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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 First Quarter Fiscal 2021 Earnings Conference Call. At this time, all participants are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. Instructions will be provided at that time for you to queue up for questions. [Operator Instructions] I would 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 & Corporate Planning.

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 operations, business partners and industry, changes in consumer behavior in the retail environment, strength of our brands and demand for our products, changes to our product allocation, distribution, and inventory management strategies, changes to our marketing plans and strategies, investments in our business, and our anticipated revenues, product mix, gross margins, expenses, liquidity position, and our potential repurchase of shares.

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.

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

David Powers

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

Thanks, Erinn, and good afternoon, everyone. On behalf of the Deckers organization, I hope everyone is doing well and staying safe. As the COVID-19 pandemic continues to have devastating effects around the world, we remain committed to prioritizing the health and safety of our employees, customers, and the communities where we operate.

On our May call, we detailed our strategic approach to managing the business through this pandemic. I believe the work we have done so far this year and over the past few years has created an important foundation, though we still expect there to be additional hurdles to overcome later this year as we approach the peak season for our largest brand.

Before I share our results for the quarter, I'd like to express my sincere gratitude to our employees for their continued commitment to working through these challenging circumstances, helping to deliver a solid first quarter.

For the first quarter of fiscal year 2021, revenue was up 2% versus last year to $283 million. Gross margin increased over 300 basis points to 50.3%, and we delivered a loss per share of $0.28.

Many of the trends we outlined at our May call remained largely consistent through the balance of the first quarter. Our direct-to-consumer business was robust throughout the quarter, driven by triple-digit online growth in both the UGG and HOKA ONE ONE brands. However, this was mostly offset by the headwinds experienced from both owned retail store closures, as well as some wholesale doors remaining closed during a portion of the quarter.

Our first quarter performance benefited greatly from the organizational foundation we've invested in over the past few years. In addition, certain areas of our business benefited from the shift in consumer behavior as a result of the pandemic, with our ongoing key strategies amplified and accelerated by some of those trends.

Omnichannel capabilities have been a key area of investment, with a distinct focus on bolstering our e-commerce competencies, where we've added new targeting efficiencies, analytical tools, upgraded talent and enhanced global accessibility with our online platform. Thanks to these investments, our digital marketing and e-commerce teams are able to efficiently and effectively transition content to authentically realign with the new marketplace realities created by the pandemic, including efforts to engage with consumers through virtual events and programs.

UGG was able to adjust its plan for Pride to create a virtual prom for all event in partnership with Tommy Dorfman. HOKA had originally planned a series of in-person events surrounding the launch of the Clifton Edge. But the brand transformed those plans into the virtual Ekiden challenge in partnership with Strava.

As our brands adjusted plans for in-person events to virtual, they also shifted marketing mix towards the top of the funnel in an effort to reach a new and diverse set of consumers. These are just a few examples of how our brands were nimble in optimizing sell-through of the powerful product and narrative by modifying their marketing plans amid changing marketplace conditions.

Beyond our investments in digital and PR, another key area of focus has been reducing the company's reliance on core UGG product. UGG has successfully diversified its product mix through investments in innovation and design to build a counter-seasonal assortment that complements the core product offering, while continuing to manage the brand's domestic allocation and segmentation strategy.

And lastly, we have invested and will continue to invest in the HOKA brand to drive global growth and build on the brand's momentum to increase brand awareness and consideration.

The strength of our e-commerce and digital marketing platforms, fueled by adaptive marketing tactics, created demand for counter-seasonal UGG products and continued HOKA momentum, driving Deckers' success in the first quarter.

Shifting to the brand highlights from the quarter, starting with the Fashion Lifestyle group. Global UGG revenue in the first quarter was down 10% versus the prior year to $125 million, driven by a 49% decline in wholesale, which was primarily caused by the COVID-19-related wholesale door closures. Partially offsetting the decline in wholesale, the UGG brand experienced a 53% increase in its direct-to-consumer business as e-commerce was able to more than make up for the lost volume from our owned retail store closures.

Online strength was fueled by an accelerated shift to consumer demand to online platforms and supported by the investments we have put behind our e-commerce business, resulting in a triple-digit increase in both acquired and retained consumers as compared to last year. We understand that some of these newly acquired individuals likely previously engaged with the UGG brand through a brick-and-mortar experience, but we welcome the shift in consumer purchasing to our online platform and will continue investing in the channel.

Correlating to the sizable customer acquisition, the brand saw a substantial acceleration of UGG loyalty enrollments in the first quarter as compared to last year. We are especially encouraged by the UGG brand's incremental loyalty additions as members typically purchase the brand more frequently and are more likely to purchase multiple product categories.

For the first quarter, loyalty members accounted for nearly 40% of direct-to-consumer revenue, which compares to 28% for the same period last year. From a regional perspective, the domestic UGG business maintained the momentum experienced throughout fiscal year 2020, with revenue growing in the first quarter of fiscal 2021 as compared to last year.

Domestic performance was fueled by 18 to 34 year-old consumers purchasing online as ugg.com saw a significant increase in consumers within this age group, representing over 40% of total online purchases in the quarter.

Internationally, UGG declined versus last year, primarily related to COVID-19 store closures, the multiyear marketplace reset in Europe, and the brand having a smaller e-commerce presence relative to the U.S. market, making it more challenging to offset the volume loss from retail stores.

In terms of product highlights, the UGG brand experienced global success with its slipper business through innovation of emotional and comfortable product that resonated with a broad range of consumers. We believe the gains in UGG slippers were due in part to COVID-19 related to work-from-home mandates as people seek out casual and comfortable shoes to wear in their homes, in addition to the Fluff franchise's continued expansion and momentum.

The Fluff Yeah Slide is the brand's top ranked style in terms of revenue in the first quarter for the second year in a row. And its companion style, the Oh Yeah, was number two in its introductory season. Both styles are resonating well and driving meaningful growth in both women's and kids sizing, suggesting somewhat of a Mommy and Me trend.

