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Deckers Outdoor Corp. (DECK)

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and thank you for standing by. Welcome to the Deckers Brands Fourth Quarter Fiscal 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. Instructions will be provided at that time for you queue up for question. [Operator Instructions] I would now like to remind everyone that this conference call is being recorded.

I'll now turn the conference over to Erinn Kohler, VP of Investor Relations and Corporate Planning. Please go ahead.

Erinn Kohler
Vice President-Investor Relations & Corporate Planning, Deckers Outdoor Corp.

Hello, and 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 the impact of COVID-19 on our business and industry, changes in consumer behavior in the retail environment, strength of our brands and demand for our products, changes to our distribution and inventory management strategies, and our anticipated financial performance, cost savings, and liquidity position.

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 Factors section of its Annual Report on Form 10-K and Quarterly Report 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.

Please note that throughout this discussion, there may be references to certain non-GAAP financial measures for comparable prior year results. These non-GAAP financial measures refer to results before taking into account non-recurring charges that are not believed to be core to our ongoing operating results.

Our non-GAAP financial measures are not adjusted for constant currency. While we are not reporting any non-GAAP financial adjustments for the fourth 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.

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

David Powers

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

Thanks, Erinn. Good afternoon, everyone. As our fiscal year 2020 came to an end, communities around the world were experiencing impacts from the spread of the COVID-19 pandemic. On behalf of the Deckers organization, I'd like to extend our thoughts to everyone affected by the virus and share our deepest gratitude to all the individuals on the front lines of this crisis, especially the healthcare workers and first responders. I'd also like to thank all of our employees for their efforts during this unprecedented time. The entire Deckers organization understands that this is a very difficult time for many people. I'm proud of how our employees and brands have risen to the occasion to serve communities in need through programs such as our Better Together initiative that we launched to support COVID-19 pandemic relief efforts.

Through monetary contributions, we're working to support small businesses in our community and the individuals they employ. In addition, our brands are contributing in kind donations of product. To date, we've donated over 10,000 pairs of shoes to first responders and essential workers. At Deckers, we believe doing good essential to the success of our employees, brands, and organization as a whole. We'll continue to do our part in supporting those in need through these trying times. We are all in this together.

Given the extraordinary circumstances, today's dialogue is going to follow a different structure than our past earnings calls. To outline, I'll begin with a discussion on how we're responding to and navigating through the crisis, then give an update on the status of our operations, as well as walk through some of the trends we're seeing in the business through the first half of our first quarter and finish with a condensed overview of our fourth quarter and fiscal year 2020 performance, which will include some details on the pandemic's effects in our business in the fourth quarter. Steve will then review the numbers in more detail and expand in some of our COVID-19-related action items. After that, we'll be happy to take questions.

From a business perspective, the COVID-19 pandemic has had and will continue to have widespread effects across our entire industry. However, I believe Deckers is well-positioned to weather these impacts with the foundation of the organization we have created over the past three years. We have built a resilient portfolio of healthy brands, delivered levels of operating profit that are top-tier among our peer group and, most importantly, we maintain a robust liquidity position of over $1 billion between our cash balance and available borrowings under our credit facilities.

As we plan for fiscal year 2021 and beyond, our leadership team is focused on protecting the progress we've made in our brands, as well as our position as a best-in-class organization. We've developed numerous scenarios in evaluating the pandemic's potential impact on our business with an eye on the timing of when the consumer re-emerges into what we would call the new normal.

Our scenario planning has produced action plans intended to mitigate related headwinds, while at the same time preparing us for the future state of business. We're positioning our brands to deliver a compelling experience in what we anticipate will be a much different consumer landscape and selling environment.

With that in mind, we've taken the following actions to empower the Deckers organization to emerge stronger exiting the pandemic, including protecting our brands, maintaining the effectiveness of our organization and preserving a strong liquidity position, reallocating marketing spend to prioritize digital growth while supporting strategic areas of brand-level investment, and adjusting inventory buys to reflect more conservative scenarios of consumer demand with a focus on SKU productivity and high-velocity product turns, and learning from new ways of working, including working remotely and leveraging technology.

In addition to these actions, we are holding frequent discussions with our wholesale partners as we work in tandem to support the health of our brands. We continue to monitor updates from health officials, expert agencies, and local authorities to inform our decision-making process. Steve will provide more details later in the call on how these actions inform our fiscal 2021 planning.

From an operations perspective, our Moreno Valley distribution center has continued to operate since reopening. This DC is operating at a modified and slightly limited capacity due to increased social distancing measures taken as a precaution to maintain employee safety.

The safety of our employees is our top consideration as we make adjustments to our operations. As a result, we may experience some challenges as we approach peak months of shipping late in our second quarter and early in the third quarter. These are all factors relevant to our scenario planning. We are also making adjustments to the operations of our retail store fleet to appropriately accommodate updated health and safety measures in order to protect our retail store employees, as well as our customers visiting our physical locations.

We are intentionally reopening at a measured pace and using the early learnings to shape our broader go-forward strategy. Our direct-to-consumer leadership is empowering retail associates with educational tools and training related to the new working environment. With the small number of doors that we have reopened, we are encouraged to see consumers actively reengaging with the UGG brand stores.

In terms of stores opened versus closed as of this week by region, about 20% of North America stores are open and operating at a very limited capacity, roughly half of our EMEA stores are open, approximately 20% of our stores in Japan are open, and all of our own retail stores in China are open.

Though a portion of our stores have opened across the globe, most of them were closed for the majority of the 45-day period I'll be outlining momentarily. We'll continue to adjust store openings, as well as our warehouse operations based on the guidance provided by health officials, expert agencies, as well as federal, state and local officials.

From a sourcing standpoint, we have a network of financially strong and well-managed strategic partners from material vendors to factories. With the help of our sourcing and materials teams, we will work closely with our strategic partners to ramp up quickly after the COVID-19-related closures. At this point, we do not have any major concerns from a sourcing perspective.

From an employee standpoint, across North America, Europe, and Japan, our corporate teams have temporarily transitioned to a work-from-home environment where possible by defined rules. I'm pleased with how our employees have stepped up and proven to be highly productive in this new and dynamic environment. We'll look to health officials, expert agencies, and local authorities to identify both the timing of when to return to offices and what adjustments will be necessary to provide a safe space, including the appropriate social distancing measures.

I'll now walk through our first quarter fiscal 2021 performance to date as compared to last year, which includes April 1 through May 15. While these trends relate to what we are currently experiencing, due to the historical seasonality of our business, this time period only represents roughly 5% of our annual sales volume and thus is not necessarily indicative of the dynamics that we anticipate for future periods.

