin was 58.1% or 180 basis points higher than prior year. During the quarter, the primary drivers of margin expansion were lower inbound freight and favorable product costs coupled with select price increases internationally and lower discounting. HEYDUDE brand adjusted gross margin came in at 47.8%, in line with our expectations but 180 basis points below prior year, driven by investment in distribution and logistics partially offset by reduced rates.

Our first quarter adjusted SG&A dollars increased 16% to prior year. Our SG&A rate was 28.8% and up 250 basis points compared to prior year, driven by continued investment in talent, marketing and DTC to support long-term market share gains. Our first quarter adjusted operating margin declined 80 basis points to 27.1% compared to 27.9% for the same period last year, but was favorable to our expectations on higher gross margins and favorable revenue, leveraging our cost base. First quarter adjusted diluted earnings per share increased 16% to $3.02 and our non-GAAP tax rate was 17.2%.

We ended the quarter with clean inventory on our balance sheet and in our channel. Our inventory balance on March 31, 2024, was $392 million, a decline of 18% against this time last year. We are pleased that both brands achieved inventory turns at our goal of four times. Our liquidity position remains strong, comprised of $159 million of cash and cash equivalents and $484 million of borrowing capacity on our revolver.

As a reminder, Q1 is a high net working capital quarter, and we typically limit buyback and debt paydown activity. As a result, we ended the quarter with total borrowings of $1.7 billion and remain with our net leverage target of one to one and a half times. In 2024, we intend to buy back stock and pay down debt, enabled by our best-in-class cash flow generation. Now turning to guidance.

For Q2, we expect consolidated revenues to be up 1% to 3% at currency rates as of March 31, with the Crocs brand growing 7% to 9%, but almost entirely by international growth. As I mentioned earlier, several of our North American wholesale partners opted to take product earlier in Q1. We expect HEYDUDE revenue to be down between 19% to 17%, extrapolating the trends we are seeing quarter to date. We expect adjusted operating margin to be approximately 26.5% and adjusted diluted earnings per share of $3.40 to $3.55.

For the full year 2024, we are raising our underlying earnings per share outlook supported by the strength in Q1. We are maintaining our revenue outlook of growth between 3% and 5%, assuming quarter-end currency rates. For the Crocs brand, we now expect revenues to grow between 7% and 9% from our prior expectation of 4% to 6% and with growth continuing to be led by international. For HEYDUDE, we expect revenues to contract down 10% to down 8%, below our former expectation of flat to slightly up.

We expect HEYDUDE sales trends to improve each quarter and expect the sell-in and sell-through dynamic to normalize into Q4. As we discussed in our Q4 call, we expect wholesale to be negative for the year and DTC trends to be better than wholesale. As it relates to retail, we plan to open approximately 30 stores in 2024, six of which were opened during Q1. We expect gross margin to be up for 2024 versus 2023 at the enterprise level.

Based on the strength in Q1, we now expect Crocs brand gross margin to be up for the year and continue to expect HEYDUDE gross margin to be up for the year. We plan to invest into brand accretive and strategic SG&A initiatives, resulting in consolidated adjusted operating margins for the year of approximately 25%. For full year 2024, we still expect our underlying non-GAAP tax rate, which approximates cash taxes paid to be approximately 18% and GAAP tax rate to be 21.5%. We are raising our non-GAAP diluted earnings per share to a range of $12.25 to $12.73 in 2024 from $12.05 to $12.50 previously.

This range incorporates future debt repayment, but does not assume any impact from future share repurchases. Our annual capital expenditure guidance of $120 million to $130 million remains unchanged, and we continue to expect exceptional cash flow generation. At this time, I'll turn the call back over to Andrew for his final thoughts.

Andrew Rees -- *Director and Chief Executive Officer*

Thank you, Anne. We are pleased with our strong first quarter results and believe that our brands and strategies can and will continue to win. With the investments we have made in talent and marketing, I'm confident in driving long-term market share gains. At this time, we'll open the call for questions.

