



**Crocs, Inc.**

**Definitive Agreement to Acquire HEYDUDE**

**December 23, 2021**

## CORPORATE PARTICIPANTS

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**Erinn E. Murphy**, *Piper Sandler & Co.*

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## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by and welcome to Crocs Inc. to Acquire Casual Footwear Brand HEYDUDE. At this time all attendees are in a listen-only mode. After the speakers' remarks there will be a question-and-answer session.

Now I would like to welcome Ms Cori Lin. Ma'am, please go ahead.

### Cori Lin

Hello everyone and thank you for joining us today to discuss the announcement of our definitive agreement to acquire casual footwear brand HEYDUDE. Earlier today we announced this transaction and a copy of the press release and investor presentation may be found on our website at [crocs.com](http://crocs.com).

We 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 the anticipated consummation of the acquisition of

HEYDUDE and the timing of benefits thereof, Crocs strategy, plans, objectives, expectations – financial or otherwise – and intentions, further financial results and growth potential, anticipated product portfolio, and our ability to create and deliver shareholder value. These statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Crocs is not obligated to update these forward-looking statements to reflect the impact of future events, except as required by applicable law.

We caution you that all forward-looking statements are subject to risks and uncertainties, including those described in the Risk Factors section of our Annual Report on Form 10-K. Accordingly, actual results could differ materially from those described on this call. Please refer to the Crocs Annual Report on Form 10-K as well as other documents filed with the SEC for more information relating to these risk factors.

Adjusted operating margin is a non-GAAP measure. A reconciliation of this amount to its GAAP counterpart is contained in the presentation we issued earlier today.

Joining us on the call today are Andrew Rees, Chief Executive Officer; and Anne Mehlman, Executive Vice President and Chief Financial Officer. Following their prepared remarks, we will open the call for your questions.

At this time, I'll turn the call over to Andrew.

#### **Andrew Rees**

Thanks, Cori. Hello everyone and thank you for joining us on short notice today during the busy holiday season.

We're thrilled to share that Crocs has agreed to acquire HEYDUDE, a high growth, highly profitable casual footwear brand. We believe HEYDUDE's casual, comfortable and lightweight products are aligned to the long-term consumer trends and are a perfect fit for Crocs. As discussed in our recent Investor Day, we're incredibly optimistic about the standalone potential for the Crocs brand, including our expectations for the brand to achieve \$5 billion in revenue by 2026. This remains unchanged.

We also said never say never with regard to an acquisition as you cannot predict when you may encounter the perfect fit, which we believe we have done with HEYDUDE. The addition of HEYDUDE significantly diversifies our product portfolio by adding an incredibly versatile silhouette with numerous wearing occasions. The brand's scaled position in casual footwear more than quadruples the Crocs total addressable market to over \$160 billion. HEYDUDE is highly profitable and we expect the acquisition to be immediately accretive to Crocs' industry-leading revenue growth, operating margins and earnings. We're confident the combination will create significant shareholder value over the long term.

Anne will provide additional details on the transaction and its impact on our financial expectations shortly, however, let me first share our rationale for acquiring HEYDUDE and the numerous strategic advantages resulting from the addition to our portfolio.

First, the addition of HEYDUDE to Crocs creates a globally scaled leader in branded casual footwear. We would expect the combined company to have for 2022 revenues in excess of \$3.4 billion on a pro forma basis, which would make Crocs the second largest branded player in casual footwear category globally.

Second, the acquisition combines two fast-growing footwear brands and more than quadruples our total addressable market to over \$160 billion. This addressable market represents more than half of the approximately \$300 billion casual footwear market. Following the acquisition, Crocs will be the market

leader in clogs and have a scaled position in both sandals and the casual footwear category with significant growth potential in all three categories.

Third, the addition of HEYDUDE significantly diversifies our product portfolio and adds an incredibly versatile casual footwear silhouette. Following the acquisition, clogs is expected to represent approximately 57% of product sales, down from 71% of revenues discussed at our recent Investor Day. Our outlined objective of growing Crocs sandal revenues by 4x through 2026 and the addition of fast-growing HEYDUDE will continue to increase our diversification.

