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DECK - Q3 2016 Deckers Outdoor Corp Earnings Call

EVENT DATE/TIME: FEBRUARY 04, 2016 / 9:30PM GMT

OVERVIEW:

DECK reported 3Q16 reported revenue of $796m and reported EPS of $4.78. Co. expects FY16 reported revenue to grow 2.4% and reported EPS to be approx. $4.49. Co. expects 4Q16 reported revenue to be $365m and EPS to be $0.07.

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Dave Powers *Deckers Brands - President*

Tom George *Deckers Brands - CFO*

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and thank you for standing by. Welcome to the Deckers Brands' third-quarter fiscal 2016 earnings conference call. At this time, all participants are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. Instructions will be provided at that time for you to queue up for questions. (Operator Instructions) I would like to remind everyone that this conference call is being recorded.

I will now turn the call over to Steve Fasching, Vice President of Strategy and Investor Relations. Please go ahead, Mr. Fasching.

Steve Fasching - *Deckers Brands - VP of Strategy and IR*

Good afternoon, and welcome to 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 risks 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 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, business transformation plans, as well as the outlook for the Company's markets and 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 forward-looking statements. 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.

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

Angel Martinez - *Deckers Brands - Chairman of the Board and CEO*

Thanks, Steve. And thank you, everyone, for joining us on today's call. As you saw from our press release, it was a difficult quarter, especially from a topline perspective.

Over the past few years, we have made great progress diversifying our brands and product lines, and transforming our organization. However, as our business and the retail industry face new challenges, we are taking more aggressive action to accelerate our growth strategies and streamline our operating structure to become a more nimble and efficient organization that can adapt effectively to changes in consumer behavior.

As you will recall, our third-quarter outlook was predicated on seasonal conditions for the period. Instead, December temperatures in our key markets around the world were at or near record highs, leading to a decrease in demand for cold weather product. On top of this, the retail industry experienced soft store traffic. We believe some of the decline in traffic was tourist-driven, as the US dollar continued to strengthen against most major currencies.

It also appears that the steep discounting many retailers offered in early November led to an early start of the holiday season, which lessened the significance of the weeks leading up to Christmas.

For the quarter, net sales were $796 million or $813 million on a constant currency basis, an increase of 3.6% over last year. EPS for the quarter was $4.78 on a reported basis and $5.11 in constant currency, which represents growth of over 13%. Our bottom-line benefited from lower-than-expected SG&A expenses and a lower-than-expected tax rate.

Despite the shortfall versus our guidance, there were several highlights from the quarter that reinforced our confidence in the strategic direction of the Company. Starting with UGG, we continued to see strong consumer response to our casual and fashion boot offerings, combined with the very successful launch of the Classic Slim collection. In many places where temperatures were consistent with historical averages, such as on the West Coast, sellthrough was strong.

And we are extremely pleased with the performance of HOKA ONE ONE, with sales up 73% year-to-date, as the brand continues to gain momentum in the Run Specialty channel in the US and in Europe. These points validate our strategy to diversify our business and remain important elements of our long-term success.

Today, we are announcing two changes to our brand operations as part of an ongoing effort to drive efficiencies across our organization. First, we are realigning our brands across two groups: fashion lifestyle and performance lifestyle. This will change the reporting structure from a portfolio of six independently-managed brands to two business groups, which will reduce overhead of brand leadership and sales operations while streamlining our market attack.

The fashion lifestyle group will encompass the UGG and Koolaburra brands. We have successfully concluded our search for the President of Fashion Lifestyle, and anticipate making an announcement regarding that appointment soon. The Performance Lifestyle group will house the Teva, Sanuk and HOKA brands. This group is being led by Wendy Yang, who joined the Company last spring as Teva Brand President. We are excited to leverage Wendy's extensive footwear experience across several of our brands, and believe her brand-building and management capabilities will positively impact our future performance, especially during our spring and summer selling seasons.

Second, after recognizing the benefits of improved collaboration and greater operating efficiencies as a result of moving HOKA to our corporate headquarters, we have now decided to move Sanuk to Goleta, and will close our office in Irvine, California. Sanuk is an important iconic brand to Deckers. And with this move, we believe we can better leverage the Deckers organization to grow this brand.

Also, we are closing the Ahnu office outside of San Francisco, as we seek strategic alternatives for Ahnu. While this is a small brand within the Deckers portfolio, it has a strong, loyal following and we want to make sure that we optimize the brand's value.

These decisions are consistent with the long-term strategic vision that we have established for the Company. Collectively, these moves will allow us to better focus our time and commit additional resources to our largest growth opportunities.

In addition to these brand changes, we are also evaluating our portfolio of retail stores, with the goal of improving the profitability of our DTC operations and enhancing how we connect with our consumers. The way in which individuals seek out and buy products and engage with brands continues to evolve.

We still recognize the importance of our own stores when it comes to brand awareness, product accessibility, and personalized connections. However, with a proliferation of digital commerce, we will continue to act to assess the performance levels of our stores, as well as their strategic role in our Omni-Channel model to ensure we have the right balance going forward, and that we are focused on the most productive locations.

To this end, we have identified 20 stores that are candidates for closure, which represents 15% of our fleet. We are also engaging a retail consultancy firm to assist in assessing and implementing additional retail operational improvements.

We will share more details on our fleet optimization effort in our year-end call in May, including the specific amount of charges we will incur related to the store closings, which will depend on the number of stores and the exact timing of when we exit each specific location. Our guidance in the fourth quarter does not include any SG&A charges for the restructuring.

The three changes we have announced today are aimed at creating distribution synergies and operating efficiencies that will allow us to make critical investments in strengthening our brands. Once the changes associated with the brand's realignment, office consolidation, and the closure of retail stores are fully implemented, we expect to achieve an annualized SG&A run rate savings of $35 million, of which we plan to reinvest approximately $10 million in the business.

Looking further ahead, we are confident that our ongoing transformation, as well as the additional organizational changes we have announced today, will continue to position us well to execute our strategic priorities and profitably grow our business over the long-term.

With that, I will turn it over to Dave.

Dave Powers - *Deckers Brands - President*

Thanks, Angel. Hello, everyone. As we look deeper into our recent performance, and at the changes we are making, we see a great opportunity to further evolve UGG into a stronger, more diversified lifestyle brand, and expand our marketplace position. I'm excited to share with you how we will begin to execute this in fall 2016. But first, I will begin with a review of the third quarter and how our performance is impacting the fourth quarter.

While our third quarter was challenging, it produced valuable insights that we are implementing into our go-forward strategies. The performance of our fashion and casual boots, which sold well, and the positive reaction to the launch of the Classic Slim, validated our belief that consumers are looking for more innovation from the UGG brand.

The shortfall in sales versus our Q3 guidance was driven by our classics and cold weather product, particularly in the month of December. Sales in December were soft, as temperatures across all of our regions reached record or near-record highs. In response to the sluggish start to the month, combined with the fact that we are introducing new Classics featuring improved traction, comfort, and water-resistant treatment in fall 2016, we decided to promote the Classic Tall, Short, and Mini.

This promotion drove higher sellthrough. However, it wasn't enough to overcome the combination of a strong dollar, general retail malaise, and warm weather. We simply did not see the sales acceleration that normally occurs in the weeks leading up to Christmas. And we also experienced a higher-than-expected level of cancellations in December, and weaker-than-planned store comps. For the quarter, DDC comps were down 1%, but up 1.6%, excluding our five major tourist locations in the US.

Turning to the fourth quarter, the weakness we experienced and the general softness across the retail sector is impacting our outlook. While temperatures have been colder at times and snow finally fell in the Northeast, retailers are being cautious within season reorders, as they are working through excess inventories carried over into the new year.

For our DDC business, trends improved in January with the onset of colder weather. We are assuming it will remain warmer than normal in parts of the country over the remainder of the quarter, given recent trends. On top of this, the headwinds from the decreased foreign tourism has continued to impact our results longer than we expected.

Coming out of the difficult holiday period, we have been on the road working closely with our major wholesalers. Our wholesale partners have expressed their continued support for UGG and have embraced our brand strategy, with several major accounts committing to buy a more diverse assortment for fall 2016. This includes more casual and fashion boots, as well as a wider assortment of Classics, which will include a new core Classic, the Slim and Luxe collections, as well as a new collection, the Classic Street.

In our ongoing effort to evolve the UGG brand into a full lifestyle brand and bolster its future growth prospects, we recently established a new brand platform, added new team capabilities, and brought in talent. Our women's, men's, kids and lifestyle categories now have specific product development, marketing and selling functions. With specialization comes market expertise, which is important, as each of these categories have different strategies to drive their business.

It is important to note how our DTC business has helped build the UGG brand. Our DTC investments have given us an ability to showcase the full UGG brand, including a much broader product line. This has facilitated our diversification strategy and allowed us to establish a direct relationship with consumers. Now that the bulk of the critical investments needed to establish our DTC business are in place, we are now increasing our focus on our global wholesale channel, which is the third and largest component of our Omni-Channel strategy, and critical to our long-term success.

Three months ago, we hired Stefano Caroti to oversee the global Omni-Channel business, which includes our retail, eCommerce and wholesale channels. Stefano has been working with the global teams on refining our Omni-Channel strategies to ensure we are creating and fully optimizing synergies between all the channels. His insight and early contributions have helped build on our Omni-Channel vision and accelerate our long-term strategy, as we focused on the following four key areas.

First, channel and product segmentation. We are now applying a more segmented channel and product approach to the market. We are moving from selling a similar offering to all partners through strategically segmented offering based on consumer reach, market positioning and brand experience. This will allow key partners to have a point of differentiation and a more targeted product assortment for their consumers.

Second, elevating our brand presentation. We have aligned our marketing teams to be more focused by channel and to better support our wholesale partners with targeted marketing assets and more powerful brand presentations. We will focus on showcasing key stories and new product launches in the wholesale channels, just as we do in DTC, further leveraging our DTC organization to elevate the marketplace.