Questions & Answers:

Operator

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

Jon Komp -- *Robert W. Baird and Company -- Analyst*

Yeah. Hi. Good morning. Thank you.

I'll just ask maybe a two-part question. Andrew, if you could talk a little bit more about HEYDUDE, if you've been able to isolate some of the recent softness, maybe what's related to the environment or background versus anything new brand specific? And how should we think about D2C trending within the new guidance for HEYDUDE here? And then just separately, Crocs North America, could you comment on what you're seeing in the D2C performance and how you're feeling about the pipeline looking forward there? Thanks.

Andrew Rees -- *Director and Chief Executive Officer*

Great. Thank you, Jonathan. So yeah, I think what I'd say on HEYDUDE is we had really -- we had a good Q1. We came in slightly ahead of our expectations and the guidance we provided.

It was solid. But what we've seen from Easter into April is really a softening of our wholesale sellout, which has made us nervous. I think part of that is maybe lack of promotion. We tried to be less promotional during the Easter period than we were the prior Easter.

Easter early is also always tough, so I think we might have made some missteps relative to what we were going to do relative to the market. But we can see continued softness, and we are concerned about the robustness of the consumer market. So as we've talked about our goal for 2024 for HEYDUDE wholesale is to get sell-in and sell-out and balance to get our inventories down in the channel and make sure that we're driving a really healthy business for our wholesale partners. So I think at this point, it's prudent to take down our expectations and manage the business accordingly.

I'll let Anne hit on the DTC trends.

Anne Mehlman -- *Executive Vice President, Chief Financial Officer*

Yeah. And Jonathan, just to answer your specific question around retail contribution for HEYDUDE. So as we think about just the HEYDUDE guidance, just to give you a little bit more flavor there, so the building blocks for the year, right, we're opening approximately 30 stores, and we expect that revenue contribution to build throughout the year. And then obviously, that's supported by a strong pipeline of new products and new product introduction.

But at the highest level, we still expect wholesale to be down for the year but -- and DTC to perform better than wholesale. And then when you kind of think through that and Q4 will be the strongest in terms of revenue growth because of that retail contribution. We will also lap easier wholesale comparisons, and then we will realize some selling ahead of select international markets. So just as you're thinking through your HEYDUDE kind of revenue trend for the year.

And then on the Crocs side for DTC, we saw 13% growth from a DTC perspective in Q1, which in North America, which was definitely better than our expectations. That was really supported by really good product and continued pipeline of that. I feel great about the pipeline for product kind of coming out of Q1. We do expect Q2 to be more muted for North America growth as Q1 was supported by the Easter shift Andrew talked about as well as leap year, so we had an extra day there.

Jon Komp -- *Robert W. Baird and Company -- Analyst*

Great. And best of luck Anne in the new role.

Anne Mehlman -- *Executive Vice President, Chief Financial Officer*

Thanks Jon.

Operator

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

Adrienne Yih -- *Barclays -- Analyst*

Good morning, and congratulations on a nice start to the year. I guess my first question is on the forward order book. You talked about seeing sort of earlier deliveries or earlier shipments, that's typically a channel that's improving on visibility. And I get that it shifts from one place to the other.

But generally speaking, is the quality of the conversation and everything that you're hearing about fall and beyond sort of starting to get more optimistic? And then my second follow-up is, I can't believe I'm asking this. But your inventory is down 18%, very, very clean. What would need to happen sort of as you're looking at the channel and I know there's a lot of consumer uncertainty for you to start kind of working that down 18% back to maybe a more normalized level or is it at a normalized level? Thank you.

Andrew Rees -- *Director and Chief Executive Officer*

Great. Thank you, Adrienne. So what do I say for -- I think you're trying to get at, what is the reason for the pull forward and how are our customers or how our big retailers are feeling about the back end of the year. I think really, I probably answer that in two pieces.

