Crocs, Inc.

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Jay Sole: Well, good afternoon, everybody. Thank you so much for being here. I'm Jay Sole, UBS' retailing department stores and specialty softlines analyst. And I'm really glad that you're all here at the UBS Global Consumer and Retail Conference. And we are very honored to have Crocs with us here today. Representing the company, I have Andrew Rees, who's the CEO and Anne Mehlman, who is the CFO. I also want to point out Corinne Lin, who runs the Investor Relations function within the company sitting back there. But what we're going to do today is I'm going to pass it over to Andrew, and he's going to go through the presentation that you see on the screen in front of you, and then Anne will make some remarks as well, about 45 minutes and that will be it.

Andrew Rees: Thank you, Jay.

Jay Sole: Great. Thank you.

Andrew Rees: Jay, thanks very much for the introduction. I'm pleased to be here. I’ve had an opportunity to speak to a lot of people through the day and I just want to give you a little bit of a formal update here on the Crocs business and how things are going. So, with that, let me get started.

Okay. So, we’re first going to cover a little bit of a business update, then we're going to move to our financials. So, in terms of business highlights, so this is our brand purpose. Everyone comfortable in their own shoes. As we kind of look at the global consumer today, it is very, very apparent that the consumer is looking for comfort. They're looking for comfortable shoes. They're looking for easy on and off. They're looking to interact with their brands digitally. And Crocs as a company is extremely well positioned against those consumer needs with both of its brands. With the Crocs brand and with the HEYDUDE brand, we hit those consumer needs head on. So, everyone is comfortable in their own shoes.

Crocs is a proven growth company. So, if we look at the recent trajectory of the business, I think there is some narrative that we hear, and I'm sure you hear amongst the investment community that Crocs is a brand that has benefited from the pandemic. Absolutely. I think we executed extremely well in the pandemic. But this is also a brand and a company that has grown very strongly pre the pandemic and post the pandemic.

And if we look at the overall trajectory of the company, yes, there was an entrepreneurial phase when the company was -- when the brand was invented some time ago in the early 2000s, the company then went public in 2006. And during a period of time, as the company was growing, the Crocs brand was growing around the world, I think we would describe it as getting overextended at some point in time. But since 2014, when myself and the current management team took over the company, we have really repurposed, rebuilt, the brand against a very focused consumer audience. We've reestablished, I would say, kind of the best practices in terms of how we run and operate the company, and we've delivered a strong trajectory of consistent growth since 2015, and that continues here today, including the acquisition of HEYDUDE one year ago.

If we look at the outcome in terms of what that delivered in terms of shareholder value, this is a statistic that many of you may not be familiar with. But since 2017, the five-year TSR for Crocs is actually 54%, which is a pretty staggering number, right? If the -- if Crocs were in the Fortune 500, we'd be the #2 performing stock over that period. So, a very consistent trajectory of strong growth, high levels of profitability and high shareholder returns over a sustained period of time.

So, if we kind of bring that lens in a little bit tighter and start to think about, one, what was 2022 like for us? 2022 was an exceptional year. I think we gave everybody a pretty thorough update at the end -- at our Q1 earnings -- sorry, our Q4 earnings. But I think it's worth some repeating. So, revenues for that period were $3.6 billion, so 58% constant currency. Obviously, that includes the inclusion of a new brand, of the HEYDUDE brand that we acquired during that time period. But if we narrow down to the Crocs brand, the Crocs brand grew 15% on an actual basis, which has translated to about 19% on a constant currency basis with fairly significant currency compression during the year.

So I think a really strong trajectory for the Crocs brand during that period. Obviously, we acquired HEYDUDE and included HEYDUDE into the company. But HEYDUDE's revenues were a little shy of $900 million and, on a pro forma basis, close to $1 billion and about 70% growth, so an exceptional growth period.

We also reported industry-leading operating margins of 27.7%, so incredible profitability, very strong cash flow. The HEYDUDE acquisition in its first year certainly has been a ton of work, but has exceeded our expectations, right, exceeded our expectations in terms of its growth trajectory but also exceeded our expectations in terms of its connectivity with the consumer. One of the things that we talk about fairly extensively is the average HEYDUDE consumer owns four pairs of HEYDUDE. And if you compare that to other brands in the industry, it's probably 2x similarly sized brands. So, it gives you a really sense -- a strong sense of the consumers' passion and interest in the company.