Third, wholesale account focus and optimization. We are moving to a more thoughtful approach to our wholesale distribution by strengthening our relationships with key partners that maintain the premium positioning of the brand, and selectively exiting those that don't. We also will be expanding distribution with select retailers globally to reach new consumers and further showcase the breadth of our product offering. It goes without saying that this channel remains a critical component of our business.

And finally, retail store rightsizing and reinvesting. As Angel mentioned, we are streamlining our network of stores by closing locations that don't provide strong returns, and relocating stores in key cities like New York, Chicago and San Francisco, to higher-traffic areas. We will continue to evaluate new store opportunities and open in select locations that provide a high level of operating performance and brand visibility.

Additionally, we are engaging a retail consulting firm to help us identify and implement additional retail operational improvements and fine-tune our long-term strategy. These four key areas are critical to maintaining the premium positioning of the brand, further diversifying our business, and elevating our position in the marketplace.

Looking forward, with the new leadership team, a refreshed UGG brand, and a more focused and aggressive Omni-Channel approach, I am confident in our ability to continue to build for the long-term. Our customers have told us that they love our brands and want more compelling product. We are working diligently to make this happen, and I am pleased with the progress we are making.

That being said, we are approaching the year ahead conservatively. Not only is it a transition year, but we see the macro level challenges from tourism and the retail revolution continuing. I remain excited and optimistic about all our brands and our ability to drive improved shareholder value with a more streamlined organization, new brand group focus, more profitable retail fleet, and our Omni-Channel leadership in place.

I will now turn the call over to Tom.

Tom George - *Deckers Brands - CFO*

Thanks, Dave, and good afternoon, everyone. Before I begin my review, I want to highlight that Steve Fasching, who you heard from at the start of today's call, was recently promoted to Vice President, Strategy and Investor Relations. Steve has been an integral member of our financial leadership team since joining the Company four years ago, and I am confident he will continue to excel in his elevated role.

Now, to our results, starting with revenue, on a constant currency basis for the quarter, revenue increased 3.6% to $813 million. On a reported basis, revenue increased 1.4% to $796 million. Gross margin was 49.1% in the third quarter compared to 52.9% last year. The change in gross margin was driven by greater-than-planned promotional activities, combined with a 110 basis point impact from FX headwinds, caused by the strengthening of the US dollar. All the Q3 markdown impact is reflected in our Q3 results, and we do not anticipate any further impact.

We continued to show SG&A leverage with third-quarter SG&A as a percent of sales at 23.7% compared to 25.6% a year ago. The improvement in SG&A was primarily due to the reduction of performance-based compensation and other sales variable expenses, partially offset by $5 million in store impairments. We remain on track to deliver leverage in fiscal 2016, even with our reduced sales outlook.

Our third-quarter tax rate was 21.8%, favorable compared to our guidance of 27%. The main driver of this change was the mix of earnings across regions, with domestic business being reduced in proportion to the total Company in the third quarter. While this was lower than we planned, it does not reflect our future tax rate expectations.

For the quarter, we reported earnings per share of $4.78 versus $4.50 a year ago, which is below our prior guidance of $5 per share. In summary, we missed our sales forecast but were able to partially offset the impact this had on earnings per share through SG&A savings and a beneficial tax rate.

The inventories at the end of Q3 were $371 million, an increase of 26% over the same period last year. The larger-than-guided increase is mostly due to lower sales recorded in the quarter. As a reminder, last year, we ended the fiscal year with a low level of inventory, and as a result, missed some sales opportunities in Q4. This year, we positioned to hold a larger inventory level to meet demand and to chase orders.

Unfortunately, not all this anticipated business materialized. The majority of inventory above our guidance is UGG weather slippers and casual boot product that is being carried over into the fall 2016 line. While the levels are higher than we would like, we have already reduced future buys and will manage our inventory down to more appropriate levels by the end of this summer, our Q2 fiscal 2017.

Regarding share repurchases, as we have indicated on previous calls, working capital requirements, combined with the trading window, limit our ability to repurchase shares during the quarter. Therefore, we did not repurchase any shares in Q3. As of December 31, 2015, we still have $102.9 million remaining under the $200 million stock repurchase program we announced in January 2015.

Now moving on to our outlook, based on our third-quarter results and updated expectations for the fourth-quarter, we are reducing our full-year guidance. We expect fiscal year 2016 constant currency revenues to increase approximately 5% or 2.4% on a reported basis. Full-year constant currency earnings per share is projected to be approximately $5.15, which now accounts for the reduced tax rate, representing a year-over-year increase of 10.5%.

On a reported basis, earnings per share is now projected to be approximately $4.49, representing a decrease of 3.6% over fiscal 2015 earnings per share of $4.66. This guidance assumes gross margins of approximately 46% and SG&A as a percentage of sales of 35.7%.

With respect to the fourth quarter, we have updated our revenue guidance to $365 million, 7.2% above last year on a reported basis. Q4 gross margins are projected to be 45.5%, and SG&A as a percentage of sales is projected to be roughly 44.4%. We now expect Q4 earnings per share of $0.07.

Please note that this guidance does not account for the financial impact that the restructuring strategy outlined earlier in the call will impose. We estimate that related activities could reduce future pretax income by $20 million to $30 million. As we move forward, we will continue to look for ways to make our organization more efficient, while making sure we are investing in areas with the greatest growth opportunities. Over time, we believe the ongoing changes we are making allow us to achieve midteen operating margin levels.

With that, I will now turn it over to Angel for his closing remarks.

Angel Martinez - *Deckers Brands - Chairman of the Board and CEO*

Thanks, Tom. And thank you to everyone for joining us today. Our organization has undergone a lot of changes over the past few years, and I would like to acknowledge and thank our employees for their hard work and the tenacity with which they take on new challenges. It is their ability to embrace and adapt to change that gives me great confidence in our future success.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Randy Konik, Jefferies.

Randy Konik - *Jefferies LLC - Analyst*

Thanks for taking my question. I really appreciate it. A couple of questions just real quick. Can you talk about the store closures a little bit, give us some more flavor there? You talked about identifying 20 stores, I guess. Is there any commonality on what comprises those 20 stores? Are they in certain types of city versus non-city locations or something like that? Can you give any color there?

Can you elaborate on -- it sounded like you said that in markets where there was temperate climate, like it sounded like California, the sales were -- I don't know if you'd call it strong, but in line with expectations. Can you just give us a little more color there?

And then lastly, when should we expect the restructuring -- or with the SG&A savings, how is that -- when is that going to actually hit the income statement? Is that something we should expect start to occur in the back part of fiscal 2016? Or how am I supposed to think about when those expense savings -- because you gave us an annualized number -- when those expense savings hit the income statement? Thank you.

Dave Powers - *Deckers Brands - President*

Hey, Randy. This is Dave. I will talk about the first two, and then I will hand it over to Tom for the third piece of your question. With regards to the store closing philosophy, there is some commonality that we've looked at across the fleet of stores, and the roughly 20 stores that we have identified. And it really comes down to, based on current trends and future outlook, stores that are performing below our threshold of 20% return on sales.

But in addition to that, stores that we don't believe represent our strategic focus going forward and necessarily in locations that are in line with our strategy of elevating the brand in key cities globally. So, it is grouped under those two areas and it is something we've been monitoring for a while. And with the results in the last quarter, we just felt it was the right time to accelerate that focus as we continue to optimize our fleet.

Angel Martinez - *Deckers Brands - Chairman of the Board and CEO*

And generally speaking, these are freestanding stores. They are not mall-based stores.

Dave Powers - *Deckers Brands - President*

Correct.

Angel Martinez - *Deckers Brands - Chairman of the Board and CEO*

And a lot of the locations have been impacted pretty significantly by lack of tourism.

Dave Powers - *Deckers Brands - President*

Yes, and the other thing to keep in mind is, a lot of these stores are legacy older locations where, quite frankly, traffic has just migrated to other parts of the city.

With regards to the comment about cooler weather in key markets, particularly on the West Coast, we did see better results in our West Coast stores because of the cooler-than-normal trends that we have been seeing in place like California. So, comparatively speaking, where we saw weather that was more advantageous to cold weather product versus the other rest of the regions and around the globe, we did see better performance in the areas where it was warmer across all categories.

Tom George - *Deckers Brands - CFO*

Randy, this is Tom. Of the $35 million of savings, just to add to that, that all -- that's not all retail stores. Of the $35 million, about $20 million, $25 million is retail stores and the balance is savings we would expect from Sanuk and Teva. But to be real clear -- Sanuk and Ahnu, excuse me -- to be real clear, that is an annualized rate. It is going to take some time to get to that $35 million.

So we won't achieve all that savings in the new fiscal year. A lot of it's going to be a function of --

Randy Konik - *Jefferies LLC - Analyst*

All right, thanks very much.

Tom George - *Deckers Brands - CFO*

-- of stores closed.

Randy Konik - *Jefferies LLC - Analyst*

Oh, so it's -- I mean, you think that's two to three quarters away?

Tom George - *Deckers Brands - CFO*

Too early to tell. We really need to go through the store closings. Because as I said, most of the savings is store closings, and that is a big function when we get those closed. Store closings -- there is some science there. You don't want to rush into them too quick and incur too big a charges upfront. So we are also at the same time trying to mitigate some of our cash charges.

So, we would rather carve the right balance of closing them over time over the course of the year. So, just to be clear, it's not all that $35 million of savings will be in this year.

Randy Konik - *Jefferies LLC - Analyst*

Understood, thank you.

Operator

Omar Saad, Evercore ISI.

Omar Saad - *Evercore ISI - Analyst*

I wanted to ask, given kind of how the calendar fourth-quarter, fiscal third-quarter played out at retail on the inventories you have are in the channel still, how do you think about the transition from this winter season into the next year, where you are launching kind of the new kind of reimagined core Classic products? Is that going to postpone that or change the way you think about that, and how you market that, and how you position the brand in the marketplace accordingly? Thanks.