In fact, the Fluff and Oh Yeah styles drove nearly half of the total purchases by 18 to 34-year-old consumers. We believe that this hybrid slipper/sandal phenomenon that UGG created is here to stay, as the brand continues its cycle of innovation to deliver authentic product updates for new and existing consumers. Beyond the Fluff franchise, many of the heritage slipper styles such as the Scuff, Coquette and Tasman experienced nice growth, which we believe was both incremental as well as some pull-forward demand from later in the year.

We were excited about the UGG brand's recent performance with spring and summer product, especially given the brand has not typically been top of mind for the consumer this time of year. According to Google Trends, UGG experienced a 76% increase in search interest during the first quarter, underscoring the progress the design team has made developing product that resonates with consumers during the spring and summer months. The UGG team is targeting the conversion of newly acquired consumers to repeat purchases throughout the balance of fiscal 2021.

Turning to the Performance Lifestyle Group, which is comprised of HOKA, Teva and Sanuk. Beginning with HOKA, global revenue for the first quarter increased 37% versus the prior year to $109 million. HOKA was able to grow both wholesale and direct-to-consumer channels, primarily due to the size and strength of its domestic e-commerce business as well as the rapid expansion of distributor volume internationally.

Expansion of the HOKA brand internationally has been a great indicator of the accelerating consumer appetite for HOKA outside of the US, specifically within Europe. We feel the brand is resonating due to the frequent introduction of compelling product and powerful storytelling globally. Digital growth and customer acquisition have been a focal point of building the HOKA ecosystem over the past few years. With the accelerated shift to online purchasing, our investments in digital have become even more critical.

During the quarter, HOKA direct-to-consumer experienced triple-digit revenue growth, aided by a similar triple-digit increase in customer acquisition as compared to last year. Like UGG, we believe some of the online consumer acquisition may be attributable to consumers who have purchased HOKA before at wholesale, but due to store closures, they've now migrated to our website.

Given the brand's marketing strategy has traditionally included in-person-based activities, we're thrilled by the HOKA team's ability to accelerate online engagement and further cement the brand's digitally led approach. There have been numerous initiatives to help drive digital engagement with the HOKA brand in the first quarter, including the brand's sponsorship of the virtual IRONMAN racing series as well as the HOKA partnership with Strava to create the Ekiden challenge. In continuing its sponsorship at the IRONMAN racing series virtually, HOKA was able to stay connected with its core consumers and potentially reach a new audience who may be following Ironman events while most other sports are on hold.

Ekiden is about moving forward together and bringing out the best in each other. It's a relay-style running race that originated in Japan. Over 400,000 people across the globe participated in the Ekiden challenge, which helped create a new method of connection with consumers in the absence of in-person events, and afforded HOKA the opportunity to learn more about its consumers. The challenge was designed to coincide with the launch of the Clifton Edge, which is the latest innovation from HOKA, and has seen strong consumer demand since its introduction in early July, particularly in Europe.

The HOKA brand proved to be in a position of strength during a period where many brands struggled to grow, proving the brand power it is developing. We'll look to continue fueling the HOKA brand's momentum for the balance of fiscal 2021 and beyond.

Moving to Teva, global revenue in the first quarter was down 8% versus the prior year to $35 million. Teva performance included a notable acceleration of its direct-to-consumer business in the back half of the quarter. For the quarter, DTC represented 39% of the Teva brand's revenue, which was up from 19% in the previous year. And though overall revenue declined in the quarter, the brand experienced global growth with its universal franchise styles that now feature straps made from recycled plastic.

For Sanuk, global revenue in the first quarter declined to $13 million. Similar to Teva, Sanuk is amplifying its focus on sustainability. Subsequently, at the end of our first quarter, Sanuk introduced its new SustainaSole collection. The collection is the brand's most eco-friendly shoe to date, featuring recycled materials throughout the entire construction of the shoe.

With respect to channel performance, overall, we saw significant strength with our online channel in the period, while physical retail experienced disruption from the pandemic conditions, adversely impacting both owned retail and our wholesale business.

Global direct-to-consumer revenue increased 74% versus last year in the quarter. Direct-to-consumer gains in the first quarter were driven by the strong consumer demand of our brands online, in particular with both UGG and HOKA more than doubling e-commerce revenue year-over-year. Again, we believe a portion of this incremental online demand continues to be spurred by consumers actively seeking products that provide comfort for the work-from-home environment, combined with an interest to exercise in the outdoors. Due to the meaningful disruption of our retail store base throughout the quarter, we are not reporting a comparable direct-to-consumer sales figure.

Global wholesale revenue decreased 27% versus last year for the first quarter. We experienced lower wholesale revenue across all brands in our portfolio, except HOKA, which was able to offset a domestic decline with higher international revenue.

The pressure experienced in wholesale was primarily the result of pandemic-induced store closures across the globe. However, despite the decline of wholesale revenue, our partners also experienced growth within their e-commerce channels, which suggests our brands are taking market share from the competition. According to

NPD's retail tracking service, for the months of April through June, each of our brand growth rates were more favorable than the overall marketplace.

Before handing off the call to Steve, I'd like to give an update on the status of our operations and highlight a few dynamics to consider for the balance of fiscal 2021. Our Moreno Valley distribution center continues to operate at a limited capacity, due to increased social distancing measures, taken as a precaution to maintain employee safety.

Our Moreno Valley DC team and third-party logistics partners continue to work through the challenges associated with shipping higher levels of product sold through our e-commerce channel, in addition to the increasing volume of wholesale shipments, as we head into peak season. As a result of these conditions, we anticipate higher costs associated with employee safety and increased payroll costs related to DC employees. We continue to adjust our retail store fleet operations in compliance with updated and ever-changing health and safety standards.

To provide some context for our retail store operations during the first quarter, approximately 20% of our stores were open for the entire 90-day period. The average store was open for roughly half the quarter. As of this week, approximately 95% of our global stores are open, but in most cases operating at a limited capacity. Given the ongoing and uncertain pandemic conditions, which include meaningful local and regional differences and restrictions imposed on retail store operations, we foresee potential risk of additional store closures or limitations during peak periods.