We drove a lot of cash flow during the year. So, even in the first year of a substantial acquisition, we were extremely cash flow positive. And we used our cash flow to pay down over $550 million of debt during the period, including $300 million of paydown on our term loan B during the fourth quarter of the year. So, a very strong profit performance, cash flow performance as well as sales growth.

And I think one of the things that as we kind of hear and talk about from the broader investment community, Crocs was a pandemic beneficiary and is going to return to its norm. There is very little chance for that happening, quite honestly, right? If you look at the company in 2022, exceptional performance, $3.6 billion in absolute size, high levels of profitability and growth in 2022, which I'd argue for most parts of the world was not a pandemic year. So, I think that narrative hopefully is behind us and it's something that we can move on from.

We wanted to give you a little bit of a flavor on what's happening right now. We don't, frankly, often do this, give kind of inter-quarter current commentary. But we thought this was an appropriate time to give you a little bit of flavor of what's going on. So, the quarter, I think, is off to a great start. And 2023, while there is much uncertainty in front of us, is also off to a great start. That great start is really driven a lot by innovation and new product introductions. So, both in Crocs and HEYDUDE, we're bringing a lot of new products to market, both in our core clog business, in our sandal business and also within HEYDUDE. I would say those new innovations and those new product introductions are performing extremely well.

And it is clear that the consumer, while they may be overall worried about the recession, worried about interest rates, worried about rising energy costs, are still buying in the footwear category. The footwear category is doing well. And in particular, they are still buying Crocs. We've also released a number of Crocs and HEYDUDE, sorry, I should have said, collaborations and/or licensed products, where we drive high interest and limited supply in certain introductions. You know this is a core part of our kind of marketing philosophy and how we go to market. Particular that I would call out for the first quarter of this year that we've already released would be the Hello Kitty introduction, which is over the last several weeks, has done extremely well, both on our own DTC environment plus also in select wholesale environments. Also, Minecraft is one we did earlier on in the year, again, did extremely well.

So -- and then I think the other one we're highlighting here on the slide is we're also participating in the Houston Rodeo. So, any of you that may not be familiar with the Houston Rodeo, it's a 15-day event. It's absolutely vast in terms of its consumer appeal and number of people that descend on Houston for this. So, it's a great opportunity to market and showcase the HEYDUDE brand to what is one of our core consumers, which is the rodeo consumer.

So we're also being recognized by Fast Company for the third year in a row as one of the most innovative companies. And interestingly, as we planned, and we thought about 2023, we frankly panned our business conservatively, right? We wanted to make sure that we were well positioned for whatever consumer environment showed up. But as we look at our business, I would say, particularly our DTC business and particularly in North America, it's performing strongly around the world. But particularly in North America, where we were anticipating some consumer resistance, it's definitely exceeding our expectations.

So I think a little bit of that is due to the footwear category is doing well. I think a lot of that’s due to the amount of innovation and the amount of newness that we're delivering to the consumer and that they're responding to positively. So, we feel great about the start to 2023.

So, a few kind of investment highlights. As you think about Crocs, the Crocs company, and I always try and drive a bit of a distinction in the company and the brand so that it's clear to everybody, there's a few things that are critical and important to think about. Number one, we're a global leader in the casual footwear space, right? And we have a total addressable market of $160 billion. So, as we look at the annual market for the products that we make and the wearing occasions that we [serve], that's about $160 billion on a global basis.

We have two iconic stable, high-growth brands. We are extremely diversified, when you think about those brands, diversified, one -- between the two brands, which have a different DNA and a different reason for being. We're diversified by product silhouette. If you look historically at the Crocs brand, definitely, we have been concentrated in the clog, but as you add HEYDUDE, we're diversified across the clog, across sandals and across all of the casual wearing occasions silhouettes that HEYDUDE makes. We're also diversified by region, right? So, about 60% of our business is here in the United States, but 40% is in other parts of the world, so we're exposed to different economies.

We have very high levels of profitability. I highlighted earlier the profitability for 2022 at 27.7%. I think it was even higher the year before, where we experienced some supply constraints and we're able to charge essentially more for our products, but very, very high levels of profitability and strong cash flow. Yes, we did take on a substantial amount of debt to finance our HEYDUDE acquisition, but as you can see, paying that down very, very quickly.

And then I think as we kind of think about the future, we have a really strong best-in-class management team with a strong track record of delivering those as TSR results that we talked about. And I think two extremely well-positioned brands that should allow us to do that in the future. So, we think there's a lot of reasons to invest in Crocs the company.