I think the reason for the pull forward was they were seeing strong sell-through on the Crocs product. They're not seeing strong sell-through on all of their brands. So they wanted more product earlier. I think they have probably underestimated kind of the Easter shift, and we're trying to pull stuff in earlier.

So I think it's a closer in assessment of the market than then kind of saying that we're off to the braces, and this is going to be a strong market for the rest of the year. I think it's really a sort of quarter-to-quarter adjustment. What I would say is from a -- we feel great about our order books, our order books are definitely solid for both brands, and they support the underlying guidance that we provided. But I would not say that channel is super buoyant about the back end of the year yet.

I think we're looking for more definitive signals.

Anne Mehlman -- *Executive Vice President, Chief Financial Officer*

Yeah, and then the inventory question and welcome, by the way. But the inventory question is really related to -- so the 18% down. We feel really good about inventory. We think that's the right level because we're at kind of four times turns for both brands, which is where we target inventory turns.

For the rest of the year, I don't expect it to be down 18%. Q1 last year, we were still cleaning up some of our inventories on the HEYDUDE side. And then even on the Crocs side, we were still kind of just starting to see transit times return to normal. So I actually expect that to be much flatter year over year.

in Q2 and then moving throughout the year. So the best way to kind of look at it for us is to model about four times turns.

Adrienne Yih -- *Barclays -- Analyst*

Perfect. OK, thanks very much. Best of luck.

Anne Mehlman -- *Executive Vice President, Chief Financial Officer*

Thank you.

Operator

Next question comes from Jim Duffy with Stifel. Please go ahead.

Jim Duffy -- *Stifel Financial Corp. -- Analyst*

Good morning. Thanks for taking my question. I have a question on Crocs and then one on HEYDUDE margins. Starting on the Crocs brand, can you speak to the regions responsible for the more optimistic view on brand revenue and the factors behind the changes in Crocs margin assumptions?

Anne Mehlman -- *Executive Vice President, Chief Financial Officer*

Yes. Hi, Jim. So on the Crocs revenue assumptions, obviously, as we move through, we had a better Q1 than anticipated really on the North America side. And then as we get into Q2, we definitely have pretty good visibility into order books, and we can also see DTC trends.

So I would say -- I think the other thing is we're really seeing our international markets do very well, as we talked about China, Australia, but also some strength in Europe, so that gives us confidence, and that's really what led to the revenue raise. On the gross margin side, we saw a couple of things. One, we saw some better full price selling in which supports that overall gross margin. We also have seen a little bit of input cost pressure relief on the Crocs side.

And so we've seen our costs as we negotiate those kind of in the first quarter come down. And so we've taken those assumptions for the remainder of the year as we kind of look through that. So those are really supporting the higher gross margin assumptions on the Crocs side.

Jim Duffy -- *Stifel Financial Corp. -- Analyst*

Got it. Thank you, Anne. And can you speak to the HEYDUDE margin revenue for 2024. Does the lower revenue come with incremental margin pressure? Or is there some place where you have savings as an offset? And then, Anne, the GAAP charges for the HEYDUDE ERP implementation is new.

Can you talk about that effort, the timing, the rationale and so forth?

Anne Mehlman -- *Executive Vice President, Chief Financial Officer*

Sure.

Andrew Rees -- *Director and Chief Executive Officer*

Yeah. So from a margin -- we're not anticipating incremental margin pressure from the lower revenue, some of the revenue reduction for HEYDUDE. I think we -- the margin is sort of playing out our pricing, promotional strategy, our channel mix is playing out pretty much where we thought it would be. And obviously, the reduction is really coming from wholesale revenues and so as our DTC revenues are obviously higher margin than wholesale revenues, we don't see a margin reduction.

We think our margin guide is good for HEYDUDE, and I'll let Anne talk about the ERP.

Anne Mehlman -- *Executive Vice President, Chief Financial Officer*

Yes. And one thing supporting those gross margins that kind of I'll talk about that relates to the ERP is actually, we've implemented that -- or we've taken live the new HEYDUDE Las Vegas warehouse, which is shipping our distribution center. And so that, obviously, throughout the year, will support us being more efficient on the HEYDUDE side for storage and things like that. From that is also related to -- we implemented that new DC, and we also implemented technology for HEYDUDE.