Dave Powers - *Deckers Brands - President*

Yes, great question, Omar. This is Dave. So, a couple things. The -- with regards to the past quarter, Classics as a total from a unit perspective were down in sales prior-year. But the key thing to remember is that the core Classics is now less than a quarter of our total business. And so, when we were going into the quarter with the promotions that we had pulled in the middle of Q3, we adjusted inventory levels on the backend to help us get out of that inventory.

So the promotions, accelerating those a little bit earlier allowed us to be much cleaner coming out of Q3 and Q4. And we don't see any major issues with transitioning out of the core Classics and the Bailey Bow and the Bailey Buttons to make room for the new updated Classic that will come in, in July. So, the way we see it right now, we will be pretty clean in the market. We will have leftover core Classics to sell through our outlets next fall, which will be good for that business. And then in wholesale and full price DTC will transition into new Classic in July.

I think it is also important to note, as I said, the core Classic, now roughly less than a quarter of our total business, and non-core Classic, 75% of our business. In Q3, those non-core Classics units sales was up midteens, particularly in weather and casual boots, despite some of the challenges we had.

And I think this is a good way to think about our business going forward, where core Classics becomes less and less meaningful. It will still be important, but the real conversation is about the new product that we brought to the market and the strength of that business going forward, which is in line with our long-term diversification strategies. And I think updating the Classic is just going to make that franchise stronger, but it is not the only conversation going forward.

Omar Saad - *Evercore ISI - Analyst*

Got you, got you. And then could you talk a little bit more detail around how you are going to be segmenting the market a little bit more at the retail level? And it sounds like maybe you are going to clean up some of the distribution? Am I reading that right? Any more information there would be helpful, thanks.

Dave Powers - *Deckers Brands - President*

Yes, I am really excited about this. This is something that I think has been an opportunity for us for quite a while. And essentially, the way I would think about it is, if you could think about the pyramid of distribution in our key markets, our goal is to elevate the brand closer to the top of the pyramid through DTC and key wholesale accounts that truly represent the best of the brand, treat our consumers and their consumers in a real high-quality way from a service perspective, and showcase the brand the way we feel is right for our brand positioning.

So, what it essentially means is we are going to take more care working with some of these top key retailers in how we showcase the brand and how we differentiate product for them, so they have special products, and then working throughout the distribution network to make sure that each level of distribution has the right product for their consumer and their positioning. As we look across the marketplace, we also feel that there are some existing accounts that don't necessarily represent the best of the brands, and we are taking a look at those to see if they will make the cut going forward.

Angel Martinez - *Deckers Brands - Chairman of the Board and CEO*

We now have some pretty important data points that indicate that retailers who really paid attention to what we were doing, followed our advice and diversified the product offering, had a much more successful season in spite of the weather than those who were predominantly Classic-oriented, Classic-driven. So, we now have all of the data points we need to make a very strong argument about that, with a lot of proof about that. So, it is really now time to elevate the entire market into the right direction for the long-term.

Dave Powers - *Deckers Brands - President*

I would also add, Omar, that with the new category leadership with Jennifer Summer and Rob Koenan and the brand team focused on each of these individual categories, you're going to see a much more intensified focus from a category perspective in key accounts across the marketplace. So, dedicated focus on men's and expanding distribution, quality distribution and men's; same with kids and lifestyle products, while we continue to elevate and diversify the women's business as well. I think it's going to be -- you're going to see a different brand in the future.

Omar Saad - *Evercore ISI - Analyst*

Great. Thanks for your help. Good luck.

Operator

Taposh Bari, Goldman Sachs.

Taposh Bari - *Goldman Sachs - Analyst*

I guess the question on the discounting this past holiday. So, obviously some unprecedented promotions for the UGG brand. Curious to get your perspective on how the customer responded to the discounting activity and how the retailers responded, in particular? I know that there is obviously negotiation around who eats and how the economics of that discount are shared. But I would love to better understand the postmortem on how that played out versus your expectation. And also, how you are thinking about promotions going forward for fall and winter of 2017 -- sorry, the fall/winter of 2016.

Dave Powers - *Deckers Brands - President*

Yes. Going into the quarter, obviously this was something that the brand hadn't experienced before and hadn't planned before. And as we mentioned on the last call and some of the conversations, we were planning on transitioning the Classics assortment. So, the strategy played into a big part of the decision to drive these markdowns.

As we said, the Bailey Bow and Bailey Button was part of that strategy. And accelerating the core Classics in the last few weeks of December, I would say was the right thing for the brand to be able to clear that inventory. There was some nervousness in our wholesale accounts as to what it was going to mean. But ultimately, for the most part, what it did is it helped accelerate sales for our key accounts and helped give them a better inventory position, which made the marketplace healthier overall.

And it puts us in a better position going forward, to have less liability out there in the marketplace as we transition into the new Classic. If we hadn't taken these markdowns, we would be looking at a different topline sales number. And I think the upside that we saw from those promotions in our DTC channels was significant.

Going forward, with regards to comping these promotions, we do not plan on comping these promotions. We don't plan on becoming a promotional brand. But that said, we are going to have to play in the competitive marketplace and be a little bit more planful in how we plan our margins and manage inventory. But we are getting better at that.

And the other good benefit of the discounting is we've got more consumers into the brand, which is something we talked about in the last couple calls as well. So, strategically, I feel really good about this decision and I think it has benefited us for the long-term. With regards to our key accounts and partnerships, gave them accelerated sales when they needed it and helped them get cleaner on their inventories.

Taposh Bari - *Goldman Sachs - Analyst*

Thanks for that, Dave. And then, Tom, a quick one for you on the outlook. What is driving the lower revenue guidance for the fourth quarter? Is it strictly UGG? Or is it also the timing or the actual revenues associated with the non-UGG brands?

And then as we think about next year, I know last quarter you have spoken about UGG or pure and other supply chain initiatives helping the gross margin line by about 100 basis points, and the hope for SG&A leverage, is that still the plan? And I guess, how are you thinking about orders next year? And when do you expect to have more visibility into how the revenue outlook shakes out for 2017? Thanks.

Tom George - *Deckers Brands - CFO*

For the fourth quarter, it is a combination of things. We are just taking a more cautious outlook for not only the UGG brand, but also the other brands, as well as our Direct-to-Consumer business, because we just think that is the appropriate way to handle it, the guidance for the fourth quarter at this point in time.

As far as next year, it is very early in our planning process. We are very -- still very early in the pre-booking process, and that obviously is a big input into our overall planning for next year. Now some of the things we are thinking about are some more conservative planning for the weather-sensitive product.

We need to realize there's still going to be pressure on Direct-to-Consumer because of the dollar and the tourism. The Direct-to-Consumer business, the impact from the retail store closures, and we do feel that we will have continued growth in eCommerce and HOKA.

For gross margins, we still feel sheepskin should get about 100 bps of benefit there. That said, that is early stage. We need to be cautious about continued pressure from reduced store counts and the non-UGG brands, the growth we get there. That puts some pressure on gross margins. And the changing retail landscape, because of all the promotional environment.

On the SG&A side, we talked about, on an annualized basis, the $35 million of savings, but that is going to take a while. That won't all happen fiscal year in 2017 and we want to reinvest some of that, especially when we are looking at still evaluating some additional marketing money for HOKA and UGG. And the budgets aren't finalized, so we really can't make a call at this point in time on overall SG&A.

And another thing to keep in mind to think about next year, we expect tax to be a pretty good headwind this year vis-a-vis what the rate was, and what the rate is going to end up being this year.

Angel Martinez - *Deckers Brands - Chairman of the Board and CEO*

Yes, I would just add onto that, which is I think that from my perspective at least, the brands are very healthy. All the brands in the portfolio, especially with the new focus we have on them going forward, and the refreshed point of view from the UGG brand, stronger than they have ever been. But I think the macro headwinds that we've all seen across the marketplace, not just Deckers, but across all brands and retailers, we don't really see those subsiding for a while. And we are planning, even though we feel really confident in the brands, that we want to be a little more conservative until we see turnarounds and things like the dollar and tourism, and just in general market malaise to retail. So, the confidence within our brands is high, but just being realistic with the macro headwinds.

Taposh Bari - *Goldman Sachs - Analyst*

Understood, best of luck.

Operator

Corinna Van Der Ghinst, Citi.

Corinna Van Der Ghinst - *Citigroup - Analyst*

I was wondering if you guys could give us any just update around pricing on the new Classics 2 product or general thoughts around the ASP for the upcoming year?

Dave Powers - *Deckers Brands - President*

Yes, I think on the core Classic, or the updated core Classic, you are going to see similar retails to the previous one. But if you look at the broader mix of Classics, you still have the Classic Slim is at a higher price point. And it is going to be a much more significant piece of the total. The Classic Luxe will be more significant than it was last year, and the Classic Street, which is a new introduction, will be comparable price points as well.

So, ASPs for next year across the Classics franchise should be flat to higher, especially comping some of the promotions. And I think that just gives us a better mix of variety and style and price points in that franchise as a whole.

Corinna Van Der Ghinst - *Citigroup - Analyst*

Okay, great. And then I know you guys mentioned that some of the fashion and casual products were some highlights throughout the quarter. And I was just wondering how that -- how those segments performed versus your original plan going into the quarter? And then also just any color on men's, kids and Europe in the quarter, please. Thanks.

Dave Powers - *Deckers Brands - President*

Yes, so the non-core Classics performed very well. Weather was up over 100%. Casual was up over 25%, 30%. And I would say from a sellthrough perspective, they were strong. What we didn't see the increased purchase in season on cold weather product that we had bought into in case the weather was colder than expected. But with regards to what we sold in and sellthrough of some of that new casual product, and rain boots, which is part of our weather category, as expected or better-than-expected sellthrough, we just didn't see the uptick in the cold weather product, in the winter product, that we would normally see.