So let me give you a bit of an insight into some of our, really an update, growth priorities. So, number one is diversified sources of growth. I talked a little bit about this, but this gives you kind of a visual representation. To date, so this would be 2022 numbers, 75% Crocs, 25% HEYDUDE. From a product penetration perspective, 57% clogs, 43% kind of other casual silhouettes. On bottom left, you kind of see the geographical diversification. And then let me just talk a little bit about digital and channel.

So, from a digital perspective, about 38% penetrated. What's included in digital here on this slide is our own dot-coms where we sell directly to the consumer in a digital interface, and that would be all over the globe. And the second is major global marketplaces, right? So, think Amazon, Zalando, Tmall in China, where we're selling on a global marketplace, the consumer is purchasing digitally. And we think about that also as a digital transaction because that's how the consumers purchasing, just purchasing through another vehicle.

As we look at the global consumer, they're clearly getting more and more digital. So, when we talk digital first, we talk about making sure that we're making -- we're prioritizing digital for our investments. We're prioritizing it for our new product launches. We're prioritizing it to make sure that we give the consumer the best experience of Crocs and HEYDUDE in a digital place. And we think digital will grow faster than the overall company.

And then from a channel perspective, we're about 45% DTC. So, DTC in this case, were places where we have our own retail stores and also places where we – and also our own dot-com, our own digital and about 55% wholesale. I think, over time, the DTC will probably grow a little bit more strongly than wholesale. But we think it's critically important to have both channels, if you like. We think it's critically important with democratic brands that sell at a moderate price point, we want to be broadly distributed and have access to a large number and a broad range of consumers. To do that, it is not our intention to do that only through our own environment. It's in our intention to do that both in wholesale environments as well as DTC environments. DTC environments are obviously very profitable if operated effectively. You also have the benefit of a direct interaction with the consumer, but you need both to reach the large consumer base that we're going after.

Sandals. So, if you've been following us for some time, you're familiar with our trajectory here. We have been a very, very strong iconic clog business. and we've really expanded our opportunity and stated a bold goal to grow a significant sandal business. And why did we pick sandals? And why do we think that's a valuable opportunity for the Crocs brand?

One, it's a big category. It's about a $30 billion category on a global basis. Number 2 is the products that we have historically made in this category, molded products, give the consumer all the benefits they're looking for in sandals, lightweight, easy on and off, colorful and, frankly, moderately priced because they typically are buying a sandal for the season and then disposing of it and buying a new sandal for the next season.

And it provides the consumer another entry into the Crocs brand, right? So, a consumer that might not think that clog is for them, can get buy into the clogs brand experience our comfort of benefits and the incredible value that we offer through purchasing a sandal. It's very high frequency in terms of purchase. And Crocs, frankly, has had a successful business in this arena. But with focus and with innovation, we think we can expand that business significantly over time.

So today, already Crocs is a sizable sandal business, $310 billion we achieved in 2022. We provided, I think, guidance that, in 2023, that will be at least $400 billion. And if you look at the sandal brands that you might be familiar with, there are some that are bigger than this, absolutely. Like Birkenstock or something like that is substantially bigger. But many of the sandal brands that would come immediately to your mind is substantially smaller than this. So, having the scale, having the profitability and the ability to market those products, we can compete very effectively in this arena.

So, we expect the strong sandal trajectory to continue. And the -- some of the drivers of that trajectory are our new product introductions. So, those new product introductions can center around height, particularly important for our Asian consumers that's looking for a little extra height in their footwear. We're also providing more style-centric sandals. So, Brooklyn is both of those things. It's both a wedge height sandal but also, it's a style-centric in terms of its materialization. We also introduced late last year a new range of products under the Mellow franchise. So, Mellow was essentially a recovery sandal. So, it's a very stuff compound. It's used for pre- and post-sport, but also has style-centric capabilities or components. So, really the core driver of sandal growth is going to be both innovation, it’s going to be a new product introduction and also strong growth of the brand in strong sandal-centric markets, right?

So, we're seeing particularly strong growth in places like India and Southeast Asia, for which the sandal business is far more penetrated. They're year-round sandals. They wear sandals all day, every day. And so as we penetrate those markets more deeply, we see an opportunity to continue to grow our sandal business. So, this is a critically important activity for Crocs and, I'd say, frankly, it's going extremely well.

