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DECK - Q4 2015 Deckers Outdoor Corp Earnings Call

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OVERVIEW:

Co. reported FY15 revenue of $1.8b. 4Q15 revenue was $341m and EPS was $0.04. Expects FY16 reported revenue, based on current rates, to increase 8% and reported EPS to be $5.09. Expects 1Q16 reported revenue to be relatively flat YoverY and reported diluted loss per share to be approx. $1.52.

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and thank you for standing by. Welcome to the Deckers Brands fourth quarter and full FY15 earnings conference call.

(Operator Instructions)

I would like to remind everyone that this conference is being recorded. I'll now turn the call over to our host, Brendan Frey, Managing Director of ICR. Thank you, sir. You may begin.

Brendon Frey - *Deckers Outdoor Corporation - Managing Director of Integrated Corporate Relations*

Welcome, everyone joining us today. Before we begin, I would like to remind everyone of the Company's Safe Harbor policy. Please note that certain statements made on this call are forward-looking statements within the meaning of the federal securities laws which statements are subject to considerable risk and uncertainties. These forward-looking statements are intended to qualify for the Safe Harbor from liability established by the Private Securities Litigation Reform Act of 1995.

All statements made on this call other than statements of historical fact are forward-looking statements. These may include statements relating to the Company's anticipated financial performance, including its projected revenues, expenses, gross margin, operating margin, capital expenditures, earnings per share, and effective tax rate. These statements may also relate to the Company's brand strategies, store expansion plans, inventory management systems, and retailer retention policies, as well as the outlook for the Company's market and the demand for its products.

Forward-looking statements made on this call represent our current expectations and are based on currently available information. Forward-looking statements involve numerous risks and uncertainties that may cause actual results to differ materially from any results predicted, assumed, or implied by the forward-looking statement. The Company has explained some of these risks and uncertainties in its SEC filings including the risk factors section of its annual report on Form 10-K.

Given these risks and uncertainties, listeners are cautioned not to place undue reliance on these forward-looking statements. Except as required by law or the listing rules of the New York Stock Exchange, the Company expressly disclaims any intent or obligation to update any forward-looking statements, whether to conform such statements to actual results or to changes in our expectations or as a result of the availability of new information.

As a reminder, we have posted a supplemental information about the 2015 fourth quarter in a document entitled Fourth Quarter FY15 Commentary. This document is on our corporate website at www.deckers.com. You can access this document by clicking on the investor information tab and then scrolling down to the Featured Reports heading.

With that, I will now turn it over to Chief Executive Officer and Chair of the Board of Directors, Angel Martinez.

Angel Martinez - *Deckers Outdoor Corporation - CEO & Chair of the Board of Directors*

Thanks, Brandon. Good afternoon, everyone. Thank you for joining us today. With me on the call is Dave Powers, President of Deckers Brands; and Tom George, Chief Financial Officer.

Our fourth-quarter performance capped off a year of solid growth despite significant foreign exchange headwinds. On a reported basis, revenue for the quarter was $340.6 million, an increase of 16% over last year, and ahead of guidance by approximately $15 million.

On a constant currency basis, revenue was up 19% from last year. For FY15, revenue grew 15% to a record $1.8 billion, or 16% on a constant currency basis. Our growth was fueled by the successful execution of key growth strategies for our brands, channels and geographies, all of which focused on winning with the consumer.

Let's begin with the UGG brand, where our strategy has been to develop a global year-round luxurious comfort brand with a diversified product offering. This quarter, we further evolved the lifestyle nature of the Brandon through new product introductions aimed at broadening the brand's commercial appeal, diversifying the merchandise mix, and reducing the dependency on weather.

Our performance this past holiday season, when consumer demand for specialty classics, weather and casual boots outpaced supply, was a clear indication that our product strategy is working. Similar trends played out with our wholesale accounts during the fall 2015 pre-book, which Dave will go through in more detail shortly.

HOKA ONE ONE is growing rapidly and is strategically important as it extends our reach into athletics, a market where we previously did not have a brand to build a business in. Through great product design, we have quickly increased the penetration of women's to achieve parity with men's, while also expanding distribution beyond specialty running accounts into more mainstream retailers with larger geographic footprints.

The Teva brand is enjoying a resurgence in retail, thanks to the successful execution of our strategy to focus on the brand's roots as the original sports handle. This shift in strategy has generated excitement among our new and former Teva consumers, garnered interest from other iconic brands that have led to exciting collaborations, and opened up new points of distribution including overseas, where Teva's share of the sports handle market is underpenetrated compared to the US.

Our strategy to evolve the Sanuk brand from primarily a men's surf brand into a global lifestyle brand continues to unfold. This has been fueled by a heightened focus on women through innovative new products such as the brands yoga series of sandals and shoes which has opened up distribution with leading department stores and specialty retailers. With the Ahnu brand, our strategy has been to cater to the modern women's active lifestyle. In line with this strategy Ahnu recently launched a collection of performance-based YogaSport footwear that we believe further differentiates the brand in the market and represents an exciting new growth vehicle.

On the channel front, we continue to evolve our Omni-Channel capabilities to execute on our strategy to better serve our consumers wherever, whenever, and however they choose to engage with our brand. The integration of stores and digital has reshaped the way we look at our geographic footprint. The proliferation of technology is helping us determine the most effective way to reach consumers in each specific market and region.

We're also continuing to enhance consumer experience in-store and on our e-commerce sites, primarily through expanded functionality of programs like Infinite UGG, buy-online, return in-store, click and collect, and retail inventory online. We believe the work we've done elevating the Omni-Channel experience is paying dividends, evidenced by the 8% DTC comp increase for FY15.

Outside the US, we made important changes to our operating structure to best capitalize on the many international opportunities we believe exist going forward. This included moving to direct distribution in Germany, expanding our e-commerce presence in Asia, and reshaping our retail footprint by selectively opening locations in underpenetrated areas and transitioning some Company-owned stores in China to partner.

In the year to come, we are going to continue to build on these accomplishments. The Company is rapidly evolving and growing, which is creating new opportunities for our brands and our organization. With growth comes change and during the quarter we strengthened our leadership structure which we believe will benefit our long-term performance.

First, we elevated Dave Powers to the role of President of Deckers Brands. Dave has demonstrated incredible leadership driving our Omni-Channel efforts and transforming our organization to be consumer focused. In his new role as President, Dave will be able to drive greater cohesion between our brands, channels, and regions to ensure that we are best positioned to drive growth within each of our leading brands' respective categories.

Second, we recently appointed Wendy Yang President of Teva. Wendy has an extensive background in footwear brand building, with experience at New Balance, Stride Rite, Timberland, Tommy Hilfiger and Reebok. She joins us from New Balance, where she was a general manager of New Balance athletic shoe, overseeing the brand's $800 million lifestyle shoe business.

On the opposite end of the spectrum, we are losing an influential member of this organization as Connie Rishwain, President of UGG and Fashion and Lifestyle brands announced her decision to step down in July. During Connie's 20-year tenure with Deckers, she spearheaded the brand's evolution from a Southern California apres surf brand into a $1.5 billion global lifestyle brand. She is a true visionary, and thanks to our exceptional work, the UGG brand is well-positioned for continued success. We wish Connie all the best in her future pursuits.

With that, I'll turn the call over to Dave Powers.

