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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and thank you for standing by. Welcome to the Deckers Brand First Quarter Fiscal Year 2020 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. [Operator Instructions]

I'd now like to turn the conference call over to Erin Kohler, Senior Director-Investor Relations and Corporate Planning. Ma'am, you may begin.

Erinn Kohler
Senior Director-Investor Relations & Corporate Planning, Deckers Outdoor Corp.

Thank you, everyone, for joining us today. On the call is Dave Powers, President and Chief Executive Officer; and Steve Fasching, Chief Financial Officer.

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 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 made on this call today, other than statements of historical fact, are forward-looking statements, and include statements regarding our anticipated financial performance, including but not limited to: our projected revenue, margins, expenses, earnings per share, cost savings and operating profit improvement, as well as statements regarding our strategies for our products and brands. Forward-looking statements made on this call represent management's current expectations and are based on information available at the time such statements are made. Forward-looking statements involve numerous known and unknown risks, uncertainties and other factors that may cause our actual results to differ materially from any results predicted, assumed or implied by the forward-looking statements. The company has explained some of these risks and uncertainties in its SEC filings, including in the Risk Factor section of its Annual Report on Form 10-K, and quarterly reports on Form 10-Q. 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.

With that, I'll now turn it over to Dave.

David Powers

President, Chief Executive Officer & Director, Deckers Outdoor Corp.

Thanks, Erin, and good afternoon, everyone. As shown by the first quarter results posted this afternoon, we are off to a solid start in fiscal year 2020. For the quarter, our portfolio of brands posted gains in revenue as well as earnings versus the prior year, with the most material contribution of top line growth coming from the HOKA ONE ONE brand, as new product launches paired with enhanced marketing activations continued to build brand momentum.

In the first quarter of fiscal 2020, revenue was up 10% versus last year to $277 million, we delivered gross margin of 47% and a loss per share of $0.67. These results are above the high-end of the guidance that we provided for the quarter as we benefited from earlier delivery of wholesale and distributor shipments in the UGG brand and saw continued success in the HOKA brand, including the boost from the introduction of the Carbon X. The strength seen in the first quarter provides us with added confidence in achieving our increased fiscal 2020 guidance, which Steve will walk you through later in the call.

The results for the quarter are a testament to the work our teams are doing to strengthen our brands by bringing compelling product and experiences to our consumer. As I look at the industry, I see Deckers leading in innovation with two of the most exciting product launches this season, in the HOKA Carbon X and the UGG Fluff franchise. We're making progress in reshaping our business, and I believe our investments in marketing and innovation will continue to push our brands ahead of the competition.

I'll now review the highlights from the quarter, starting with the fashion lifestyle group. UGG global sales in the first quarter were up 2% over last year to $139 million, driven by a high-teens increase in domestic sales. The strength of our domestic business was fueled by both wholesale and DTC growth. As was planned, international sales were down versus last year, but we were in the early stages of a marketplace reset in our EMEA region as we better positioned our brands in the marketplace.

As I think about the progress we are making, I'm excited that consumers are finding more to love in the UGG brands spring and summer offering. This year, we have seen U.S. search interest rise by 50% over last year. In addition, UGG has also seen a significant increase in the key 18-34 year old demographic, where the number of online purchases in the quarter grew by 86% versus the previous year.

And aligned with our company's initiative around digital growth, UGG Rewards is starting to make a noticeable impact, with nearly 40% of U.S. e-commerce revenue being driven by loyalty customers. From a revenue perspective, UGG gained a significant incremental dollar contribution from the newly introduced Fluff collection. Our marketing activations, including a partnership with Born This Way Foundation help drive excitement around the entire collection of Fluff product, which we feel is unique to UGG and true to the brand's DNA. The Fluff collection is driving incredibly high sell-through rates as well as attracting new consumers to the brand. The collection has been praised by high-end publications and positively endorsed by a number of high profile celebrities.

Importantly, brand attention is being gained in the seasonal period in which UGG has traditionally not been top of mind. Partially offsetting the UGG brand's Q1 performance was the soft start to the sandal season as a result of raining conditions across much of the country early in the quarter. It is also important to note that our strategy of controlling marketplace supply of core product, which is designed to reduce the sales of core product during Q1 in order to drive sales of true spring and summer product also impacted the brand's top line results. That said, we believe this is an important step towards building a more meaningful spring business for UGG. I'm encouraged by domestic growth and the progress the brand is making towards a healthier mix of product.

Just three years ago, more than half the products sold during our first quarter were autumn and winter boots. However, this year, we've reduced the mix of boots to less than 40%. On top of that, UGG was, once again, a top 10 spring brand at Nordstrom capturing healthy growth versus the prior year and is performing exceptionally well at Nordstrom's anniversary sale. This is further evidence that UGG is able to address counter-seasonal demand in the spring and summer timeframe, and remains focused on building traction in styles that are incremental to the core offering.

Turning to the performance lifestyle group, which is comprised of HOKA, Teva and Sanuk. Beginning with HOKA, the brand's investments in product innovation as well as its story-sharing philosophy are propelling the brand forward as evidenced by first quarter performance with revenue growth of 69% versus the prior year with equal strength both domestically and internationally, more than doubling new consumer acquisition versus the prior year, and the Carbon X launch which drove nearly 800 million impressions globally and delivered strong sales online, 40% of which were first-time DTC purchasers.