Similar to our owned retail stores, many of our wholesale partner stores were closed for much of our first quarter, but have since reopened with limited operation. We have continued to work closely with our wholesale partners to identify areas of risk and make the relevant adjustments to our order book. Given the significant portion of business remaining in this fiscal year, as well as the uncertainty around economic conditions and consumer sentiments, we still anticipate cancellations to outweigh reorders.

In terms of our sourcing, during the first quarter, we operated with reduced capacity due to the implementation of social distancing measures and we continue to experience travel restrictions between country borders and production facilities. However, these disruptions have been mitigated thus far and at this time, we are not experiencing any major sourcing disruptions.

Given that first quarter is historically very different from our other three quarters in terms of channel and brand mix, and the first quarter was especially unique this year due to the marketplace conditions resulting from the COVID-19 pandemic, we know that this will not be a typical year. I'd like to take a moment to recognize some of the dynamics we are observing and that should be considered for the balance of fiscal 2021.

In the first quarter just completed, approximately 49% of revenue came from direct-to-consumer, heavily weighted towards e-commerce, which is significantly above last year and our typical quarter. 38% of revenue came from HOKA, which is well beyond last year and the average quarter. And less than half of the revenue came from UGG, which typically represents over 70% of total company revenue on a full-year basis.

While we expect direct-to-consumer and HOKA revenue to increase as a proportion of our total revenue in fiscal 2021, we do not expect to repeat the levels of penetration experienced in this first quarter. Additionally, though we're optimistic about the UGG brand's start to fiscal 2021, the brand is a long way from its peak holiday timeframe, which we are expecting to be highly competitive and feature increased levels of promotional activity across the marketplace.

Starting in the second quarter, wholesale is expected to become a more impactful portion of the UGG brand revenue, especially as we move some customer shipments forward to help alleviate potential pressure during the third quarter at our distribution centers. Given the number of unknowns, we continue to approach the UGG brand's peak season with appropriate caution.

To summarize, our portfolio of brands delivered an excellent quarter in an exceptionally challenging environment. I'm proud of our teams for their dedication and discipline to achieve our best first quarter result for the past nine years.

Despite the first quarter traditionally being our lowest revenue quarter, I'm encouraged by the resiliency of our brands and look forward to building on that momentum for the balance of fiscal year 2021 and beyond. The ongoing pandemic will undoubtedly present adversity throughout the year, but I'm confident in our team's ability to manage the effects on our business.

With that, I'll now hand the call over to Steve to provide more details on our first quarter financial performance and provide some additional color on our strategy to manage the balance of fiscal 2021.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

Thanks, Dave, and good afternoon, everyone. As Dave just detailed, we are extremely pleased with the organization's performance amidst tough marketplace conditions. And as of June 30, the organization maintained its strong liquidity position, above $1 billion, aided by the performance of our portfolio of brands that drove positive cash flow for the first quarter and is inclusive of untapped credit revolvers, totaling $470 million.

Our strategic approach to managing through the pandemic and its economic impact served us well in the first quarter. We will stay the course and continue managing our business tightly by leaning on our strong operating model, while also fueling our brands to drive competitive gains in market share.

Now, for our results. First quarter revenue was $283 million, up 2% versus last year, and slightly above the trends we outlined for the first half of the quarter on our May earnings call. As compared to last year, revenue growth was driven by HOKA, which increased $29 million over the same period last year. Offsetting the HOKA brand growth was a $14 million decline in UGG, a $5 million decline in Sanuk, and a $3 million decline in Teva as compared to last year.

Given the difficult marketplace dynamics during the first quarter, we were pleased to see our online channel's ability to capture consumer demand as physical store locations largely remain closed. In addition, our online results benefited from efforts to drive consumers to our compelling product offering in our historically smallest revenue quarter.

Gross margins in the first quarter were up 330 basis points over last year to 50.3%. This result was aligned with our view of the business as a favorable shift in channel mix resulted from reduced wholesale volume, including a reduction of closeouts and an increased penetration of e-commerce. We also benefited from the HOKA brand's growth and its corresponding increased mix of total company revenue.

Moving to SG&A, our dollar spend was $150.3 million, down 7% from last year's spend of $161.4 million. The decrease versus last year was driven by variable category reductions with the bulk of the year-over-year savings attributed to reduced travel and shifting a portion of marketing spend to later in the year. The combined effect of these items represent approximately $10 million of reduced operating expense in the quarter.

Income tax benefits were lower than last year due to a smaller net loss this year and a discrete tax charge in the current quarter, with last year benefiting from a one-time tax refund.

Our first quarter performance resulted in a loss per share of $0.28 as compared to last year's loss per share of $0.67. The $0.39 improvement versus last year was driven by: higher revenue mix of HOKA including benefits from a greater portion of DTC sales; higher revenue and profitability from our domestic UGG business as DTC performance was able to offset declines in wholesale; variable expense savings primarily related to travel and marketing with partial offsets coming from lower UGG international wholesale revenue, year-over-year declines in Teva and Sanuk, no tax benefit this year, and reduced interest income compared to the same period last year.

Our balance sheet continues to remain strong. And as of June 30, cash and equivalents were $662 million, up from $503 million at June 30 last year, and up from $649 million at March 31 of this year, making the first quarter net cash positive.

Inventory was down 8% to $435 million as compared to $473 million last year. Inventory levels were down partially as a result of the intentional phasing of later receipts in order to more closely align with the timing of anticipated demand as we move into later quarters.

And we had no material short-term borrowings under our existing credit lines, which have an available balance of $470 million. We did not repurchase any shares during the first quarter as we paused share repurchase activity, placing an emphasis on liquidity and cash management. Share repurchase activity remains paused for future periods, although we may commence future repurchase activity under our existing board authorization as management deems appropriate.

