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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 2021 earnings conference call. At this time, all participants will in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. [Operator Instructions] I would like to remind everyone that this conference call is being recorded.

I'll now turn the call over to Erinn Kohler, VP, Investor Relations and 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 facts are forward-looking statements and include statements regarding changes in consumer behavior; strength of our brands and demand for our products; changes to our product allocation, segmentation and distribution strategies; changes to our marketing plans and strategies; changes to our capital allocation strategies;

the impact of the COVID-19 pandemic on our business, our anticipated revenues, brand performance, product mix, gross margins, expenses and 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 the Risk Factors section of its annual report on Form 10-K and quarterly reports on Form 10-Q. Except as required by law or the listing rules of the New York Stock Exchange, the company expressly disclaims any intent or obligation to update any forward-looking statements.

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

David Powers

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

Thanks, Erinn. Good afternoon, everyone, and thank you for joining us today. Before diving into the business, I'd like to express my gratitude for the progress towards ending the pandemic's toll in the United States.

However, countries around the world are still struggling with dangerous outbreaks. Many of our employees have friends and family members that are currently being impacted by the devastating COVID-19 surge within India, Nepal and other South Asian countries. Our hearts go out to everyone who has been affected by this pandemic over the past year and a half. And on behalf of Deckers, I wish for everyone's health and safety moving forward.

As I reflect on this past year, I am continually impressed by the tenacity and resiliency of the Deckers organization and the dedication demonstrated by our teams as they continue to deliver exceptional results. FY 2021 results were driven by the exceptional brand and marketplace management of our leaders but also by the global operations, retail and supply chain teams who allowed us to fulfill the demand for our brands. By continuing to be aggressive with HOKA globally and capturing the opportunity in UGG, we were able to exceed expectations in a challenging environment and have accelerated the pace of growth for our brands.

Today I'm excited to share the results of a record-breaking year for Deckers. We saw a strong finish to fiscal 2021 with full year revenue increasing 19% versus last year to over \$2.5 billion and earnings per share increasing 40% to \$13.47. FY 2021 performance was driven by expanded awareness and adoption of HOKA around the world as more consumers experienced the benefits of the brand's innovative products, consumers actively seeking UGG for its unique combination of fashion appeal and the unmistakable feeling of the brand, best-in-class e-commerce capabilities that enabled consumer acquisition in a disrupted physical retail environment, strategic prioritization of brand strength and demand creation through disciplined marketplace management and the grit of our employees who overcame significant macro challenges and operational pressures to deliver exceptional results.

Many of these items that drove performance during the year were the results of our long-term strategies that remain top of mind as we transition into fiscal 2022 and beyond. As a reminder, these include accelerating consumer adoption of the HOKA brand globally, building UGG as a year-round global lifestyle brand through our diverse product offering, executing our digital first approach by growing direct-to-consumer acquisition and retention online with a specific focus on gaining closet space with 18 to 34 year old consumers, tailoring distribution strategies unique to each of our brands in order to properly balance brand health in conjunction with sustainable growth which includes the recent reset activities for the UGG brand internationally, and focusing

spend behind these key initiatives to drive optimal returns on investment while maintaining top tier levels of profitability.

While we believe that remaining committed to our long-term strategies was the primary enabler of our success this year, Deckers also uniquely benefited from certain circumstances resulting from the pandemic. Fiscal 2021 revenue exceeded our pre-pandemic expectations as we saw an acceleration of certain growth opportunities. With brands scaling faster than previously anticipated, we now need to accelerate critical investments to scale our supply chain and logistics infrastructure as well as bolster our teams with additional talent to prepare for emerging opportunities. Fiscal 2022 will be another positive step in the evolution of Deckers Brands as we strategically invest behind core infrastructure needs and seed opportunities that will enable sustainable long-term revenue and earnings growth.