Dave Powers - *Deckers Outdoor Corporation - President of Deckers Brands*

Thank you, Angel. As Angel said, we continue to execute on our strategy and had a successful quarter with positive growth coming from all brands and channels. Our success in evolving the UGG brand spring line and weather collection, as well as growing contributions from Teva, Sanuk, and HOKA has made the fourth quarter increasingly important for the Company.

Beginning with our DTC performance, total DTC sales increased 14% driven by a5% comp increase, our 10th consecutive quarter of positive comps and solid contributions from the stores that we opened in the last year. Our DTC gains were again driven by our e-commerce channel which increased 27% on a comparable basis.

Store comps improved versus third quarter trends but, nevertheless, were down mid-single digits due to decreased traffic and lower AUR, partially offset by hard conversion. As a final reminder, beginning in FY16, we will no longer break out our store and e-commerce comp performance, and instead will only report on a combined DTC comp, as we believe this is the best way to evaluate the health of the channel now that stores and digital are so intertwined.

I'm now going to review UGG performance by region, with color on each of the major channel drivers. Starting with North America, DTC comps were roughly flat compared to the same period last year. The comp was helped by continued growth coming from e-commerce, and offset primarily by declines in sales at our tourist flagship-driven locations.

We continue to see strong US dollar impacting international tourist traffic to our Hawaii, Las Vegas, and New York stores. These stores collectively represent a disproportionate dollar amount of both our North American and global comp base, so their underperformance has a significant effect on our comp figure. The UGG brand's domestic wholesale business increased low single digits, fueled by sales of spring seasonal collections and winter weather boots.

We saw success in our spring sales with our key partners who invested this year more heavily in traditional spring product. Demand for weather product was also very strong coming out of holiday. In order to best capitalize on this in-season opportunity, we increased our use of air freight to avoid the delays caused by the West Coast Port slowdown.

Now to EMEA. UGG delivered a strong quarter across the board, with growth in both our DTC and wholesale channels. DTC comps increased high teens driven by e-commerce sales and a positive store comp. Our new leadership in digital marketing efforts in the region have led to improved performance in our stores and e-commerce businesses. Our success was also due to a sharper focus on developing compelling seasonal spring product, especially for the DTC channel.

Our decision to convert our German distributor to a subsidiary benefited our wholesale results and has proven very timely as we see a lot of opportunity to grow the UGG brand across all channels in this large and important market.

Turning to Asia-Pacific, which was our fastest-growing region during the fourth quarter, DTC comps increased low double digits, driven by strong e-commerce and store gains in Japan. Our team continues to execute against our marketplace strategy in Japan with our men's business being particularly strong. Our success in men's was driven this past quarter by our men's Treadlite collection, which was a big part of our spring marketing campaign.

In China, the team is making progress, working through the merchandising and allocation issues that impacted the third quarter. The DTC team here in California is continuing to provide additional support as we build up our regional team in Shanghai. We are confident the adjustments we've made to the product offering and our allocation of merchandising planning will lead to improved performance in our Company-owned stores this fall.

With regards to our expansion strategy in China, the current plan is to shift more heavily towards partner-operated doors. At the end of FY15, there were 23 partner-operated UGG stores in China, which included the seven owned stores that were transferred during the year. For FY16, we expect the number of partner doors to roughly double, mostly through new store openings but will likely conclude a few more company-owned transfers.

For our own stores, we're temporarily slowing the number of new store openings in the most of our regions as well for FY16. The current plan is to open 16 net new stores globally compared to the 30 new stores opened in FY15. Of the 16, nine are outlets and seven are concepts, with all of the concepts planned for the Asia-Pacific region, mostly in Japan where the brand is performing extremely well. This year we are focusing more of our investments on technology to drive increased consumer engagement. We are confident this strategy will help fuel growth going forward, and maintain our healthy DTC operating margins.

Moving over to UGG, for this year's backlog we were strategically focused on quality and diversity when pre-booking fall. As we outlined in our Q3 call in January, many of our wholesale customers sold out of their non-classic inventory midseason, which led to missed replenishment opportunities during the holidays. When planning for this upcoming season, we wanted to ensure that our retail partners were better positioned to capitalize on consumer demand.

We are pleased to share that based on the strength of our fall and holiday 2015 line, we successfully shifted our women's core classics business from roughly 33% of UGG revenue to under 25%, with growth coming from specialty classics, weather, casual boots, slippers and other categories. With this in mind, I'm pleased with our results which show global UGG backlog at March 31 up slightly in constant currency with domestic orders up mid single digits, offset primarily by the decline in Europe where our distributors' buying power has been reduced due to the strong US dollar. Total Company backlog was up low single digits in constant currency.

Given the change in the makeup of the UGG brand's fall order book, it's helpful to understand why the makeup of this year's order book gives us greater confidence in the outlook for our wholesale business in FY16, and how this shift will impact our business going forward. Since retailers have pre-booked fewer classics than in the past, we now have the ability to use our classic inventory to chase demand in season.

This strategic shift in the makeup has also reduced the risks of cancellations since classics tend to have a higher cancellation rate than our other collections due to their sales sensitivity to cold weather. Our sales teams did an excellent job working with our wholesalers and we're excited about how this shift positions the UGG brand long-term in line with our new marketing emphasis on product launches.

Now to the performance of our other brands. The repositioning of Teva to be more relevant to women and to attack the casual and sports sandals categories is paying dividends. Teva continues to generate strong consumer enthusiasm with its originals collection and originals derivatives, which are opening up new distribution and specialty accounts in family footwear chains. These collections, including the newly introduced platform original sandal and our strategic collaborations have generated significant buzz in the marketplace and are helping us expand our presence within existing partners such as Nordstrom's and Urban Outfitters.

The same is true on our international markets where the refreshed product, along with concerted marketing efforts, are driving growth and expansion into lifestyle retailers in EMEA and AIPAC.

Moving to Sanuk, consistent with our strategy the brand has officially expanded beyond core surf distribution into key wholesale accounts like Journeys and Tilly's, as well as all doors at Nordstrom's. This has allowed Sanuk to reach a wider female-driven audience. As a result, the Sanuk business is now more balanced with 50% of its sales coming from women. Demand for the brand's newer non-core offering has grown significantly, led by the women's yoga sandal collection which is selling through at double-digit percentage rates on a weekly basis this spring.

On the men's side, our efforts to gain share in the casual shoe category are bearing fruit. The Boulevard collection, the brand's first casual shoe offering, has quickly become the second best selling men's collection on sanuk.com, behind only the brand's iconic Sidewalk Surfer collection. The brand's expanded distribution, strong digital trend, as well as a more robust product offering that now includes casual shoes, positioned the brand well to compete in the large casual sandal and shoe market against key players such as Tom's and Havainas.

Now to HOKA, which is having great topline success and recently exceeded $50 million in sales in FY15. This is a remarkable achievement for a brand that has only been in the market for a few years and operates in the highly competitive running industry. HOKA's share of the neutral christening space in the specialty and running channel is now larger than several well-known brands like New Balance and Adidas.

What's also remarkable about HOKA's rapid growth is the fact that until recently distribution was limited to the specialty running channel which is highly fragmented and made up of primarily independent stores and small regional chains. HOKA recently began initial expansion into more mainstream running and sporting good retailers like Sports Authority, and Finish Line, which opens up the brand to a much wider audience.