Finally, given the continued uncertainty caused by the COVID-19 pandemic, we will once again not be providing specific guidance for fiscal year 2021 at this time. However, I will reiterate the major themes of our business and briefly outline our management thinking.

We continue to approach fiscal year 2021 with expectations that total company revenue will decline year-over-year, though we believe HOKA will still experience growth, albeit at a lower rate than the brand's 37% increase in the first quarter.

The Fashion Lifestyle Group will face headwinds related to further international softness and additional wholesale cancellations. And as our wholesale business approaches our peak period and we begin shipping higher volumes of product, it will be increasingly difficult for our e-commerce business to compensate in the same proportion we saw in Q1 with the continued disruption of the retail landscape.

Our gross margins, while we saw a meaningful improvement in the first quarter, we don't anticipate these channel and brand mix dynamics to continue for the balance of fiscal 2021, as the wholesale and distributor proportion of the business will increase. And we may also see promotional pressure in the marketplace as we move into the peak holiday timeframe.

Expenses will continue to be managed tightly as we work to preserve liquidity, but we will use the success we are seeing to dial marketing up as appropriate to continue driving consumer engagement. And we will face higher costs related to distribution fulfillment as additional safety measures and higher labor costs will be incurred.

So, as we look at the remainder of the year, we recognize there will be continued challenges ahead resulting from the new realities created by the COVID-19 pandemic. We are managing through these challenges that include social distancing measures in place at our Moreno Valley and third-party logistics distribution centers. Our critical focus is on maintaining employee safety as we are addressing increasing demands on our fulfillment capabilities. This will ultimately result in the organization facing higher expenses to ship less product.

To help mitigate some of the workload impacts related to these challenges, we are partnering with wholesalers to potentially ship some product earlier, which could result in the cadence of revenue looking different than previous years. Additionally, given the ongoing economic pressure, we do not yet know how our core product will sell in this environment.

Consumer sentiment looms large as a tough variable to predict in this uncertain economic environment. With higher unemployment, uncertain government action and the potential for further shutdowns, we remain cautious in our approach to planning the UGG brand peak season. I'd also highlight that UGG is still facing brand heat challenges internationally, and our actions to reset the European marketplace will continue to be a drag on fiscal 2021 revenue.

With the first quarter now behind us, we are encouraged with our performance and are still in a position to play offense with our healthy and in-demand brands, but will remain diligent and course correct where necessary. As we stated on our May earnings call, the strategic approach we have outlined to manage our business through this pandemic is expected to result in short-term pressure on operating margins, but we maintain belief that this strategy will best enable our brands to emerge in a position of strength as we move beyond the pandemic.

Thank you. And I will now turn the call back to Dave for his closing remarks.

David Powers

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

Thanks, Steve. As I reflect on the quarter's performance, I remain encouraged by the power of our brands and their ability to capture consumer demand online. While myself and the management team are aware of the tough road ahead, we believe the foundation of our operating model provides our organization a unique opportunity to build market share as others are forced to take a more defensive approach.

We plan to build on the first quarter success of our e-commerce and digital platform to accelerate gains in the channel, continue fueling the HOKA brand's momentum and build awareness through digital engagement with consumers, protect the marketplace management progress we've made in UGG by leaning into key styles and converting newly acquired customers to repeat purchases, and stay true to the Deckers organization values by innovating and developing creative solutions to challenging marketplace conditions.

Our company brands and balance sheet are well-positioned to manage through this crisis. We will remain flexible to adapt to changing circumstances and make decisions in the best interest of our brands.

I'd also like to take a moment to recognize our longest tenured board member, John M. Gibbons, as he plans to retire in the current quarter. I want to thank John for his 20 years of service on our Board of Directors. John's contributions, including his time as our Chairman and his leadership of the Audit Committee, have helped build the successful organization that we have today. John's leadership will be missed, and I am thankful for his continued friendship.

As we make this announcement, John asked me to express his gratitude for the trust and support of Deckers' stakeholders throughout his many years of service to the organization. We wish John the best in his retirement.

Before handing off to the operator for Q&A, I'd like to acknowledge the social movement happening across the United States over the past few months. The foundational belief of the Deckers organization is Better Together.

Our core values compel the organization to take an active stance against racism, discrimination, and intolerance of any form. Deckers is an anti-racist organization, and we are actively taking steps to become better allies through continuous evaluation and improvement of internal practices, investments in education, and continuing to build a more inclusive workplace.

Thank you to all of our employees for their exceptional efforts and commitment to our strategies. On behalf of Deckers, I hope everyone stays healthy and safe. With that, I'll turn the call back over to the operator for Q&A. Operator?

QUESTION AND ANSWER SECTION

Operator: We will begin the question-and-answer session. [Operator Instructions] Our first question is from Camilo Lyon from BTIG. Go ahead.

Camilo Lyon
Analyst, BTIG LLC

Q

Thank you. Good morning – good afternoon, everyone. How are you?

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

A

Good. How are you doing?

Camilo Lyon
Analyst, BTIG LLC

Q

Doing well, thanks, doing well. So, thank you for all the detail, and nice job on the quarter in a tough environment. I guess I wanted to first focus on UGG. Last call, you talked about the mid-quarter performance, I believe was down mid-single-digits. You ended the quarter down 10%. And then you also talked about some forward shipments that were moved into this quarter it sounded like, as you're trying to alleviate some of the burden in your DC.

Could you just articulate a little bit more around what happened in the quarter? And if at all, that's influencing how retailers are viewing their fall/winter orders with you, particularly domestically in light of the backlog I think last time being flat.

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

A

Right. Yes. So Camilo, I'll take that one. I think as we look at what happened in Q1 and on the UGG business, we were down. And that was really driven largely by wholesale being closed for the good portion of the quarter. And so, we saw things really kind of ramp back up in the business in terms of what we were seeing and I think that's what led to delivering the quarter a little bit better than kind of where we were at, call it, mid-May. So, we finished the second half of the quarter a little bit stronger.