On that note, as we move later into the first quarter, our business becomes more wholesale- weighted and marketplace dynamics for the upcoming months remain fluid. Overall, the business is trending down single digits quarter-to-date as compared to last year, with wholesale trending down in the mid-30% range and direct-to-consumer trending up in the high-40% range.

Wholesale trends are being driven by store closures as many wholesalers are not taking new shipments of product while stores remain closed. We remain in close contact with our wholesale partners as we work together to support our brands.

Our brands are experiencing different impacts from the current wholesale environment, and this is the low period of volume for UGG and Koolaburra, while our HOKA ONE ONE brand is spread more evenly throughout the year. For HOKA, we've made adjustments to our product launches and inventory purchasing to better allow our wholesale partners to capture consumer demand with existing inventory as they're able to reopen stores and work to best leverage our online presence.

For our direct-to-consumer business, as I mentioned, the majority of our 125 stores remain closed, but we're seeing triple-digit e-commerce growth driven by full price selling of both UGG and HOKA, helping to offset some of the volume lost from retail. I would note that the first quarter is traditionally a lowest period of direct-to-consumer volume, and the mix of HOKA e-commerce is disproportionately larger in the total DC volume than in other quarters.

We have been very encouraged by the consistently strong interest in our UGG and HOKA brands as evidenced by Google Trends over the last two months, with UGG search interest up 73% over last year and HOKA search interest growth being second highest among peer brands. We think this speaks well to the power of our brands that consumers are actively searching and buying our products during a historically low period of consumer demand.

We are also experiencing a substantial gain in new customer acquisition online which has been great news as we know that customers entering our online database have a higher lifetime value and purchase frequency than those purchasing in stores. We are especially excited about UGG customer acquisitions as this is typically a lower volume period for the brand, and our strategy aims to convert these new customers into repeat purchases down the road in the holiday period.

I would like to caution, though, as we move into the second and third quarters, retail volume typically becomes more impactful to our overall results, and we do not expect e-commerce to fully capture lost retail sales volume in the event that stores remain closed or limited in operation. From a global brand perspective, our quarter-to-date performance by brand across all channels, compared to last year through May 15, include UGG down mid-single digits due to lower wholesale shipments resulting from doors remaining shut, as well as the impact of our own retail store closures.

However, we are very encouraged to see the pent-up demand being captured through our e-commerce channel. HOKA up in the low-30% range, and though 45 days is a small portion of the full year, we are going to continue fueling the brand with the goal of sustaining growth above fiscal 2020. And Teva and Sanuk down in the low-40s and mid-30% ranges, respectively, as these brands and mid-30% ranges, respectively, as these brands are experiencing a heavier impact due to the seasonality of their businesses, with Koolaburra representing an immaterial volume during this period of the year.

While we feel positive about the trends we're seeing in the business, there are still plenty of hurdles to overcome in a challenged consumer environment with social distancing practices in place and recessionary concerns that could pressure discretionary spending.

Moving into our discussion on fourth quarter and fiscal year 2020 performance, revenue in the fourth quarter of fiscal 2020 was down 5% versus last year to $375 million, with the shortfall driven by an approximate $25 million headwind from unforeseen COVID-19 impacts.

As a reminder, we provided fourth quarter guidance on January 30, and at that time we had only anticipated preliminary estimates of COVID-19 impacts on our China business. To provide a little more color on how our performance was impacted by this event in the fourth quarter, our prior guidance anticipated China headwinds of approximately $5 million for the quarter, compared to last year, mostly driven by store closures and our performance aligned with this expectation.

As the pandemic spread to Europe, we saw a significant deterioration of the quarter-to-date growth rate trend in the region, shifting from over 20% over last year at the end of February to just 6% over last year at the end of March. As the United States shut down in mid-March, we have been trending around 3% over last year through March 15 and saw this decline to 8% below last year by the end of March with combined impacts of retail store closures, as well as reduced wholesale shipments.

Despite the fourth quarter impacts, full year fiscal 2020 performance remains strong as revenue grew by 6% versus the prior year to $2.133 billion, and earnings per share increased 9% versus the prior year to $9.62.

Deckers' fiscal year 2020 performance is a result of having great brands that have built lasting relationships with consumers and continue to build awareness and momentum through targeted focused investments, complemented by a disciplined approach to managing expenses.

Turning to the brand highlights during fiscal year 2020 starting with the Fashion Lifestyle group, which is comprised of our UGG and Koolaburra brand. For full year fiscal 2020, global UGG sales declined by 1% versus last year to $1.521 billion. Considering lost revenue in Q4 due to COVID-19, UGG would have been roughly flat to last year, which is inclusive of a large headwind related to the European marketplace reset in progress.

In contrast to the headwinds of the brands in international businesses, UGG grew by 5% in the United States for the second consecutive year. The UGG brand's strength in the US has been driven by high levels of brand heat through PR and targeted marketing investments, driving brand search interest up 8% as compared to last year, winning with younger consumers, as DTC purchasers aged 18 to 34 increased by 29% versus last year, increased loyalty membership and purchasing as enrollment in UGG rewards increased 60% and revenue from members grew 19% as compared to last year, with members spending more on average and a diversified product mix as the Fluff Yeah and Neumel franchises both drove significant growth.

We'll look to build on the strength of our domestic business as we weather the evolving economic and retail landscape in fiscal 2021 and look to capitalize on the brand strength as work from home becomes the new normal for many of our consumers. The UGG team has made compelling progress in the brand's [indiscernible] (00:16:58) over the past three years and is focused on protecting the brand sanctity that they worked so hard to build.

Moving to Koolaburra, global revenue in fiscal year 2020 grew by 58% versus last year to $70 million. The Koolaburra brand's performance was fueled by another year of strong full price sell-through and market share gains within the domestic family value channel. Koolaburra also experienced success with its licensed home business and has plans to expand to license lounge wear this fall in an effort to further extend the brand's lifestyle appeal. Given the value proposition of the brand, we believe Koolaburra will be poised to capture demand from budget-conscious consumers in the coming year.

Moving to the Performance Lifestyle group, which is comprised of the HOKA, Teva, and Sanuk brands, starting with HOKA, global revenue for fiscal year 2020 increased by 58% versus last year to $353 million. The HOKA brand far outperformed our expectations from the outset of this year. HOKA growth has been consistently balanced across the globe in the brand's domestic and international businesses and across both wholesale and direct-to-consumer channels. This balance has been achieved due to the team's dedication to what we refer to as the HOKA ecosystem, which provides a universally elevated consumer experience across all regions and channels of distribution.