Fourth, like Crocs, HEYDUDE has a digital-first approach and high digital penetration. For the last 12 months ended October 31st, HEYDUDE's digital revenues, which includes sales through its owned .com and Amazon were approximately 43% of its total revenues. Similar to Crocs, the HEYDUDE silhouette is easy to purchase online with a generous fit and no hard sizes. We plan to continue to take a digital first approach and expect to grow this important channel for both HEYDUDE and Crocs.

Fifth, part of what we believe makes the HEYDUDE brand an ideal fit is its strategic focus on the same long-term consumer trends that are fueling Crocs, namely casualization, comfort, sustainability, and personalization. Since Alessandro Rosano founded HEYDUDE in Italy, the company has grown by differentiating its products through unparalleled comfort and through innovative patents and colors. The brand is focused on sustainability, offering environmentally friendly properties such as cork insoles and recycled materials.

Sixth, HEYDUDE presents an opportunity to leverage Crocs proven global playbook, specifically our global footprint, our best-in-class marketing expertise, and our strong wholesale relationships. With respect to international growth, HEYDUDE currently generates less than 5% of its revenues outside the United States compared to Crocs that has 32% of its total revenues in over 80 countries worldwide. Over time, we plan to leverage Crocs' footprint to expand the HEYDUDE brand into EMEA and subsequently Asia.

Turning to marketing expertise, HEYDUDE's brand awareness is approximately 20% today compared with Crocs exceptionally high brand awareness of 92%. We look forward to deploying our best-in-class marketing approach to grow HEYDUDE's brand awareness and revenues.

Finally, today there is only 30% overlap between HEYDUDE and Crocs wholesale relationships. We intend to leverage our strong wholesale partnerships to expand HEYDUDE's distribution. These three areas alone represent significant upside for the HEYDUDE brand.

Seventh, as I mentioned, and as Anne will review, HEYDUDE is highly profitable. We expect the acquisition to be accretive to Crocs' industry-leading growth and margins, as well as immediately accretive to earnings per share.

Finally, we plan to quickly build HEYDUDE into a \$1 billion-plus brand by 2024.

I already mentioned three key growth levers: leveraging Crocs' international footprint for global growth; investing in marketing to build brand awareness, and leveraging Crocs' wholesale relationships to enhance distribution. In addition, we believe we will further accelerate digital growth by elevating digital capabilities, and we plan to invest to scale HEYDUDE's supply chain to gain efficiencies. HEYDUDE brand has incredible potential and we are thrilled to add it to our portfolio.

Before I turn the call over to Anne, let me briefly touch upon our integration plan.

From a leadership perspective we are pleased that HEYDUDE's founder Alessandro Rosano will stay on as Strategic Advisor and Creative Director. We're also excited to announce we have hired industry veteran Rick Blackshaw as Brand President. Rick will stand up a separate organization designed to ensure we maintain HEYDUDE's growth trajectory while also minimizing the disruption on the Crocs brand. Rick has already started to work on the growth levers I outlined so that we will hit the ground running upon close.

We are confident in our ability to seamlessly integrate HEYDUDE and execute upon our plan, much like how we have executed on the Crocs plan and delivered tremendous shareholder value since 2014.

In summary, we feel HEYDUDE is a unique opportunity and an ideal strategic fit for our company. Looking forward, we are excited and confident about the prospects of both the Crocs brand and HEYDUDE, and our ability to create shareholder value with the combined business.

With that, I will hand it over to Anne to provide some of the financial highlights of the transaction.

**Anne Mehlman**

Thanks, Andrew.

First, I would like to echo Andrew's excitement. We are incredibly impressed with the business the HEYDUDE team has built and believe the combined business has enormous potential. We are thrilled that the acquisition is expected to be accretive to our high growth, industry-leading margins and earnings per share.