The reference that we're making in terms of the second quarter, which is typically a high wholesale sell-in quarter, the cadence of that quarter tends to be more back half Q2 loaded. So that's really when we see historically the wholesale accounts beginning to take their orders. We've been working with them to – in light of the social distancing and capability issues that we're going to have at our DCs – to take things earlier.

We're beginning to see some of that take hold. So in Q2, we're beginning to see some wholesalers give us signals they're taking product earlier. We expect that to kind of continue through the quarter. And that's where it changes the shape of the quarter a little bit. So we'll see how that – kind of how that plays out. It is all part of our strategy of taking some of the pressure off the peak period that will allow us to be more focused on fulfillment of our DTC channel as well as potentially if we're able to get follow-up orders on the wholesale.

So, still a work in progress, I think we've seen a strong start to the second quarter. We know this year looks different than last and we're just trying to smooth that out, where historically again, we see a lot of pressure on the back half of the quarter. We're trying to smooth some of that out to the earlier part of the quarter.

Camilo Lyon
Analyst, BTIG LLC

Q

Got it. That's really helpful. Thank you. And I guess the second question relates to really the expense management and the shifts on marketing. Similar sort of line of questioning, maybe if you can just highlight how much of that was marketing pushed out? My guess is that's probably going to be concentrated in the second quarter, the second fiscal quarter or maybe early third quarter. But just a sense as to what that is. And then from a higher level, the ability to take expenses down like this, is this something that you've realized that you have become more efficient with, that you can start to carry forward more going – as we go through the year, this year, next year and years beyond – to create a faster leverage point in the business model?

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

A

Yes, Camilo, I'll take that one. So a few things just on marketing. The first thing that was really encouraging for us is we found that our demand – the demand for our brands was very strong, particularly UGG and HOKA. And so we were able to actually pull back on some of the marketing spend as the demand for online business was already there.

A couple other things we did is we – due to the social distancing, there was a lot of creative work that we would normally do in Q1 that we just weren't able to do in this environment. But we did shift a lot of the marketing dollars to top of funnel and more PR-related and user-generated content.

So I think the teams have done a phenomenal job being flexible and agile and really managing the efficiency and the effectiveness in our marketing spend. And I think that was demonstrated pretty solidly in Q1 with their ability to shift, to be of the moment with the conversation that's going on amongst our consumers, to shift the marketing spend on a daily, sometimes hourly basis to maximize return. And then just be smart with where we're investing it, to make sure we're getting the spend and it's worth our time in Q1.

And what we found is there were some opportunities to keep that powder dry for later in the year, particularly Q2 and Q3, with the strength and the demand of our brands during this environment. So we're going to continue to use that as a lever to adjust spend and profitability as we go forward. But as we've said before, we are going to continue to use this opportunity to invest in our brands and drive the power of those brands and growth with the goal of creating more awareness, consideration and acquisition and also taking share.

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

A

And then just also, Camilo, on that point aside from the marketing, we indicated that a large portion of the savings in the quarter was related to travel. We'll be able to continue to save that kind of in the current environment, but it will be offset, as we talked about in the prepared remarks, with increased costs related to our fulfillment and DC costs. So you're going to see, as Dave said, increases in Q2, Q3 related to marketing as we invest in that and redeploy some of those Q1 dollars. We'll see higher costs related to fulfillment and distribution center costs and we'll have some savings related to reduced travel.

Camilo Lyon
Analyst, BTIG LLC

Q

Okay. So overall, we should expect to continue to see SG&A dollar growth for the balance of the year?

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

A

I think that's a fair way to probably look at it.

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

A

Yeah, in line with the business trends, but we do have the ability in certain areas to flex depending on the business trend. But the one thing we do need to make sure we spend is on the DC to be able to deliver product to our customers and to our accounts.

Camilo Lyon
Analyst, BTIG LLC

Q

Got it. And then just a follow-up on my first question, I don't know if it was addressed. Just was there any change to the order book as time unfolded since the last call and stores reopened and your wholesale partners got a little bit better sense of demands, not only in their own stores or on their online channels, but demand for your brand?

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

A

Yeah. So I would say, Camilo, first, the demand for the brand still remains very strong. We have seen some cancellations as people are getting back to business and seeing selling conditions, we indicated that we expected to see some and we have seen that. So, no surprises. The brands are still strong. We have seen some cancellations which we expected.

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

A

Yeah, and just one other thing to be aware of is a lot of our partners sold through a lot of the inventory in their stores. So, folks that had omni-channel capabilities where they could ship from store, they depleted those store inventories. But since they've been slow to reopen those stores and some of them not opened at all yet, they haven't had to refill the inventory at a store level. They're maintaining, obviously their e-commerce business. But that's another dynamic that we're going to have to keep a close eye on as we move through the quarter.

Camilo Lyon
Analyst, BTIG LLC
Q

Got it. Thanks very much, guys. Good luck.

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

Thanks, Camilo.

Operator: Our next question is from Jonathan Komp from Baird. Go ahead.

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

Yeah. Hi, thank you. I wanted to start there first on inventory just to follow up. I want to ask about how you're feeling about the inventory levels across the product lines for UGG and HOKA. UGG maybe looks like a few areas online that are light today. And just as a follow-up to the order dynamic, are you seeing retailers trying to shift some of the risk back to you in terms of hoping to chase business later in the year? Just any color there would be helpful.

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

Yeah. Sure, Jon. As we look at inventory, clearly we're pleased with an 8% kind of reduction coming from UGG, and that's really, as you said, kind of driven by the strong performance that we've seen online. So, product resonating with consumers and selling through very well online. We have increases in HOKA as that brand continues to grow very rapidly. We want to make sure we have inventory to support the growing level of sales. So, we've seen an increase in inventory related to the HOKA brand.

With UGG, kind of in reference of where you're seeing some products thin, this year, what we have done is intentionally shift more product to later. Last year, we were receiving product earlier. So from a timing perspective, we're going to see inventory coming in a little bit later this year versus last year. That's contributing to the improvement and lower inventory that we're seeing this year.