Product innovation continues to be the key growth driver and this year HOKA will release updates to award-winning styles such as the Clifton and the Bondi, while also expanding into new footwear categories, including hiking, where we believe the brand's oversized [UGG sole] will provide to be an attractive and differentiating feature at retail. HOKA is now a credible and meaningful player in the running community with strong acceptance by female runners. This acceptance and expansion beyond ultra-running gives us confidence in our aggressive growth plans for the brand.

As you just heard, each of our brands is starting the new fiscal year with solid momentum, driven by a combination of compelling new products, and select new points of distribution. We are confident that we have the right teams, plans and processes in place to capitalize on the many opportunities we believe lie ahead.

Looking forward, I want to address the opportunity that I see ahead of us in my new role. My focus will be on leveraging the strength of our Deckers Brand portfolio to drive sustainable growth and profitability, create synergy across the organization, and continue to evolve our Omni-Channel capabilities in DTC operations. We will prioritize consumer engagement and digital marketing capabilities for all of our brands. We will leverage the authenticity and strength of our emerging brands to attack meaningful categories globally, create new distribution opportunities, and improve overall operating margin.

Simultaneously we will continue to build on the global lifestyle offering of our flagship UGG brand to drive continued growth across all channels and regions with a strong focus on the evolutions of our classics category and expansion of casual and winter boots as well as men's and lounge wear.

Finally, I want to announce that we've recently acquired the Koolaburra brand, a sheepskin and wool-based footwear brand with current product silhouettes that mimic the UGG Classic and certain derivatives. We plan to quickly reposition Koolaburra over the next 12 months to enter the mid-TM market. This is a highly strategic acquisition for us that will allow us to compete in this market while maintaining the premium positioning of our UGG brand.

We plan to leverage our design and development expertise as well as our key and current relationships to bring Koolaburra to market. We are very excited about this new addition to our brand portfolio and its potential to expand our addressable market. The current health of all our brands, the strength of our franchise styles, distribution expansion opportunities, and the evolution of our DTC model gives me great confidence in our ability to drive healthy growth and profit for FY16 and beyond.

With that, I'll now turn the call over to Tom George.

Tom George - *Deckers Outdoor Corporation - CFO*

Good afternoon. As a reminder, we posted a commentary on the quarterly financials and a bridge to our FY16 guidance to our website under the investor information tab.

Revenue increased 16% to $341 million in the fourth quarter. In constant dollars, revenue was $351 million, up 19% from last year. All brands posted solid revenue growth with UGG up 10%, Teva up 13%, Sanuk up 28%, and HOKA up 80%. Our revenue in the quarter exceeded guidance by $15 million. This upside was driven primarily by approximately $9 million in our DTC channel and $6 million from our wholesale and distributors.

For the year, revenue grew 15% to $1.8 billion. In constant dollars, revenue was 16% higher for the year. The increase in revenue was driven by double-digit growth for all brands, aided by higher e-commerce sales, the conversion to direct distribution in Germany, and the additional retail stores.

Gross margin was 44.7% in the fourth quarter, compared to 48.9% last year, and versus our assumption of 47.2%. The largest component of the change on a year-over-year basis was driven by FX headwinds from the strengthening of the US dollar. The difference versus our guidance was partially due to changes in FX, a higher proportion of closeouts, and higher air freight charges in order to avoid the West Coast port delays. The closeouts include the liquidation of TSUBO inventory, which was worth about 60 basis points.

For the year, our gross margin was 48.3%, compared to 47.7. We had approximately 120 basis point increase in gross margin, primarily due to lower input costs, a greater mix of the business from DTC, and the Germany conversion. These gross margin tailwinds were offset by a 60 basis point FX headwind, due to the strengthening dollar.

SG&A was 44.5% of sales in the fourth quarter, slightly better than expected due to higher sales combined with lower incentive compensation expense, compared to 49.1% a year ago. For the year, SG&A was 36%, compared to 34.8% a year ago. For the quarter, we earned $0.04 per share, versus an $0.08 loss a year ago. This was ahead of our guidance for breakeven and was driven by higher revenue partially offset by lower planned gross margin.

For the year, the Company earned $4.66 per share, compared to $4.07 a year ago, representing an increase of 14.5%. During the quarter, the Company repurchased approximately 1.3 million shares of its common stock at an average purchase price of $73.45, for a total of $93.9 million under its stock repurchase programs. As of March 31, 2015, the Company had used all of the authorized repurchase funds under its $200 million stock repurchase program announced in July 2012, and had $172.1 million authorized repurchase funds remaining under its $200 million stock repurchase program announced in January 2015.

Now to guidance. For the full FY16, we expect constant currency revenues to increase approximately 10.5% over FY15 levels. On a reported basis, based on current rates, we expect revenues to increase 8%, which is consistent with the preliminary guidance we provided back in January for high single digit growth.

Included in our topline reported revenue assumption is global wholesale and distributor growth of 6%, which includes UGG domestic wholesale growth of 7%, DTC comps in the low single digit range, and the addition of 16 new stores. On a reported basis by brand, we expect to Teva to grow 9%; Sanuk to grow 11%; HOKA to grow 74%; and UGG to grow 5% to 6%. In constant currency, UGG growth would be 8% to 9%.

With respect to gross margins, due to the strengthening of the US dollar since the end of January, we now expect gross margins to be approximately 48% in FY16, compared with FY15 gross margins of 48.3%. The changes in guidance are due to foreign currency which is reducing gross margins by 130 basis points, partially offset by 50 basis point of improvement from lower sheepskin cost, including the benefit from UGG Pure and 50 basis points improvement from the increased penetration of our DTC channel.

SG&A as a percentage of sales is projected to be 35.8% for the full year, which equates to 20 basis points of leverage compared with FY15. This is slightly below our previous forecast for 40 basis points of leverage, due to the fact that SG&A for FY15 came in under planned by roughly 20 basis points as the result of lower incentive compensation expense. As a reminder, most of the leverage for the year will be achieved in the back half of the fiscal year.

For the full year, constant currency EPS is projected to be $5.60, representing an increase of 20%. On a reported basis, EPS is projected to be $5.09, representing an increase of 9% over FY15 EPS of $4.66, which is roughly $0.05 ahead of the initial guidance we provided in January.

The improved outlook is driven by a lower share count, as a result of our recent repurchase activity, partially offset by the impact on gross margins from the stronger US dollar. Our guidance is based on a weighted diluted share count for FY16 of approximately 33.9 million shares and a 27% tax rate. CapEx for FY16 is projected to be roughly $65 million to $70 million, with $10 million towards the buildout of our Marino Valley distribution center, $12 million in business transformation investments, $20 million in maintenance CapEx, and $25 million in DTC infrastructure related to new store openings in the e-commerce investments.

For the first quarter, we expect revenue to be relatively flat compared with the same period a year ago on a reported basis and up slightly on a constant currency basis. We expect a diluted loss per share of approximately $1.52 on both reported and constant currency basis, compared to a diluted loss per share of $1.07 last year. As a reminder, significant amount of our operating expenses are fixed and spread evenly on an absolute dollar basis throughout each quarter.

I'll now turn it back over to Angel for his closing comments.

Angel Martinez - *Deckers Outdoor Corporation - CEO & Chair of the Board of Directors*

Thanks, Tom. All in all, FY15 was a solid year. We delivered midteens top- and bottom-line growth, even in the face of some stiff foreign exchange headwinds. However, I believe the most important takeaway was the success of our new collections, and the progress diversifying our mix of business from both a product and channel perspective. These are themes we will build on in the coming year.