I'm incredibly proud of the collaborative effort to launch the Carbon X this last May. Carbon X was designed as a limited release that has exceeded sales expectations. Consumers are raving about the experience of the Carbon X, as seen by overwhelmingly positive online product reviews. We feel the Carbon X launch event impressions drove serious momentum in brand awareness, leading up to a key release in our Clifton franchise. In June, the brand introduced the Clifton 6, the most innovative update to one of HOKA's core franchises. Despite just one month of availability in the marketplace, the Clifton 6 has driven very high sell-through rates and is ranked as the number one or two shoe of any brand in nearly all U.S. wholesale specialty running account. This is a testament to the HOKA team's dedication to franchise management and ability to improve on a popular product [ph] through their (08:19) commitment to innovation.

In conjunction with these new product launches, HOKA continues to invest in building awareness. As a result, the brand recently entered a partnership with Lifetime Fitness, creating an authentic engagement opportunity with the potential to attract new consumers into the HOKA ecosystem. HOKA and Lifetime seek to empower people in all aspects of their health journey through numerous activations that showcase real and positive change regardless of size or scale.

Shifting to Teva, the brand outperformed our expectations by about $2 million but declined by 4% versus last year due to the strategic decision to adjust the European wholesale model from direct to distributor. For the quarter, the brand experienced impressive growth in both the Universal and Hurricane franchisees.

Moving to Sanuk, for the quarter, sales came in approximately $3 million below our expectations primarily due to the softness in the Yoga Sling franchise. As we've done over the past two years, we continue to evaluate our distribution opportunities across our entire portfolio of brands. Aligned with the organization's commitment to strong brand management, we've made the strategic decision to exit the warehouse channel with our Sanuk brand. While this decision will have a negative impact on fiscal 2020 revenue, it's the right move for the health of the brand. Moving forward, this provides a better environment for Sanuk to focus on other underpenetrated channels.

Moving to channel performance, wholesale increased 11% over last year driven primarily by domestic expansion of UGG and HOKA. As a note, part of the increased wholesale volume was due to the timing of UGG shipments, which Steve will walk you through later in the call. In total, our domestic wholesale business grew by 15% verse prior year, despite this being the first time that we constrained selling of UGG core classic products during the first quarter.

Aligned with this strategy, we worked with our wholesale customers to shift the use of [indiscernible] (10:10) dollars for true spring and summer product, while at the same time, reducing the amount of closeouts year-over-year. Strength domestically was also driven by HOKA growth, as the brand gained market share in existing accounts and experienced increased volume in both the Clifton and Bondi franchises, benefiting from the additional brand attention due to the Carbon X launch in May. Domestic wholesale strength was partially offset by softness in our international UGG business. As we had previously indicated, we continue to see headwinds on the international front for the brand, but are addressing with the learnings we've gained from our implemented distribution strategies in the U.S. market.

Our HOKA brand continues to gain momentum within international wholesale, as the brand is building important awareness during its early stages of growth outside the U.S. We are engaging in marketing activities, they're impactful on a global scale. Specifically, we're beginning to see the benefits of these marketing activations, including our Carbon X launch and HOKA's sponsorship of Ironman event in countries around the world.

From a DTC perspective, comparable sales increased 16% with total direct-to-consumer sales up 10% versus last year's first quarter. This was led by strong performance from our e-commerce channel, where both UGG and HOKA contributed materially to the growth and exceeded our expectations. Similar to our wholesale channel, our domestic direct-to-consumer business was the primary driver of growth.

Overall, Deckers delivered another strong performance. Though it remains our smallest quarter, I'm proud of the progress we've made to increase the size of our spring and summer business, as we've grown our first quarter revenue by 32% over the past two years.

I'll now hand the call over to Steve to provide more details on our first quarter financial performance as well as outlook for the second quarter and full fiscal year.

Steven J. Fasching
Chief Financial Officer, Deckers Outdoor Corp.

Thanks, Dave, and good afternoon, everyone. As Dave just mentioned, we are encouraged with our start to the year and now I would like to take you through our first quarter financial results, then provide details on our outlook for the second quarter and updated full fiscal year 2020. Please note that throughout this discussion, I refer to certain non-GAAP financial measures for comparable prior-year results. Where I refer to these non-GAAP financial measures, I'm referring to results before taking into account non-recurring charges that our management believes are not core to our ongoing operating results.

Also note, our non-GAAP results are not adjusted for constant currency with the exception of our direct-to-consumer comparable sales. While we did not have any non-GAAP financial adjustments for the first quarter of fiscal 2020, a reconciliation between our reported GAAP and non-GAAP results for the prior year can be found in our earnings release that is posted on our website under the Investors tab.

Now to our results. For the first quarter, revenue was $277 million, up 10% to last year and above our high guidance of $260 million. Compared to our guidance, approximately $7 million of the revenue upside was related to timing of UGG brand shipments. Approximately $3 million was from stronger UGG DTC performance, and the majority of the remaining balance was driven by outperformance with the HOKA brand. More specifically, UGG timing upside was from early shipment of wholesale orders globally that were originally anticipated for the second quarter. The stronger UGG DTC performance was driven by strong adoption of spring/summer styles led by our Fluff franchise. And the strength of our HOKA brand was driven by the Clifton 6 introduction and bolstered by the launch of Carbon X.

As we look at the first quarter, we are very pleased to see success with these drivers of the business as we continue to ship business to spring/summer quarters. Not only through the diversification of the UGG offering, but also through the accelerated growth of the HOKA brand, which has a much more balanced distribution across all four quarters. In comparison to last year, the revenue increase was predominantly HOKA, which benefited from the new styles such as the Carbon X and the newly redesigned Clifton 6.