So from an overall inventory position, we're comfortable with where we're at. We've got inventory to support the level of sales that we're delivering. And it's making sure we're bringing product in where we see that pickup in sales. So that's been an area of focus, and in cases, we are bringing more inventory in to support the level of online sales that we've been seeing. So, feel good about where we're at and we're continuing to manage it very closely.

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

Yes. And then just to add in on the wholesalers shifting risk to us. I mean, we are seeing a bigger demand in drop ship, and that's something we're evaluating closely from a cost and effectiveness perspective. And then wholesalers are also cautious, so they're making sure that they're only bringing in inventory if and when they need it. Certainly, UGG and HOKA and even Teva are strong brands in their portfolios, and there's still a lot of demand. But they are being more cautious overall in managing their inventory levels between stores and warehouse for e-commerce.

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

A

Yes. And related to that, Jon, just on that, too, as we talked about, again, in the prepared remarks, we're working with wholesale accounts. So to your point, yes, some would like to defer. But given the current environment that we're operating and limited capabilities that we potentially have at DCs, we are encouraging wholesalers to take that product earlier because it will be hard – if they try to push it off to our peak period and we're fulfilling direct-to-consumer sales at the same time – it's going to be hard to do that. So, we're working with them. We're getting positive, I would say, response in terms of a willingness to actually take some product earlier this year.

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

Q

Okay, great. And then, maybe more of a product focus for the second half of the calendar year here. Just curious first on UGG, the core book business. Dave, if you have any thoughts to share on headwinds or tailwinds that you see as you look at the business, and then more broadly for UGG and HOKA, just some of the extensions more towards lifestyle that you've talked about in the past on the apparel side. Could you just give an update on plans for both of those and what you're expecting?

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

A

Yes, happy to. It's really interesting to see the shift in categories within the UGG brand. And traditionally as you all know, we've been traditionally heavily reliant on the core franchise and obviously this time of year, the business is smaller and particularly driven by core.

So we've seen a significant shift with the phenomenon of the Fluff franchise. I do think that UGG has somewhat created this slipper/sandal hybrid category that we're seeing tremendous success in. We're going to continue to drive that. We're chasing inventory in colors, there's an incredible amount of new product – iterations and colors – continuing to drop throughout the quarter. We're expanding that into spring and summer next year. So, that is a category that we're going to go after it aggressively and continue to dominate in that category.

And what's great about it is, we're seeing a younger, more diverse consumer adopting that category, particularly online. So, that's very encouraging. As you know, we've been working at spring and summer for some time now. We now have an ownable position in there that's resonating, particularly in the U.S., and starting to gain legs in international.

The classics business is still important. What we have done with the back half of the year is reduced inventory in things like fashion boots. We're still expecting people to be working from home and going out less and more reliant on comfort at home. We do think that work for home will have a probably – could have, I should say – a positive impact on the classics business, that people are more casual and they just want to get outside. But we're continuing to manage the mix of categories and inventory and feel really good about the trends that you're starting to see within these new developing categories.

As far as Lifestyle, actually both HOKA and UGG did have good sell-through of their Lifestyle product in this quarter, although, both are very, very small for us this time of year. But we're encouraged by what we saw in HOKA with the catalog drop and the reaction to that and some of the products online. So there's a good sign of opportunity there for the HOKA brand.

And then we have a significant -our most significant launch, I would say, ever – this fall for UGG with some new product that we think is going to be pretty exciting and compelling. And you'll see that in partnership with Nordstrom and select doors, in our flagship store that we'll be opening in the tail end of the calendar year on Fifth Avenue, and certainly on our e-commerce site.

So, this year is only about test the waters, see what kind of reaction we get from some of the new products in Lifestyle for both HOKA and UGG, and then ramp up from there. But so far, we're optimistic about the potential and what we're seeing in the reaction to the consumer.

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

Okay. That's really helpful. Thank you.

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

You bet.

Operator: Our next question is from Tom Nikic from Wells Fargo. Go ahead.

Tom Nikic
Analyst, Wells Fargo Securities LLC
Q

Hey. Good afternoon, guys. Thanks for taking my question.

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

Hi, Tom.

Tom Nikic
Analyst, Wells Fargo Securities LLC
Q

I wanted to ask about HOKA. You said that you would expect the growth for the balance of the year to be slower than what you saw in Q1, which sounds a little counter-intuitive, given the pandemic impact in Q1. And I would think that in a – more normal wholesale environment – you'd be able to do better with wholesale for the balance of the year. So is there any particular reason why you would think that HOKA would slow? And then also, just I want to ask about the test with DICK'S Sporting Goods and how that's going so far?

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

Yeah. So, I think at this point, we're very pleased, obviously, with the results of HOKA this quarter – performed better than we expected back in May when we were talking about it. The success of the HOKA ecosystem, which we call it, which is really about balancing strategic access points for our consumer with key accounts and staying focused on a reduced or tight distribution at wholesale and then really leveraging that to create awareness and excitement, but ultimately driving consumers to our website that we can cultivate for the long term.

We're going to continue on that trend. I think, what you see in the rest of the year is reflected in how we've talked about it, is just the uncertainty that we see out in the environment with regards to wholesale. I still think we can drive excitement and revenue in e-commerce. But on a global scale, the wholesale is still the area that we're still cautious about.

The brand has also delayed a couple of the product launches and – to make sure that we can execute and keep the marketplace clean due to some of the store closures and wholesale. That's serving us well. So, we're still optimistic. We're still planning on having a growth year, but we're just being a little bit cautious with the uncertainty on how things are going to pan out in the back half of the year for that brand. But still certainly, a strong, important brand for our wholesalers, those that can open stores and have an online business, but continuing to drive the e-commerce business as a priority.