And so we took an impairment on the other piece related to that technology implementation. As we are now live on technology for HEYDUDE. So really excited about that.

Jim Duffy -- *Stifel Financial Corp. -- Analyst*

OK. Thank you, guys.

Anne Mehlman -- *Executive Vice President, Chief Financial Officer*

Thank you.

Operator

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

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

Thank you, guys. Good morning. For HEYDUDE, do you mind just clarifying if your 2Q guidance reflects the trend you're seeing quarter to date? Or if there's an improvement embedded in the guidance? Then as a follow-up longer term, I recognize Terence just took over the president's role last week. But do you envision major strategic shifts in how you'll run the brand? And if so, can you elaborate on maybe some of his early plans? Thank you.

Anne Mehlman -- *Executive Vice President, Chief Financial Officer*

Yeah, so let me talk through HEYDUDE guidance and then I'll -- Andrew will talk through the other piece. So on HEYDUDE guidance, it reflects the current trends that we are seeing. So we are not anticipating an improvement for Q2 at this time.

Andrew Rees -- *Director and Chief Executive Officer*

Great. Thank you, Anne. So Terence has obviously been on board essentially a week and a half at this point. So I think it's not fair to him to have articulated a new strategy.

But I would say we do not anticipate dramatic strategy shifts. I think as we've been working together on kind of the key pillars within this strategy, we're very much aligned that it's going to be really about the Wally and Wendy our iconic franchise. We think that franchise is incredibly relevant to a broad base of consumers. And really, what we need to do is a better job around engaging the consumer and making the HEYDUDE brand and that franchise, those iconic franchises more relevant for more consumers.

And I think that's the same strategy we put in place for Crocs a number of years ago where we wanted to make the classic relevant for more consumers around the world, which is what we've done. So we don't see a major strategy shift from a product perspective, from a marketing perspective or from a distribution channel perspective.

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

OK. Got it. And then just as a quick follow-up. Can you just talk about your confidence in the gray market issues on Amazon abating by midyear, which was your prior message? Any change to that?

Andrew Rees -- *Director and Chief Executive Officer*

So we're still seeing a headwind from gray market for HEYDUDE on Amazon. We anticipate that will continue through the first half of the year and that headwind is embedded in the guidance that we provided.

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

OK, thank you.

Operator

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

Laura Champine -- *Loop Capital Markets -- Analyst*

Hi. I'd like to drill down into what's happening with the HEYDUDE Direct business. I mean I think you mentioned a shift to more full price selling. I'm wondering what happened with units in that business? And I'm also wondering how long you would expect that business to be pressured by a shift in your ASP goals?

Andrew Rees -- *Director and Chief Executive Officer*

Yeah, so you're essentially right, Laura. So as we've raised prices in our HEYDUDE Direct business, which is mostly on Amazon, where we're a 3P seller for HEYDUDE. We have seen a drop in units. We expected that.

And I think net-net, that's been productive for the brand and productive for our margin ends, but we have seen a drop in unit sales. I would say, as we're introducing new products and our marketing is kicking in for HEYDUDE, there's some evidence that that will mitigate over time.

Laura Champine -- *Loop Capital Markets -- Analyst*

Got it. And is over time -- I mean, is an improvement in the direct business implied in your full year guidance for HEYDUDE or not?

Anne Mehlman -- *Executive Vice President, Chief Financial Officer*

So I would say what we have said is that our full year guidance that our direct business, which includes our Marketplace business, our own dot-com as well as our retail business will outperform our wholesale business this year. And so that's included in our full year guidance.

Laura Champine -- *Loop Capital Markets -- Analyst*

Got it. Thank you.

Andrew Rees -- *Director and Chief Executive Officer*

Thanks, Laura.

Operator

Next question comes from Rick Patel with Raymond James. Please go ahead.