As Andrew mentioned, HEYDUDE is a high-growth brand with revenues expected to more than double to approximately \$570 million in 2021. The brand is also highly profitable. Even as we add in infrastructure to support sustainable growth, we expect best-in-class operating margins in excess of 26%. For 2022, we expect HEYDUDE revenues to grow to be between \$700 to \$750 million which represents growth of approximately 23% to 32%.

On a longer-term basis, we expect revenues to grow over 20% per annum and operating margins to exceed 26%. As Andrew also mentioned, we remain confident in our ability to deliver upon our long-term growth plan to grow the Crocs brand; HEYDUDE simply adds to Crocs' strong organic growth and profitability. Over time, we expect the HEYDUDE brand to achieve revenues of more than a billion dollars, bringing our combined revenues over \$6 billion with 26% operating margins.

Turning to the acquisition, we believe the purchase price of approximately \$2.5 billion is attractive with an implied multiple of less than 15x EBITDA. As referenced in the press release, we intend to fund the acquisition through \$2 billion in new Term Loan B Debt, \$450 million of Crocs shares issued to Mr. Rosano, and \$50 million from our Senior Revolving Credit Facility. We estimate pro forma net leverage as of December 31, 2021 to be approximately 3x. Post close, we expect the combined business to be highly cash generative and after we invest in the business we will use excess cash flow to rapidly repay debt. We will also pause share repurchases entirely for 2022, and until our gross leverage is under 2x EBITDA.

As a reminder, we returned significant cash to shareholders by repurchasing \$1 billion of shares this year.

In summary, we are excited by the addition of HEYDUDE to our portfolio, and look forward to both brands creating significant shareholder value.

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

**Andrew Rees**

Thank you, Anne.

We're incredibly excited to add HEYDUDE, a high growth, highly profitable casual footwear brand to our portfolio. We are confident in our ability to use the proven Crocs' playbook to expand the brand and create what we anticipate will be the leading branded casual footwear company.

Let me close by wishing everybody a happy holiday. Operator, please open the call for questions.

**Operator**

Thank you, sir.

Your first question is from the line of Erinn Murphy from Piper Sandler. Your line is now open.

**Erinn Murphy**

Great. Thank you. Good morning. You guys know how to get all the heart pumping fast this morning on a holiday morning. So, great.

A couple of questions for me. Maybe Andrew, if you could share a little bit more about how this deal came about? What were some of the data points that informed you? How competitive this process was? Just curious on that. Then I've got a couple of follow-ups. Thanks.

**Andrew Rees**

Great. Thank you, Erinn.

I would say HEYDUDE is a brand we've been watching for some time. We've seen it in the marketplace. We've seen them, I think, do a really nice job in engaging that kind of younger, casual consumer, so we're very impressed with what they've been doing. We've been watching them for some time. It became apparent sort of during the year that they were pursuing strategic opportunities and we were excited to be involved in that process. I can't really comment on how competitive it was. It certainly was competitive but we're to be involved in that process. More importantly, we think this is an excellent strategic fit with Crocs.

**Erinn Murphy**

Great. Maybe thinking about that fit, I didn't hear you mention the word synergies. Can you talk about how you think about synergies between Crocs as well as HEYDUDE? And then another question: if you could just share a little bit more about the geographic footprint within the United States? I think you said 5% internationally, but curious on kind of how that core customer looks here within the United States as well.

**Andrew Rees**

Let me maybe touch on the last bit first. HEYDUDE's concentration and core customer is really down through the Midwest and the South, and I think there's very clear evidence it's starting to propagate to the East Coast and then eventually to the West Coast. As you remember, that's very, very similar to the trajectory that Crocs has taken over the last three to four years in our most recent turnaround and trajectory. So, very consistent with engaging the sort of broad casual footwear population.