With regards to DICK'S, it's going very well. It's in about 11 stores right now. That's one we're taking a slow cautious approach with. We want to focus on high sell-throughs, quality sales with that partner. And again, it's something we're going to continue to evaluate, but it's off to a good start. DICK'S is happy, we're happy, and we'll evaluate that within the mix of the ecosystem going forward.

Tom Nikic
Analyst, Wells Fargo Securities LLC
Q

Sounds good. Thanks very much and best of luck for the rest of the year.

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

You bet. Thanks, Tom.

Operator: Our next question is from Sam Poser from Susquehanna. Go ahead.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

Good afternoon. Thanks for taking my questions. I hope everybody's great. A couple of things, one, can you give us – you mentioned it with UGG – can you give us the wholesale or the direct-to-consumer, year-over-year increase by brand, please, for the quarter? And then I have a couple more.

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

The wholesale – you said the UGG brand...

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

You gave us the UGG wholesale, you gave us the wholesale increase in your prepared remarks. Could you give us the wholesale revenue increase for the balance of the brand?

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

Non-UGG brands is what you're asking for?

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

Right. For Teva, HOKA, Sanuk and the other and other, yes.

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

A

Yes, sure. So HOKA was up 10% on the wholesale. Teva on wholesale was down 30%, right. Sanuk was down wholesale 50%. And other brands was small, I mean, it's nothing, small dollars.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Okay. Thank you. And then, can you give us a little more color on this UGG shipping shift? And are you – and in order to get the retailer, are you having them take not only goods earlier in the quarter, but are you trying to have them shift some receipts from Q3 into Q2 as well? And are you working with them by giving them extended dating on that product in order so they go with it?

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

A

Yes. Yes. So what we're – kind of yes to all the above. What we're doing is within the quarter, we're trying to move things earlier, right, which we're working on and seeing some progress on that front. Additionally, as we get into Q3, we're encouraging them to look at taking deliveries in Q2. That's still a work in progress. We're continuing to work on that.

And where we're seeing a willingness to take product earlier, we're working with them to help facilitate that. So – and it really kind of depends on the circumstances and the customers but where we can get them to take it earlier, we're definitely willing to provide and work with them in accommodating that.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

So, if we think about the two quarters separately for UGG wholesale from a – like from a year-over-year basis, do you expect Q3 to be like better – like I mean, down because of the shifting down less than Q4 or up less, or however, you want to look at it, then I mean, or sorry, Q2 up less than Q3 or not? How should we think about that sort of between quarters without telling us – you don't want to guide, so – but I mean should we think about Q2 on a year-over-year basis being better than Q3 or vice versa?

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

A

Yes. So, again, looking at the quarters, I think without giving guidance, just how we're looking at it because we don't yet know how much traction we're going to get in terms of how much of that product may shift out of Q3, Q2. Ideally, what we would like to see is more product than, say what you saw a year ago, kind of coming into Q2, which would be then lower for that business Q3, so that October through December quarter. The more we could get moved into Q2, our September ending quarter, we would like to do.

We don't know how successful we're going to be at that. Clearly, wholesale customers want their product. We would like them to get it and make sure that they have it and they're ready for the selling season. So, I can't answer that question. That's why we're – part of the reason we're not giving guidance – but we are trying to move more of that Q3 wholesale into Q2 where we can.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

And two more things, that's, one, because you want to make sure you can handle the direct-to-consumer during the holiday, number one. That's number one. And two on a separate issue, can you – where are you on chasing that very strong slipper and slide business with UGGs right now? And just where are you with that? Because I hear the demand is – you also talked about the demand there being very good.

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

A

Yes. So just a couple of things on that, Sam. I can't underscore enough the importance of us focusing our Q3 DC efforts on our e-commerce business. The spike that we expect to get in e-commerce in a short period of time, the last call it, six to eight weeks of the calendar year is going to be intense. And with social distancing challenges in our DCs, we really need to get as many wholesale orders out as soon as we can.

So, we're hopeful that our partners will be supportive of that, and we're seeing some success there. But this is such a hard year to call with regards to timing and what's going to happen in the quarter. So, we're doing everything we can to make sure that that happens. But we're really trying to make sure that we're ready and able to service the e-commerce business in that peak period because it's so critical and a lot of handling on the individual orders.

With regards to the Fluff franchise, I'd say we're in pretty good shape. We were bullish on this from an order perspective. We've been supporting this category, shifting inventory and our buys from our categories into this. As well as I said, there's a lot of newness coming in drops that will help fuel the excitement and demand. So, we do feel good about our position on that. Certainly, the demand is very high, and that's super exciting and we see that continuing, not just in Q2 and Q3, but also into Q4 as well.

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, Sam.

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

A

Thanks, Sam.

Operator: Our next question is from Jay Sole from UBS. Go ahead.

Jay Sole
Analyst, UBS Securities LLC

Q

Great. Thank you so much. Dave, I wanted to ask you about HOKA. You mentioned you were pleased with some of the growth you saw in Europe. And some of the storytelling there was sort of a factor in that. Can you just tell us a little bit about those stories you're telling and given the size of HOKA in Europe now, and what you see the prospects are for future growth going forward?

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

A

Yes. Essentially, what we're seeing in Europe is a few things. One is, we do have an emerging and strong e-commerce business there, but it's still small. And in comparison to the US, e-commerce internationally is something that we're focusing on and really trying to build. The growth percentages there are very strong, but it's still smaller as a total business.

We did mention distributors in the script. We have a very strong distributor in the northern part of Europe, and they've been less affected by the COVID situation, so their orders are still strong and helping in the quarter.

But the brand is certainly resonating. We launched the Clifton Edge this last month. Europe was very successful with that launch and there was great demand for that product over there. But essentially what you're seeing, globally really not just Europe, is executing on a playbook that the brand has put together. And what that really is, is reaching a diverse consumer through real-life stories of our users. And so, we're championing individual athletes who are making bold statements in the world and in their lives and using HOKA to improve and change their lives. And we're letting them tell their stories, and we're partnering with people who do that for us.