Rick Patel -- *Raymond James -- Analyst*

Thank you. Good morning, everyone. Guidance for operating margins was maintained at 25% for the year despite plans for the first half to shake out a little bit ahead of that. Can you just provide color on what you think could weigh on margins as we think about the back half in terms of perhaps the timing of investments or SG&A deleverage just given your updated sales guidance for the next few quarters?

Anne Mehlman -- *Executive Vice President, Chief Financial Officer*

Yeah. I think I'm really pleased with our operating margins. Obviously, they well outperformed in Q1. So we're maintaining approximately 25%, but obviously, that implies a little bit higher approximately 25% if you look at our EPS guidance.

I feel very good about the factors there, which are really supported by high gross margins allows us to invest in our business. We're anticipating quite a bit of investment. So I feel very confident in that approximately 25% operating margin.

Rick Patel -- *Raymond James -- Analyst*

And can you also talk about what's implied in guidance for the Crocs brand as we think about ASPs versus units going forward? I'm just curious how we should extrapolate the very strong performance in 1Q.

Anne Mehlman -- *Executive Vice President, Chief Financial Officer*

Yeah, thank you. I think from a Crocs brand perspective, obviously, we don't guide based on that. We saw nice unit and ASP growth in Q1. We don't have any more planned price increases currently for this year.

We had a little bit of international price increases flowing through in Q1 and which will flow through to Q2 that should actually abate a little bit in Q3 and Q4. So I think I feel confident in the guidance that we provided. That's kind of all the color where we need to give at this point.

Rick Patel -- *Raymond James -- Analyst*

Thanks very much.

Andrew Rees -- *Director and Chief Executive Officer*

Thank you.

Operator

And the next question comes from Jim Chartier with Monness, Crespi, Hardt. Please go ahead.

Jim Chartier -- *Monness, Crespi, Hardt, and Company -- Analyst*

Hi. Good morning. I was wondering if you could talk about HEYDUDE performance on your own e-commerce site versus the marketplace business, if there's any meaningful difference between the two? And if so, what drove the divergence?

Andrew Rees -- *Director and Chief Executive Officer*

Yeah. We don't obviously give -- we obviously don't break that out. But just a little bit of color, we're happy to provide. Because we're able to introduce a lot of new products more quickly and our own dot-com we give you some limited drops on our own dot-com.

I think we had corona running last week, which was a collaboration that we did for HEYDUDE. We did the Lebowski earlier, and we've also had some new product introductions and testing that we do pull forward styles that we think is going to be exciting to the continue and contest in that environment for releasing them more broadly. Yeah, our own dot-com has been performing better than the marketplace, and we anticipate that trend will continue.

Jim Chartier -- *Monness, Crespi, Hardt, and Company -- Analyst*

Great. Thanks. And then Anne, I think you mentioned for fourth quarter could benefit for HEYDUDE from sell-in ahead of some international markets. Are those just the U.K.

and Germany or are there additional markets that you're planning for next year?

Anne Mehlman -- *Executive Vice President, Chief Financial Officer*

Yeah, that's a great question. So we do have some select distributors that we sell to and that we will be selling to. So the U.K. and Germany are direct, more direct markets for us.

So it's really -- that's really a comment around the distributor revenue for HEYDUDE.

Jim Chartier -- *Monness, Crespi, Hardt, and Company -- Analyst*

Got it. Great. Thank you.

Anne Mehlman -- *Executive Vice President, Chief Financial Officer*

Thank you.

Operator

And the next question comes from Mitch Kummetz with Seaport Research. Please go ahead.

Mitch Kummetz -- *Seaport Research Partners -- Analyst*

Hi. Thanks for taking my question. On HEYDUDE, the change in the outlook there, is it fair to say that you've taken expectations down for both DTC and wholesale, but more so on the wholesale side?