At the same time, we're incorporating important learnings from the past 12 months into our planning and execution that will help drive improved performance going forward. We're on track and fully committed to leveraging the investments we have made over the past several years, to expand operating margins, which along with our current repurchase authorization will fuel increased value for our shareholders.

To close, I want to thank the entire Deckers Brand team for delivering such a strong performance. This organization's ability to quickly adapt to the many changes we've encountered during the past few years is one of the greatest strengths of this organization and why I continue to be so confident about the future.

And with that, let me turn it over to the operator for the Q&A session. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Taposh Bari, Goldman Sachs.

Taposh Bari - *Goldman Sachs - Analyst*

Thank you. Good afternoon. I was hoping you could elaborate, David, on how on the recomposition of the order book at UGG, a few parts of the question. First, can you comment on what the margin and ASPs look like for the core classics versus the specialty classics -- the (inaudible) part of the line?

Two, what has retailer feedback been for the strategies? It seems like they're as willing to pre-book some of the new product, but as you can kind of elaborate more on that. And then, finally, if you can address what the core classic inventory situation looks like out there in the channel, given that it seems like you're assuming some reorder on the core classic business in your guidance?

Dave Powers - *Deckers Outdoor Corporation - President of Deckers Brands*

Yes. Great questions. So let me address the first one around margins and AFP. Margin expectations for the entire classics category is consistent with what we have had in the past, so I would say that's relatively flat. Where you're going to see ASP improvement is in the specialty classics. And we've done that strategically, going after some higher price point product, particularly for the DTC channels to maintain ASPs and drive upside for that category.

With regards to retailer feedback, it's actually been a very healthy process over the last couple of months in getting our pre-books. The retailers -- they lived through Q3 where they missed opportunity, so they came to the table excited about casual boots, weather product, some of the fashion boot opportunities in specialty classics because they saw the opportunity over the holiday season. So the order book that we have now, I think, is a very healthy order book strategically because we have utilized the retailers open-to-buy to invest in these new emerging categories, strategically brought down the amount of classic -- core classic inventory within their mix, which allows us to chase that business in season.

So I think it's a much healthier order book going forward. The response and the collaboration from our partners has been very positive. And I think we're very optimistic about the back half of the year as a result.

Taposh Bari - *Goldman Sachs - Analyst*

And the third question I have or the third piece of that question was the core classic inventory situation out there in the channel?

Dave Powers - *Deckers Outdoor Corporation - President of Deckers Brands*

Yes. It's pretty clean. We've been managing through that. We've been shifting out delivery purposefully, based off some of the carryover that we have had into the channel. And we're just gearing up to be in a better shape to be able to fuel that business in the back half of the year.

Taposh Bari - *Goldman Sachs - Analyst*

Great. Thanks, Dave. And two for you, Tom. SG&A dollar growth in the quarter was up pretty modestly, pretty massive deceleration from what we've been used to seeing out of the Company. Is that a reflection of the new normal here or was there something anomalous in the quarter?

And the second part, and I'll pass it along, is Germany, if you can quantify the revenue and EBIT contribution for 2015 -- for FY15 and what you expect it to be for FY16. Thanks.

Tom George - *Deckers Outdoor Corporation - CFO*

On the SG&A, during the quarter, we -- on the operating expense dynamics there as we beat the sales number, we had some higher variable expenses, but we did have some reductions in our incentive comp expense during the quarter that sort of leveled off the SG&A on a year-over-year basis.

In Germany, just the flip of the model from a distributor model to a subsidiary model, not counting the increased volumes we generated, generated about $11 million of EBIT for the year, which was about an 80 basis point improvement in gross margin. For 2016 we really don't comment on individual countries.

Taposh Bari - *Goldman Sachs - Analyst*

Okay. Thank you, guys. Good luck.

Tom George - *Deckers Outdoor Corporation - CFO*

Thanks.

Operator

Bob Drbul, Nomura.

Bob Drbul - *Nomura Securities Intl - Analyst*

Thanks. Hi; good afternoon. Just got a couple questions, I think. On the first one, with the visibility that you have on the wholesale business and I think specifically the UGG business, how much classic inventory would you anticipate building to sort of be in a position to chase orders in the fall and the winter period?

Dave Powers - *Deckers Outdoor Corporation - President of Deckers Brands*

Well, I think the first thing was our baselining off of last year. And so last year was, I would say, probably a more normalized year due to weather patterns and purchase recycled patterns, so we'll baseline that. And we're probably, I would say, up about 10% to 15%, planning for some upside in season. But keep in mind we're carrying more inventory to be able to chase that business, but we also have the flexibility in season to push out if necessary.

Bob Drbul - *Nomura Securities Intl - Analyst*

Got it. Okay. And then, so when you have your order book and you sort of give us the total outlook for the year now, the assumptions on the direct-to-consumer business, given your order book, can you just talk us through how you are approaching and planning that piece of it as well?

Dave Powers - *Deckers Outdoor Corporation - President of Deckers Brands*

The DTC business?

Bob Drbul - *Nomura Securities Intl - Analyst*

Yes. The DTC.

Dave Powers - *Deckers Outdoor Corporation - President of Deckers Brands*

Yes. So we guided to low single digit comps across DTC globally. So I think that's a smart approach. I think we're conservative, still having some traffic-patterns challenges in our tourist locations, so the stores are more on the conservative side. We still see healthy growth in e-commerce and that's continuing to be high double digit growth -- or high teen growth, sorry.

So I think that that is a solid business for us that we are just thinking a little bit more conservatively about how we are approaching it, but we do think that we have upside coming into the fall holiday season through some of the new product introductions, and some of the marketing focus on key categories and key styles.

Bob Drbul - *Nomura Securities Intl - Analyst*

Got it. And then, with the mention of moving --I think it was in China, some of the stores that are going from Deckers-owned to partnership stores, how will that influence the financials as we think about it from a modeling perspective?

Dave Powers - *Deckers Outdoor Corporation - President of Deckers Brands*

Yes. So the way you can think about it is it flips from a retail dollar sale to a wholesale dollar sale, but at a net profitability, it's comparable.

Bob Drbul - *Nomura Securities Intl - Analyst*

Great. Okay. Great. Thank you very much.

Dave Powers - *Deckers Outdoor Corporation - President of Deckers Brands*

You're welcome.

Operator

Camilo Lyon, Canaccord Genuity.

Camilo Lyon - *Canaccord Genuity - Analyst*

Thanks. Good afternoon, guys. Just to clarify on one of the last questions, so, David, you were talking about the backlog, and it being more weighted to the specialty classics and consequently holding more inventory on the core classics, if you think about what could transpire from an inline case scenario to a best-case scenario, what would the overall growth look like, assuming that you did get those reorders on the classics business that retailers are not committing to right now?

If you got the UGG backlog that's up mid singles that's predominately specialty classics, what would the total -- what could the total picture look like?

Dave Powers - *Deckers Outdoor Corporation - President of Deckers Brands*

I mean, that is kind of hard to say. I mean, that depends on what happens when we get into season. I think I'd be prepared for anywhere from a 3% to 8% increase, we will have the inventory to be able to chase into that, but it's hard to call the ball this early in the stage.

Camilo Lyon - *Canaccord Genuity - Analyst*

So is that 3% to 8% incremental on top of the mid single digit order book that's in place now?