In terms of the synergies, how we think about this deal, it is really about building the HEYDUDE brand to allow it to achieve the growth potential that it has. It's less about synergies; we think we need to add fairly significant marketing investment and fairly significant infrastructure to allow the brand to reach its full potential, so it's more about investing behind the brand. It's highly profitable today and that I think gives us the opportunity to do that. We will also structure it in such a way that we would keep the brand-centric components, product marketing, go-to-market separate from the Crocs brand so that we don't distract our Crocs employees, but we'll obviously get leverage on the back end from all of our shared services.

**Erinn Murphy**

Got it. Then just last question for Anne. You had mentioned in your script that you were pausing share repurchases until the leverage ratio is, I think, below 2x. What have you done in the fourth quarter to date? I think you were expected to do a \$500 million of share repurchases. Should we assume that most of that is completed? None of that is completed? Just help us think through that given obviously you had the purview of the acquisition as well.

**Anne Mehlman**

Yes. You're referring to the ASR that we announced at Investor Day?

**Erinn Murphy**

Yes.

**Anne Mehlman**

We had announced that and that is completed.

**Erinn Murphy**

Thank you so much for that clarification.

**Anne Mehlman**

Thanks, Erinn.

**Erinn Murphy**

I'll let someone else hop in, and congratulations. Yes.

**Andrew Rees**

Thanks, Erinn.

**Operator**

Your next question is from the line of Jonathan Komp from Baird. Your line is now open.

**Jonathan Komp**

Yes, hi. Thank you and good morning.

I want to first just understand the brand you're acquiring a little more, HEYDUDE. Could you maybe just expand how much overlap you think there is with the core Crocs customer today? And then can you give us a better sense—I know you highlighted digital penetration, but can you give us a sense the rest of the distribution wholesale, what the make-up looks like and where you see opportunities there?

**Andrew Rees**

Yes, absolutely.

As we did our sort of due diligence research we see a very high overlap with the Crocs customer, right? As we look at the HEYDUDE customer, they have Crocs in their closet, so we know who a lot of these customers are and we think our customer database, which is very significant, will be a great asset in that regard. But it's a different wearing occasion, right? They're wearing this shoe for a different wearing occasion, so we see it as very, very complementary. That's one of the things that I think makes it such a great complement to Crocs. We've got a great customer overlap, different wearing occasions so we can really market well to this consumer.

In terms of their distribution, their digital-first as we mentioned. They have a very well developed ecomm business and also Amazon business, so they're reaching their customers through digital channels, very similar to how we do. That was really important to us.

From a wholesale perspective, they have no retail, so it's all wholesale. I would say it's divided between a number of large family footwear accounts, but they're underpenetrated in the larger accounts. Then, I'd say really well developed independent distribution.

As we looked at the overlap between our wholesale customers and their wholesale customers, we see lots of opportunity to extend them into—extend their distribution.

**Jonathan Komp**

Okay, great. Then maybe the broader question, when you think about reach a billion dollars the next few years and growing from there, maybe looking back and the progress to date, how do you get comfort that this is not like some other categories in the footwear industry in the past where you've seen domestic brands catch fire for a few years and get to several hundred million dollars, only to sort of peak out in terms of the popularity? Just curious how you think about the cyclicity of the business, if there is any, or your comfort there.

**Andrew Rees**

Yes, that's a really good question. A couple of things.

One, I'd point to the scale currently. Right? Estimated revenues for '21 I think are around 570 and we've provided outline guidance here that we think HEYDUDE for '22 will be between 700 and 750. So, they already have significant scale and I would say that is with significant underpenetration in certain parts of the country and I think very clear opportunities within key accounts.

Secondly, that is all domestic, right? The vast majority of their business, 95% of the business is here in the U.S., and I think the research that we've done in assessing this acquisition is this product, this silhouette has definitely potential across the globe, particularly in Europe, Middle East and also key parts of Asia, so we're pretty confident about that. You may remember that this product actually bears a lot of resemblance to some products that we have made and sold in the past in different parts of the globe, so

we know how that casual loafer silhouette plays in different parts of the globe. So, a real experience and I would say a good amount of confidence.