Over the long term, we're investing in major drivers of our business, including building HOKA to a \$1 billion plus global performance brand that represents a significant portion of total company revenue, driving our direct-to-consumer business towards 50% of our global revenues, scaling international markets across brands and seeding opportunities beyond footwear. Steve will provide more details on these investments as well as our forward-looking revenue and margin expectations later in the call. In the meantime, I will share some details around fiscal 2021 performance at the brand and channel levels as well as provide some context around fiscal 2022 building blocks.

Starting with the brand highlights. Global UGG fiscal 2021 revenue increased 13% versus last year to \$1.717 billion. The brand's success in FY 2021 was primarily due to US consumers actively seeking UGG products all year long with search interest increasing 27% over fiscal 2020 according to Google Trends, which led to accelerated consumer acquisition online as the brand added over 2.5 million new consumers to its global e-commerce database and captured the critical 18 to 34 year aged consumer in the US, which increased 83% to the elevated fashion appeal of the brand.

And lastly, more consumers purchased multiple UGG products than ever before as the brand saw an 85% increase in consumers purchasing two or more products during the year. We believe much of the brand heat that created momentum for UGG in the US resulted from the brand's strategically managed distribution network, authentic PR activations, fashion collaborations, targeted digital marketing and a compelling product offering that has expanded the fashion relevance of UGG brand DNA across new categories.

As evidence of the UGG brand's success with a diversified assortment, fiscal 2021 product performance was driven by the expansion of the Fluff franchise as the brand drove demand to both the original Fluff Yeah as well as complementary styles with similar slipper/sandal hybrid attributes, increased adoption of the Neumel franchise among men, women and kids, the introduction of the Ultra Mini and Classic Clear boots, which were particularly popular with younger consumers, development of the Tasman into a fashion slipper/sneaker as UGG featured the style in a number of recent collaborations helping to raise the hybrid style's profile, the brand's first ever ready-to-wear apparel collection which featured fashionable sportswear and outerwear pieces and heritage slippers having greater year-round relevancy as many people were working from home and seeking the comfort of what we've referred to as the feeling of UGG.

These styles that drove UGG growth this year made up the majority of both the brand's top 10 styles purchased by acquired consumers as well as the top 10 styles purchased by consumers 18 to 34 years old. While women remain the primary purchasers of UGG products, the brand's mix of gender continues to shift towards men's and kids' products. Part of this shift is due to many consumers purchasing UGG for the whole family.

In the US, as compared to last year, UGG experienced an 88% increase in DTC revenue from orders containing both men's and women's product and a 117% increase in orders containing both kids and women's product. With more purchasing for the whole family, both men's and kids' footwear increased as a percentage of total UGG brand business.

While the US business has been driving UGG category diversification over the past few years, we have been encouraged by the adoption of new categories within international regions over the last year as well, such as the Ultra Mini which was a top five style in its introductory season, the Classic Clear which was ranked second new style in terms of dollar volume, Fluff franchise volume was 2.5 times larger than last year and sneakers were a standout in our Asia-Pacific region.

Improvements in new category adoption are largely attributable to localized marketing activations meant to build UGG brand heat internationally and attract younger consumers to the brand. Our targeted digital marketing efforts are paying off as UGG experienced a significant increase in e-commerce traffic from visitors aged 18 to 34 in both the UK and China during FY 2021. These early indicators of success and our plan to further invest behind localized marketing tactics give us confidence that UGG will rebound and return to growth in the brand's international markets during fiscal 2022.

UGG has a difficult task ahead in lapping a record year where we benefited from the pandemic driving greater attention to the brand. However, with our planned investments in demand creation, we have confidence the brand can drive top line revenue growth in fiscal 2022 by fulfilling wholesale demand as we reset the marketplace with fill-in product and satisfy some of the missed opportunities in fiscal 2021 due to inventory shortages, maintaining momentum with the younger consumers around the world and driving repeat purchases from consumers new to the brand in FY 2021, recovering lost volume in EMEA with the goal of lapping fiscal 2020 revenues and maximizing demand capture through DTC, increasing local investments in China to elevate the brand and accelerate revenue growth, all while working to lap growth on heritage slipper products that benefited from the pandemic.