Gross margins were up 109 basis points over last year to 47% and in line with expectation. The main drivers of the year-over-year increase were: favorable mix of brand revenue, gross margin rate expansion, fewer closeout sales with gains partially offset by channel mix as well as currency headwinds. To provide more detail, the favorable mix of brand revenue and the gross margin rate expansion was driven by HOKA, which carries a higher gross margin than other brands in the first quarter due to seasonality. At the same time, it is experiencing successful full-price selling of core product in offerings within our category extensions. Related to the improvements in closeouts, we have improved our distribution model and have become less reliant on closeout volume in the first quarter primarily driven by the UGG brand as we have shifted our focus to selling more seasoned appropriate styles in the period.

Moving to SG&A, our dollar spend was $161.4 million, up 4.6% from last year's GAAP SG&A spend of $154.4 million and up 4.9% to last year's non-GAAP SG&A spend of $153.9 million. The increase in the prior year in SG&A was driven by incremental marketing spend of approximately $6 million. In comparison to implied guidance, we experienced savings in the first quarter largely coming from reduced marketing originally intended for the first quarter as we saw opportunity to move the spend to later in the year with positive organic search trends tracking in the first quarter and favorable payroll costs as we experienced deferred hiring of certain head count.

During the quarter, we also received a tax refund, more specifically, we finalized a settlement related to prior years. As a result of the settlement and receiving the refund in the quarter, we recognized the full amount in Q1. While we expected to receive payment this year and our guidance for the year assume this, we were uncertain of the timing and therefore it was factored into the rate for the full year and spread across the year. This all resulted in a loss per share that came in at $0.67 compared to last year's GAAP loss of $1 and last year's non-GAAP loss of $0.98. This also compares to a guidance range of a loss of $1.25 to a loss of $1.15. The $0.48 beat to our high guidance of loss per share came from approximately $0.14 from the tax refund recorded in the quarter, $0.10 from earlier shipment of UGG wholesale orders, $0.10 from increased performance in the HOKA brand, $0.10 from operating expense savings driven by the delayed hiring as well as marketing spend that is now planned and moved later in the year, and $0.05 from stronger UGG DTC performance.

Our balance sheet at June 30 remained strong as cash and equivalents were $503 million, up from $418 million at June 30 of last year. Inventory was up 9% to $473 million from $436 million at the same time last year. And similar to last year, we had no material short-term borrowings under our credit lines. During the quarter, we repurchased 227,000 shares of the company's common stock at an average price of $154.36 for a total of $35 million. As of June 30, 2019, $315 million remains available under our share repurchase authorization.

Now, moving on to our outlook, for the second quarter of fiscal 2020, we expect revenue to be in the range of $515 million to $525 million and earnings per share to be in the range of $2.15 to $2.25. When combined with our first quarter performance, this outlook provides a strong first half expectation for fiscal 2020 including revenue growth for the first half of roughly 5% to 6.5% when compared to the first half of fiscal 2019 and non-GAAP earnings per share growth in the range of $0.08 to $0.18 representing approximately 6% to 13% growth versus the first half of last year.

As we have now completed our U.S. distribution center consolidation, I think it is important to note that we have planned for a more level-loaded quarter end. As a result, we anticipate that some UGG product that has traditionally shipped in the final week of Q2 will now ship in Q3, as we ramp up our first year and we create more efficiencies with our distribution operations.

Now, for our full fiscal year 2020, we are raising our guidance to account for the better-than-expected performance in Q1. The upside we are flowing through to the full-year guidance equates to $0.20 in earnings per share. Our updated full-year guidance includes: raising our revenue expectation to the range of $2.1 billion to $2.125 billion; with recognition that our outlook for the HOKA brand has been lifted now assuming sales are growing in the high 30% range for the year, partially offset by reductions in the Sanuk domestic wholesale business related to the decision to eliminate distribution in the warehouse channel; and upside in the UGG business that we saw in Q1 is now projected to be offset by currency headwinds in the rest of the year.

Gross margins are expected to be approximately 50.5%, SG&A at or slightly better than 36%, as we defer a portion of our first quarter savings to marketing efforts and technology investments later in the year. All generating an operating margin of approximately 14.5%.

Also, based on an updated view on tax, we now expect our rate to be 20.5% for the full fiscal year. These updates, combined with the share repurchase executed in the first quarter, we are raising our earnings per share for the fiscal year 2020 now to be in the range of $8.40 to $8.60 on a share count of approximately 29.4 million shares. This $0.20 raise in earnings per share guidance for the full year is being driven by approximately $0.06 from the net impact of the revised revenue expectation driven by the full-year increase in HOKA projections partially offset by the strategic reset in Sanuk, $0.06 from operating expense savings from the first quarter, $0.05 from the better tax rate now reflecting an estimated 20.5% for the full-year effective tax rate, and $0.03 from the recent share repurchase activity in the first quarter.

Our guidance for the second quarter and fiscal year 2020 excludes any potential non-GAAP charges as well as the effect of any future share repurchase. Recognizing there have been recent movements in foreign currency exchange rates, we are partially hedged for our exposure in this fiscal year and our updated guidance incorporates the impact of our exposure on any unhedged amounts. We believe that the year-over-year impact of foreign currency exchange rate fluctuation remains at approximately a 40-basis-point headwind on our margins.

On tariffs, we continue to monitor tariff policy decisions closely and still do not anticipate any financial impact related to the recently imposed tariffs. As a reminder, we have stated that less than 20% of our current global production is created in China and shipped to the United States. To further mitigate current risk of exposure to potential new tariffs on China imports, we have taken the opportunity to receive some inventory ahead of the normal cadence, which is partially contributing to the 9% increase in our total inventory balance at June 30, 2019, as compared to levels at the same point last year.

With that, I'll now turn it back to Dave for his closing remarks.