Dave Powers - *Deckers Outdoor Corporation - President of Deckers Brands*

Yes. If the trend continues to be strong and we see good weather for classics and good reaction to that classics business, I think that could happen.

Angel Martinez - *Deckers Outdoor Corporation - CEO & Chair of the Board of Directors*

And just to maybe clarify that, that might be more of the domestic wholesale channel in the December quarter.

Dave Powers - *Deckers Outdoor Corporation - President of Deckers Brands*

Yes. I'm thinking more wholesale then, right.

Camilo Lyon - *Canaccord Genuity - Analyst*

Of course. Understood. Understood. And then, I thought it was interesting that you decided to slow some of the retail store openings. Does that alter how you view the -- is that just slowing the pace of growth or the ultimate number of stores that you want to have and could you potentially consider closing any doors?

Dave Powers - *Deckers Outdoor Corporation - President of Deckers Brands*

Yes. I think the ultimate number of stores that we have talked about long-term is still intact. I think basically we have slowed down in the current environment until we see what happens with the impact of FX on tourism, we get a better understanding of how the retail environment in general starts behaving. So this year we're being a little bit more cautious; we're taking some really safe bets, but we plan to get back to growth long term.

And I think that we will still continue to invest in stores. You have to keep in mind, outside of some of these key flagship locations that are really being impacted, the majority of our stores are performing well, particularly in our domestic model stores and urban locations, as well as Japan and China, are getting back on track. And then you saw what we stated with the comps in Europe, positive comps for the first time in a long time.

THOMSON REUTERS

So the core the base of stores, I would say, is healthy. But with the traffic implications on our flagship locations, that's where we're trying to be a little bit more cautious.

Camilo Lyon - *Canaccord Genuity - Analyst*

And then the last thing is just, with Connie's departure, are you going to be looking to fill that slot with someone -- or what kind of person are you looking to fill that slot with? There is a distinct change in the demand for the type of UGG product that you are obviously now building to, so there's going to be more importance on someone who's got an ability to forecast and be more on trend rather than be the trend. And just curious to see what you're thinking about.

Angel Martinez - *Deckers Outdoor Corporation - CEO & Chair of the Board of Directors*

Yes. This is Angel. First of all, I just want to, again, acknowledge Connie's contribution which has been extraordinary and big shoes to fill, obviously, for someone. Yes, we, of course, will replace the position. But it will be someone with a different set of skills as well as an ability to sort of take the brand to the next level. It's going to require an experienced level of having operated at a bigger scale already.

And, as I said, big shoes to fill, but we have no shortage of interest in the position. So I think we're going to be choosing carefully, we're not going to rush ourselves, it has to be a cultural fit as well. In the meantime, Dave is stepping in to oversee with the UGG team the UGG brand.

Camilo Lyon - *Canaccord Genuity - Analyst*

Thanks. Sorry, I do have one last one. The comment you made about the acquisition and using that brand to enter the mid tier market, can you give a little bit more color on the timing, the type of channel that you'll be entering, maybe some of the price points and what will be the initial product that you'll be going to market with?

Dave Powers - *Deckers Outdoor Corporation - President of Deckers Brands*

Yes, good question. We're really excited about this. It's a very strategic acquisition for us. I look at it as a category attack brand. We look at the global sheepskin-related market out there, the market that UGG really built over the years. In North America, we see that as roughly about $1 billion business, where UGG owns about half of that volume globally. We estimate it's probably about a $5 billion business. And UGG operates probably about a third of that share.

So pretty sizable opportunity for somebody to come in and really get after that market share. And it's really below $100. UGG occupies a space above $100 and above $125 with very little competition, but there's a lot of competition, a lot of players at the under $100 price point globally. And we think with our capabilities in this type of product, the relationships we have with our accounts, the inside knowledge we have from our UGG brand, and the infrastructure globally that we can get after this market in a pretty aggressive way, and we're pretty excited about it.

Camilo Lyon - *Canaccord Genuity - Analyst*

Is that a this-year event or a --

Dave Powers - *Deckers Outdoor Corporation - President of Deckers Brands*

We are working to sort out those details right now. We are going to have to reposition the brand, but we would like to get some product in the market by the end of this fiscal year to get a read so we can go heavy for fall 2016.

Camilo Lyon - *Canaccord Genuity - Analyst*

Great. Thanks a lot, guys. Good luck.

Dave Powers - *Deckers Outdoor Corporation - President of Deckers Brands*

Thanks.

Operator

Mitch Kummetz, B. Riley.

Mitch Kummetz - *B. Riley & Company - Analyst*

Yes. Thanks. Couple questions. One, Dave, I think you said the backlog is up low single digits in constant dollars, if I'm not mistaken. First off, what is that in reported dollars? And then help me bridge the gap from that number to what I think Tom said was an expectation for 6% wholesale growth.

I get what you're doing there in terms of how you're shifting the composition of the backlog. I guess what I'm trying to get at is, what are your assumptions around reorders and cancellations to get to that 6% off of whatever the backlog is in reported dollars? And then I have a follow-up.

Dave Powers - *Deckers Outdoor Corporation - President of Deckers Brands*

Yes. So the way to look at it is the low single digits increase in the backlog in domestic doesn't change in reported dollars. It's a slight change when you factor in EMEA wholesale impact on that, but it's probably relatively flat on a global basis. So that is kind of how we are looking at it.

With regards to filling the gap from what Tom talked about, we see reorders and cancellations probably roughly canceling each other out; it'll be a wash between those two. The good news is with the open-to-buy that the retailers have placed, should be a lot less cancellations than we have in the past with the classics open-to-buy, but there's opportunity to chase the classics' business to fill that gap.

What also is not contemplated in those figures right now is the introduction of a new style we're launching this holiday called the classic slim. And that is a slimmer version of the classic. We're bringing it to market in November, December. It's going to be a big launch in our DTC channels and select wholesalers in North America and Europe. And then on top of that, we think we can continue to chase spring business; do some markdown business at a healthy markdown versus last year that we missed opportunity in some of those key categories, in addition to maybe a few more closeouts to fill the gap.

Mitch Kummetz - *B. Riley & Company - Analyst*

Okay. And then my follow-up, on the Q2 guidance, Tom, and maybe Angel, sales guidance, flat year-over-year. We're two months into the quarter. I guess I would have thought sales would be stronger than that. So I was hoping you could maybe provide a little bit of color there. I mean, obviously you've got -- you've seen some things already through the first couple of months of the quarter, but it's not like your commentary on some of your other brands, be it HOKA or Sanuk or Teva, that things were trending pretty well.

Is that -- just help me understand how we get to flat sales versus something better than flat?

Tom George - *Deckers Outdoor Corporation - CFO*

Yes, Mitch, a few things. One of them is FX relative to a year ago. So there's some FX pressures. And the other thing is a year ago we had some Tsubo and MOZO sales; those are not there. And another thing is we've got some weaker store contributions this year relative to a year ago.

And then, finally, our Europe distributor shipments are down. That's consistent with the FX pressures they are feeling in their open-to-buy, so to speak.

Mitch Kummetz - *B. Riley & Company - Analyst*

Okay. All right. Thanks, guys. Good luck.

Operator

(Operator Instructions)

[Jay Sole], Morgan Stanley.

Jay Sole - *Morgan Stanley - Analyst*

Hi. Good afternoon. Just want to ask a question on HOKA; strong growth there. How are the margins trending now at HOKA and how does that factor into the guidance for next year? And at the same time, can you talk about the SKU at HOKA? Are most of the SKUs so that the extra cushioning or is the brand able to go and do regular, more traditional-looking type of running shoes?