Shifting attention to HOKA. Global revenue in fiscal 2021 increased 62% versus last year to \$571 million. The growth of HOKA over the past year was a testament to the brand's methodical approach to managing a consistent brand message and introducing innovative products that resonate across the global distribution landscape.

HOKA continues to exhibit balanced growth across its ecosystem of access points with every region and channel of distribution increasing volume above last year. The increasing scale of HOKA is undeniably impressive. But even more importantly, the brand is growing in the right way and making meaningful progress towards strategic initiatives.

In a year of uncertainty, HOKA initially doubled down on key franchises with the goal of amplifying hero styles to bring new consumers to the brand. As these styles drove consumer acquisition, HOKA was successful in driving more repeat purchases in alternate products. This is the result of the HOKA team's development of innovative products built for speed such as the Carbon X 2 and Mach 4, the outdoors with the Speedgoat and Challenger for trail running and the Kaha for hiking and recovery featuring the ORA flip flops and slides.

In addition to providing great products for all athletes, HOKA has also created meaningful partnerships to build the lifestyle relevance of its performance products. One such partnership includes the brand's recent launch with Free People, which helps expose HOKA products to consumers who may not otherwise discover the brand.

This is not meant to signal a shift towards fashion for the HOKA brand but rather the brand embracing the fashionable attributes of its performance products and gaining an audience of younger consumers. In addition to targeting youth wholesale distribution, the HOKA DTC team prioritize digital spend on platforms where younger consumers are spending time and discovering brands online.

The brand has also been working to create a seamless replenishment experience for consumers who may have discovered HOKA elsewhere. Through these efforts, HOKA was able to increase 18 to 34 year old consumer acquisition online by 156% as compared to last year. We believe the HOKA brand's commitment to building a more diverse outdoor community by including underrepresented groups in 60% of marketing content is resonating well with younger consumers.

HOKA is winning with a combination of disruptive product innovation, emotionally connected inclusive marketing and a consistent consumer experience based on the quality of the brand's products and ecosystem of access points.

From a regional standpoint, both domestic and international posted impressive gains in fiscal 2021. But the international revenue growth rate was able to outpace domestic off a lower base. As we've spoken about in prior earnings calls, the mix of international unit to the global total continues to move towards the 50:50 split. But revenue is more favored towards domestic because of the use of distributors internationally.

In FY 2021, distributors drove the largest proportion of international HOKA revenue growth, greater than both wholesale and direct-to-consumer channels. We see this as both a positive reflection of HOKA's distributors' ability to scale the brand as well as an opportunity for global growth as we continue to strategically evolve our distribution of the brand around the world.

Looking ahead to fiscal 2022, we anticipate HOKA growth will continue at a rapid pace driven by acquiring new consumers by building brand awareness, retaining existing consumers with product and category innovation, gaining market share with wholesale partners, building global brand presence through a return of in-person event sponsorship, focusing on key markets in Europe such as Germany and the UK and increasing the frequency of product drops to maintain excitement with consumers.

In addition, as we invest for the longer term, we are earmarking investment in China for the HOKA brand to build a meaningful presence in that region. This includes building a team local to the market and creating a retail presence for the HOKA brand.

Turning to Teva, despite relatively flat revenue of \$139 million, Teva made productive strides towards the future, as the brand invested behind the Universal franchise, which experienced strong growth versus last year, increased the penetration of DTC to the total brand by 10 percentage points, nearly doubled direct-to-consumer acquisition year over year, strengthened partnerships with strategic wholesale accounts, contributed incremental profitability to Deckers' bottom line, and made further enhancement towards sustainability goals. Looking ahead, Teva is focused on being a leader in sustainability, building year-round innovative product for the modern outdoor consumer, taking market share in the closed-toe space with the brand's Ember franchise, building on DTC consumer acquisition, and maintaining a high proportion of 18 to 34 year old consumers.