Angel Martinez - *Deckers Brands - Chairman of the Board and CEO*

The men's was up about 26%, which is very significant. Our slipper business was up 16% or so. Fashion was up over 25%. So we did have great performance from this non-core product, which is a strategy that we have been striving toward and moving to over the last few years, as you know.

Corinna Van Der Ghinst - *Citigroup - Analyst*

Great, thank you.

Operator

Camilo Lyon, Canaccord Genuity.

Camilo Lyon - *Canaccord Genuity - Analyst*

Just on the inventory composition, can you help us understand what the difference is between the December 31 UGG inventory and where it stands today? We've been hearing that there is another round of clearing out of product at retail, given the cold weather that we had in January. I am wondering if that had helped your business as well?

And then, just if you could just disaggregate what the spring inventory composition is in that number, relative to the Classic inventory that you will be carrying over into outlets think season.

Steve Fasching - *Deckers Brands - VP of Strategy and IR*

Yes. So, this is Steve, Camilo. On the inventory, basically what we've said -- and it might help if I gave a little bit of background. So, we've been talking about this year carrying elevated levels of inventory over last year, because, as you recall, last year we had low levels and actually missed out on sales in Q4.

So, knowing that, and we've talked about it in the last couple of quarters, about carrying really elevated inventory in terms of weather product, including cold-weather slippers and casual boots. So if you look at the guidance that we gave, which we kind of said at 12/31, we would be up in line with sales, which would indicate kind of more like a $320 million number, and where we ended was a $371 million. So, roughly $50 million of kind of increased inventory at 12/31 versus what we expected.

The bulk of all that increase was really cold weather product, some slippers and some casual boot. And the good news, if there is good news in that, is really that that is carryover product. So, that is product we feel we can carry over into fall of 2016 really without taking any margin impact on that. So, we are comfortable carrying that over to fall.

To your point, as some of the weather has turned cold, we will see some of that inventory move. But the other is, with that being carryover product, we are able to adjust our buys over the summer. So we have already reduced buys of those categories. So we think that inventory gets in line really by the end of summer, which is our Q2 fiscal 2017.

Camilo Lyon - *Canaccord Genuity - Analyst*

Great, that is helpful. And then my follow-up question -- a multipart question, so trying to understand -- you are bringing great innovation to the line across the Classics business and you are increasing the weather and the fashion component as well. But you also faced, obviously, the weather headwinds.

How are the discussions going on with your retail partners trying to embrace the innovation, but safeguard against the weather unknowns as it relates to fall 2016? And are you still taking the stance to further reduce the exposure to your core Classics in the back of UGG to the same magnitude as you did this prior season?

Dave Powers - *Deckers Brands - President*

Yes, good question. We are still in the middle of sorting that out. It is still early in the pre-book season for us. Essentially what I would say is you're going to see a migration more towards casual boots because the success there has been strong. And I would say just more a consistent level and investment in Classics going forward, meaning core Classics.

So, I think that what I like about the future for us and how the conversations are going, is it is a much more balanced assortment. It starts to get a little less cold-weather dependent, but fortunately for us, key retailers have seen the success in the non-core and non-weather products, such as the casual boots. And I think you're going to see a continued migration in a positive way to those new categories, while still maintaining a healthy core business along with it.

Camilo Lyon - *Canaccord Genuity - Analyst*

And if I could just sneak one in -- sorry, go ahead.

Dave Powers - *Deckers Brands - President*

I was going to say the good news in this is, we will be less reliant on one item to make the season for us going forward.

Camilo Lyon - *Canaccord Genuity - Analyst*

Okay. And then just the -- a clarification on the segmentation strategy. Is that to suggest that there is going to be a -- in the context of also rationalizing some of the non-brand-supporting distribution, is that to suggest that there is going to be net reduction in doors of distribution flat, or increase in doors of distribution next year?

Dave Powers - *Deckers Brands - President*

It is probably too early to give you color on that. Stefano and the teams are out working on that right now, so I would say by the end of our next call, we can have more detail on that.

Camilo Lyon - *Canaccord Genuity - Analyst*

Okay, thanks very much. Good luck.

Operator

Rafe Jadrosich, Bank of America Merrill Lynch.

Rafe Jadrosich - *BofA Merrill Lynch - Analyst*

Thanks for taking my questions. You mentioned the excess inventory you are carrying forward into next year. Can you just talk about sort of the levers you have to clear through that by the fiscal second-quarter of 2017 and then how that might impact the brand?

Steve Fasching - *Deckers Brands - VP of Strategy and IR*

Yes, this is Steve again, Rafe. So, the product that we are talking about, that excess that I was talking about, that is really product that we will carry next fall. So, the opportunity that we have is to really reduce our buys, which we have already done.

So, some of the non-carryover of inventory we have, we are working through that in the current quarter. The carryover product that we know that we will be carrying again in fall, we have already reduced those buys. That is why the inventory comes in line by the end of summer, because that's material typically we manufacture over the summer and take delivery by late summer.

Dave Powers - *Deckers Brands - President*

Yes, and the other non-carrier product is good product that we can sell in our outlet store and help that business as well. So, there is not a lot of liability sitting out there. It is good product that, as Steve said, is going to help our business in the fall. And we will wind that down. And then a lot of that clearance is fuel for the outlets.

Rafe Jadrosich - *BofA Merrill Lynch - Analyst*

Got it. And then on the midteens operating margin goal for longer-term, can you just give some color on what sort of the drivers are to that? Like, how much of it is gross margin versus SG&A? Should we be thinking it is more SG&A now, going forward with the new initiatives?

Tom George - *Deckers Brands - CFO*

It is still early in the planning process. That said, we are going to continue to work on our operating expense savings and efficiencies within the organization, not only our back room kind of initiatives and savings, but also just how we run the business on a global basis, and continue to look at product design and development, trying to gain more efficiencies there.

And at the same time, we are going to continue -- on the gross margin side, we have a lot of initiatives in place and a lot of visibility around further initiatives there that can help our input costs, not only factories but also materials and SKU rationalization, and more SKU efficiency. So, there's a lot of different factors that make us comfortable that we can still drive for a midteens operating margin in the long run.

Rafe Jadrosich - *BofA Merrill Lynch - Analyst*

Okay, great. Thank you.

Operator

Howard Tubin, Guggenheim Securities.

Howard Tubin - *Guggenheim Securities LLC - Analyst*

Maybe from a -- if we look back this season from a marketing perspective, maybe you can give us some color on which one of your programs and which programs do you think were most successful? And what should we expect to see from a marketing point of view for the UGG brand going forward into 2016?

Dave Powers - *Deckers Brands - President*

Yes, great question, Howard. We learned a lot this past quarter from a marketing perspective. A couple of things I could highlight. The Luxe launch, which was a very targeted launch for us early in the season on a singular item with the right level of creative, I would say was very successful. And we learned that we can really put some power behind the launches with a -- what I would say a more robust campaign, but very focused on a consumer and a positioning in product.

The other thing that we learned, which you're going to see more of going forward, is that our consumer is trying to understand how to wear our product. And so the partnership we did with Rachel Zoe, where we showcased how to style the product, and used our social channels to bring that content to the consumer, was very effective, particularly when we launched the Slim, the Slim campaign, under the umbrella of big launches, was also very successful for us. And that was in line with what Rachel Zoe did in showcasing that product.

So, going forward, you're going to see a more concerted effort on storytelling, on big launches, and on more what I would say real and authentic creative versus glossy fashion shoe creative. Bringing our consumers into the conversation, user-generated content, and really talking about the benefit of the product and how to wear our product from a style perspective.

Howard Tubin - *Guggenheim Securities LLC - Analyst*

Great, thank you.

Operator

Jonathan Komp, Robert W. Baird.

Jonathan Komp - *Robert W. Baird & Company, Inc. - Analyst*

Maybe, Tom, just first a follow-up on the fourth-quarter guidance. I think you mentioned lower DTC assumptions as one of the factors supporting the lower guidance. I just wanted to reconcile. I think you also said you have seen a pickup in DTC in January. So is it just that you are expecting softer trends during the balance of the quarter? Or maybe if you could just clarify the fourth-quarter guidance for that part.

Tom George - *Deckers Brands - CFO*

Yes, I think January is helpful, but then it's the rest of the quarter tails off pretty quickly. So, we want to just make sure we are cautious in the outlook there. So, that's it.

Jonathan Komp - *Robert W. Baird & Company, Inc. - Analyst*

Okay, got it. Thank you. And then looking forward to 2017, I understand it's early. You talked kind of directionally about a number of headwinds and tailwinds with the closures in a number of other pressures on the business, and maybe offset by some of the new marketing and product initiatives that you have.

When you -- sitting here today and kind of roll all those factors up, do you think 2017 can be a year that you grow the UGG brand revenue? Or do you think that the headwinds will be too much for that to happen?

Tom George - *Deckers Brands - CFO*

I think it's just still too early; early in the process. There's just too many moving parts, too early in the process to throw out. We gave you the assumptions in the areas that we are looking at, the different levers we have, and the different elements we are addressing. But, it is just still too early to make a call on a lot of this.

Angel Martinez - *Deckers Brands - Chairman of the Board and CEO*

Yes, I think part of that is we feel confident in our offense for the back half of the coming year, but a lot of it depends on retailers that are just finishing their fiscal year and understanding what their plans for open buy are going to be going forward. They're trying to understand the impact of the weather to their retail locations on their consumer, and what it means to their open to buy in the mix of brands.

So the conversations we've been having with our accounts are positive. We feel very confident in our go-forward plan. But I think people are still trying to understand what the macro level issues are and how they adapt to it.

Jonathan Komp - *Robert W. Baird & Company, Inc. - Analyst*

Okay, understood. Thank you.

Operator

Mitch Kummetz, B. Riley.