As we think about other sandals, one of the reasons we're able to expand the potential is break it down into different wearing occasions. So, we've got what we describe as our everyday sandals. So, these are typically derivatives of our core clog business. They typically will have Jibbitz in them. And you could think of a slide or a two-strap that's right on the left. Style-centric, that could be the Brooklyn, which is really kind of female fashion style orientated, or what we've got pictured here is a two strap in a Mega Crush which is really kind of a streetwear height-centric interpretation for our street. They’ve got our Echo sandal, which we introduced last year and is performing extremely well. And on the right adventure, where we have a whole host of products that I would describe as outdoor capable, but not highly technical.

International. So, the other big access that I want to focus on to help people understand where the growth trajectory is for Crocs is really kind of our international business. So, if we look at the penetration of the Crocs brand in the U.S. marketplace, so think about that as market share, the number of products that we sell in this market, the international market is about a third of the penetration that we see in the United States, right? So, that's the opportunity, right? The opportunity is to enhance penetration in our broader international markets to reach the equivalent that we see here in the United States. We do actually have some examples where there are some markets that have reached those higher levels of penetration. One that I'll call out is the South Korean market, right? South Korean is an equivalent penetration in the United States and has been a very successful market for Crocs for many years.

So we're definitely focused on growing our brand internationally. You may say how and I'll get to that in a minute. But what you can see is we look at our sort of recent history as extremely strong trajectory in those international markets as we've taken the growth formula that's worked here in the United States. And we've essentially exported the formula and executed it across the globe. And you can see both Asia Pacific, which is essentially all of Asia, including Australia and India, just so everybody understands what's in there, has performed very strongly; 19% compound earning growth rate over the last three years and, I think, like 100% growth rate in Q4 of last year.

And then EMEALA, which is a little awkward, but it's Europe, Middle East, Africa and Latin America. So, essentially the rest, and again, has also performed extremely strongly with a 25% compound annual growth rate over the last three years.

And so before I get to this, so how will we grow in international? It's essentially the same formula. It's a focus on the clog. It's a focus on personalization to drive consumer engagement. It's using social and digital marketing to connect with consumers and that is a globally applicable formula that we execute around the world. So, the other aspect of Crocs, which is extremely important is, I would say, our dynamic and very engaging products, introduction and marketing activities.

So, as we look at 2022, it was a little bit of an awkward year in some parts, and really a year of two halves. Because of COVID and factory closures in 2021, we were starved of innovation in the first half of 2022. As we were able to ramp up that innovation, we want to talk about innovation but also about new products, right, new colors, new graphics, new styles that was extremely difficult to do in some parts of COVID. As we ramp that back up and got that to market in the back half of 2022, we certainly saw the impact of that and an acceleration in the business.

As we look at 2023, the pace of innovation, the number of new product introductions, how we support those introductions with marketing activity and some of the marketing activities we do, whether it's license or collaborations is extremely important to maintain very high levels of brand heat and very high levels of brand trajectory. We look at 2023, that will be a record year in terms of the activations that we do calling out here over 60 kind of global partnerships. Some of those are global, some of those are local, 25% of them being kind of locally executed. So, in some markets, the localization of those partnerships such as a China or a South Korea or Japan is particularly important.

Justin Bieber is -- actually that's not a great example. But Luke Combs, which is a very powerful collaboration we do here in the United States, not that relevant in China, right? But other local activities that we do in those markets can be extremely impactful. We'll also continue to invest. And as our business scales, we invest about 7% or 8% of our sales in terms of marketing. So, as our business continues to scale, that quantum of investment continues to grow. So, we'll invest well over $200 million in terms of marketing to drive brand relevance and amplify our brand.

HEYDUDE. So, how many people in here own a pair of HEYDUDE? Hands up. Not many. So, that is the opportunity, right? So, we bought a brand, which at that point, I think, was close to $600 million, $580 million, something like that in terms of size, about a year ago. We closed it in February of last year. That brand has grown significantly since then. And we have today what is just shy of $1 billion footwear brand, which hardly any of you in this room own, right? And so, you may kind of wonder how is that possible. right? Because that's kind of a conundrum, right?

So you guys are here because you're investors, you invest in probably a whole host of stuff, but certainly in the footwear industry. Otherwise, you probably wouldn't be sitting here. And you don't own -- and I suspect many of you had never even heard of HEYDUDE before we bought it. So, we bought this brand because we think it's an incredible brand. It has incredible consumer engagement. Consumers absolutely love it. The average consumer owns four pairs, right?