Anne Mehlman -- *Executive Vice President, Chief Financial Officer*

Hi, Mithc. Yeah, I think wholesale definitely, that's been kind of the biggest gap with where we've seen our expectations originally versus the performance in March and April. I will say for Q3, we also -- HEYDUDE overall revenue is planned to be down year over year, which is a big change driven largely by negative wholesale. We do expect it to be sequentially better than Q2, but we do expect that kind of negative wholesale in Q3.

So I think that's a fair assumption.

Mitch Kummetz -- *Seaport Research Partners -- Analyst*

That's helpful, Anne. And then as far as the back half goes for HEYDUDE, I think the revised guide does assume kind of flattish sales, which would be a pretty big step up from the first half. Does that reflect better sellout rates in wholesale? Or is that primarily just DTC kicking in with the outlet stores, maybe some sell-in the fourth quarter for spring? Can you maybe just kind of walk through that, the assumptions around that?

Anne Mehlman -- *Executive Vice President, Chief Financial Officer*

Yeah, absolutely. I think there's kind of three things really driving that. We lack easier wholesale comparisons in the back half from a sell-in perspective. The contribution from retail really builds and then the third piece, as I just mentioned to Jim, starting to realize sell in ahead of select international market launches.

Those are international distributors that take place in Q4. So those are the three big pieces that really drive that change. If you look at it, I need to say this, but if you look at it on a two-year basis, just because we had a little bit of lumpiness the year before, you can see that it's a little bit smoother than what it looks like on a year-over-year basis.

Mitch Kummetz -- *Seaport Research Partners -- Analyst*

OK. Thanks, again, and good luck.

Anne Mehlman -- *Executive Vice President, Chief Financial Officer*

Thank you.

Operator

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

Sam Poser -- *Williams Trading -- Analyst*

Good morning, everybody. Thank you guys for taking my question. Andrew, I've got a question. You said in regard to the change in the guidance on HEYDUDE that you were concerned about the robustness of the consumer.

Can you discuss that on how that relates to both HEYDUDE and to Crocs?

Andrew Rees -- *Director and Chief Executive Officer*

Yeah. Yes, I mean if we look at -- so what I'm referring to there is if you look at kind of industry data, so the market data for the footwear market, it is clearly down I would say, mid- to high double -- single digits in the first quarter of the year, and we see that continuing week-on-week, right? So there are some brands that are doing better than the market. Crocs is one of them. There are others that are also well, well-known that it's doing substantially better than market.

At this point, HEYDUDE is not doing better than the market, right? So they are definitely on different trajectories relative to the underlying market. I think the underlying market is a reflection of the consumer is spending less money on footwear.

Sam Poser -- *Williams Trading -- Analyst*

But they're spending more money on the stuff they really like. So wouldn't -- I mean I guess the question is, what do you guys need to do to, I guess, what was different than what you anticipated with the HEYDUDE brand? And then what do you -- rather than have it be just the market as you've done lots of good collabs and things like that that have performed well, both with Crocs and with HEYDUDE, what do you guys have to do that can overcome that because you're overcoming that weak consumer with the Crocs brand, but you're not overcoming the weak consumer with the HEYDUDE brand?

Andrew Rees -- *Director and Chief Executive Officer*

Exactly. So product and marketing, right? So we are optimistic about our pipeline of new product introductions for HEYDUDE, but some of them are unproven at this stage.

And most of the new products is really Wally and Wendy, but we are new derivatives of. But I think in the Crocs, there will be improved marketing.

And so driving brand relevance and making the HEYDUDE brand relevant to more consumers.

Sam Poser -- *Williams Trading -- Analyst*

Thank you very much.

Andrew Rees -- *Director and Chief Executive Officer*

OK, thank you.

Operator

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

Tom Nikic -- *Wedbush Securities -- Analyst*

Hi, everyone. Thanks for taking my question. I wanted to ask about the outlet flows that you're opening. How are those stores being sorted? Is it mostly clearance and liquidation product? Is it specially made for the channel? Is the product being sold there? Any different than what you're selling in the wholesale channel? Just I just kind of love to hear what -- how you're thinking about merchandising in the outlet?