Leveraging the organizational expertise that exists in a multi-brand portfolio, the HOKA brand has quickly evolved its digital presence to become a core strength and represent the ultimate access point of the brand. HOKA Digital has become a serious driver of both customer retention and new customer acquisition. Both retained and acquired customers nearly doubled year-over-year in the HOKA brand's global direct-to-consumer business.

The HOKA brand success in fiscal year 2020 is the result of great heritage products, new product innovation, and continued refinements of the HOKA ecosystem attracting new consumers. HOKA has significant momentum, and while broader market trends may limit the brand's incredible growth rate in fiscal year 2021, we're going to continue investing in HOKA to fuel our brand-led and consumer-informed marketplace strategy.

Turning to our Teva and Sanuk brand, global revenue in fiscal year 2020 was $103 million and $51 million, respectively. Both the Teva and Sanuk brands are attracting consumers' with innovative product introductions that feature sustainability stories. This includes Teva's Strap In To Freedom campaign, highlighting their use of recycle materials now on nearly all their original sandal straps.

Similarly, Sanuk continues to offer eco-friendly options, including their vegan collection. To amplify these efforts and embrace the ever-changing serve specialty space, the Sanuk brand has recently streamlined operations to work directly with our internal innovation department known as Deckers Labs. By collaborating directly with Deckers labs, we're creating cost efficiencies in the business while also reinvigorating the Sanuk brand's innovation engine.

With respect to channel performance, global wholesale sales increased 7% for the full fiscal year. Fiscal 2020 performance were driven primarily by domestic strength in the HOKA, UGG, and Koolaburra brands. Domestic wholesale has now grown over 9% for two consecutive years based on the strength of these brands.

For the year, international wholesale increased low single digits due to HOKA brand's expansion being partially offset by the ongoing European reset of the UGG brand that is similar to the strategy we successfully implemented in the UGG brand's domestic wholesale marketplace. We also experienced negative pressure from foreign currency exchange rate.

Global direct-to-consumer sales increased 3% for the full fiscal year. Comparable sales for full fiscal year increased 5% versus the prior year. Please note that our DTC comp for fiscal 2020 has been adjusted to exclude the final weeks of March retail volume as a result of COVID-19. For the full year, DTC performance was driven by global growth of the HOKA brand, as the brand nearly doubled its e-commerce volume year-over-year and domestic strength of the UGG brand online.

We've been intently focused on enhancing the adoption of our brands online over the past few years and this will be a primary focus in fiscal 2021 with the disruption of the retail landscape.

With that, I'll hand the call over to Steve to provide more details on the fourth quarter and fiscal 2020 results, as well as some additional thoughts on fiscal 2021.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

Thanks, Dave, and good afternoon, everyone. Before we jump into our fourth quarter and fiscal year 2020 results as well as an overview of our approach to managing the business in this unprecedented environment, I'd like to take a moment to highlight the strategies we've implemented over the past few years.

The actions we have taken have built a more efficient business and created a strong framework and solid footing to navigate the current uncertainty. More specifically, we have implemented the UGG domestic wholesale marketplace management strategy, reducing the risk of excess inventory in the wholesale marketplace and lowering the risk of default with a smaller and healthier account base; built a strong partnership for the HOKA brand in the run specialty channel; driving awareness and customer affinity while also capturing accelerated demand through direct-to-consumer; invested in digital infrastructure and marketing for all our brands to deliver a compelling consumer experience; shifted cost structure by reducing fixed costs and investing in variable categories; consolidated our factory base to work with financially strong partners with diversified operations outside of China; and made a targeted improvement to Teva and Sanuk profitability.

The flexibility of our operating model is serving us well during these challenging times, allowing us to effectively navigate the current environment. We believe that our past and ongoing efforts provide the foundation to proactively manage through the COVID-19 disruption.

We're working from a relative position of strength as compared to our peers due to the significant operating enhancements we've made over the past few years. Our actions drove improvements of over 600 basis points to our non-GAAP operating margin as compared to fiscal 2017 and more than doubled cash and equivalents to $649 million at the end of our year fiscal 2020.

Now, moving to our results, while we ended the year with revenue slightly below our January guidance, the main driver of the shortfall was the impact of the global pandemic in the final weeks of March. Despite these headwinds, Deckers still delivered a third consecutive full year of mid-single-digit revenue growth and top tier operating margins among peers.

Our full year fiscal 2020 revenue came in at $2.133 billion, representing growth of 5.6% over prior year. On a constant currency basis, revenue grew by 6.5% as compared to last year. The HOKA brand contributed the majority of the year-over-year increase, up $129 million, with Koolaburra contributing an incremental $26 million over last year, with Sanuk and UGG revenue offsetting some of the gains. Absent fourth quarter impacts of the COVID-19 pandemic, we believe UGG revenue would have been roughly flat to last year.

Additionally, with the results achieved, UGG brand revenue in the year was flat to the prior year on a constant currency basis. Overall, these results were below the high end of our guidance range by $27 million, with fourth quarter revenue coming in at $375 million, down 4.9% from last year.

The lower than expected revenue was predominantly driven by approximately $25 million headwind related to the COVID-19 pandemic. These headwinds were driven by approximately $20 million related to wholesale shipments as the final two weeks of March typically include high volume shipping of spring/summer product and we experienced disruption from both the temporary closure of our West Coast distribution center as well as wholesale partners closing stores, and $5 million in lost direct-to-consumer sales as we closed the majority of our retail locations in mid-March.

Gross margins for the full fiscal year was 51.8%, up 26 basis points to last year. The increase in gross margin was driven by margin expansion in our Performance Lifestyle group brands, lower UGG domestic wholesale promotional activity, and less closeout volume, partially offset by negative currency pressure from foreign exchange rate fluctuations, increased UGG brand promotional activity outside of the US, and channel mix headwinds due to wholesale dollar growth outpacing DTC. This result includes the strong performance of gross margins in the fourth quarter, which came in slightly above our implied guidance of 51.5%, with outperformance largely driven by gains in our Performance Lifestyle group.

From an expense standpoint, our full year spend was up 7.4% to $765.5 million compared to last year's GAAP spend of $712.9 million and up 7.3% to last year's non-GAAP spend of $713.3 million. As a percentage of sales, expenses delevered against the prior year, which was aligned with our guidance as we executed reinvestment plans behind our key initiatives, including investments in marketing to drive brand heat and awareness in HOKA, UGG Men's and UGG Women's non-core styles; building our technology tools and talent base to advance analytical capabilities and drive efficiencies in how we connect with consumers; and using innovation to develop incremental opportunities that can add value to our brand portfolio.