But it was a company that was, what’s the right way to say it, it was a real start-up, right? A real start-up that had grown and scaled quite quickly that required a lot of sophistication capabilities and investments. So, since we bought it, we've been doing all of that work. We were able to grow a little bit more strongly in 2022 than we thought we were going to because we could get a little more supply than we thought, but we've staffed the entire leadership team. The brand was originally founded and based in Hong Kong. It's now based in Boston, Massachusetts, one of the major footwear capitals of the world. And we've staffed the leadership team, we’ve hired 150 roles. We've stabilized the manufacturing footprint. We've put in place a systems road map so that we can put this $1 billion brand that was on QuickBooks onto a stable ERP platform and making all those investments doing all that work.

We've expanded distribution. It was regionally distributed historically here in the United States, we've expanded distribution to some major national retailers, as I'm sure you've seen. We've retuned its international footprint. It was contracted with the set -- I always sort of describe it as sort of mom-and-pop subscale, not particularly effective distributors in many global markets. We've fired most of those, and we're ready to re-roll out the international business with what we think are more capable distributors in the markets where we choose to use distributors, but we will also importantly take it direct into markets where Crocs is historically direct.

And we started to launch new products, right? So, today, actually coincidentally, is the launch of our brand-new Sirocco product, which is a running-orientated silhouette under the HEYDUDE brand. And we will bring other new products to market over the next several weeks. We've completely redone the brand branding and brand identity, and we think it's a lot more relevant, and we started to invest in marketing. So, this is a company, or a brand, that's gone from kind of 0 to $580 million in terms of sales with essentially zero marketing budget, right? They really spent nothing on marketing. The growth really came from word-of-mouth and consumer passion.

So, we plan to add marketing to enhance that word-of-mouth and consumer passion. So, we're very, very satisfied with where we are with HEYDUDE. It also financially performed well in terms of overall levels of profitability and cash flow, but we think there's a lot of opportunity and a long way to go.

So hopefully, that gives you a little bit of a recap of the history of Crocs and the Crocs company and a little bit of some of the key drivers of both the Crocs brand and the HEYDUDE brand. So, with that, let me pass it over to Anne to give you a more detailed financial update. Thank you.

Anne Mehlman: Okay. So, I will again take you through 2022 financials. So, we'll just hit quickly on some of the highlights that Andrew already hit on. Obviously, we had a big revenue year. We're really excited to see that. Still have best-in-class gross margins. as a brand, two things impacted our gross margins in 2022. We spent some airfreight and invested about $67 million of airfreight because related to, as Andrew mentioned, the Vietnam shutdowns. So, that sat in our margins in 2022. The good news is we get that all back in 2023. So, it was sort of a onetime piece that sat in our gross margins.

And the other piece is related to the kind of chaos and logistics and freight markets last year, we ended up paying a lot more freight costs. So, those were kind of on the Crocs side. Overall, both of those things we expect to come back into 2023. And then we added HEYDUDE, which does carry a little bit of a lower gross margin than Crocs. Crocs has the best gross margin in the footwear industry, if you look at it on an apples-to-apples basis because we make molded products. So, that's an innate advantage that we have, which allows us to generate 26% plus operating margins.

And so last year, we were able to generate 27.7% adjusted operating margins, best in the industry and also over our long-term goal of 26%. And we were really able to do that by adding HEYDUDE and leveraging our shared service infrastructure, which really allowed us to drive great leverage and great adjusted diluted EPS growth.

So just the highlights on that. As Andrew already mentioned, we had 19% constant currency growth for the Crocs brand, 58% overall, which includes the HEYDUDE piece. HEYDUDE grew plus 70% on a pro forma basis. And then from a digital standpoint, as digital is our preferred channel, so we look at that, it's plus 22%. Our DTC comp growth for the Crocs brand was 15%, and our digital penetration overall was 38%. So, it's the key metrics that we look at to understand the health of our brands.

Andrew already went through most of this. But just a couple of things, just so you can understand the profitability of the individual brands, as we talked about for full year, revenues were $2.7 billion. From an adjusted gross margin standpoint, we sat at 56.7% from a Crocs standpoint. And our long-term gross margin thought process is around 58%. So, again, if you'd claw back the air freight, which is more than 200 basis points and then plus freight, which is about 130 basis points, you kind of get to that 58%, and that allows us to invest in some of our sandal growth, which does carry a lower margin than our clog but still higher than a traditional stitched product just because it's still molded. But overall, the Crocs brand generated a 33% operating margin. So, really great.