Andrew Rees -- *Director and Chief Executive Officer*

Yeah. Great. Good question, Tom. So as we talked about, we've got 11 outlet stores opened at this point or through the end of March, six that we opened in the first quarter, five that we opened last year.

The stores, the format is pretty consistent with kind of a lot of other footwear brands, I would say. The front of the store is essentially full-size runs. So the consumer actually can drive consumer satisfaction, they can definitely find a product that they want and in their size. Those full size ones will be a combination of newer products, sometimes even current product and also some slightly older products that we happen to have in the quality assortment of.

And then in the back of the store is a essentially clearance product. And so it provides two vehicles for us. It provides one vehicle to educate the consumer about the HEYDUDE brand, allow them to find a product that they can buy and take away and enjoy and hopefully become a HEYDUDE brand fan. And then the back of the story allows us to liquidate old product at much higher prices that we'll be able to liquidate elsewhere and give the consumer incredible value in the back of the store.

So I would say we're really happy with the way the store is working, and we've opened in a combination of markets. We've opened the markets that I would describe as sort of HEYDUDE heartland. We've also opened in markets that are a little bit more nascent for HEYDUDE. So we're using the stores to introduce new customers to the brand, and we're kind of happy that both are working.

Tom Nikic -- *Wedbush Securities -- Analyst*

Thanks very much and best of luck for the rest of the year.

Andrew Rees -- *Director and Chief Executive Officer*

Thank you.

Operator

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

Jay Sole -- *UBS -- Analyst*

Great. Thank you so much. Andrew, I'm hoping -- can you elaborate a little bit on the performance of Crocs in China because triple digit growth is really strong. If I'm correct, I believe it's kind of low seasonality quarter, in China.

So was there anything maybe related to timing or something that could have boosted that number? And then how are you thinking about spring? Do you think you can maintain really strong growth through the peak spring and summer seasons. And if you can tell us about that that would be super helpful. Thank you.

Andrew Rees -- *Director and Chief Executive Officer*

Yeah, that's a great question. Yes, the first quarter is not our sort this quarter in China. You're exactly right. It's a sort of counter seasonal quarter.

It does build through the quarter. I think the one thing that is different this year, that we did call out in our prepared remarks is we did win a Super Brand Day on Tmall. For those of you not familiar, that's a process you go through to bid on that and to get selected. We were selected because of our brand heat, we were able to showcase the brand and really -- so that was a non-comp event and a substantial non-comp event in Q1, which is very productive.

We do believe we'll be able to maintain a very, very strong growth rate in China through Q2 and the remainder of the year. That is driven by a growing digital presence and a growing consumer following, but also incremental store openings. We will plan to open a significant number of franchise partner stores with our partners this year. So we'll have incremental wholesale distribution in the China market, which will drive, I think, a very strong business for us.

Jay Sole -- *UBS -- Analyst*

Great. Thank you so much.

Andrew Rees -- *Director and Chief Executive Officer*

Thank you.

Operator

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

Andrew Rees -- *Director and Chief Executive Officer*

Thank you very much, everybody, for joining us and your interest in our brand. I just want to highlight that this is Anne's last earnings call. She may be happy about that, may not be happy about that. But Anne with the announcement and the joining of Susan Healy, who will join us on June 3, will be moving over to her full-time role as Crocs brand president.

So I want to thank Anne for all her incredible contributions over the last six years. So thank you, Anne.

Anne Mehlman -- *Executive Vice President, Chief Financial Officer*

Thank you.

Operator

[Operator signoff]

Duration: 0 minutes

Call participants:

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

Andrew Rees -- *Director and Chief Executive Officer*

Anne Mehlman -- *Executive Vice President, Chief Financial Officer*

Jon Komp -- *Robert W. Baird and Company -- Analyst*

Adrienne Yih -- *Barclays -- Analyst*

Jim Duffy -- *Stifel Financial Corp. -- Analyst*

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