David Powers

President, Chief Executive Officer & Director, Deckers Outdoor Corp.

Thanks, Steve. While our first quarter exceeded expectations, it remains the smallest period in our fiscal year, and there's still heavy-lifting ahead of us to meet our objectives for the year. That said, I'm excited about the progress we continue to make within the organization. As we reinvest in marketing tactics to drive brand heat and awareness, fueling growth within UGG Men's, UGG Women's non-core and the HOKA brand, with increases in digital outreach, experiential marketing and event-driven spend. As we build on our technology and tools with added talent that will advance our analytical capabilities and create new ways to connect with consumers and develop incremental opportunities that can add value to our brand portfolio in the future.

Going forward, the organization remains dedicated to continuous innovation. Our design, development and innovation teams have been significant contributors in pushing the boundaries of product innovation for Deckers, and we look forward to seeing continued enhancements in the near future. I'd like to thank all of our employees across the Deckers organization for their exceptional efforts in this past quarter and their continued commitment to the successful execution of our strategies.

With that, I'll turn the call back over to the operator for Q&A. Operator?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question today comes from Jonathan Komp from Robert W. Baird. Please go ahead with your question.

Jonathan R. Komp

Analyst, Robert W. Baird & Co., Inc.

Q

Yeah, hi. Thank you. I wanted to ask about the strength you're seeing, especially domestically with UGG, given the strategy to deemphasize the classics and really focus on some new product categories that are working in the non-core periods. And, Dave, when you look forward and kind of look at the success you're seeing with that strategy, does that, at all, change how you're viewing kind of the product strategy going forward in the seasons ahead? And anything you could talk to about kind of the next evolution in some of the core seasons as you'd continue to deemphasize the classics?

David Powers

President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Yeah, thanks, Jonathan. That's a great question. And it's pretty exciting to see the momentum that the team is building in North America, particularly through all of our channels. And what's great about it is, we are driving the business through new introductions of spring and summer product. And as you heard on the earnings script, the shift away from reliance on boots in the quarter and the growth coming from new product introduction in seasonally-relevant product such as the Fluff franchise, which is a massive success for us is – we're learning a lot from that. It's also allowing us to reach new consumers and bring new consumers and younger consumers into the brand, which is great because they traditionally come in through the classic and then explore more of the brand. But we're seeing a large number of younger consumers coming directly to the brand for the first time, particularly in our DTC channels, purchasing that product that they're wearing in season.

So, it gives us a lot of confidence that if we hit the right product design coupled with the right social and PR strategy and marketing tactics that we can really move the needle in these categories and in the quarter. It also tells us that big ideas in product, something that is distinctly UGG and DNA and disruptive in the marketplace is a method for us to continue to drive success in new categories. So, we had a fantastic meeting with the UGG product team yesterday and talked about the learnings from Fluff Yeah and how we translate that into future seasons across different categories and also into Men's. And I think you're going to see more of these, more sizable, meaningful launches. Fewer bigger launches is the approach for us going forward, but now that we have the attention of the younger consumer and credibility in spring and summer, it gives us a lot of confidence going forward. And then we just need to employ the same strategy globally.

Jonathan R. Komp
Analyst, Robert W. Baird & Co., Inc.
Q

And are you willing to share any kind of thoughts on where that could go in terms of some of the new categories? I know for UGG you've talked about the sneaker opportunity from time to time, but any additional thoughts there?

David Powers
President, Chief Executive Officer & Director, Deckers Outdoor Corp.
A

Yeah. I've always been a fan – I've always said the money is in the middle, so it's kind of new innovations that are probably crossover. They're hybrids of two categories. So, we'll have limited success and we can be successful in pure sneakers. But I think it's the mashup of sneakers and sandals so you can provide the comfort with the UGG DNA that's something that's unique that nobody else can do. I think that's where the strength of our brand is. And we have quite a few products within that coming out of our innovation team and our design teams. And I think that – it's interesting, this Fluff product is, in our P&L, it's classified as a slipper, but the consumer sees it as a sandal. And so, I think that tells you that it has broader shoulders and it's very disruptive and interesting and it's something that nobody else can do. And I think that's the formula going forward.

Jonathan R. Komp
Analyst, Robert W. Baird & Co., Inc.
Q

Yeah, great. And then just to follow up, Steve, on the guidance. Just to understand, sorry if I missed it. Did you update at all what you're expecting UGG to grow for the full year if there's any changes there? And then, the new guidance for HOKA as well, is that just flowing through the first quarter upside and not really changing the balance of the year assumptions?

Steven J. Fasching
Chief Financial Officer, Deckers Outdoor Corp.
A

Yeah. Good question, Jon. We really aren't changing the UGG. So, kind of positive low single digits is what the guidance is for the year related to the UGG brand. No change there. There is a significant change in HOKA. I think before we were in the mid-20 range and we're now in the higher 30% range. So that's where you're seeing an uptake on HOKA but it is being offset by the Sanuk take back as we pulled out of that warehouse channel. But that's still an increase on the full-year revenue number.

Jonathan R. Komp
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. And in HOKA, just to understand it, it looks like you're kind of around 30% or a little below for the balance of the year in terms of the implied growth after a big growth in the first quarter. So, just curious, have you changed your assumptions after the first quarter at all for HOKA?

David Powers
President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Yeah. So, it is up a little bit, you're right. I mean, we saw tremendous growth in the current quarter. That's the 69% that we're talking about. So, well ahead. As we get into later quarters in the year, those are bigger historic quarters for HOKA. So that's why the growth rate will drop a little bit on a percentage term.