These results are inclusive of actions we were able to take during the fourth quarter in conjunction with the lower revenue we were experiencing. Additionally, in the fourth quarter, we benefited from the reversal of accruals related to performance-based compensation as well as a lower tax expense resulting from jurisdictional mix and timing of certain tax items.

Our effective tax rate for the year was 19%, which was largely benefited from a state refund and other one-time discrete items which compares favorably to a 19.6% in the previous year. The impact of these results drove earnings per share of $0.57 in the fourth quarter, ultimately delivering a full year fiscal 2020 earnings per share of $9.62, which compares to last year's $8.84 and our guidance range of $9.40 to $9.50.

The $0.78 increase to last year was driven by higher sales and profitability in the Performance Lifestyle group and the Fashion Lifestyle group's domestic business and benefits of share repurchase, interest income and a lower tax rate, with offsets coming from lower sales of UGG internationally due to the ongoing marketplace reset in EMEA and higher spend related to investment behind building technology, tools and the talent base to advance our analytical capabilities.

Turning to our balance sheet, at March 31, 2020, we ended fiscal 2020 with $649 million in cash compared to $590 million cash last year, with additional availability of $469 million to borrow on existing lines of credit. Inventories were up 11.8% at $312 million compared to last year at $279 million.

Note that inventory growth over last year would have been below the rate of sales growth, if not for the revenue impacts experienced in the fourth quarter due to COVID-19. And in looking at our inventory position, we are comfortable with the quality of our inventory on hand as a high proportion represents core product with low levels of markdown risk.

During the fiscal year, we repurchased $190 million worth of shares, but as we did not repurchase any stock in the fourth quarter, we still have $160 million remaining authorized for repurchase as of March 31, 2020. And with the current near-term uncertainty and emphasis on liquidity and cash management, we have decided to pause any share repurchase activity for the time being, although we may commence share repurchase in future periods as we deem appropriate. And for the year, these results, once again, returned invested capital above 20%.

Switching gears to our global backlog, which includes bulk orders and represents an order book snapshot as of March 31, 2020, backlog was up 4.6% versus the prior year at March 31, 2019. Given the current state of the economy, we do not believe backlog represents a true indicator of performance and we are not planning our business based on backlog.

Subsequent to March 31, we have experienced some cancellations related to COVID-19 disruption. As a result, our total backlog as of mid-May, inclusive of all brands, has declined to be roughly flat as compared to last year.

While we haven't seen a large amount of cancellations to date, we anticipate there will be additional cancellations and thus are taking a cautious approach in planning the back half of fiscal year 2021. Overall, we are forecasting cancellations to outweigh reorders. The backlog does not include any indication of direct-to-consumer expectations and as mentioned earlier, the retail environment remains unclear.

Finally, moving on to our forward-looking expectation for fiscal year 2021, given the ongoing and fluid economic environment related to the COVID-19 pandemic, we will not be providing specific guidance for full fiscal year 2021 at this time. However, I will outline the major themes and how we are managing the business in these uncertain times. While we are not providing guidance, we are approaching fiscal year 2021 with the expectation that total revenue will decline year-over-year, but we believe the HOKA brand will still experience some growth, albeit at a rate lower than we've seen in our first quarter-to-date trend.

The Fashion Lifestyle group will face headwinds related to the continued international softness in wholesale cancellations. Inventory levels will be elevated as we carry core product from spring and summer season disruption as well as delayed product launches to protect the health of our brands. And expenses will be tightly managed as we look to conserve our cash balance.

As Dave mentioned, we have already taken some actions to reduce expense in fiscal year 2021, but we've also developed a number of scenarios to adjust spending based on the timing of expected economic recovery and our operational performance along the way. We have had meaningful discussions with our key wholesale partners to help inform our partnership in planning inventory buys and peak season volume. We believe a conservative approach in fiscal year 2021 will set up a strong return to our operating model in year fiscal 2022.

Prior to the spread of the pandemic, we had been planning a continuation of our operating model, which included increased investments in our key initiatives to drive further top line growth. Now that we are operating in a much different climate, we've reduced planned expenses related to our prior expectation of revenue growth and plan to redeploy a portion of our existing expense base to areas with the highest return.

More specifically, some of the adjustments that we've made include reducing costs associated with travel and brand conferences; reducing SKU complexity with an edit to amplify strategy that drives savings in our supply chain; finding efficiencies in the workforce, including the implementation of a hiring freeze and foregoing merit increases; savings related to store closures and operating stores in a more limited capacity; and reducing or eliminating other discretionary expenditures.

These adjustments give us the ability to dial up or back the planned marketing investments aimed at fueling global HOKA momentum, depending on the curve of economic recovery. Our focus is to preserve the sanctity of our brands as well as the organization we've built to support our strong operating model. This operating model is what allows us to make better decisions with an offense-focused mindset and will ultimately establish the foundation for success on the other side of this pandemic.

With our healthy cash position of $649 million that included no debt under our credit facilities as of March 31, 2020 and $469 million available on our existing lines of credit, Deckers is in a competitive liquidity position and is poised to combat the economic pressures resulting from the COVID-19 pandemic. Our focus is to make disciplined financial decisions in the best interest of the organization, while protecting the momentum and health of our brands.

We are taking steps designed to put the company in a position to emerge from this crisis with a healthy balance sheet, including a strong cash position with the following considerations in mind: a current pause on share repurchase and disciplined inventory management, all paired with a focused investment in key drivers to ensure we capture demand where possible, ultimately emerging with continued strong brand positioning. Again, I'd like to reiterate that with healthy and in-demand brands, we are in a position to play offense and build on the momentum of our brands.

Over the past few years, we've demonstrated the ability to course correct where necessary and our fiscal year 2021 will be no different. As we execute our strategies, we may experience some short-term pressures on operating margins but it is our belief that this strategy will best enable our brands to emerge stronger as we move beyond this crisis.

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

David Powers

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

Thank you, Steve. As I reflect on the year's performance, my key takeaway is recognizing the strength of our brands, along with an appreciation for their commitment to staying purpose-driven. The power of each brand lies within the authentic connections they have forged with their respective consumer base.

Each of our brands remains open for business and are here to serve consumers during this uncertain time. Special thanks to our employees on the frontlines, including our warehouse teams, retail associates, and customer service agents who continue to deliver and serve our customers in these extraordinary circumstances.

As we look towards adapting our operations to endure the near-term challenges, we are doing so with our sights on the future. We are evaluating our business strategically and intend to emerge from this pandemic with new opportunities and additional strength in the Deckers portfolio.

As we navigate forward, I am confident that the Deckers organization will embrace challenges, adopting new ways to collaborate, thrive and inspire each other, as we build on our foundation to become stronger. Through it all, we will develop ways to improve our business, including innovations within our planning, production, and the delivery of compelling product to the market.