Moving to Koolaburra, global revenue in fiscal 2021 increased 9% versus last year to \$76 million. Performance this year was influenced by conservative ordering at the onset of the pandemic, as we chose to reduce inventory purchases in strategic areas of the brand portfolio. Based on high levels of consumer demand, Koolaburra

experienced both top line revenue growth and record profitability despite scarce product availability and disruptions in the wholesale family value channel.

For the year ahead, we expect Koolaburra to continue building market share with existing wholesale partners through door count expansion, build on the direct-to-consumer momentum experienced in fiscal 2021 as the brand more than doubled consumer acquisition compared to the prior year, further diversify the assortment through the growth of men's product and women's non-boot categories, which experienced outsized growth this year, and expand the brand's lifestyle appeal through license opportunities with new product adjacencies.

And finally, Sanuk revenue in fiscal 2021 declined to \$42 million. Over the last year, the Sanuk team made great progress to right-size the brand's distribution, focusing on wholesale channel leaders and own direct-to-consumer. Through this process, the brand implemented a product segmentation and exclusive strategy, tailoring the consumer experience for each unique access point. With an optimized marketplace, we believe Sanuk has the opportunity to build on its loyal consumer base through innovation in comfort and sustainability and continue as a positive contributor to our total company bottom line.

With respect to channel performance in fiscal 2021, the strength of e-commerce drove DTC to increase 45% over the prior year, helping improve our mix of DTC revenue to 42%, up from 35% last year. Every brand in our portfolio experienced growth through the direct-to-consumer channel across both domestic and international regions. Global consumer acquisition online, which increased 88% over last year, was the primary driver of DTC performance in fiscal 2021. This was partially offset by a decline in retail traffic that resulted from macro pandemic pressures.

Despite the reduction in consumer traffic to stores, people were shopping with the intent to purchase, as we saw a 30% increase in conversion. We believe this higher rate of purchase conversion can be attributed to improved omnichannel capabilities, including buy online, pickup in store, mobile POS systems, and curbside pickup, which helped provide a more seamless experience at our stores. A huge thank you to our store employees who made consumer safety and a positive experience a top priority amidst difficult circumstances.

Global wholesale revenue in fiscal year 2021 increased 6% as compared to last year. Wholesale growth was driven by the global expansion of HOKA, with offsets from international UGG as well as global reductions in Teva and Sanuk. UGG experienced strength in domestic wholesale that was more than offset by an international decline, which was due to a combination of marketplace reset initiatives and macro pressures from the pandemic. We see a path for international UGG wholesale to return to growth in fiscal 2022, helping to drive strength in global wholesale moving forward.

Before I hand off the call to Steve, I wanted to take a moment to highlight some of our brands' recent activities on the sustainability front, which we believe is having a positive impact on consumers' passion for our brands. Here at Deckers, we believe doing good is core to doing well and we intend to continue leading in this space.

Over the past few months, UGG announced Earth Day commitments, which highlighted the brand's commitment to regenerative farming. UGG introduced its first ever Plant Power Collection, which features carbon-neutral plant-based materials. Teva launched its TevaForever program, where consumers are now able to recycle old sandals that will be reborn into new things such as playgrounds or running tracks. Sanuk introduced a limited edition collaboration with the Surfrider Foundation using environmentally friendly materials, with proceeds benefiting Surfrider's mission to protect clean water and maintain healthy beaches.

And we held our second Art of Kindness event, which is a weeklong global giving initiative that encourages our employees across the globe to volunteer time towards causes helping others. This second Art of Kindness event included over 3,800 volunteer hours, and we were able to double employee participation from last year's event. A huge thank you to all employees who participated and helped to make a positive impact around the world. Our brands and our company are committed to giving back and doing business in the right way, and we look forward to pushing further progress in sustainability and service over the next year and beyond.