Then in terms of the faddish component, which I think is a little bit what you're referring to as well, as we look at the stats and the consumer engagement that the brand gets, there's a lot of repeat purchasing. There's very high customer satisfaction, and it's really all about that comfort but lightweight, which we know are key components to consumer engagement. So, we feel pretty confident that this is a brand that can grow in scale and dimension.

**Jonathan Komp**

That's very helpful. Maybe a last one for me then, for Anne.

Is there any more help you can give us on the 2022 accretion? Just thinking through how much revenue of the 700 to 750 you might expect to capture, and then any directional comments on the margin expectation for next year or the interest rate you expect you might pay on the incremental debt?

**Anne Mehlman**

Yes, sure. Good questions.

I think for next year we expect revenue, as we said, on a pro forma basis to be 700 to 750 and I think we'll capture quite a bit of that next year. When you think about—I think in the purchase agreement we said we would close in approximately 60 days, which implies probably a late February-ish close, so we'll have most of the year next year from a revenue standpoint. Then from a margin standpoint, as we said we think long-term operating margins look like 26%. So if you exclude any type of one-times or transition costs, we feel pretty confident in those margins, even after we invest in SG&A to support kind of the underlying infrastructure of the business.

From an interest rate perspective, we're still working through finalizing our Term Loan B and the interest rate which we will come out with, but I expect it to be close to around what we have on our current debt for our high-yield bonds, maybe a little less.

**Jonathan Komp**

Okay, excellent. Thank you very much.

**Anne Mehlman**

Thank you.

**Andrew Rees**

Great. Thank you.

**Operator**

Your next question is from the line of Sam Poser from Williams Trading. Your line is now open.

**Sam Poser**

Thanks for taking my questions, folks. I'm going to re-ask the last question.

What percent revenue does the company do, revenue by quarter? Like, Q1, Q2, Q3, Q4.

**Anne Mehlman**

Yes. Hey Sam, it's Anne.

I think—sorry, go ahead. Go ahead.

**Andrew Rees**

No, it's okay, Anne. I was about to say you were going to answer that.

**Anne Mehlman**

Perfect.

They're a quickly growing company so I don't want to give out the exact percentages, but I would say at this point we don't expect it to be an extremely seasonal business, for the purposes of modeling for next year.

**Sam Poser**

So we should model 25% a quarter. But given the strength of their digital businesses, I would assume that the sell-through rate—and that business peaks in Q2 and Q3, while the sell-in would happen more seasonally. So, I mean, wouldn't that make Q2 and Q3 larger quarters than Q1 and Q4?

**Anne Mehlman**

Sam, I don't think we're prepared to guide by quarter yet, just as we're pretty early in this. We're happy to give more color as we get into next year, and we will give a lot more detail, but for the purposes of this I would assume that we close in approximately 60 days and that gives you approximately 10 months of revenue.

**Sam Poser**

Okay. Then I've got a few more.

The breakout between men's, women's and kid's and how that's looking.

**Andrew Rees**

One of the great things about this brand is that it does service men and women and kids. I think the best way to think about it is about half the business is men, and then the rest is women's and kids. Kids is a smaller percentage than Crocs'. I would say over the last two years the women's business has been a very high growth business. The women's business has gotten a lot of traction over the last two years, so that's kind of the best way to think about it.

**Sam Poser**

Then, who was—was the acquisition a competitive process, or how did this acquisition come together?

**Andrew Rees**

Yes, I think as I said to an earlier question, we've been monitoring the brand for a number of years. We felt like it was an interesting brand, it was creating really interesting product and driving a lot of great consumer engagement. Then it became apparent to us during the year that the founders were interested in pursuing strategic alternatives and we engaged with them.

**Sam Poser**

Two more. One, where is the product made? And two—this is from one of my clients—why go so big on your first deal?

**Andrew Rees**

Great. The product is predominantly made in China. So the vast majority of product comes out of China today. They have gone through some diversification to Indonesia and other parts of the globe. As we look at the sourcing footprint we will obviously add our expertise to that and probably further diversify that sourcing footprint. But it today is coming out of China and that would largely be the case certainly for next year.