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

Maybe just start with just a follow-up on John's first question about DTC. I know you are being more conservative, but what is the comp assumption? I mean, are you expecting negative mid-single digits? Or what is the number? I was hoping you could provide that.

Tom George - *Deckers Brands - CFO*

Negative mid-single digits.

Angel Martinez - *Deckers Brands - Chairman of the Board and CEO*

Q4?

Tom George - *Deckers Brands - CFO*

Q4, yes.

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

All right. And then, Tom, towards the end of your prepared remarks, I don't know if I just -- if I didn't hear you correctly. I thought you said something about -- I know you expect, over time, the restructuring to save you $30 million in SG&A. But I thought you said something about a pretax income reduction of $20 million to $30 million? Did I hear that correctly? Or what exactly was that or --?

Tom George - *Deckers Brands - CFO*

Yes, Mitch, what that was is a separate item. And that is an estimate of the one-time charges we expect from our brand realignment in the store closures.

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

Got it. Okay. All right. And then maybe two last quick ones. How are you guys going to manage the Classic -- the new Classic inventory in the back half? Because I know it was -- you kind of changed the way you did that this year by steering the retailers more towards fashion casual, weather stuff, and you kind of backstopped them by holding the inventory and making it available for in-season order.

I mean, is that -- are you going to kind of maintain that philosophy going into fall 2016? Or are you not going to do that and ask them to pre-book more of that than you did this past year?

Angel Martinez - *Deckers Brands - Chairman of the Board and CEO*

Yes, I think generally speaking, Mitch, we are going to be conservative with core Classics inventories going forward. I think as we continue to try to migrate the consumer to other areas of the business, make sure that we are not overdistributed with the core Classics and the new launch of that, and create some excitement and demand.

So we are not going to overbuy based on upside. We are going to plan it where we think the right level is. And if we have to chase some sales, I would rather be in the position of chasing sales and have too much out there when we launch it.

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

Okay. And then lastly on the store closings, I know that the timing is difficult to know. But is there any urgency to try to get these stores closed before the first fiscal quarter, which, if I'm not mistaken, tends to be a pretty big loss quarter for you guys? And I think a lot of that has to do with the stores being -- I don't know, maybe -- I don't want to say unprofitable, but being a headwind kind of to that quarter?

Angel Martinez - *Deckers Brands - Chairman of the Board and CEO*

Yes, Tom can jump in here, but generally speaking, we are in negotiations with landlords globally. It is a pretty complex task and that is why we have a retail consultant helping us out, to validate our assumptions and help us work through this.

And it really comes down to looking at each individual lease when these leases come up for renewal. And they are different, obviously, in every location. So what we are trying to do is get as many as we can into the rest of FY16 into Q4, but it all depends on how fast we can get these negotiations going. There are certainly benefits to us to get more into FY16, so we are clean to go into FY17. But we won't have true visibility to what that number is until we get through the next couple of months of negotiations.

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

Got it, thank you.

Operator

Erin Murphy, Piper Jaffray.

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

Just a couple for me. I guess, first, just on the global pricing strategy. Dave, could you just talk about, in China in particular, you took your pricing down a couple of quarters ago. How has the consumer response been so far? And then are there any other regions that you need to sharpen a little bit further?

Dave Powers - *Deckers Brands - President*

Yes, you know, it's interesting. The initial price reductions in China going up and through November were very positive. There was a little bit of reduction in ASP, obviously, across the board, but their revenue was strong. And where we saw headwinds was the same with the rest of our markets in December due to weather. So, the positive impact that we expected from price reductions, we got, but it was offset in the back half and end of the quarter by the weather challenges.

Tom George - *Deckers Brands - CFO*

And as far as the rest of the other products in the market around the world, the new innovation, the new product allows us to enter those -- enter product into those markets that is more price-appropriate. So we are not so dependent on Classic. A lot of the new product that is coming in is priced at a more accessible level, and that's in the total mix, we now have a much broader price assortment for consumers. And whereas in the beginning, when we first started selling in those markets, everything was Classic-dependent.

Dave Powers - *Deckers Brands - President*

Yes, exactly.

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

And you feel pretty good about the health of the Classic pricing in markets like Japan and Europe?

Dave Powers - *Deckers Brands - President*

Yes, we do. As we said last quarter, we raised prices slightly in Europe. And that didn't have a negative impact; it was fine. The Slim introduction was priced right. The Luxe introduction was priced right for that market. Same in Japan and China, and North America. So I think we are in pretty good shape going forward.

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

Got it. And then just if I can, on the Koolabara brand, can you just talk a little bit more about your strategic view at this point? And then just how do you assess the timeline of ramping that to be more of a commercial product across the globe?

Dave Powers - *Deckers Brands - President*

Yes, I am pretty optimistic for the long-term opportunities in Koolabara. We have been working with some select key accounts, sizable accounts, for launch this fall. And the goal there is to keep back-of-house and internal operations lean, and also keep our account base lean. So, big-box footwear chains is a primary focus right now.

So we don't -- we haven't opened this up to independents. And we are going to lunch with the big guys so we can get the broadest reach as soon as we can, with a minimal overhead to manage that business in the short-term, and then ramp it from there.

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

And I mean, is that something that you -- we should start to anticipate as we get into the back half of calendar 2016? Or how do you see that kind of big-box guys responding to the ramp there?

Dave Powers - *Deckers Brands - President*

The conversations have been positive, very receptive. A lot of excitement around the product. And not necessarily just the core product, but more the Koolabara fashion product. They feel that the quality, the styling, the price is very competitive. But it is still early. We haven't finalized any of those conversations with any of those keys partners yet. So we will have more color on that in the next call.

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

Okay. And then just last, just going back to one of Omar's questions on just wholesale rationalization, I mean, does that imply that you are pulling back on the independent channel? And then, just remind us, how big is that channel for you guys today? Thanks.

Dave Powers - *Deckers Brands - President*

Well, the independent channel is important and critical for us, and always will be for all of our brands. And I am not in a position to say what the new makeup of that channel is going to be, because again, it is still early.

Now there's two goals there. One is to have our independents buy a broader assortment of the brand, and that means buying men's and kids as well as just women's and beyond just core Classics. So there is an opportunity for us there.

And also, making sure that the ones that are not necessarily productive from a use of spend of time and return on sales for us, and also how this brand shows up, those are the ones we're having conversations with, with regards to potentially closing those doors. But it is still very early in the conversation and I wouldn't feel comfortable committing to any numbers yet.

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

Got it. Fair enough. And then -- sorry, if I could just go back to the Koolabara question, just in terms of the channel with the majors, should we assume it is more of the Macy's, not the existing partners that you are selling into UGGs will be differentiated by what you are already selling with the UGG brand?

Dave Powers - *Deckers Brands - President*

Yes. No, that is a good thing to clarify, Erin. It will be a very different segmentation distribution than the UGG brand. And that is purposeful, strategic, and think of people like Famous Footwear versus a Nordstrom.

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

Got it. And the price point differential again?

Dave Powers - *Deckers Brands - President*

Below [$100] for Koolabara. And you know the out-pricing.

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

Yes, absolutely. Thank you.

Operator

There are no further questions at this time. I would now like to turn the conference back over to management for any closing remarks.

Angel Martinez - *Deckers Brands - Chairman of the Board and CEO*

Well, clearly, it was a difficult quarter, but I think you have seen and heard from this conversation that we are taking aggressive action to streamline our business and further consolidate around the opportunity that we have to continue to grow revenue and earnings. We feel that in the long run, shareholders will benefit from the power of the brands, and very optimistic about the future and all the talent that we have. It's all pulling on the same rope to make things happen.

So, thank you all for being on the call, and I appreciate your time.

Operator

Ladies and gentlemen, this does conclude tonight's teleconference. Thank you for your time and participation. You may disconnect your lines at this time, and have a wonderful rest of your day.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Randy Konik, Jefferies.

Randy Konik - *Jefferies LLC - Analyst*

Thanks for taking my question. I really appreciate it. A couple of questions just real quick. Can you talk about the store closures a little bit, give us some more flavor there? You talked about identifying 20 stores, I guess. Is there any commonality on what comprises those 20 stores? Are they in certain types of city versus non-city locations or something like that? Can you give any color there?

Can you elaborate on -- it sounded like you said that in markets where there was temperate climate, like it sounded like California, the sales were -- I don't know if you'd call it strong, but in line with expectations. Can you just give us a little more color there?

And then lastly, when should we expect the restructuring -- or with the SG&A savings, how is that -- when is that going to actually hit the income statement? Is that something we should expect start to occur in the back part of fiscal 2016? Or how am I supposed to think about when those expense savings -- because you gave us an annualized number -- when those expense savings hit the income statement? Thank you.

Dave Powers - *Deckers Brands - President*

Hey, Randy. This is Dave. I will talk about the first two, and then I will hand it over to Tom for the third piece of your question. With regards to the store closing philosophy, there is some commonality that we've looked at across the fleet of stores, and the roughly 20 stores that we have identified. And it really comes down to, based on current trends and future outlook, stores that are performing below our threshold of 20% return on sales.

But in addition to that, stores that we don't believe represent our strategic focus going forward and necessarily in locations that are in line with our strategy of elevating the brand in key cities globally. So, it is grouped under those two areas and it is something we've been monitoring for a while. And with the results in the last quarter, we just felt it was the right time to accelerate that focus as we continue to optimize our fleet.

Angel Martinez - *Deckers Brands - Chairman of the Board and CEO*

And generally speaking, these are freestanding stores. They are not mall-based stores.

Dave Powers - *Deckers Brands - President*

Correct.

Angel Martinez - *Deckers Brands - Chairman of the Board and CEO*

And a lot of the locations have been impacted pretty significantly by lack of tourism.

Dave Powers - *Deckers Brands - President*

Yes, and the other thing to keep in mind is, a lot of these stores are legacy older locations where, quite frankly, traffic has just migrated to other parts of the city.