And so, that's creating a great level of awareness across a broad range of consumers and tapping into an emotional connection that is really powerful. And we've said from day one, we'll let the consumers speak about the product and let them talk about how it's affecting their lives and the performance of it. And that's the formula that is resonating.

So, we're continuing to do that with Humans of HOKA, storytelling, tapping into the virtual IRONMAN and some of our athletes, and leveraging even some of the smaller running groups on a local basis, to use their content and their storytelling to really spread the word of the brand and create the authentic and meaningful connection with the consumer that we're seeing.

Jay Sole
Analyst, UBS Securities LLC

Q

Got it. Thank you so much.

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

A

You bet.

Operator: Our next question is from Paul Lejuez from Citi Research. Go ahead.

Paul Lejuez
Analyst, Citigroup Global Markets, Inc.

Q

Hey, guys, Paul Lejuez. Two questions, one, I guess can you talk a little bit about the state of HOKA inventory within the specialty channel and how your retail partners have been able to sell-through product as their stores have reopened?

And then second, you did mention that you expect further challenges as a result of COVID. Are there any that did not show up in 1Q that you're already seeing in 2Q in terms of challenges or was that more of a general statement being cautious? Thanks.

David Powers

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

A

Yeah. I'll take the second one first. I think some of the challenges that we thought we would see, we didn't necessarily see it. And I think what we are seeing – we talked about this in the script is – I would call it, there's an acceleration to the Fluff franchise and HOKA and also Teva from the work in home – work-from-home environment – where people either from UGG perspective want to be comfortable and are seeking out footwear that is comfortable, but still stylish. But also, they're trying to get outdoors and be healthy again, whether that's running or whether that's hiking or camping or going on family trips in national parks.

This has been an accelerator, I think, for both HOKA and Teva at the same time as UGG. So, that's a dynamic that we saw emerging, but it's proved to be a lot more powerful than we thought. And so, I definitely think we're benefiting from that. But certainly, if we didn't have the product that the brand's created and the innovation that we put into the marketplace along with the emotional connection and the marketing, we wouldn't be able to capitalize on that.

So I think the brands have done a phenomenal job of taking advantage of the situation, being sensitive to the moment and connecting with consumers on an authentic and personal level, and driving the health of the brands.

As far as HOKA inventory in the channel, early on, the HOKA team did a great job of pushing out deliveries, so that the wholesale partners could sell-through existing inventories. They wouldn't get stuck with it. And they have been very focused on executing a clean marketplace, high full-price sell-through, very little liquidation in the marketplace. And that is continuing. And I would say, the wholesale inventory situation for HOKA, as well as our other brands as well, are very strong, very healthy and not a lot of markdowns. But again, we're cautious going forward because we think the environment is still going to be very uncertain. But right now as it stands, the marketplace wholesale inventory is healthy and strong.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yes. And I think, Paul, also just to add on to that, I think kind of what we're talking about, too, keep in mind the significant increase in volumes that we're starting to talk about. So, one difference between Q1and kind of later Q2 and Q3, we start getting into significantly higher volumes. And so that's where we want to make sure we're in a position to be able to fulfill. So, when you hear us kind of all the things that we're trying to do is trying to mitigate some of that peak demand period and reducing the load on our DCs.

Paul Lejuez

Analyst, Citigroup Global Markets, Inc.

Q

Got it. Thanks.

David Powers

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

A

Yes. I was going to say, that's our biggest challenge for sure. And then, the other thing to just keep in mind that's important for everybody to understand is this mix of this quarter versus the rest of the year. It's going to be very different. So it's not only a very different quarter, the whole year and the mix of business and how – and the cadence and flow of it is going to be something that we haven't seen before. But we're feeling good about how we're able to manage through that.

Paul Lejuez
Analyst, Citigroup Global Markets, Inc.

Q

Got it. Thank you, guys. Good luck

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

A

All right. Thank you.

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

A

Thanks, Paul.

Operator: Our next question is from Jim Duffy from Stifel. Go ahead.

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

Q

Thank you. A few questions for me. First, on the topic of e-commerce business and the social distancing protocols complicating the operations, what are some of the other things you guys are doing to help [ph] throughput (1:00:38) capacity as you get into that peak season? And I'm curious does it make sense to incentivize consumers to purchase earlier as well?

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

A

Yes. We're – the supply chain teams have done an exceptional job at managing not only the flow of product from a production standpoint, but also working with our partners and the sales teams on DC bypass. So the increase that we're seeing in DC bypass versus last year has been significant and meaningful, so that's been super helpful. Partners are willing in some cases and have shown to be able to take some inventory earlier. And so those are the tactics that we're using.

As far as incentivizing consumers to shop earlier, I think with new introductions of product, they're doing that. And I think when we get into kind of core classics business that is real business driver in Q2 and Q3, we can look at that, but we certainly don't want to get promotional or do incentives that are going to damage the brand or margins at the sake of getting people to shop earlier. But I think we'll get creative around it and just use the effective marketing and PR tools that we've developed to be able to drive excitement at the right times and try to get people to shop a little earlier.

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

Q

Thanks. And I also wanted to ask a question on HOKA and global reach. It sounds like growth has been very strong with international distributors. Historically, international has been about half the global pairs. Are the international pairs now higher than the U.S.? And then, how do you split the mix for the HOKA brand of international between Europe and other regions?

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

A

Yes. So from a unit perspective – I think where you're trying to go, Jim – is we're probably looking at equivalent units, right, but we have higher dollar revenue in the U.S. because of the distribution channels that we're using versus distributors internationally. We are seeing growth in both. So, the international growth is coming on strong as units are catching up to what we're doing in the U.S.

And then the second part of your question again was?

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

The mix of the international business that's from Europe versus other regions.

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

Yeah. So, Europe is definitely our strongest international region for HOKA. Japan, smaller market, doing very well and really just starting to get into China. So, Europe, by far, on the international front, biggest and most mature, but still growing very rapidly.

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

Thank you.

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

Thanks, Jim.

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