With that, I'll hand the call over to Steve to provide further details on our fiscal 2021 financial results as well as our initial outlook on fiscal 2022. Steve?

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

Thanks, Dave, and good afternoon, everyone.

As Dave just covered, fiscal year 2021 was an outstanding year for the Deckers organization, reaching a number of new milestones as we saw accelerated demand for our brands. The performance of our brands over the last year was enabled by the key long-term strategies we've been investing behind that have helped transform Deckers into a digitally led organization with a portfolio of brands that are in demand and have further opportunity to grow.

While our strategies provided the solid foundation for the organization to perform well, we acknowledge that this past year has been full of unique circumstances that have helped put a spotlight on our brands, in particular with the UGG brand, which was able to drive growth well beyond our pre-pandemic expectations. On the other hand, HOKA was able to overcome supply chain challenges in a disrupted wholesale marketplace to maintain the accelerated growth trajectory the brand has been experiencing prior to the pandemic.

With total company top line growth accelerating faster than our ability to keep pace with investment, we acknowledge there is work ahead of us to realign infrastructure needs to our evolving organization. I'll provide more detail on these planned investments later in the call, but first let's get to our fourth quarter and fiscal year 2021 results.

Revenue for the fourth quarter was \$561 million, up 50% versus the prior year, with the primary drivers of growth being UGG and HOKA. More specifically, growth in UGG was driven by strength in classic boots, winter boots, and spring Fluff product, while also benefiting from lapping last year's disruption of wholesale shipments as well as retail stores closures in the final two weeks of March. Continued exceptional performance with HOKA helped the brand deliver a quarterly revenue record, increasing 74% versus the prior year to \$178 million, as we continued to see strong brand momentum and incredible consumer adoption.

Gross margin for the quarter was 53.2%, a 170 basis point improvement, driven by improved full price selling, a higher proportion of DTC business, and favorable foreign currency exchange rates, partially offset by increased freight and transportation costs.

SG&A for the quarter was \$244 million or 43.5% of sales versus last year's \$176 million or 47% of sales. The increase in spend was primarily driven by variable spend related to the increased revenue as well as additional marketing, performance-related compensation, and other items. These results demonstrate another exceptional quarter as we continued to see consumers seeking out our diverse offering of compelling products across our portfolio of brands.

With the strength of the fourth quarter, our full fiscal year 2021 revenue came in at \$2.546 billion, representing an increase of 19% versus the prior year. Performance as compared to the prior year was again driven by growth in the HOKA and UGG brands, as HOKA increased 62% over the prior year to \$571 million, with strength across all global regions and channels of distribution, and UGG increased 13% over the prior year to \$1.717 billion, with growth of the US offsetting international declines.

Across our entire portfolio of brands, DTC was the primary driver of growth, increasing 45% over last year due to the strength of our online business which overcame declines in the retail channel related to the pandemic. Gross margins for the year were up 220 basis points over last year to 54%, the increase in gross margin rate was related to 90 basis points from favorable channel mix, 80 basis points from lower promotional activity including a reduction of close-outs, favorable brand mix as HOKA increased as a percentage of the total company and favorable foreign currency exchange rates with offsets coming from higher freight expense.

SG&A dollar spend for the year was \$870 million, up 14% from last year's \$766 million. Higher spend was primarily driven by increased marketing to capitalize on momentum in our brands and begin to seed localized marketing for international UGG, increased warehouse and logistics costs related to the compensation as well as safety measures in place to protect our employees, increased spend on our e-commerce infrastructure to support the growth of that channel with offsets from lower retail store expense and travel savings that resulted from the pandemic.

For the year, our tax rate was 23.7% which compares to 19% last year. Taxes were higher this year as a result of a higher proportion of domestic revenue as well as certain discrete items recognized in Q4. This all resulted in a record diluted earnings per share of \$13.47 for the year, which compares to \$9.62 in the fiscal year 2020. The more than \$3 increase as compared to last year was driven by revenue growth in the HOKA and UGG brands, SG&A leverage as revenue growth exceeded expense growth, a greater mix of DTC revenue, a higher percentage of full price sales across our portfolio of brands, favorable foreign currency exchange rates, which was slightly offset by a higher tax rate.