Jonathan R. Komp
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. Got it. All right. Thank you very much.

David Powers
President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Okay.

Steven J. Fasching
Chief Financial Officer, Deckers Outdoor Corp.

A

Thank you.

David Powers
President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Thanks, Jon.

Operator: Our next question comes from [ph] Paul Leduc (30:09) from Citi. Please go ahead with your question.

Q

Hi. This is [ph] Kelly on for Paul (30:14). Thanks for taking my question. On the UGG U.S. wholesale business, you're still seeing strong momentum there. Could you just shed some layer on how much of that growth over the last couple years has been driven by expanded distribution in places like Macy's, Amazon versus organic growth in core wholesale accounts?

David Powers
President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Yeah. So, [ph] Kelly (30:38), this is Dave. I think what you're seeing this quarter is very little increased distribution over last year. We spent the last three years or so in incubating new distributions such as Macy's and Urban Outfitters and Footlocker and a couple smaller kind of boutiques in addition to the important department stores. And we've actually closed more accounts than we've opened. So, what we've been doing is consolidating distribution, elevating to the key players in the industry. And so the majority of the growth you're seeing now is increased door count within those channels or within those stores or chains, I should say, sorry, but just better penetration and sell-through across the board. So, we're seeing it both in wholesale with those accounts and also in our DTC channel.

Q

Great. Thank you. And just on 2Q in particular, I know there were some [ph] tiny (31:35) shift around UGG, some of that benefiting this first quarter and I think you mentioned some shifting into the third quarter. So, could you just provide a little bit more detail on where you're planning the UGG business in the second quarter?

David Powers
President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Sure, [ph] Kelly (31:54). So what we have is, we'll have the UGG business compared to last year down just a little bit and that's really that shifting into Q3. So, we did bring kind of 10 million forward into Q1 and then we'll have a little bit going out on the back end from Q2 to Q3. So that's the, call it, down kind of low single digits.

Q

Okay. Okay. And lastly, just on the HOKA brand, just curious the margin profile there, how does that compare to the company average and are there any opportunities to expand margins there over time?

David Powers
President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Yeah. So, the margins on HOKA as we've kind of said are very similar to UGG in the channel. So, in wholesale similar channels in DTC similar margins. So, very strong margins. As we indicated on the prepared remarks, what's also helping drive some of the HOKA is less closeout that we're seeing. And so, we can continue to kind of drive that full price selling. It was a very clean quarter. So, I don't know how much more upside there is kind of on the surface within channel, clearly there's upside as we drive more DTC business with the HOKA business. So, from a channel mix, there's more opportunity as we make our DTC business with HOKA bigger.

Q

Great. Thank you.

David Powers
President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Yeah.

Operator: Our next question comes from Ross Licero from Telsey Advisory Group. Please go ahead with your question.

Ross Licero
Analyst, Telsey Advisory Group LLC

Q

Thanks for taking my question. Can you give a little more color on the cadence of the quarter, how is the monthly performance [indiscernible] (33:36)?

David Powers
President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Yeah, help me out a little bit. What are you looking for in terms of...

Ross Licero
Analyst, Telsey Advisory Group LLC

Q

So, I guess, just trends from April, May, June, did they improve at all? And then just a follow-up on that, now that the weather has improved for sandals, have you seen that reflected in sales?

David Powers
President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Yeah. I think, interestingly, the months were pretty steady. They were strong from the get-go in the beginning of the quarter. In HOKA, it was really ignited by the launch of the Carbon X and the PR and the press and the buzz that the brand got from that launch. And then when we officially launched the Clifton 6, that maintained the momentum. So that's been pretty steady through the quarter. UGG was a little bit softer in the beginning due to some of the sandal challenges, but that was offset by the Fluff Yeah franchise. And that's continued to be strong for the quarter. So, they were pretty steady all along.

Steven J. Fasching
Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah, I would say on that. Just, what we observed is kind of that normal cadence. We definitely see a pickup in the latter half of the quarter. I think as we saw kind of within the industry, there was some softness with the industry. I think we saw a strength with UGG and a normal cadence within the quarter and a normal cadence of the business picking up kind of later in the quarter.

David Powers
President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Yeah.

Ross Licero
Analyst, Telsey Advisory Group LLC

Q

Okay, great. And then, can you talk about how the Men's business is doing for UGG? And I guess, how it's performing relative to your expectations?

David Powers
President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Yeah, the Men's business is still small in Q4 and Q1 for that gender. The strength of Men's where we're really seeing the growth is coming in in Q2 and Q3, really driven by the new male franchise. So, we had good product launches in sneakers and shoes, but they weren't enough to really move the needle in Men's. So, we have work to do and opportunity, I would say, for Men's in that time of year. And we had a good meeting on that yesterday and some of the learnings that we're taking from Women's in the Fluff franchise and other categories and translating that into Men's for spring and summer. But the real strength of Men's, where we're seeing the growth, is definitely in fall/winter through the new male and winter boot category at this point.

Ross Licero
Analyst, Telsey Advisory Group LLC

Q

Great. Thanks a lot.

David Powers
President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

You bet.

Operator: Our next question comes from Sam Poser from Susquehanna. Please go with your question.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Good afternoon. Thanks for taking my question. I guess, could you give us the specifics on how much of both UGG and HOKA wholesale and retail grew? I know it's coming out the queue, but that would help us a lot. And then I got a couple other ones, too.

.