In terms of the size of the acquisition, as I think you all know any kind of acquisition is a great deal of work, but also brings with it a significant amount of risk. As we looked at the sort of risk/reward, I think it's very clear to us to really move the needle for the Crocs brand and create value for our shareholders, as we looked at this brand we thought this made a ton of sense. It is of scale. It does move the needle. It makes a difference. I think this is of a scale that we can really add a lot of value for shareholders and we can create another meaningful brand in the Crocs portfolio which adds a great deal of diversification.

**Sam Poser**

Thanks, and just one more—sorry, just one more. Just to clarify, the op margin in '22 and you're expecting to be around that 26%, or is that long term and how should—as somebody asked earlier, what should, how should we think about that in '22? If you can just clarify.

**Anne Mehlman**

Yes, so from a long term perspective we think long-term sustainable margins are 26%. We didn't guide specifically for '22 at this point, but I am confident that it will be accretive and probably around that 26% excluding any one-time or transition costs. For next year.

**Sam Poser**

Thanks very much. Merry Christmas and congratulations.

**Anne Mehlman**

Thank you.

**Andrew Rees**

Thank you, Sam.

**Anne Mehlman**

You too.

**Operator**

Your next question is from the line of Jay Sole from UBS. Your line is now open.

**Jay Sole**

Great. Thank you so much.

Andrew, you already answered a bunch of questions about the brand and distribution. I wanted to just ask you about the product a little bit more. You mentioned some patents. Can you just elaborate on how HEYDUDE differentiates from a product standpoint?

**Andrew Rees**

Yes. I think it differentiates from a product standpoint less through intellectual property and more through consumer experience. The differentiation is style, right? The uppers are frequently changed. They can be season-right. They can be SMUs for key accounts. It really is a kind of style component married with a very strong emphasis around comfort, around fit, around lightweight and easy on and off. It's a combination of style and comfort and they do that through I would say a very nimble and fast-moving design, development and production process.

**Jay Sole**

Got it, okay. Then I guess just going forward, have you decided if you're going to report HEYDUDE separately or is it going to be integrated into sort of the segment, the geographic segment breakdown that you typically give?

**Anne Mehlman**

Andrew, I can talk to this one if you want.

I think, Jay, we're still working through that, but I expect to have a brand P&L for HEYDUDE, so at least—because we're running it commercially separate. We haven't completely decided but we will certainly give insight into Crocs and then HEYDUDE separately.

**Jay Sole**

Got it. Okay. Thank you so much.

**Anne Mehlman**

Thank you.

**Operator**

Your next question is from the line of Laura Champine from Loop Capital. Your line is now open.

**Laura Champine**

Good morning. Thanks for taking my question.

Is this, in your view, kind of a preliminary step towards the coming of portfolio of brands, or is this more just Santa brought us another fast-growing wide-toe shoe company?

**Andrew Rees**

I think probably I'd say neither, Laura, in terms of how you characterized it. It certainly doesn't mark the first step in our minds of being sort of a portfolio of brands. As we looked at the Crocs company, we have tremendous confidence in the growth of Crocs as we outlined in our investor meeting in September. We outlined that we think the Crocs brand can get to \$5 billion by 2026.

As we looked at—but we also recognize there's strategic weakness there which is the concentration. The concentration of a highly valuable public company with one brand and also very concentrated and narrow set of products, so we felt like bringing to the table another brand in a different product category with much broader appeal was going to drive a lot of diversification and mitigate risk for shareholders. We also felt like the playbook that we had developed for Crocs would be very, very effective for this brand.

So, I think it was an opportunistic acquisition, but I think it's extremely compelling and will drive very significant shareholder value creation.

**Laura Champine**

Got it. Then what's driving the growth of HEYDUDE? Is this about distribution expansion? Is it about a step-up in marketing? Why are they able to grow at this rate?