And then from a Crocs brand, how we break it out, as Andrew talked about, 6% in North America. Pretty proud of this growth because we're comping huge growth over the last five years and continue to comp. So, I would say we effectively comped the comp of COVID and continued to drive growth there.

Asia Pacific and EMEALA, we've see an acceleration. EMEALA. This is a couple year acceleration and grew 47% constant currency. Asia, really excited to see the strong growth, and it actually strengthened throughout the year and was stronger in the back half, upwards of 60% constant currency growth. From a channel perspective, again, through all of the important relevant channels, DTC was 15%. And then our wholesale constant currency growth was 23%, driven by our international markets.

So, from a geography perspective for the Crocs brand, the way to think about that 60%, basically North America growth or North America business, 40% international, which we do expect that mix to continue to move towards international as international growth will outpace Crocs.

Digital makes up almost 40% of our business. And then channels, we have a pretty even split, 46-52 DTC wholesale. That wholesale is strong this -- in 2022, and we'll continue as distributors do make up a big piece of our international markets and sit in the wholesale channel.

From a HEYDUDE perspective, really excited about almost hitting $1 billion, our first year of ownership. As Andrew mentioned, we launched a new brand identity. But from a financial perspective, our gross margins sat a little bit lower where we think they should be long term. So, we haven't provided that, but we have said, this year, they will be higher as we move throughout the year and will continue to improve going forward as we have time to roll off some legacy freight costs and have time to scale distribution networks to a more efficient place. But we were still able to generate over 30% operating margins, which allowed us to generate as an entity the 27.7% on an adjusted basis.

So, moving to 2023. We did give guidance for Q1, and this -- we haven't updated since what we gave on the call, but 27% to 30% for Q1. And remember that we didn't own HEYDUDE for a full quarter last year. Double-digit growth for the Crocs brand. Adjusted operating margins for Q1 of 24% to 25%. Gross margins tend to be lower in Q1 because of our wholesale mix is higher in Q1, which carries a lower gross margin.

And then we do have some onetime costs just trailing associated with some new distribution and new investments associated with HEYDUDE, but we expect our adjusted diluted EPS to be $2.06 to $2.19. And I will say, Andrew talked about the slide that we gave of how things are going. And what we tried to do was say, like since we gave this, which was in February, how are things trending, and I think the biggest piece is just continuing to see the strength in direct-to-consumer in our North America channel, not because we're not seeing strength elsewhere. But I think where we have tried to be cautious because it's a little bit more uncertain on the consumer side, we're not seeing that to date. So, I think that surprised us a little bit.

And then overall for the year, we expect growth in both brands in all markets. So, North America and international for Crocs and HEYDUDE is obviously more of a North America story, although we're starting to test very slight revenue impact this year but starting to test in our European markets. We do expect our adjusted operating margin to be in line with our long term of 26%. We talked about gross margins for Crocs kind of returning to that where we think the long-term margin is around 58% and then obviously blending down because of the HEYDUDE impact and then a tax rate of 20, which incorporates HEYDUDE for the year.

From a capital allocation standpoint, really focused on obviously investing in the business but our long-term guide is when we gave our Crocs Investor Day, we said around 3% revenue, which has been running even with HEYDUDE, but we haven't updated that. But that obviously still leaves us a lot of free cash flow to deploy. As you saw last year, we paid down $550 million of debt. So, our first goal is to deleverage to 2x or less gross leverage by midyear 2023. So, by midyear this year, we should be below 2x growth, which gives us flexibility around our capital allocation priorities. And then at that point, we'll balance deleveraging, which we gave our long-term target of between 1 and 1.5x and then share repurchase. We've historically had a very successful share repurchase program. We think we're undervalued at these levels, and so we will continue to also deploy cash that way.

Our deleveraging remains on track. We've been able to -- we did take out debt, as Andrew mentioned, to finance the HEYDUDE deal, and we've actually managed to quickly deleverage, and we'll continue to do so. Q1 tends to be our peak working capital quarter. So, deleveraging will accelerate into Q1.

And we have market-leading shareholder returns. So, if we were on the S&P 500, we would be the Number 2 in a five-year TSR. So, we've been able to prove that we can deliver shareholder returns over time. That wraps it up for me. Thank you.

Jay Sole: Thank you.

Anne Mehlman: Thank you. And if you would like a pair of HEYDUDEs on us, see Corrinne in the back, and we'll take your size, send you a pair.