As we evolve these operations, we'll be mindful to preserve the progress we've made and will stay true to their underlying strategies. The Deckers organization will overcome near-term hurdles while setting our sights on the goal of emerging stronger.

With that in mind, we will continue to fuel the HOKA brand with digital marketing campaigns and virtual touch points to engage with consumers; focus on what matters in UGG, leaning into key styles and protecting marketplace management progress; enhance our e-commerce capabilities and digital presence in the omnichannel atmosphere as we look to accelerate even faster during and beyond this crisis; and stay true to the Deckers spirit, becoming better together as we evolve and innovate in the face of challenge, looking to continually develop and improve our operations and community.

Overall, in the current environment, our company, brands, and balance sheet are well-positioned. We will manage the business with a high level of flexibility throughout the rest of the year. Thank you to all of our stakeholders. On behalf of the entire organization, I hope everyone is staying healthy and safe during these times.

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

QUESTION AND ANSWER SECTION

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

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

Q

Yeah. Hi. Thank you. I hope everyone is doing well and healthy.

I wanted to maybe just start off, broader question on the wholesale environment and you shared some detail there. I just want to get a sense of your handle on the state of things, inventory and even some of the discussion about orders, trends that you're expecting, just any way to frame up the range of variants or any other color that you can give as you think about the balance of the year on the wholesale side.

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

A

Yeah. I can start off with that, Jonathan. First of all, I also want to say hope everybody on the call is safe and healthy with their families and appreciate everybody listening in.

We are or we have, I should say, over the last few years built very, very strong relationships with our key wholesale partners. And I will say the teams, on a weekly, if not a daily basis are having conversations with these partners to navigate through just what's happening in the business now.

As you heard on the call, the script, the wholesale business right now is actually performing very well from a sell-through perspective and the order book is holding pretty well for the back half of the year. And what we're hearing from our wholesale partners from an UGG perspective is they're still confident that UGG is going to be a key brand for them in the back half of the year. We've heard that they need UGG to be successful in the holiday timeframe, as we all know, and the current trend that's happening with the Fluff Yeah program slippers [ph] and new mail (00:40:53), things are progressing well.

So certainly, there's challenges with store openings, but we are seeing in our business and also with some of our key partners, very strong uptick in e-commerce, which is making up some of that loss in the stores. And I think with stores opening, hopefully in key areas and key partners over the coming months, we'll see some improvements there.

So, the outlook right now seems good. We're confident about it, that we're hearing from our partners that UGG is going to be a key brand in their portfolio for the rest of the year. They are making cuts and so we are just being mindful of that and monitoring it. But so far, the first five or six weeks into the quarter, I think we're progressing nicely for UGG.

And then the same with HOKA. I think what we're finding is both HOKA and UGG are proving to be really important brands for consumers right now. UGG, on the work from home comfort lifestyle perspective, it's nice to know that when people think of comfort and home and casual, they do think of UGG first and foremost. And then a lot of consumers, as you all know, are doing home workouts and trying to exercise more and so that trend is also continuing to keep HOKA as a critical brand.

And I think you've seen that in the Google Trends data that came out and we referenced in the script. The brands are in demand. We're challenged with wholesale store openings and our own store openings, but we think the outlook – from where we stand today looks good.

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

A

Yeah. And Jon, just to add on to that a little bit because I think you were referencing where we gave the quarter-to-date update and talked about wholesale being down kind of mid-30%. That's really because stores are still closed.

So with wholesalers that have a strong online presence, they are doing well and sell-through is doing well, and that's what we're seeing. That's where we're also seeing a strong e-commerce business on our side. So, more so what we're seeing is the result of the wholesale being down is still stores being closed with our wholesale accounts but those that are doing business online are actually doing very well and sell-through as well.

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

A

Yeah. And I think it's key to understand this is a small portion of our total year and so while the trends right now look good, especially in the context of the situation we're all in, it is promising. We have a long way to go and what we don't know yet is what level of reorders we're going to get as wholesales continue to manage tightly their [ph] order buys (00:43:27).

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

Q

And then just a follow-up on HOKA and kind of directional color around the growth you're expecting this year, could you just expand a little bit more on the drivers that you see? I know you talked about pulling back on some of the launches, but maybe maintaining flexibility on marketing. And I know you have some new apparel product and a limited portion in the marketplace so maybe just comment a little bit more on the drivers you see there.

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

A

Yeah. I think there are a couple things that are happening for HOKA. One of the things we wanted to do, first and foremost, we want to protect the positioning and the strength and the distribution that the brand has built over the last three to four years. That is first and foremost.

We see HOKA being around for a long time, being a very important brand in the industry for a long time and we're taking a long-range approach to this. So, what the team did is pushed out some of the launches of the products, so that has allowed for our partners and ourselves to sell-through inventory, product that's already in the pipeline at full price.

If you had paid attention to the HOKA brands at all in the marketplace, you'll see there's little to no discounting on the brand. That's because we've managed inventory tightly. There's no reason to discount it because they're selling through well, the margins are high, and our partners are benefiting from that high average retail and margin. And then staggering some of the launches throughout the year to be in line with where the demand is and the inventory levels.

The HOKA ecosystem, which is what we like to call the combination of strategic partners and our online business, is performing very well. And we're driving more business to our e-commerce site, which is great because we're acquiring more consumers. And that's driving up margins a little bit in the short-term right now as well.

So, still optimistic. We know this is going to be headwind for the brands but right now, full price selling is strong. We still see this as a growth brand even though this year will be challenging in getting back the high level of growth going into 2022 and beyond. So, the goal is to protect the brands, maintain tight distribution, maintain full price selling, more of a pull model from consumers and continue to do that with powerful launches. And we have some great innovative launches coming through in the next 8 to 10 months.

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

Q

Okay. Great. Best of luck.

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

A

Thanks, Jon.

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

A

Okay. Thanks, Jon.

Operator: Next question comes from Jim Duffy with Stifel. Please go ahead.

Jim Duffy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thanks. Good afternoon, guys. I hope you and your families are doing well. To start, Dave, I wanted to ask, a few times in your prepared remarks, you mentioned planning for a new normal and future state of the business. Can you share in the post-pandemic world maybe how you're thinking about the new normal and future state of the business, specifically for the UGG brand and some of the things you're doing to prepare for that?

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

A

Yeah. We've had a lot of conversations just around that, what is the new normal. I think everybody's trying to figure that out and for us, there's a couple things. From an employee standpoint, we are seeing some positive results from the work from home scenario or situation, both in the ability to stay connected and make decisions faster, which I think is great and been beneficial for the team.