**Andrew Rees**

Historically I think they're able to grow at this rate because they're great product, right? I think their distribution is good. I think their marketing is good, but not necessarily great. But they are just delivering great product. It's very much in sync with what consumers are looking for.

Our due diligence shows that sell-throughs are extraordinary; they essentially can't keep the product in stock, whether it's on their own DTC environment, on their own ecomm environment, or even with key wholesale partners. It's great product and strong consumer demand.

As we look to the future, I think our growth opportunities are really clear. It's investment in marketing to further dimensionalize and build out the brand. It's adding digital capabilities to improve their digital performance. It's wholesale expansion to some of our key accounts, many of which I've heard from this morning. And also it's international expansion. So, I think our growth pathway is extremely clear and very much within our capabilities.

**Laura Champine**

Got it. Then lastly, you mentioned, that there's a different use case for these shoes. I think that the presentation shows folks sort of sitting on a sidewalk blowing bubbles. I'm just not sure what is the different use case? Why would I want to wear a HEYDUDEs shoe differently than a Crocs?

**Andrew Rees**

I think it's a much broader wearing occasion, right? The Crocs use, the consumer who wears Crocs I think is very confident in their choices. They're forward thinking in terms of their desire to wear a molded shoe,

a nontraditional material type. They recognize the benefits of that material type. But as we know, one of the things that we definitely have confronted with Crocs—we think it's an asset, which is our polarizing nature. We have consumers that love Crocs and consumers that frankly rile against Crocs, right? So we have that love/hate relationship. That's been incredibly powerful from a marketing perspective. But you still do get left with that portion of the population that are not interested in wearing a molded shoe.

The broader use case that you get with HEYDUDE is it's not molded, right? It's a material upper; it could be cotton, it could synthetic, etc. And I think it's a much more approachable, accessible and understandable style that has a much broader footprint. I think we highlighted in I think our investor presentation that casual footwear segment is a \$100 billion-plus marketplace, so it dramatically increases the total addressable market we're looking at.

**Laura Champine**

Got it. Thank you.

**Andrew Rees**

Thank you.

**Operator**

Your next question is from the line of Susan Anderson from B. Riley. Your line is now open.

**Susan Anderson**

Hi. Good morning. I was wondering if maybe you could talk about the gross margin relative to Crocs. Is it also very similar in the make-up?

**Andrew Rees**

I'll let Anne take that.

**Anne Mehlman**

Hi. I think as we talked about from an operating margin standpoint, we're really excited that they have such strong operating margins, so we think that we will need to invest into SG&A to scale the business and that after that investment they will be at 26%-plus operating margins on a sustainable basis.

I think as we get into more of a detailed P&L and guidance we'll provide additional color, but obviously we're still working through how they account for gross margin versus the way that we do. I think that we'll talk about more pieces on our Q4 earnings call.

**Susan Anderson**

Great. Then just looking at the growth expectation for next year, I guess does that include the international expansion or is that further out? I guess which parts of the globe would you expect to expand first?

Then I'm just curious, within the U.S. I think you said it was very popular in the Midwest and South and less penetrated on the East and West Coast, so are you expecting that growth to be mainly driven by expansion into the East and West Coast?

**Andrew Rees**

Yes. I would say first priority is the U.S., right? As we look at the U.S. we think there is a lot of growth opportunity, either regionally or, frankly, even within the regions where they are currently selling, so I think there's lots of opportunity for channel growth. There's lot of opportunity for digital growth, and there's geographic expansion within the United States. I would say that is priority number one.

Priority number two will then be international. We would not expect really any significant international growth in '22; we'd look to lay the groundwork for that for the future. I think we would probably approach that sequentially where we'd look to our EMEA region, so Western Europe and the Middle East first, and then we'd look to our key Asian markets second. So, we'd really cadence that out to make sure that we're adding all of the right resources to brand and really setting the brand up for success in the long term.

**Susan Anderson**

Great. Then finally, just thinking about, you talked about the differentiating aspects of the product. I'm curious who you see the competitors to HEYDUDE out there in the market right now.