Angel Martinez - *Deckers Outdoor Corporation - CEO & Chair of the Board of Directors*

Let me comment on the sort of direction of the brand. First of all, the brand is a total running brand. It was never intended to be an oversized brand. Yes, we make -- we invented the oversize category. But as you see, if you look through the coming product which we just showed for spring 2016, we're introducing product that's slightly lower profile, closer to -- it's hard to even say a traditional running shoe, because that has been all over the map the last couple of years.

But what I do know is that the norm for running shoes is looking a lot more like the HOKA product than it looks like minimalist. So all the other brands are coming in HOKA's direction. HOKA is broadening to include shoes, for example, for high school cross country, for college athletes for training for track and cross-country, in addition to the mountain product that we've done. So it's a very diversified total running offering. It is not just oversize.

Tom George - *Deckers Outdoor Corporation - CFO*

In terms of the HOKA growth, we expect it to grow about 74%, most of that growth being US wholesale, including some sporting goods as well as international distributors. So the gross margins trend more in the low 40%s. This year we expect to make a little bit of money at the operating margin line with HOKA.

Jay Sole - *Morgan Stanley - Analyst*

Got it; that's really helpful. And then can I also ask about some of the newer categories for the UGG brand; sleepwear. You touched on some of them before, but can you talk about sleepwear and other places you are taking the UGG brand besides classic boots and fashion boots?

Dave Powers - *Deckers Outdoor Corporation - President of Deckers Brands*

Yes. Great question. We're actually seeing some great traction. As we mentioned in the last couple calls, casual boots, weather, those categories in footwear are very strong for us. In addition to that, we see men's as a sizable opportunity. We have a very healthy slipper business; we are starting to gain traction in the casual shoes and casual boots business.

We had a launch of our Treadlite collection this past spring, which has done extremely well, high sell-through, an initial look at spring 2016 product from our accounts is very positive. So we see growth in that category.

And then lounge wear is an emerging category for us as well. It's primarily sold in North American wholesale accounts, who keep coming back asking for more assortment and more flow. A little bit in our DTC channels as we figure out how to showcase that product in our stores and online, but still tremendous opportunity internationally for that lounge wear category. So long term, we're looking at evolving the classics business across core and specialty, casual boots, and weather as the core competency for the brand.

Men's has tremendous opportunity, and then lounge wear as an emerging category for us as well. And then at a high level, really getting after our spring and summer business with a real heavy focus on creating more upside in that time of the year.

Jay Sole - *Morgan Stanley - Analyst*

Okay. Got it. Thanks so much.

Dave Powers - *Deckers Outdoor Corporation - President of Deckers Brands*

Sure.

Operator

Sam Poser, Sterne Agee.

Sam Poser - *Sterne, Agee & Leach, Inc. - Analyst*

Yes. Good evening. Thanks for taking my question. I just want to dig back into the backlog again. I mean, there's -- I just -- it doesn't make sense -- it doesn't seem to make a lot of sense here.

You're saying that the backlog's flat, you are expecting whole business, Sanuk, to be up mid single digits and you're saying that the reorders and the cancellations will offset each other, which at least puts you back to a low flat backlog.

So just a little more color there. And then I have one more -- a few other questions.

Tom George - *Deckers Outdoor Corporation - CFO*

Yes. Sam, this is Tom. I think when we refer to reorders and cancellations canceling out, I think the reference there is more about the fall product, the heritage product, some of the Classic product, as opposed to the fact that some of the product that Dave spoke about, the slim product, the additional closeout since we expanded product offering that we'll book, the additional spring product that we will book later, as well as some additional SMUs that we will book later.

Dave Powers - *Deckers Outdoor Corporation - President of Deckers Brands*

Yes, and I think the other thing, Sam, that we spoke about when we were last together, we're taking a deeper inventory bet in what I would say is our top ten styles for the season. Styles that are sheepskin based, that are very safe bets for us, that we think, come January, February, we can do a lot of volume on those, at initial markdowns, if necessary. But where we missed business last year because we were too clean, this year we think there is upside in the pre-book based off the opportunity in the market to really go after volume in that time of year -- healthy volume.

Sam Poser - *Sterne, Agee & Leach, Inc. - Analyst*

All right. I have a few more. Can you give us what the backlog increase was, giving us specialty, classics, casual and the weather product? Just to give us some idea of how strong that is.

And then, too, what is the euro-dollar expectation built into the guidance? Number three, can you give us the UGG wholesale e-com and retail revenue for the fourth quarter?

Four, who is getting Koolaburra first and what's built into the guidance? And might you replace the UGG position in two jobs rather than one, the brand first and maybe an operations person? That was all I had.

Dave Powers - *Deckers Outdoor Corporation - President of Deckers Brands*

I think we said you get one follow-up. We will answer as many of these as we can.

With regards to the backlog, so the way to look at it -- and this is very consistent again, Sam, with what we talked about last call and on some of our trips. The way the backlog is broken up now is our core classics ends up being about a third of our mix, going forward; specialty, classics and knits is about 25 -- one-third also, up from 25%; and then the casual, weather and fashion is about roughly 24% of the mix, up from about 16%, 17% last year.

So the makeup of the backlog is very consistent with our strategy to reduce reliance on core and really go after specialty, classics, knits, in the casual and weather product.

Sam Poser - *Sterne, Agee & Leach, Inc. - Analyst*

I understand, but how much are those up? I mean, how much are those -- other than Classic, how much are they up or down or whatever? What is the backlog on those items -- those categories?

Dave Powers - *Deckers Outdoor Corporation - President of Deckers Brands*

Okay. So high level -- again, classic -- core classics is down roughly 20% or so. Specialty classics is up 20% plus. And the, the fashion boot casual is roughly 29% -- 20% to 30%.

Sam Poser - *Sterne, Agee & Leach, Inc. - Analyst*

And weather?

Dave Powers - *Deckers Outdoor Corporation - President of Deckers Brands*

Well, weather is bucketed in there with casual boots and weather, because some of those -- it depends on the styling and the functional details, so we package those as kind of one category, casual boots and whether.

Tom George - *Deckers Outdoor Corporation - CFO*

Sam, the answer to the euro is the current rates for the euro. Wholesale retail e-com revenue for UGG in the fourth quarter.

Dave Powers - *Deckers Outdoor Corporation - President of Deckers Brands*

Okay. With regard to your question on Koolaburra. So we're going to run this as part of our business development approach right now, so we have a small team, internal team, working on this as we transition the brand from previous ownership into our ownership. We're working on the strategy right now, but we see this as a low overhead operation.

It's really a category attack, specific targeted accounts, specific targeted categories and styles. We're going to run this lean to get it off the ground and then we'll evaluate as the business grows over next year. But I also don't want to burden the UGG team with this opportunity. They have enough things to get after right now, and particularly the new president coming in over the year. I need that team focused on UGG, and we'll take other people in the organization to get after Koolaburra.

That being said, we will leverage the expertise within the UGG brand to make sure we position this product and category of distribution correctly.

Tom George - *Deckers Outdoor Corporation - CFO*

In terms of the UGG breakdown by channel for the fourth quarter, the total UGG sales were $217 million; $88 million was wholesale; $44 million e-commerce; and $85 million retail stores.

Operator

Thank you. Scott Krasik, Buckingham Research.