It also allows us to be more efficient in our spends and reduce travel. So there's things from an operation and employee workforce perspective that we will probably continue for the long-term. Leveraging technology to reduce travel, using 3D imaging for our sales samples and reducing costs there. There's a lot of good benefits, the things that we knew and we're working on but we've had the opportunity right now through technology to accelerate some of those things.

From a business standpoint, like we've been saying for the last few years now, we see a handful of really strong, strategic wholesale partners, leveraging them to access the consumer across the different demographics of our consumer base because that's emerging, and then really continuing to fuel our DTC business. And so we've shifted pretty dramatically the marketing efforts to be much more in tune with what's happening in the consumers now. We're using a lot of more user-generated content, leveraging PR and we're getting fantastic response to that.

So I think you're going to see a shift to faster product to market, faster adjustments in digital marketing, continuing to fuel our DTC business over time and continuing with the strength of franchise styles where the real upside for the brand long-term is. And I think this is the first time we've seen this kind of reaction to the UGG brand in spring and summer. And I truly believe that even without this situation, the UGG Fluff sandal franchise would have been an exciting product in this environment.

And so those are the types of things that we're going to continue doing. I would say bigger, more powerful, closely related to the brand DNA launches, leveraging our partners to reach consumers with new product and then really fueling DTC from a long-range plan perspective.

Jim Duffy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Great. Can I ask you to elaborate some on the merchandising strategies for this fiscal year with the UGG brand? Can you talk more about balancing newness with concentrating the merchandising assortment and known high velocity styles?

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

A

Yes. So there's two keys to that. One is we wanted to reduce the inventory in styles that were seasonal liabilities, so styles that were in and out, one-time styles that really, in the scheme of things, weren't generating a lot of volume.

So the teams looked back in the first week of the shutdown back to mid-March, this is across all of our brands. We went through and adjusted buys and really reduced [indiscernible] (00:49:37) roughly 20%, 30% going into the back half of the year to protect our level of margin liability and inventory in the channel, but more importantly to really focusing on the big drivers of the business.

And so I think you're going to see continued newness and things like our Fluff franchise. We have another launch coming out in June. The Pride launch that just hit is another launch for that product dated in September and we have a lot of these plans. But what we've realized is the combination of UGG DNA and comfort and fashion is our formula for success. So we want to continue that with fewer styles, but bigger volume, a bigger impact size going forward.

And then we also have our apparels launch this year that we've talked about. We're doing a pretty aggressive launch that was originally planned. We're still going to do it in DTC and some of the key wholesale doors with Nordstrom. So, we're staying course but we're just getting more focused and disciplined and focused on speed along the way.

Jim Duffy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Very helpful. Thank you.

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

A

You bet.

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

A

All right. Thanks, Jim.

Operator: Next question comes from Camilo Lyon with BTIG. Please go ahead.

Camilo Lyon
Analyst, BTIG LLC

Q

Thank you. Hi, guys. How are you?

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

A

Good. How are you doing?

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

A

Welcome back.

Camilo Lyon
Analyst, BTIG LLC

Q

Thank you. Thank you. So, I've a couple questions. So you talked about your backlog through mid-May being flattish and you also said that you're contemplating or expecting more cancellations to happen, but you haven't seen those yet to a large degree. So, a couple questions on that.

Can you tell us at what point in the year will you stop accepting cancellations? We're getting kind of in that window where we're a couple months away from shipments of fall starting to unfold. And it seems – and its early days, but it does seem that as stores start to reopen, the trends are less bad than initially feared, generally speaking. So I'm just curious to know how you're thinking about that.

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

A

Yeah. It's a good question. I think that goes really to kind of how we're scenario planning. So at this stage, as wholesale accounts are still opening up, we want to see how stores open up and kind of what the demand is.

It goes back a little bit to the first question where we're seeing, I think, initially and it's still early on in kind of the higher proportion of e-commerce sales in the first part of this quarter, then it shifts to wholesale. But with the strength of e-commerce, it's giving us confidence in product sell-through and wholesale accounts that are selling online are having strong sell-through.

So at this stage, we think it's still a little early to kind of call it in terms of when we call the line in terms of cancellations. We are working with accounts to understand where their product is, what the product is selling through. We have wholesale accounts who have both online and physical presence. They're trying to use what they're learning from their online sales to help formulate an opinion kind of on physical store.

So it's still ongoing. I think we've learned more in the last couple of weeks. We continue to see strong sell-through and I think it's giving some of our wholesalers confidence in how UGG is performing. So...

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

A

Yeah.

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

A

...as we – again, not providing guidance, but as we were thinking about the year and being cautious about what potentially could happen, recognizing we're still in the smallest part of our year. So, first quarter representing less than 12% of our business, just being a little bit cautious.

We do have inventory, so we can fulfill orders, but we want to be a little bit cautious in terms of what we're ordering. And we'll use what we're seeing to kind of educate us on how to think about kind of backlogs and cancellations. But at this point, we just felt kind of it's prudent to be a little bit cautious and we expect that we'll see some more cancellations. But as we indicated in the change in the backlog, we have seen cancellations and we probably think it's a good part of the cancellations and then we'll see what happens as stores reopen.

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

A

Yeah. We just initiated our last buy for the holiday season over the last week or so. We had a lot of conversations with the wholesale teams, validating assumptions from some of our wholesale partners and where we've decided to land is we're going to buy to the orders. In the past, we would buy a little bit more for cushion on the upside. We have some good core inventory we're carrying over. We'll buy to the orders, but we are expecting to see some cancellations as things progress. But the order book is also shifting between partners as people with more online presence are doing better than people with more store relevant or store...

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

A

Physical, yeah.

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

A

...physical store-reliant business. So there's shifts within the mix and then – but the order book, as we said, still looks good and we're buying to that order book. And then we'll put ourselves in a [ph] chaste (00:54:54) position if things are better than planned.

Camilo Lyon
Analyst, BTIG LLC

Q

That's great. Thank you for that color. It's very helpful, actually. And then my follow-up is if you take – so you've given great color on the wholesale order book and how you're planning and how you'll build to orders the inventory. Are you taking a comparable approach to the DTC business? It's now almost 40% of the business. So are you taking a little bit more of a proactive approach in allocating more or better inventory to your DTC channel?

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

A

Yeah. We made some shifts, obviously, between what the expectations were have been for stores and e-commerce, so no surprise. We're seeing a better business in e-commerce right now, obviously because the stores are closed. We think that trend will continue. One of the big benefits of having a good e-commerce business right now is we are acquiring a lot of new consumers and a lot of new young consumers in both HOKA and UGG that we can go back to in the holiday timeframe.