With regards to the comment about cooler weather in key markets, particularly on the West Coast, we did see better results in our West Coast stores because of the cooler-than-normal trends that we have been seeing in place like California. So, comparatively speaking, where we saw weather that was more advantageous to cold weather product versus the other rest of the regions and around the globe, we did see better performance in the areas where it was warmer across all categories.

Tom George - *Deckers Brands - CFO*

Randy, this is Tom. Of the $35 million of savings, just to add to that, that all -- that's not all retail stores. Of the $35 million, about $20 million, $25 million is retail stores and the balance is savings we would expect from Sanuk and Teva. But to be real clear -- Sanuk and Ahnu, excuse me -- to be real clear, that is an annualized rate. It is going to take some time to get to that $35 million.

So we won't achieve all that savings in the new fiscal year. A lot of it's going to be a function of --

Randy Konik - *Jefferies LLC - Analyst*

All right, thanks very much.

Tom George - *Deckers Brands - CFO*

-- of stores closed.

Randy Konik - *Jefferies LLC - Analyst*

Oh, so it's -- I mean, you think that's two to three quarters away?

Tom George - *Deckers Brands - CFO*

Too early to tell. We really need to go through the store closings. Because as I said, most of the savings is store closings, and that is a big function when we get those closed. Store closings -- there is some science there. You don't want to rush into them too quick and incur too big a charges upfront. So we are also at the same time trying to mitigate some of our cash charges.

So, we would rather carve the right balance of closing them over time over the course of the year. So, just to be clear, it's not all that $35 million of savings will be in this year.

Randy Konik - *Jefferies LLC - Analyst*

Understood, thank you.

Operator

Omar Saad, Evercore ISI.

Omar Saad - *Evercore ISI - Analyst*

I wanted to ask, given kind of how the calendar fourth-quarter, fiscal third-quarter played out at retail on the inventories you have are in the channel still, how do you think about the transition from this winter season into the next year, where you are launching kind of the new kind of reimagined core Classic products? Is that going to postpone that or change the way you think about that, and how you market that, and how you position the brand in the marketplace accordingly? Thanks.

Dave Powers - *Deckers Brands - President*

Yes, great question, Omar. This is Dave. So, a couple things. The -- with regards to the past quarter, Classics as a total from a unit perspective were down in sales prior-year. But the key thing to remember is that the core Classics is now less than a quarter of our total business. And so, when we were going into the quarter with the promotions that we had pulled in the middle of Q3, we adjusted inventory levels on the backend to help us get out of that inventory.

So the promotions, accelerating those a little bit earlier allowed us to be much cleaner coming out of Q3 and Q4. And we don't see any major issues with transitioning out of the core Classics and the Billy Bow and the Billy Buttons to make room for the new updated Classic that will come in, in July. So, the way we see it right now, we will be pretty clean in the market. We will have leftover core Classics to sell through our outlets next fall, which will be good for that business. And then in wholesale and full price DTC will transition into new Classic in July.

I think it is also important to note, as I said, the core Classic, now roughly less than a quarter of our total business, and non-core Classic, 75% of our business. In Q3, those non-core Classics units sales was up midteens, particularly in weather and casual boots, despite some of the challenges we had.

And I think this is a good way to think about our business going forward, where core Classics becomes less and less meaningful. It will still be important, but the real conversation is about the new product that we brought to the market and the strength of that business going forward, which is in line with our long-term diversification strategies. And I think updating the Classic is just going to make that franchise stronger, but it is not the only conversation going forward.

Omar Saad - *Evercore ISI - Analyst*

Got you, got you. And then could you talk a little bit more detail around how you are going to be segmenting the market a little bit more at the retail level? And it sounds like maybe you are going to clean up some of the distribution? Am I reading that right? Any more information there would be helpful, thanks.

Dave Powers - *Deckers Brands - President*

Yes, I am really excited about this. This is something that I think has been an opportunity for us for quite a while. And essentially, the way I would think about it is, if you could think about the pyramid of distribution in our key markets, our goal is to elevate the brand closer to the top of the pyramid through DTC and key wholesale accounts that truly represent the best of the brand, treat our consumers and their consumers in a real high-quality way from a service perspective, and showcase the brand the way we feel is right for our brand positioning.

So, what it essentially means is we are going to take more care working with some of these top key retailers in how we showcase the brand and how we differentiate product for them, so they have special products, and then working throughout the distribution network to make sure that each level of distribution has the right product for their consumer and their positioning. As we look across the marketplace, we also feel that there are some existing accounts that don't necessarily represent the best of the brands, and we are taking a look at those to see if they will make the cut going forward.

Angel Martinez - *Deckers Brands - Chairman of the Board and CEO*

We now have some pretty important data points that indicate that retailers who really paid attention to what we were doing, followed our advice and diversified the product offering, had a much more successful season in spite of the weather than those who were predominantly Classic-oriented, Classic-driven. So, we now have all of the data points we need to make a very strong argument about that, with a lot of proof about that. So, it is really now time to elevate the entire market into the right direction for the long-term.

Dave Powers - *Deckers Brands - President*

I would also add, Omar, that with the new category leadership with Jennifer Summer and Rob Keenan and the brand team focused on each of these individual categories, you're going to see a much more intensified focus from a category perspective in key accounts across the marketplace. So, dedicated focus on men's and expanding distribution, quality distribution and men's; same with kids and lifestyle products, while we continue to elevate and diversify the women's business as well. I think it's going to be -- you're going to see a different brand in the future.

Omar Saad - *Evercore ISI - Analyst*

Great. Thanks for your help. Good luck.

Operator

Taposh Bari, Goldman Sachs.

Taposh Bari - *Goldman Sachs - Analyst*

I guess the question on the discounting this past holiday. So, obviously some unprecedented promotions for the UGG brand. Curious to get your perspective on how the customer responded to the discounting activity and how the retailers responded, in particular? I know that there is obviously negotiation around who eats and how the economics of that discount are shared. But I would love to better understand the postmortem on how that played out versus your expectation. And also, how you are thinking about promotions going forward for fall and winter of 2017 -- sorry, the fall/winter of 2016.

Dave Powers - *Deckers Brands - President*

Yes. Going into the quarter, obviously this was something that the brand hadn't experienced before and hadn't planned before. And as we mentioned on the last call and some of the conversations, we were planning on transitioning the Classics assortment. So, the strategy played into a big part of the decision to drive these markdowns.

As we said, the Billy Bow and Billy Button was part of that strategy. And accelerating the core Classics in the last few weeks of December, I would say was the right thing for the brand to be able to clear that inventory. There was some nervousness in our wholesale accounts as to what it was going to mean. But ultimately, for the most part, what it did is it helped accelerate sales for our key accounts and helped give them a better inventory position, which made the marketplace healthier overall.

And it puts us in a better position going forward, to have less liability out there in the marketplace as we transition into the new Classic. If we hadn't taken these markdowns, we would be looking at a different topline sales number. And I think the upside that we saw from those promotions in our DTC channels was significant.

Going forward, with regards to comping these promotions, we do not plan on comping these promotions. We don't plan on becoming a promotional brand. But that said, we are going to have to play in the competitive marketplace and be a little bit more planful in how we plan our margins and manage inventory. But we are getting better at that.

And the other good benefit of the discounting is we've got more consumers into the brand, which is something we talked about in the last couple calls as well. So, strategically, I feel really good about this decision and I think it has benefited us for the long-term. With regards to our key accounts and partnerships, gave them accelerated sales when they needed it and helped them get cleaner on their inventories.

Taposh Bari - *Goldman Sachs - Analyst*

Thanks for that, Dave. And then, Tom, a quick one for you on the outlook. What is driving the lower revenue guidance for the fourth quarter? Is it strictly UGG? Or is it also the timing or the actual revenues associated with the non-UGG brands?

And then as we think about next year, I know last quarter you have spoken about UGG or pure and other supply chain initiatives helping the gross margin line by about 100 basis points, and the hope for SG&A leverage, is that still the plan? And I guess, how are you thinking about orders next year? And when do you expect to have more visibility into how the revenue outlook shakes out for 2017? Thanks.

Tom George - *Deckers Brands - CFO*

For the fourth quarter, it is a combination of things. We are just taking a more cautious outlook for not only the UGG brand, but also the other brands, as well as our Direct-to-Consumer business, because we just think that is the appropriate way to handle it, the guidance for the fourth quarter at this point in time.

As far as next year, it is very early in our planning process. We are very -- still very early in the pre-booking process, and that obviously is a big input into our overall planning for next year. Now some of the things we are thinking about are some more conservative planning for the weather-sensitive product.

We need to realize there's still going to be pressure on Direct-to-Consumer because of the dollar and the tourism. The Direct-to-Consumer business, the impact from the retail store closures, and we do feel that we will have continued growth in eCommerce and HOKA.

For gross margins, we still feel sheep scan-width should get about 100 bps of benefit there. That said, that is early stage. We need to be cautious about continued pressure from reduced store counts and the non-UGG brands, the growth we get there. That puts some pressure on gross margins. And the changing retail landscape, because of all the promotional environment.

On the SG&A side, we talked about, on an annualized basis, the $35 million of savings, but that is going to take a while. That won't all happen fiscal year in 2017 and we want to reinvest some of that, especially when we are looking at still evaluating some additional marketing money for HOKA and UGG. And the budgets aren't finalized, so we really can't make a call at this point in time on overall SG&A.

And another thing to keep in mind to think about next year, we expect tax to be a pretty good headwind this year vis-a-vis what the rate was, and what the rate is going to end up being this year.