David Powers
President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Yeah, I think, Sam, on breaking out the channel UGG performance, we'll let that come out in the queue. But good, I would say, from the numbers that we've reflected kind of clearly, HOKA very strong wholesale performance globally, so not only North America business, very strong HOKA performance really across the global. I think from a wholesale perspective on UGG, we saw strong performance domestically in the wholesale channel and internationally kind of more to expectation but that's on the international front, as we indicated in the prepared remarks, that's more of where we saw some early shipments. But, again, from a global perspective, if you take out the early shipments, wholesale performed pretty much to kind of what we expected with a little bit of over-performance in our DTC channel related to UGG in North America.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Thank you. Okay. I've got couple more things. Number two, sticking with UGG, how many dollars moved from Q3 to Q2? Because you said part of the guidance for UGG in Q1 was shifting from Q1 to Q4. So, why wouldn't – the demand is good, isn't this just going to keep shifting? Or you just don't know that yet, and you're being discretion is the better part of valor in fact?

David Powers
President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Yeah, it's a good question, right. I think one of the things that we're seeing, right, and it's a little bit of harder for us to just to or predict is that as inventory channels, they were clean last year, they're even cleaner this year. What we're seeing is, with the success of UGG, that retailers are asking for product earlier. Because they want to make sure that they have the product. So that's where we're seeing these shifts. It's a good indication, it's the strength and health of the brand. But it's hard to know exactly, one, they're seeing strong sell-through. They also want to make sure that they're getting product for the fall setup.

So, that's where we're seeing kind of people taking it earlier this year than where they have, say, a year or two ago. And we'll fulfill it, like we've said, we will guide and project to kind of what we see on the order book, but also if a customer is asking for a product sooner than that, we'll be ready to deliver. And then just a note really kind of on the shift out of Q2 to Q3, that's us being a little bit of conservative with the first year of our consolidated DC. A year ago, we looked at really the last week and there's a lot of activity that goes out that last week of the quarter. So, as we've consolidated our DC, we're pushing a little bit of that out into Q3. Now, we may get orders where customers want it a little bit sooner, but we want to balance out that load because it's a big load in that final week. And so, we want to be mindful of what our capacity is and kind of constraints with the new consolidated DC.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

And then lastly, Teva wholesale, could you give us what the wholesale equivalent revenue would have been given that the shift of the European business?

David Powers
President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Yeah. We're seeing it's about – I think it's $3 million to $4 million on that shift.

Steven J. Fasching
Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah, it's a $4 million shift.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

So, then, I mean, what would Teva have been if that it's just then is normal – everything was as – if it was apples-to-apples, would you have been up? You would have been up a little, you would have had a decent business it looks like. You probably would have been like 4%, 4%, 5%; is that right?

David Powers
President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Yeah, that's correct.

Steven J. Fasching
Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah, that's about right.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

And are you still pleased with the fact that you've done this now that things are getting better, or are they getting better because you've done this?

David Powers
President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Maybe a little bit of both. I think it was the right call. It allows the European teams to focus on our core businesses and then have somebody who is strong in the region to focus on expanding the Teva business in a local way. We'll continue to evaluate it over time, but I think it was the right thing as we were looking at profit improvement and focus on the organization. It's great to see that the distributor's managing that business so well, which means the teams are working closely with those partners and they have the expertise required. So, I would say, it was the right call, we're pleased with how it's going, and it gives us an opportunity to reevaluate down the road.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Thank you very much. Continued success.

David Powers
President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Thanks.

Steven J. Fasching
Chief Financial Officer, Deckers Outdoor Corp.

A

Thanks, Sam.

Operator: Our next question comes from Tom Nikic from Wells Fargo. Please go ahead with your question.

Tom Nikic
Analyst, Wells Fargo Securities LLC

Q

Hey, everybody. Thanks for taking my question. Just a little bit of modeling minutiae about, I guess, your three smaller brands. I guess I'll start with the Sanuk, you've got the pullback of the distribution in the U.S. Should we assume that that down 20%, 25% that you saw in Q1 is basically what it should look like across the balance of the year.

David Powers
President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Yeah, I think that's fair.

Steven J. Fasching
Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah.

Tom Nikic
Analyst, Wells Fargo Securities LLC

Q

All right. Teva, I think last time you guided it flat, it was down a little bit in Q1. Should we still assume flat for the year or should we assume maybe it's down a little bit because of the shift?

David Powers
President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

No, flat-ish.

Steven J. Fasching
Chief Financial Officer, Deckers Outdoor Corp.

A

Flat with a shift.

Tom Nikic
Analyst, Wells Fargo Securities LLC
Q

All right. And then just lastly, I don't think there was anything mentioned about the Koolaburra on the call. Just, how should we think about that for this year?

David Powers
President, Chief Executive Officer & Director, Deckers Outdoor Corp.
A

So, kind of same as what we've said before, we don't see much change there, but significant growth. So, kind of up mid 50% range is kind of how we're looking at that. Yeah. Q1 is really not a Koolaburra quarter, you'll start to see that really ramp up.

Tom Nikic
Analyst, Wells Fargo Securities LLC
Q

All right. Sounds good. Thanks very much.

David Powers
President, Chief Executive Officer & Director, Deckers Outdoor Corp.
A

Yeah. Thanks, Tom.

Steven J. Fasching
Chief Financial Officer, Deckers Outdoor Corp.
A

Thanks, Tom.

Operator: Our next question comes from Jim Duffy from Stifel. Please go ahead with your question.

James Vincent Duffy
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Thanks. Good afternoon, guys. Great start to the year.

David Powers
President, Chief Executive Officer & Director, Deckers Outdoor Corp.
A

Thanks.

Steven J. Fasching
Chief Financial Officer, Deckers Outdoor Corp.
A

Hi, Jim.