So we're optimistic that we're going to continue to have a strong online presence and online business, shifting inventories, but we can share inventory easily between online and retail. And then we are planning for some more potential closeouts if there are cancellations that we can funnel through those DTC channels as well with higher margins. So a little bit more conservative there, but we do think in key styles of franchises that there is upside in e-commerce and we [indiscernible] (00:56:35) expectations.

Camilo Lyon
Analyst, BTIG LLC

Q

So, is it safe to say that your DTC plan is a little bit less conservative than what your wholesale plan is?

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

A

Yeah, I think so. Yeah, that's fair. Yes.

Camilo Lyon
Analyst, BTIG LLC

Q

Great. Thank you, guys. Good luck.

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

A

Great. Thanks, Camilo.

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

A

Thank you.

Operator: Next question comes from Sam Poser with Susquehanna. Please go ahead.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Good afternoon. Thanks for taking my questions. I guess just a follow-up. On the wholesale side of things, especially with HOKA, on your partners' direct-to-consumer business, on your partners' e-commerce businesses, are you utilizing a good deal of drop ship right now? So you're basically reacting directly to the customers' demand through their websites. Are you doing a bit of that at the moment?

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

A

Yeah. We're doing a small portion because a lot of those are smaller independents, so we're doing some of that, but it's not a big part of our overall business at this time, but we're available. We're operating it for sure.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

And then in the near term, Steve, are you seeing sort of – because of the way the business is going and such a shift to e-commerce and so on, are there any structural gross margin headwinds in the near term just because of the state of the market, not necessarily because you have – it would be more on the fixed cost kind of situation rather than merch margin?

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

A

Yeah. I mean, what I would say on the near term, right, is – and again, what we've seen in kind of the quarter-to-date is with a higher proportion of e-commerce, right, gross margins are contributing to an improvement in margins, so the higher gross margins associated with that. Some of that will shift as the bulk of the remaining quarter shifts to kind of wholesale.

And then I think we'll have to see as we emerge from this kind of economic pressures. But in terms of kind of some margins as a higher proportion of our business and the first few weeks of the quarter have been more heavily on e-commerce, we're seeing some margin improvement there. We'll see a little bit of a shift as we see more wholesale being fulfilled in the back half of the first quarter. And then again not providing guidance, but as we look at the balance of the year, we'll see how things develop in terms of promotions.

And then in terms of how we're thinking about the organization, as we talked about, it is shifting some resources to e-commerce to help drive the increased traffic that we're seeing there. So where we're finding efficiencies in the organization, investing some of that in our e-commerce infrastructure to facilitate the increased traffic and demand that we're seeing.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Thanks.

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

A

Yeah. And right now, as I mentioned earlier, we're still seeing full price selling at a very healthy rate for our brands and we want to maintain that through as long as we can. We are predicting there will be [ph] more affordable (00:59:53) promotional environment in the back half of the year, but right now full price sell-through is strong.

We opened the closet for UGG today for the Memorial Day weekend timeframe to liquidate some of the spring product that we want to go out. So we go into the back half of the year clean. And so you might see a little bit of that in the marketplace but those are seasonal styles that aren't really important to the core business, and we'll manage through that with what we can. But as Steve said, e-commerce is a strength right now, a little bit more higher margins to date, but we have a lot of wholesale orders to do in the back half.

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

Yeah. And then the other thing that we've talked about, right, and which we demonstrated last year is using marketing, so we've increased our marketing spend around that and we'll continue to use that as a lever as we evaluate [ph] kind of how sales (01:00:44) continue to come in.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

And then just two more things. You alluded to sort of new channels of distribution, and I've been hearing that some of the sort of more athletic [ph] reach (01:00:57), you're starting to maybe build up assortments with some of the more athletic retailers that happen to generally have a decent digital platform as well. Can you give us some color on what's going on there? And then one of your major accounts earlier in the season decided to get promotional for a little bit of time. How are you reacting if people – if your wholesale partners do stuff that can hurt the brands?

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

Yeah. A great question. And as we've been saying for a while now, the sanctity of our brands and positioning the market is first and foremost for us. So we've been firm on pricing and we've had firm conversations with some of our partners. I think you saw some of that earlier in the quarter.

And that's where we're going to approach this. We see this as a shorter-term headwind for the economy and the brand. But we're in for the long haul. We want our brands to weather through this in a quality way. We're not going to chase revenue. This is like chasing revenue and discounting brands to get there, and that's the approach.

For HOKA, generally speaking, we've said the distribution is the right distribution today. I think our access point for the consumer gave us a good footprint, as well as driving business to our e-commerce business. We did open DICK'S recently for the first time. We did a test with them like three or four years ago.

We were in and out quickly and that was before people really understood what it was all about. But the test so far has been going very well. We're very pleased with that and we're going to continue to do business with DICK'S with HOKA. Really primarily staying online and probably 10 stores and expanding the assortment a little bit right now [indiscernible] (01:02:45) we're going to be expanding into Rincon as well.

But very pleased to see the reaction of the consumer which tells us that awareness is growing dramatically for the HOKA brand. And in an environment like that, we're competing head-to-head with some of the best brands out there, and to see the response is very encouraging for us.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

Thank you.

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

Thanks, Sam.

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

Thanks, Sam.

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

Tom Nikic
Analyst, Wells Fargo Securities LLC
Q

Hey, everybody. Thanks for taking my questions. First, I wanted to ask about the European reset. Does the pandemic and what's been going on in the last couple of months – does that change anything as far as the European reset goes? Does it accelerate it, slow it down? Just any color you could give on then would be helpful.

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

Yes. As you know, we talked about this on our last earnings call, we're going into this year with a focus on resetting UGG in the European marketplace. There's been some brand heat issues, inventory and the channel cleanups that we need to do. So the plan is still to do that. We're looking at allocating the resources this year from a marketing perspective where we want to focus. We've made some adjustments between the EMEA business and the China business to shore most of those up.

But really staying on course. And like I just said, we've instructed the teams over there not to chase revenues, does try not to discount the product, [indiscernible] (01:04:22) more cleaning it up. It will be a challenge this year obviously as they're getting pretty heavily affected across the region. We're going to manage that tightly. But it's still – reset is the goal and reigniting the brand and the classic franchise for the European consumer.

Some good news though is we are seeing more adoption of the Fluff franchise and slippers in that marketplace, which we haven't seen in the past, and a lot of the PR and social and celebrity post that we're getting right now, which has just been phenomenal is starting to resonate nicely with the younger consumer over in that marketplace as well. So hopefully that will help with brand heat positioning, but from an inventory and a marketplace perspective, we're going to manage it slightly with the goal of creating more of a scarcity model and resetting the brand through the year.