**Andrew Rees**

Yes. I think there's a pretty broad range of competitors, frankly. There's a lot of smaller players. If you look specifically at the product, you'd see some competitors that are making very similar product, but you'd also think about larger competitors that make a broad range of casual footwear like a Skechers. I think there's a broad range of competitors. I think it's really important that we continue to maintain the brand momentum, we continue to move fast and we create real meaning behind the brand.

**Susan Anderson**

Got it. Last one really quick for Anne. Did you guys say what the rate will be on the new \$2 billion term loan?

**Anne Mehlman**

We haven't finalized that yet, but I said that we expect it to be at or below, around our current debt rate on our high-yield bonds.

**Susan Anderson**

Great. Thanks so much, you guys. Happy holidays.

**Anne Mehlman**

Thank you.

**Andrew Rees**

Thank you.

**Anne Mehlman**

Happy holidays.

**Andrew Rees**

Happy holidays.

**Operator**

Your next question is from the line of James Chartier from Monness Crespi Hardt. Your line is now open.

**James Chartier**

Good morning. Thanks for taking my question.

Just given the trajectory of the sales, it looks like HEYDUDE could get to a billion dollars by 2024 without any help from Crocs. Do you believe that's the case? Do they need your expanded distribution and international to get there? Or do you just kind of accelerate the trajectory that they're on?

**Andrew Rees**

I think the HEYDUDE team is very capable. They're very strong in terms of product development and what they envisage for the consumer. I think we will be able to help a lot in terms of distribution, particularly our wholesale distribution here in the U.S. and also our international distribution. There's sort of the investments that are required and the stepping stone that you need to go through from being a single-country brand to a multi-country brand is pretty significant. As you know, we have all of that infrastructure in place. We have all those people in place and we know how to do that. I think that's really important.

I think the other component is marketing. I think you know that we have what we regard as best-in-class in marketing strategies that are really—engaged our consumer and driven very significant growth in the Crocs brand. They've got high growth but I think the marketing can be taken to the next level which will further enhance the growth potential.

They've a great team. They've done a great job. They're on a great trajectory, but I think we add a lot.

**James Chartier**

Great. Then you mentioned a lot of investment and it seems like a lot in marketing. What percentage of sales does HEYDUDE spend on marketing and kind of how does that compare to Crocs?

**Anne Mehlman**

I think we're not ready to give out those specifics. I would say when we think about HEYDUDE it's a little interesting on the SG&A front because we are actually going to invest more than what they're spending. We're focused on really putting in, as Andrew just mentioned, solid processes to get them to the next billion dollars, and that includes investment in marketing as well as some back end infrastructure. That's incorporated into what we think are the long-term 26% operating margins.

We'll come out and give you guys all more detail once we work through all the specifics, but we do expect to increase their spend in marketing quite a bit.

**James Chartier**

Great. Then just any supply chain constraints that impacted HEYDUDE sales this year? Then anything into the first half of next year?

**Andrew Rees**

Yes, I would say so. Look, they've suffered from all of the same supply chain issues that really everybody in the industry has. Now, they're not in southern Vietnam so that hasn't been an issue. They're really, as I answered an earlier question earlier, the vast majority of production is in China, but significant delays in terms of getting product to the United States, and also elevated costs associated with doing that. The sort of global freight issues have certainly affected them.

**James Chartier**

Great. Thanks, and happy holidays.

**Andrew Rees**

Thank you. Happy holidays.

**Anne Mehlman**

Happy holidays.

**Operator**

There are no further questions. Presenters, please continue.

**Andrew Rees**

Excellent. I really appreciate everybody joining us at short notice. I know this is a little disruptive immediately before Christmas, so let us just close by just reiterating how excited we are about this transaction and I think the really compelling, strategic unlock it provides for Crocs, and wishing everybody a very happy holiday.

**Operator**

With that, this concludes today's conference call. Thank you for attending. You may now disconnect.