James Vincent Duffy
Analyst, Stifel, Nicolaus & Co., Inc.
Q

I wanted to ask about HOKA and maybe talk a little bit about how you guys are thinking about the opportunity. Do you have any consumer insights you can share on awareness, the age demographics, repeat purchase frequency that type of thing?

David Powers
President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Yeah, I think it's safe to say the awareness is increasing. I think the last time we looked at it, North America was roughly around the 12%. I don't have the exact figures in front of me, but it's definitely improving. And I think you're seeing that resulting in the sales, the top of funnel exercises that the team had been doing, particularly the Carbon X event which was a massive success the way the team's pulled that off with breaking two world records in an event that was resonating on a global scale and launching a brand-new innovative product that brought $800 million and growing, I should say, still improving impressions to the brand on a global level.

So, the awareness is improving. The average age, it's a little bit older than we would like, I think. And so, there's opportunity to target younger consumers through some of our marketing tactics, I just had a conversation with the brand on that yesterday. But it's also a higher price point product, so we need to make sure that we're balancing out the high level of our performance in technical characteristics of that product and price point with shoes like the Rincon, which we just launched which is a little bit more affordable price point, a little bit more for an everyday runner.

And I forgot, what was the third point you just asked?

James Vincent Duffy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

That was about repeat purchases.

David Powers
President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Oh, yeah. I think what we're seeing is that the repeat purchases are happening a little bit faster than we originally thought. And so, we're getting new consumers into the brand through our DTC channels, but I think with the new product launches and some of the new extensions that we're seeing, we're starting to get people who are buying more products more often. There's a bit of a cult following for the brand, if you can't tell, where people are – as soon as something goes up on the website that's new, new launches or new styles, people are just grabbing them. So, it's a combination of repeat purchase on a core style that people are replenishing on, but also when we launch something new, the tribe that's following the brand is jumping on those as well.

James Vincent Duffy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

And, Dave, when you think about the competitive set in the marketplace as a whole, how do you think – what's the framework to think about how big this brand could become over time?

David Powers
President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

I've always said, I could see a path to $500 million for this brand. I think that the real opportunity is probably bigger than that. We don't want to get ahead of ourselves but we are thinking big with HOKA and we see this as a game-changer for Deckers long term. So, it's exciting to see the acceleration of the business, the adoption of the business globally in all channels, the innovation engine is strong, the marketing tactics are working very well, the tight and controlled distribution is driving high full-price selling. So, there's a lot there that the momentum and the conversation, the buzz about the HOKA brand is improving. And it just gives us confidence that we can reach some of those aspirational goals in the next three to five years. Hard to put a number on it right now, but I think if you...

James Vincent Duffy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Fair enough.

David Powers
President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

...look at HOKA in the context of some of the other running brands out there, the runway is pretty significant for us.

James Vincent Duffy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Great. Thanks for that perspective.

David Powers
President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Thank you.

Operator: Our next question comes from Mitch Kommetz from Pivotal Research. Please go ahead with your question.

Mitch Kummetz
Analyst, Pivotal Research Group

Q

Yeah. Thanks for taking my questions. I've got three. Dave, let me just follow up where Jim left off. I know you don't want to necessarily say HOKA's going to be $500 million in three, five years or whatever it is, but is there any way you can kind of address where the lowest hanging fruit is in terms of maybe product categories or distribution or regions to go from where you are today to a number or to what you think it could be in three to five years? Where's the path of least resistance, I suppose?

David Powers
President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Well, there's still opportunity – and it's a good question. There's still opportunity in the existing channel, particularly international. We're still opening up additional accounts international and penetrating those doors at a deeper level is one area. The same with e-commerce international, we're still setting up the mechanics at some of our sites on the international level. But if we take the playbook that's being incorporated in the U.S. with regards to e-commerce, I think there's a substantial amount of international growth coming out of e-commerce just elevating awareness in the markets for wholesale. So, without even adding any additional distribution points, there's substantial growth.

I think over time, there could be expanded distribution to reach new consumers as we get into accelerating the outdoor hiking and trail business. There's other categories that we think we could explore over time. And then also reaching the younger consumer. I think if you look at all those different components on a global scale and you think about places like China and Japan down the road, that's where a lot of the growth will come from. We have two key franchises that are driving the majority of the business now, which is the Bondi and the Clifton, as you know. But some of the new launches like the Carbon X, the Sky collection in hiking, the Rincon, those are starting to gain traction in new distribution points which will add to the Bondi franchise over time.

Mitch Kummetz
Analyst, Pivotal Research Group

Q

Got it. That's helpful. Thanks for the color. And then, Steve, on the gross margin guidance for the year, I think you effectively raised – I think you took out the low end of the range. I believe you said that Q1 gross margin was unplanned. I'm just wondering if you changed any assumptions particularly for the fall holiday season. I know you've talked about some challenges, year-over-year challenges on the gross margin line in terms of the favorable environment last year, and I'm just wondering if you've kept those assumptions or if anything's changed in terms of your thinking.

Steven J. Fasching
Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah. So, I think what we're – you're right, Mitch. What we've done is, we've basically taken out the low-end. So, guiding gross margins to the 50.5% more firmly. And the pickup there is the brand mix that we're seeing contributing to lift in the gross margin. So, with the success that we're seeing with HOKA and the increase that we've now projected for the HOKA business for the full year, that's what's lifting the low end of the margin kind of up and giving us more confidence at that high end.

Mitch Kummetz
Analyst, Pivotal Research Group

Q

Got it. Oh, sorry, yeah.

David Powers
President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

And continuing to clean up those margins by [ph] retail sales, wholesale, warehouse channel, yeah (49:52).

Steven J. Fasching
Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah.