Tom Nikic
Analyst, Wells Fargo Securities LLC
Q

Got it. And then just a follow-up on HOKA. Right now the wholesale distribution is a lot of independent, I guess, smaller retailers. Is there any concern about some of those retailers maybe not surviving the current lockdown and what that would potentially do for the growth trajectory of HOKA?

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

Yeah, it's interesting. We had a call with the HOKA sales team and some of the marketing folks yesterday and they're using some of the new analytical capabilities that we've created in the company to really take an assessment of each individual account based on their geographic locations as where their states are within the closings, there were social distancing measures where they're opening up. And they're making assumptions on which store [audio gap] (01:06:04).

And so I can't share any of that color, but I'd just say no that we're looking at levels, the teams are closely monitoring and working with a lot of those partners. Some of them may not make it. But I think overall, they won't be significant to the trajectory that the HOKA brand is on. We're still continuing to fuel that with our big players and our online business and their potential growth with DICK'S and maybe offset some of that. So, we're still optimistic [indiscernible] (01:06:40) when they're able to reopen and the velocity of sales they'll get at that time.

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

A

Yeah. And, Tom, just to add to that because in my prepared remarks I made the comment about kind of HOKA, we're planning a little bit slower growth this year. So, clearly we will see some disruption as a result of COVID-19. But it's a short-term kind of disruption to the brand. So, as Dave said, we're going to manage closely. We're going to work with accounts. We're going to try to help accounts where we can. And some won't make it, but that business will transfer to somewhere else hopefully online.

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

A

Yeah. I think the demand is there certainly, and I think that it's not going to have an impact on the trajectory of the HOKA business overall. Just a further update, we are doing a little few more drop ships for the HOKA brand at this time as we get an update from David, our COO, so that is happening, which we're happy to do with the situation.

Tom Nikic
Analyst, Wells Fargo Securities LLC

Q

All right. Good. Thanks a lot, and best of luck this year,

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

A

Okay. Thanks, Tom.

Operator: Last question today will come from Paul Lejuez with Citi Research. Please go ahead.

Paul Lejuez
Analyst, Citigroup Global Markets, Inc.

Q

Hey, guys. Thanks. I'm sorry if I missed it, but did you give an e-comm growth rate for quarter-to-date by brand that's fair? Second, just curious what percent of your SKUs sold to a wholesale partner ultimately sells through a store versus online? And then last, just curious what you've seen in China. I think you said those stores are all open, curious how business has come back there? Thanks.

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

A

I think the first part of the question was what had we mentioned on kind of brand growth quarter-to-date. So what we said was UGG was down. We don't break out e-comm, but UGG is down, which is all channels down mid-single digits, HOKA down up low 30% range, Teva down low 40s, Sanuk down mid-30s, but we don't necessarily break that out by channel.

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

Total e-commerce, sales up 40%.

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

DTC is up...

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

... [indiscernible] (01:08:54) DTC.

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

...yeah, which its sales is up 40%.

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

Stores and e-commerce combined.

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

Stores and e-commerce, yeah.

Paul Lejuez
Analyst, Citigroup Global Markets, Inc.
Q

Right. And then...

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

E-commerce within that, total company is up triple digits.

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

So e-comm is up triple-digit, correct. And then you talked about SKU, sorry, what was the...

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

What percent of SKUs is sold at wholesale online versus stores? Did I hear that right?

Paul Lejuez
Analyst, Citigroup Global Markets, Inc.
Q

Correct. Guys, you're selling – you've got a big wholesale business. Curious if you have a sense of what percent of those units that you sell through. One of your partners ultimately gets sold through a store versus online.

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

A

Yeah. I would say generally speaking it's probably in the 30%, 40% range in a normal environment, certainly in this environment it's going to be a 95% to 100% with store closures in our wholesale partners.

Paul Lejuez
Analyst, Citigroup Global Markets, Inc.

Q

Got it. Thanks. And then just China experience?

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

A

China, they've been through this, right, and learning a lot from our China team and the management over there, they were shut down, obviously earlier in the year for about three months, stores, working from home, obviously a lot more serious than the shutdown has been here.

They are back to work in the offices, not fully back, there's still some work from home situations happening there, which is fine. They're managing the business right. They're working closely with our wholesale partners who are also having some serious headwinds because they don't have e-commerce, they're just stores.

And then the stores that we're opening, they're back online, they're not to the levels that they were where we'd expect them to be. But keep in mind, retail stores for August this time of year in China is very low volume. But the e-commerce business has picked up nicely in the marketplace.

So there'll still be some headwinds through the year. We're now going to do some cleanup, help partners through some of their inventory challenges. But all in all, we're seeing a good reaction to the products that's in the marketplace now both in the slippers category but also some of our sneakers, such as the [indiscernible] (01:11:02) style that just launched. And then continuing to manage tightly the HOKA business in that marketplace as well. So, back on track, back up and operating, but the consumer response to open stores is still slowly coming back, and I think it's going to be that way for a little while.

Paul Lejuez
Analyst, Citigroup Global Markets, Inc.

Q

Got you. Can I just go back to the 30% to 40% that you mentioned selling online through your wholesale partners? Does that differ much by brand?

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

A

It'll be -HOKA will have a higher percentage of what they're selling online in terms of the line of products.

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

A

Across the board, specialty independent. Those will be heavily weighted more on store versus e-commerce, it's a small incentive.

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

A

Correct.

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

A

Yeah. So generally speaking, I think it all depends on the account – department stores, anywhere from 30% to 40%, in some cases maybe a little bit higher. And then the smaller independents is less online. So it averages out, I would say, across all brands around 30% to 40%.

Paul Lejuez
Analyst, Citigroup Global Markets, Inc.

Q

Got it. Thank you.

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

A

The other thing just [indiscernible] (01:12:07) real quick is I don't know how the industry has really thought about this, but it is something that we're thinking about with the lack of Chinese tourist travel presumably through the rest of the year and beyond, that's going to have an impact on global outlet businesses, European businesses, but it could have a positive impact on the China business. So we don't know what that looks like yet. It's something that we're monitoring closely, but I think it is going to be a factor in the industry that we're going to have to pay attention to.

Paul Lejuez
Analyst, Citigroup Global Markets, Inc.

Q

Great. Thank you. Good luck, guys.

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

A

Thanks, Paul.

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

A

Thank you.

Operator: This concludes our question-and-answer session and also concludes our conference. Thank you for attending today's presentation. You may now disconnect.