Scott Krasik - *Buckingham Research Group - Analyst*

Yes. Hi. Thanks. I'll try to limit my questions. But can you help us understand, why are you selling the classic slim differently? Why isn't that in the backlog?

Dave Powers - *Deckers Outdoor Corporation - President of Deckers Brands*

Yes. That's a good question. So the Classic slim is a quick reaction by the DTC and UGG teams to get that product into the market as fast as possible. So when we came through last year, Q3, we saw an opportunity to evolve the classics business. And so we quickly worked with the UGG brand to create this new silhouette.

They had it in the pipeline for fall of 2016, but we fast-tracked it into the business so we could launch it in a big way this fall in DTC, and we'd see wholesale partners that we felt we could go back to after the pre-book is done.

Scott Krasik - *Buckingham Research Group - Analyst*

Are retail price points there and do you expect that ultimately to replace even a bigger percentage of the core classics business?

Dave Powers - *Deckers Outdoor Corporation - President of Deckers Brands*

The retail price points are still working through. It will be higher than the core classic and we'll add some other qualities to it that are improved above the core classics, such as some water-resistant leathers used, has an arch, and some other details to it.

But we like to position it a little bit higher in price, a little bit more special. Over time, this is certainly an incremental business over the core classic, but the first thing to do is to get it in front of the consumer and see how they react and then we can go from there.

Scott Krasik - *Buckingham Research Group - Analyst*

Okay. And help us understand what's happening in EMEA. I would call your wholesale business sort of mixed over the last couple of quarters and then really big DTC increase this quarter. So maybe characterize that, what's happening in EMEA?

Dave Powers - *Deckers Outdoor Corporation - President of Deckers Brands*

Yes. I think you're seeing a couple of things going on in the marketplace over there. Obviously the economic challenges are still continuing in that market. Whether the impact of FX on tourism is driving some of that upside that you're seeing in DTC is hard to quantify. I think there's probably a little bit of that there, but what it really comes down to is getting our DTC teams, particularly in the stores, elevating our leadership there, driving conversion in our stores, getting our merchandising mix correct.

And that is the result that you've seen in this past quarter. E-commerce in that market continues to grow a very healthy rate across all countries. And I think you're seeing the migration from the consumer buying on wholesale into our DTC channels a little bit. Wholesale business, as you know, particularly in the UK, is a challenge for everybody. We are not immune to that. But I think the changes we're making going into fall and holiday with the assortment mix, partnering with our key retailers, is the right strategy and I'm confident will continue to provide upside there.

Operator

Thank you. Eric Tracy, Janney Capital Markets.

Eric Tracy - *Janney Capital Markets - Analyst*

Sorry to do this, but on the backlog, is there any way to discern on the core classics, that down 20% year-over-year, just what is the actual kind of like-for-like, sort of, if you will, draw down on the classics business versus the very proactive decision to make it replenishment? Any way to tease that out?

Dave Powers - *Deckers Outdoor Corporation - President of Deckers Brands*

Not sure I quite understand your question there.

Eric Tracy - *Janney Capital Markets - Analyst*

Okay. Maybe we can follow up off-line. Let me just move on, then, to in terms of the wholesale business, moving more towards -- in the backlog, moving more towards the casual fashion weather products, can you speak to the potential for stepped-up marketing, how you communicate that to the consumer? Will there be greater point of sale relative to what has traditionally been a very classic heavy sort of business in the wholesale doors?

Dave Powers - *Deckers Outdoor Corporation - President of Deckers Brands*

Yes. I think that's a great opportunity for us. As we continue to evolve our organization and how we go to market as a brand, and work with some of our key retailers, I think there's opportunity to better fine-tune our marketing to drive sell-through in specific styles and also elevate our point-of-sale presentation in some of these key accounts. So that's a long-term thing that we are working on internally.

With regard to this fall, we are very focused on marketing -- driving product sell-through. So we have some big launches coming in fall and holiday, and I think the best expression you'll see is the classic slim, the way our marketing campaign is focused on the launch of that item versus the lifestyle campaign. And I think it's a core competency that we're going to continue to build on.

Eric Tracy - *Janney Capital Markets - Analyst*

Okay. And then if I could get just a couple more. Dave, you mentioned, obviously, a little bit of moderation on the CapEx allocated to door growth, which you said sort of stepped-up focus on technology this year? Can you speak to anything incrementally or elaborate on that?

Dave Powers - *Deckers Outdoor Corporation - President of Deckers Brands*

Yes. Essentially the focus on technology is really around getting close to our consumer and elevating our digital marketing capabilities. We recently brought in a vice president of marketing orchestration who has a real strong digital marketing background. We purposefully brought that person in, his name is Jim Davis, came from Urban Outfitters. And he is helping to elevate our capabilities in digital marketing, including our CRM practices, and introduction of a loyalty program this year.

And so the main focus of our investments in that category of CapEx will be around getting closer to the consumer and allowing ourselves to connect with them more digitally than what we have in the past.

Operator

Omar Saad, Evercore ISI.

Omar Saad - *Evercore ISI - Analyst*

Hey. Thanks. I wanted to ask a little bit more about this new slim product that you're fast-tracking for this year. What's different about it from the consumer standpoint? What's gotten you excited to really push it forward? Are you using UGG pure technology to get that slimness down and does it come in different silhouettes or different heels?

Just curious, especially given, historically, there's some consumers who love the comfort and fit and feel of the UGG, but maybe not the thickness of the look, et cetera. Help me understand the dynamic there, please. Thanks.

Dave Powers - *Deckers Outdoor Corporation - President of Deckers Brands*

Yes. I think you nailed it on that last statement. There is a large number of consumers out there that love the fit and the comfort and the style of the regular UGG. And then there's also women out there who love the brand, but haven't necessarily liked that style for whatever reason, most likely from a style perspective.

So we see this as an opportunity to leverage the comfort and all the equities that the core classic delivers, but into a silhouette that might be looked at as a little bit more sophisticated, bring a new consumer into the brand, and maybe perhaps a style that they can wear all day and at night, versus on a more casual basis. So it delivers in all the equities, same comfort, if not better in some cases, but a little bit more style-forward.

Omar Saad - *Evercore ISI - Analyst*

Thanks.

Dave Powers - *Deckers Outdoor Corporation - President of Deckers Brands*

Yes.

Operator

Erinn Murphy, Piper Jaffray.

Erinn Murphy - *Piper Jaffray & Co. - Analyst*

Great. Thanks; good afternoon. I guess, Dave, for you, if you've reviewed the UGG pricing around the globe, can you just speak to your comfort level of current pricing premiums internationally, particularly in Asia-Pacific, maybe compare contrast China versus Japan?

And then on how for you, if you expand the product into more fashion weather, kind of the non-core product, can you just talk about your philosophy and expectations on marked-downs versus the core classic? And then just what's built into the plan for FY16 as the product mix shifts? Thanks.

Dave Powers - *Deckers Outdoor Corporation - President of Deckers Brands*

Sure. And so with regards to pricing globally, it is something we're taking a hard look at. Obviously with the pattern changes across the globe, from Chinese consumers traveling to North America and Europe, FX challenges in Europe, it's something that the teams are working on right now.

I would say we do have an opportunity to address prices in Europe and Japan and China. We are not prepared to talk about any of those right now, but it something we're definitely, certainly taking a look at for later in the year.