Mitch Kummetz
Analyst, Pivotal Research Group

Q

Yeah. And then my last question, just on sandals, I know it was a bit of a challenge on the UGG side because of the weather, but it didn't sound like there were any issues with Teva and Sanuk which I think of being more sandal-oriented brands for you guys. I was hoping you might just be able to provide some color on that.

David Powers
President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Yeah, I think there was a little bit of softness earlier on. Teva is also seeing great success in some of their core franchise styles, the originals collection is still very strong and has kind of weathered the weather issue better. Sanuk, overall, performing, but the continued decline of the Yoga Sling franchise for that brand is where we saw the biggest hit.

Mitch Kummetz
Analyst, Pivotal Research Group
Q

Got it. All right. Thanks, guys. Good luck.

David Powers
President, Chief Executive Officer & Director, Deckers Outdoor Corp.
A

Okay.

Steven J. Fasching
Chief Financial Officer, Deckers Outdoor Corp.
A

Thanks, Mitch.

Operator: Our next question comes from Chris Svezia from Wedbush. Please go ahead with your question.

Christopher Svezia
Analyst, Wedbush Securities, Inc.
Q

Good afternoon, guys. Nice job on the quarter. My first question, just on DTC comp, up 15%, that's pretty impressive. Any color you could provide? I know you said domestic was a big driver to that. Just between digital, physical stores. And obviously, what's the outlook for the balance of the year? I think before you said flat to up low single. I'm just curious given Q1's performance, any change in your thought process for the year?

Steven J. Fasching
Chief Financial Officer, Deckers Outdoor Corp.
A

Yeah, good question. So, you're right, Chris. I mean, really strong comp on the quarter. Where we saw success was domestic, we saw – I think a lot of that was being driven online. We don't break it out, but clearly our online performance was well ahead of our expectation which really kind of drove the over-performance. So, kind of as we look at it, where we really were above expectation was kind of domestic. And then a very strong online performance.

As we look kind of at the balance of the year, from a guidance perspective, we are looking at kind of positive low single to positive mid single-digit type comp numbers. Still a big part of the season to come. So, clearly confidence with what we've picked up in the first quarter. But, again, our first quarter is our smallest quarter. So, I think it's a good signal for us going into the year. But we still have our biggest quarters ahead of us. But again, I think, what we saw in Q1, especially domestic, especially with what we saw online, confidence going into the rest of the year.

David Powers
President, Chief Executive Officer & Director, Deckers Outdoor Corp.
A

Yeah. And this is Dave, I think it also forces the conversation about how we learn from then and leverage those results for the rest of the year globally, particularly in e-commerce. We talked about the amount of new consumers coming to the brand for both UGG and HOKA online. The performance marketing capabilities that we've developed in this region, which we're taking global are working extremely well. The PR tactics that the brands are employing and the storytelling with powerful launches in collabs, those are all driving top-of-funnel awareness, which is resulting in strong interest and traffic to the website. We now need to leverage those learnings to drive traffic to the stores, and that's something the teams are focusing on.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

And, Dave, just a follow-up on that. I know things like Afterpay and Quadpay play a factor at times in driving demands. Others have seen that. I know you put this in last year, I'm just curious in fact, are you learning more from that? Is that accelerating? Is that contributing all to the acceleration on the digital side?

David Powers
President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Yeah, I think we're pleased with it. It's still a small piece of the total business, but it is helpful for the younger consumer as they come to our site especially with a brand like UGG with the average price point of that product. So, early days, but I think the teams have done a great job of making our sharpening experience simple for sort of the consumer no matter where they're coming from and how they want to pay. And I think what we're really excited also is the loyalty program of rewards and the amount of business that that's driving. I think it was about 40% of total business in the quarter for UGG came from loyalty consumers versus last year about 25%. So that's, again, something that we want to continue to build on and leverage our omni-channel capabilities across stores and online to build that, because the lifetime value of those consumers is very strong, they spend more money, their average transaction is higher, they come to the brand more often and we're looking at how we can leverage that on a global scale and potentially also for the HOKA brand.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Okay. And just finally, just real quick, just on a staging of gross margin, you did nicely in Q1, the guidance assumes down around 100 basis points or so. I know Q2 last year there was some frayed expense. I'm just curious how do we think about pretty consistent, or one quarter maybe a little heavier on the pressure than others, just any color on that would be helpful. Thanks.

Steven J. Fasching
Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah. Thanks, Chris. I think as we look at it, we are, as you mentioned, kind of guiding the year down. You're right, Q2 does incorporate some freight. We are using freight this year. So, we do expect to see some impact of that in Q2. Really as we look at the rest of the year, I think it's pretty consistent in terms of our kind of lower expectations so that bringing it down 100 basis points I would say pretty consistent as you look at the back half of the year. And, again, just some background on that as we do have a higher assumption around using air freight primarily Q2 and then just some of our estimates around how the promotional environment potentially plays out in kind of Q3, Q4, hence kind of the takedown in the back of the year. And then we'll have some FX headwinds as I mentioned, that we have unhedged amounts still out there. So, depending on reflecting the current rates that we currently have. We have a little bit of an impact as well in the back half.

Christopher Svezia
Analyst, Wedbush Securities, Inc.

Q

Got it. Okay. Thanks very much, gentlemen. All the best.

Steven J. Fasching
Chief Financial Officer, Deckers Outdoor Corp.

A

Okay.

David Powers
President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Thanks, Chris.

Operator: And ladies and gentlemen, we've reached the end of the allotted time for today's question-and-answer session. I'd like to thank you for attending today's presentation. You may now disconnect your lines.