Angel Martinez - *Deckers Brands - Chairman of the Board and CEO*

Yes, I would just add onto that, which is I think that from my perspective at least, the brands are very healthy. All the brands in the portfolio, especially with the new focus we have on them going forward, and the refreshed point of view from the UGG brand, stronger than they have ever been. But I think the macro headwinds that we've all seen across the marketplace, not just Deckers, but across all brands and retailers, we don't really see those subsiding for a while. And we are planning, even though we feel really confident in the brands, that we want to be a little more conservative until we see turnarounds and things like the dollar and tourism, and just in general market malaise to retail. So, the confidence within our brands is high, but just being realistic with the macro headwinds.

Taposh Bari - *Goldman Sachs - Analyst*

Understood, best of luck.

Operator

Corinna Van Der Ghinst, Citi.

Corinna Van Der Ghinst - *Citigroup - Analyst*

I was wondering if you guys could give us any just update around pricing on the new Classics 2 product or general thoughts around the ASP for the upcoming year?

Dave Powers - *Deckers Brands - President*

Yes, I think on the core Classic, or the updated core Classic, you are going to see similar retails to the previous one. But if you look at the broader mix of Classics, you still have the Classic Slim is at a higher price point. And it is going to be a much more significant piece of the total. The Classic Luxe will be more significant than it was last year, and the Classic Street, which is a new introduction, will be comparable price points as well.

So, ASPs for next year across the Classics franchise should be flat to higher, especially comping some of the promotions. And I think that just gives us a better mix of variety and style and price points in that franchise as a whole.

Corinna Van Der Ghinst - *Citigroup - Analyst*

Okay, great. And then I know you guys mentioned that some of the fashion and casual products were some highlights throughout the quarter. And I was just wondering how that -- how those segments performed versus your original plan going into the quarter? And then also just any color on men's, kids and Europe in the quarter, please. Thanks.

Dave Powers - *Deckers Brands - President*

Yes, so the non-core Classics performed very well. Weather was up over 100%. Casual was up over 25%, 30%. And I would say from a sellthrough perspective, they were strong. What we didn't see the increased purchase in season on cold weather product that we had bought into in case the weather was colder than expected. But with regards to what we sold in and sellthrough of some of that new casual product, and rain boots, which is part of our weather category, as expected or better-than-expected sellthrough, we just didn't see the uptick in the cold weather product, in the winter product, that we would normally see.

Angel Martinez - *Deckers Brands - Chairman of the Board and CEO*

The men's was up about 26%, which is very significant. Our slipper business was up 16% or so. Fashion was up over 25%. So we did have great performance from this non-core product, which is a strategy that we have been striving toward and moving to over the last few years, as you know.

Corinna Van Der Ghinst - *Citigroup - Analyst*

Great, thank you.

Operator

Camilo Lyon, Canaccord Genuity.

Camilo Lyon - *Canaccord Genuity - Analyst*

Just on the inventory composition, can you help us understand what the difference is between the December 31 UGG inventory and where it stands today? We've been hearing that there is another round of clearing out of product at retail, given the cold weather that we had in January. I am wondering if that had helped your business as well?

And then, just if you could just disaggregate what the spring inventory composition is in that number, relative to the Classic inventory that you will be carrying over into outlets think season.

Steve Fasching - *Deckers Brands - VP of Strategy and IR*

Yes. So, this is Steve, Camilo. On the inventory, basically what we've said -- and it might help if I gave a little bit of background. So, we've been talking about this year carrying elevated levels of inventory over last year, because, as you recall, last year we had low levels and actually missed out on sales in Q4.

So, knowing that, and we've talked about it in the last couple of quarters, about carrying really elevated inventory in terms of weather product, including cold-weather slippers and casual boots. So if you look at the guidance that we gave, which we kind of said at 12/31, we would be up in line with sales, which would indicate kind of more like a $320 million number, and where we ended was a $371 million. So, roughly $50 million of kind of increased inventory at 12/31 versus what we expected.

The bulk of all that increase was really cold weather product, some slippers and some casual boot. And the good news, if there is good news in that, is really that that is carryover product. So, that is product we feel we can carry over into fall of 2016 really without taking any margin impact on that. So, we are comfortable carrying that over to fall.

To your point, as some of the weather has turned cold, we will see some of that inventory move. But the other is, with that being carryover product, we are able to adjust our buys over the summer. So we have already reduced buys of those categories. So we think that inventory gets in line really by the end of summer, which is our Q2 fiscal 2017.

Camilo Lyon - *Canaccord Genuity - Analyst*

Great, that is helpful. And then my follow-up question -- a multipart question, so trying to understand -- you are bringing great innovation to the line across the Classics business and you are increasing the weather and the fashion component as well. But you also faced, obviously, the weather headwinds.

How are the discussions going on with your retail partners trying to embrace the innovation, but safeguard against the weather unknowns as it relates to fall 2016? And are you still taking the stance to further reduce the exposure to your core Classics in the back of UGG to the same magnitude as you did this prior season?

Steve Fasching - *Deckers Brands - VP of Strategy and IR*

Yes, good question. We are still in the middle of sorting that out. It is still early in the pre-book season for us. Essentially what I would say is you're going to see a migration more towards casual boots because the success there has been strong. And I would say just more a consistent level and investment in Classics going forward, meaning core Classics.

So, I think that what I like about the future for us and how the conversations are going, is it is a much more balanced assortment. It starts to get a little less cold-weather dependent, but fortunately for us, key retailers have seen the success in the non-core and non-weather products, such as the casual boots. And I think you're going to see a continued migration in a positive way to those new categories, while still maintaining a healthy core business along with it.

Camilo Lyon - *Canaccord Genuity - Analyst*

And if I could just sneak one in -- sorry, go ahead.

Steve Fasching - *Deckers Brands - VP of Strategy and IR*

I was going to say the good news in this is, we will be less reliant on one item to make the season for us going forward.

Camilo Lyon - *Canaccord Genuity - Analyst*

Okay. And then just the -- a clarification on the segmentation strategy. Is that to suggest that there is going to be a -- in the context of also rationalizing some of the non-brand-supporting distribution, is that to suggest that there is going to be net reduction in doors of distribution flat, or increase in doors of distribution next year?

Steve Fasching - *Deckers Brands - VP of Strategy and IR*

It is probably too early to give you color on that. Stefano and the teams are out working on that right now, so I would say by the end of our next call, we can have more detail on that.

Camilo Lyon - *Canaccord Genuity - Analyst*

Okay, thanks very much. Good luck.

Operator

Rafe Jadrosich, Bank of America Merrill Lynch.

Rafe Jadrosich - *BofA Merrill Lynch - Analyst*

Thanks for taking my questions. You mentioned the excess inventory you are carrying forward into next year. Can you just talk about sort of the levers you have to clear through that by the fiscal second-quarter of 2017 and then how that might impact the brand?

Steve Fasching - *Deckers Brands - VP of Strategy and IR*

Yes, this is Steve again, Rafe. So, the product that we are talking about, that excess that I was talking about, that is really product that we will carry next fall. So, the opportunity that we have is to really reduce our buys, which we have already done.

So, some of the non-carryover of inventory we have, we are working through that in the current quarter. The carryover product that we know that we will be carrying again in fall, we have already reduced those buys. That is why the inventory comes in line by the end of summer, because that's material typically we manufacture over the summer and take delivery by late summer.

Dave Powers - *Deckers Brands - President*

Yes, and the other non-carrier product is good product that we can sell in our outlet store and help that business as well. So, there is not a lot of liability sitting out there. It is good product that, as Steve said, is going to help our business in the fall. And we will wind that down. And then a lot of that clearance is fuel for the outlets.

Rafe Jadrosich - *BofA Merrill Lynch - Analyst*

Got it. And then on the midteens operating margin goal for longer-term, can you just give some color on what sort of the drivers are to that? Like, how much of it is gross margin versus SG&A? Should we be thinking it is more SG&A now, going forward with the new initiatives?

Angel Martinez - *Deckers Brands - Chairman of the Board and CEO*

It is still early in the planning process. That said, we are going to continue to work on our operating expense savings and efficiencies within the organization, not only our back room kind of initiatives and savings, but also just how we run the business on a global basis, and continue to look at product design and development, trying to gain more efficiencies there.

And at the same time, we are going to continue -- on the gross margin side, we have a lot of initiatives in place and a lot of visibility around further initiatives there that can help our input costs, not only factories but also materials and SKU rationalization, and more SKU efficiency. So, there's a lot of different factors that make us comfortable that we can still drive for a midteens operating margin in the long run.

Rafe Jadrosich - *BofA Merrill Lynch - Analyst*

Okay, great. Thank you.

Operator

Howard Tubin, Guggenheim Securities.

Howard Tubin - *Guggenheim Securities LLC - Analyst*

Maybe from a -- if we look back this season from a marketing perspective, maybe you can give us some color on which one of your programs and which programs do you think were most successful? And what should we expect to see from a marketing point of view for the UGG brand going forward into 2016?

Dave Powers - *Deckers Brands - President*

Yes, great question, Howard. We learned a lot this past quarter from a marketing perspective. A couple of things I could highlight. The Luxe launch, which was a very targeted launch for us early in the season on a singular item with the right level of creative, I would say was very successful. And we learned that we can really put some power behind the launches with a -- what I would say a more robust campaign, but very focused on a consumer and a positioning in product.

The other thing that we learned, which you're going to see more of going forward, is that our consumer is trying to understand how to wear our product. And so the partnership we did with Rachel Zoe, where we showcased how to style the product, and used our social channels to bring that content to the consumer, was very effective, particularly when we launched the Slim, the Slim campaign, under the umbrella of big launches, was also very successful for us. And that was in line with what Rachel Zoe did in showcasing that product.

So, going forward, you're going to see a more concerted effort on storytelling, on big launches, and on more what I would say real and authentic creative versus glossy fashion shoe creative. Bringing our consumers into the conversation, user-generated content, and really talking about the benefit of the product and how to wear our product from a style perspective.

Howard Tubin - *Guggenheim Securities LLC - Analyst*

Great, thank you.

Operator

Jonathan Komp, Robert W. Baird.