Erinn Murphy - *Piper Jaffray & Co. - Analyst*

Okay.

Angel Martinez - *Deckers Outdoor Corporation - CEO & Chair of the Board of Directors*

And as far as the philosophy, I mean, number one philosophy is to give the consumers as much opportunity with our product line as possible. There's a lot there for them and core classic has been a very, very stable product over the years. But we know that we can't go forward exclusively on core classics, so the classic derivatives and the casual product have been very strong and we have been migrating toward more of that product in the mix, as you know.

With that comes a higher level of markdown, because those products are more fashion driven, they are more fashion sensitive, and they have a predictable lifestyle -- rather timeline. And we have planned for a slightly higher markdown as a result of that and that's all baked in.

Erinn Murphy - *Piper Jaffray & Co. - Analyst*

Great. That's helpful. And if I can sneak in one clarification, what percent this year of the revenue for fall holiday is pre-book versus where it's been historically? Thanks.

Dave Powers - *Deckers Outdoor Corporation - President of Deckers Brands*

Other than some of the other products we talked about, the classic slim, other than the spring product and the closeout product, which normally books out towards the end of the year, it's -- as we speak right now, it's pre-booked at pretty much the same level.

Erinn Murphy - *Piper Jaffray & Co. - Analyst*

Okay. Thank you, guys, and best of luck.

Operator

Randy Konik, Jefferies.

Randy Konik - *Jefferies LLC - Analyst*

Yes. Sorry about that. I guess a question on the -- as the backlog shift away from Classic, what's the -- how does the ASP implication look on the backlog? (Technical difficulty) says like ASP chains versus unit change? Can you give us some perspective there? I also want to get your thoughts on how your wholesale partners are thinking about the environment right now?

And then, I guess, lastly, as it relates to the DTC kind of strategy, obviously a lot more focus on the e-commerce platform. Where are you with transactional, I guess, availability in the different countries? As well as do you think you have to rethink your paring down the existing store base at all? If so what areas (technical difficulty) thanks.

Dave Powers - *Deckers Outdoor Corporation - President of Deckers Brands*

Let me answer your first question first. So with regards to ASP, what's our new strategy? ASP is going to go up slightly and that's driven by the increase in specialty classics. But within that gross margins, as I said earlier, will remain flat. With regards to DTC globally -- trying to remember what your question was.

Yes. So the store based -- we're taking a look at a couple stores here and there that our performance our expectations, you might see over the next 18 months one or two stores that we might close down. But, generally speaking, as I said earlier, the fleet is very healthy. So there's not a lot of problem childs in the fleet.

And even the flagship stores that are suffering from the traffic, European traffic and Japanese traffic, they are still providing very healthy returns above fleet average. So those aren't areas for concern with regard to the fleet. I think that answers all your questions. Right?

Randy Konik - *Jefferies LLC - Analyst*

Yes. So give us -- as you're looking more towards fleet strategy with the classic product, have you really gone after and retooled all the supply chain back-end stuff to be able to kind of satisfy that? Just walk us through what's been changing on the supply chain and distribution network to kind of accommodate this change in strategy. Thanks.

Dave Powers - *Deckers Outdoor Corporation - President of Deckers Brands*

Yes. I mean, our supply chain is a pretty well-oiled machine when it comes to classics. We are looking -- under David Lafitte's leadership, we are taking a hard look at our supply chain organization and seeing where there are efficiencies in the organization or in the process, I should say. The classic slim is a new introduction for us. We're going to leverage, obviously, the factory base we have.

But we are constantly evaluating opportunities for improvement in margin, improvement in efficiencies and inventory control. And then the other thing that'll play into that is our business transformation that's launching -- going live this summer. That will allow us to have better control of our inventory flow, to and from the factories and to and from stores.

Angel Martinez - *Deckers Outdoor Corporation - CEO & Chair of the Board of Directors*

And let me add, on your last point, I don't consider this to be a radical alteration or change in strategy. I think what it is is an evolution of the product line to further meet the needs of consumers, keeping in mind that most consumers who love UGG have multiple pairs in their closet. And we need to continue to give them reasons to buy more UGG.

So, yes, and we're going to drive new consumers in with the slim product, I believe. But as much as anything else, this is going to appeal very much to the existing UGG customer. So it's not -- this brand has always adapted. It's always been moving. It's not ever stood still. That's why we have derivatives, that's what we have casual product, that's why we have fashion product. So we're going to stay consistent and aggressive in giving consumers what they want.

Randy Konik - *Jefferies LLC - Analyst*

Great.

Operator

Danielle McCoy, Wunderlich.

Danielle McCoy - *Brean Capital, LLC - Analyst*

Hi, everyone. Thanks for taking my question. I was wondering if you could just give us an update on what percent of the product was UGG pure this fourth quarter versus last fourth quarter and where you see -- if there's any room for growth this year?

Tom George - *Deckers Outdoor Corporation - CFO*

On the UGG pure side, we're -- based on the -- let's look at it like a phase one of the current product line in that. We're pretty fully implemented for UGG pure in terms of linings and that -- and usage.

Dave Powers - *Deckers Outdoor Corporation - President of Deckers Brands*

As a percentage of the mix of the total views across the product line, I'd say about 25% of them are leveraging the UGG pure material. And we see that probably maintaining going forward, maybe going up a little bit as we get into new styles in leveraging that opportunity.

Tom George - *Deckers Outdoor Corporation - CFO*

And keep in mind that as we move toward the integration Koolaburra, you're going to have an opportunity there fully leveraging UGG pure. In order to meet those price points, UGG pure is going to become a critical component of that.

Danielle McCoy - *Brean Capital, LLC - Analyst*

Okay. Great. And then I was wondering if you could just give us an update and some more color on some of the learnings from some of the digital capabilities that you guys have been implementing in store and how the consumer has been reacting to that?

Dave Powers - *Deckers Outdoor Corporation - President of Deckers Brands*

Yes. So the ones that we've implemented over the last 12 to 6 months are really around Omni-Channel capability, so the opportunity to reserve inventory online, to pick up in-store, to order in-store, those have been received very positively by the consumer. And we are still working through some of the operational impacts of that, what it means for the staff in stores; what it means for our DTC and e-commerce businesses.

But it's something that we're very pleased with the results and we see continued opportunity to leverage that -- those capabilities and even more going forward. Some of the digital marketing capabilities that we are testing is geo-targeting, more specific use of our database on customers and serving up specific merchandising assortments based off their past purchasing behavior. And then the implementation of our CRM program and our loyalty program launching in a pilot mode this year.

Danielle McCoy - *Brean Capital, LLC - Analyst*

Great. Thank you, guys. Good luck.

Dave Powers - *Deckers Outdoor Corporation - President of Deckers Brands*

Thank you.

Operator

Thank you. Ladies and gentlemen, that is all the time we have today for questions. I would now like to turn the floor back over to Management for closing remarks.

Angel Martinez - *Deckers Outdoor Corporation - CEO & Chair of the Board of Directors*

Well, I want to thank everyone for joining us on the call. I also want to acknowledge the hard work and the success that we had this year because I thought it was a good year. Despite the headwinds and challenges, I think we've delivered very effectively for shareholders. I want to thank the entire staff of Deckers around the world for all their hard work and much appreciate all of your support. Thank you.

Operator

Thank you, ladies and gentlemen. This does conclude our teleconference for today. You may now disconnect your lines at this time. Thank you for your participation and have a wonderful day.