Jonathan Komp - *Robert W. Baird & Company, Inc. - Analyst*

Maybe, Tom, just first a follow-up on the fourth-quarter guidance. I think you mentioned lower DTC assumptions as one of the factors supporting the lower guidance. I just wanted to reconcile. I think you also said you have seen a pickup in DTC in January. So is it just that you are expecting softer trends during the balance of the quarter? Or maybe if you could just clarify the fourth-quarter guidance for that part.

Tom George - *Deckers Brands - CFO*

Yes, I think January is helpful, but then it's the rest of the quarter tails off pretty quickly. So, we want to just make sure we are cautious in the outlook there. So, that's it.

Jonathan Komp - *Robert W. Baird & Company, Inc. - Analyst*

Okay, got it. Thank you. And then looking forward to 2017, I understand it's early. You talked kind of directionally about a number of headwinds and tailwinds with the closures in a number of other pressures on the business, and maybe offset by some of the new marketing and product initiatives that you have.

When you -- sitting here today and kind of roll all those factors up, do you think 2017 can be a year that you grow the UGG brand revenue? Or do you think that the headwinds will be too much for that to happen?

Dave Powers - *Deckers Brands - President*

I think it's just still too early; early in the process. There's just too many moving parts, too early in the process to throw out. We gave you the assumptions in the areas that we are looking at, the different levers we have, and the different elements we are addressing. But, it is just still too early to make a call on a lot of this.

Angel Martinez - *Deckers Brands - Chairman of the Board and CEO*

Yes, I think part of that is we feel confident in our offense for the back half of the coming year, but a lot of it depends on retailers that are just finishing their fiscal year and understanding what their plans for open buy are going to be going forward. They're trying to understand the impact of the weather to their retail locations on their consumer, and what it means to their open to buy in the mix of brands.

So the conversations we've been having with our accounts are positive. We feel very confident in our go-forward plan. But I think people are still trying to understand what the macro level issues are and how they adapt to it.

Jonathan Komp - *Robert W. Baird & Company, Inc. - Analyst*

Okay, understood. Thank you.

Operator

Mitch Kummetz, B. Riley.

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

Maybe just start with just a follow-up on John's first question about DTC. I know you are being more conservative, but what is the comp assumption? I mean, are you expecting negative mid-single digits? Or what is the number? I was hoping you could provide that.

Tom George - *Deckers Brands - CFO*

Negative mid-single digits.

Angel Martinez - *Deckers Brands - Chairman of the Board and CEO*

Q4?

Tom George - *Deckers Brands - CFO*

Q4, yes.

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

All right. And then, Tom, towards the end of your prepared remarks, I don't know if I just -- if I didn't hear you correctly. I thought you said something about -- I know you expect, over time, the restructuring to save you $30 million in SG&A. But I thought you said something about a pretax income reduction of $20 million to $30 million? Did I hear that correctly? Or what exactly was that or --?

Tom George - *Deckers Brands - CFO*

Yes, Mitch, what that was is a separate item. And that is an estimate of the one-time charges we expect from our brand realignment in the store closures.

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

Got it. Okay. All right. And then maybe two last quick ones. How are you guys going to manage the Classic -- the new Classic inventory in the back half? Because I know it was -- you kind of changed the way you did that this year by steering the retailers more towards fashion casual, weather stuff, and you kind of backstopped them by holding the inventory and making it available for in-season order.

I mean, is that -- are you going to kind of maintain that philosophy going into fall 2016? Or are you not going to do that and ask them to pre-book more of that than you did this past year?

Angel Martinez - *Deckers Brands - Chairman of the Board and CEO*

Yes, I think generally speaking, Mitch, we are going to be conservative with core Classics inventories going forward. I think as we continue to try to migrate the consumer to other areas of the business, make sure that we are not overdistributed with the core Classics and the new launch of that, and create some excitement and demand.

So we are not going to overbuy based on upside. We are going to plan it where we think the right level is. And if we have to chase some sales, I would rather be in the position of chasing sales and have too much out there when we launch it.

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

Okay. And then lastly on the store closings, I know that the timing is difficult to know. But is there any urgency to try to get these stores closed before the first fiscal quarter, which, if I'm not mistaken, tends to be a pretty big loss quarter for you guys? And I think a lot of that has to do with the stores being -- I don't know, maybe -- I don't want to say unprofitable, but being a headwind kind of to that quarter?

Angel Martinez - *Deckers Brands - Chairman of the Board and CEO*

Yes, Tom can jump in here, but generally speaking, we are in negotiations with landlords globally. It is a pretty complex task and that is why we have a retail consultant helping us out, to validate our assumptions and help us work through this.

And it really comes down to looking at each individual lease when these leases come up for renewal. And they are different, obviously, in every location. So what we are trying to do is get as many as we can into the rest of FY16 into Q4, but it all depends on how fast we can get these negotiations going. There are certainly benefits to us to get more into FY16, so we are clean to go into FY17. But we won't have true visibility to what that number is until we get through the next couple of months of negotiations.

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

Got it, thank you.

Operator

Erin Murphy, Piper Jaffray.

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

Just a couple for me. I guess, first, just on the global pricing strategy. Dave, could you just talk about, in China in particular, you took your pricing down a couple of quarters ago. How has the consumer response been so far? And then are there any other regions that you need to sharpen a little bit further?

Dave Powers - *Deckers Brands - President*

Yes, you know, it's interesting. The initial price reductions in China going up and through November were very positive. There was a little bit of reduction in ASP, obviously, across the board, but their revenue was strong. And where we saw headwinds was the same with the rest of our markets in December due to weather. So, the positive impact that we expected from price reductions, we got, but it was offset in the back half and end of the quarter by the weather challenges.

Tom George - *Deckers Brands - CFO*

And as far as the rest of the other products in the market around the world, the new innovation, the new product allows us to enter those -- enter product into those markets that is more price-appropriate. So we are not so dependent on Classic. A lot of the new product that is coming in is priced at a more accessible level, and that's in the total mix, we now have a much broader price assortment for consumers. And whereas in the beginning, when we first started selling in those markets, everything was Classic-dependent.

Dave Powers - *Deckers Brands - President*

Yes, exactly.

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

And you feel pretty good about the health of the Classic pricing in markets like Japan and Europe?

Dave Powers - *Deckers Brands - President*

Yes, we do. As we said last quarter, we raised prices slightly in Europe. And that didn't have a negative impact; it was fine. The Slim introduction was priced right. The Luxe introduction was priced right for that market. Same in Japan and China, and North America. So I think we are in pretty good shape going forward.

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

Got it. And then just if I can, on the Koolabara brand, can you just talk a little bit more about your strategic view at this point? And then just how do you assess the timeline of ramping that to be more of a commercial product across the globe?

Dave Powers - *Deckers Brands - President*

Yes, I am pretty optimistic for the long-term opportunities in Koolabara. We have been working with some select key accounts, sizable accounts, for launch this fall. And the goal there is to keep back-of-house and internal operations lean, and also keep our account base lean. So, big-box footwear chains is a primary focus right now.

So we don't -- we haven't opened this up to independents. And we are going to lunch with the big guys so we can get the broadest reach as soon as we can, with a minimal overhead to manage that business in the short-term, and then ramp it from there.

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

And I mean, is that something that you -- we should start to anticipate as we get into the back half of calendar 2016? Or how do you see that kind of big-box guys responding to the ramp there?

Dave Powers - *Deckers Brands - President*

The conversations have been positive, very receptive. A lot of excitement around the product. And not necessarily just the core product, but more the Koolabara fashion product. They feel that the quality, the styling, the price is very competitive. But it is still early. We haven't finalized any of those conversations with any of those keys partners yet. So we will have more color on that in the next call.

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

Okay. And then just last, just going back to one of Omar's questions on just wholesale rationalization, I mean, does that imply that you are pulling back on the independent channel? And then, just remind us, how big is that channel for you guys today? Thanks.

Dave Powers - *Deckers Brands - President*

Well, the independent channel is important and critical for us, and always will be for all of our brands. And I am not in a position to say what the new makeup of that channel is going to be, because again, it is still early.

Now there's two goals there. One is to have our independents buy a broader assortment of the brand, and that means buying men's and kids as well as just women's and beyond just core Classics. So there is an opportunity for us there.

And also, making sure that the ones that are not necessarily productive from a use of spend of time and return on sales for us, and also how this brand shows up, those are the ones we're having conversations with, with regards to potentially closing those doors. But it is still very early in the conversation and I wouldn't feel comfortable committing to any numbers yet.

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

Got it. Fair enough. And then -- sorry, if I could just go back to the Koolabara question, just in terms of the channel with the majors, should we assume it is more of the Macy's, not the existing partners that you are selling into UGGs will be differentiated by what you are already selling with the UGG brand?

Dave Powers - *Deckers Brands - President*

Yes. No, that is a good thing to clarify, Erin. It will be a very different segmentation distribution than the UGG brand. And that is purposeful, strategic, and think of people like Famous Footwear versus a Nordstrom.

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

Got it. And the price point differential again?

Dave Powers - *Deckers Brands - President*

Below [$100] for Koolabara. And you know the out-pricing.

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

Yes, absolutely. Thank you.

Operator

There are no further questions at this time. I would now like to turn the conference back over to management for any closing remarks.

Angel Martinez - *Deckers Brands - Chairman of the Board and CEO*

Well, clearly, it was a difficult quarter, but I think you have seen and heard from this conversation that we are taking aggressive action to streamline our business and further consolidate around the opportunity that we have to continue to grow revenue and earnings. We feel that in the long run, shareholders will benefit from the power of the brands, and very optimistic about the future and all the talent that we have. It's all pulling on the same rope to make things happen.

So, thank you all for being on the call, and I appreciate your time.

Operator

Ladies and gentlemen, this does conclude tonight's teleconference. Thank you for your time and participation. You may disconnect your lines at this time, and have a wonderful rest of your day.