Turning to our balance sheet. At March 31, 2021, we ended fiscal year 2021 with \$1.089 billion of cash and equivalents. Inventory was \$278 million, down 11% from \$312 million at the same time last year. And due to the repayment in full of our corporate headquarter mortgage, we had no outstanding borrowings. For the year, these results returned invested capital above 30%.

During the fourth quarter, we repurchased approximately \$99 million worth of shares at an average price of \$322.87. I would note that for the majority of the year, we had paused share repurchase activity as we shifted focus to preserving the strength of our balance sheet based on uncertainty related to the pandemic.

Typically, at this point in the year, we would provide an update to our global backlog. Over the last few years, we have continued to signal that less and less emphasis should be placed on backlog as an indicator of future performance due to the evolution of our portfolio of brands and distribution strategies. As such, we will no longer be providing backlog.

Moving to our outlook for fiscal year 2022. As Dave and I have touched on, fiscal 2021 was a year full of unique circumstances, some of which directly benefited our brands. With sights set on the long-term evolution of Deckers, fiscal 2022 was thoughtfully planned to bolster the strong foundation already in place and set the table for sustained revenue and earnings power.

For the full fiscal year 2022, we expect a year-over-year top line growth rate of mid to high teens, leading to revenue in the range of \$2.95 billion to \$3 billion with HOKA growing in the 40% range reaching an \$800 million milestone, UGG growing in the high single digits to low double digit range driven by domestic wholesale strength and international returning to growth, Koolaburra growing in the low double digit range, Teva growing in the mid single digit range and Sanuk approximately flat to last year.

Gross margin is expected to be approximately 53.3%, which is 70 basis points lower than FY 2021 due to increased shipping costs for ocean containers and air usage, unfavorable product mix shifting toward lower price items, potential channel mix headwinds related to the wholesale filling for the UGG and distributor growth in HOKA and inflationary pressures.

SG&A is expected to be approximately 35.5% of revenue as we make key investments to drive long-term growth and fuel near-term opportunities with variable spend. Strategic spending to drive the evolution of Deckers includes investment in our supply chain and logistics infrastructure to increase capacity with an additional distribution center in the US, larger facilities internationally and improved planning tools to drive efficiencies, investment to further our digital transformation through added e-commerce capabilities to increase personalization and added analytical tools to optimize data insights and returns on marketing investments, investment in China to seed the HOKA opportunity and reignite UGG brand heat in the region and investment to bolster our talent across the organization as we scale larger and enable emerging opportunities with added capabilities. Variable spending to fuel near-term opportunities include digital content creation to drive DTC conversion, targeted digital marketing to acquire new consumers, investments to drive growth in UGG ready-to-wear and build awareness of HOKA apparel.

Our expense and gross margin guidance represents an expected operating margin in the range of 17.5% to 18%, which aligns with our commitment to remain top tier among our peers. This targeted operating margin for FY 2022 represents meaningful expansion when compared to pre-pandemic years where we had consistently achieved an operating margin of approximately 16% in FY 2019 and FY 2020.

This demonstrates that we are flowing through a portion of recent margin expansion achieved in FY 2021 that we intend to preserve as we step into FY 2022. These include 90 basis points of channel mix with a larger proportion of DTC business, 50 basis points of brand mix as our mix of HOKA increases and expecting our rate of full price selling to be similar to that experienced in FY 2021.

We are also projecting a tax rate of approximately 23%, all resulting in an expected diluted earnings per share in the range of \$14.05 to \$14.65. Capital expenditure are expected to be in the range of \$65 million to \$70 million, representing a step up on recent years as we support the buildout of a new distribution center in the US and further reinforce our digital transformation through added IT infrastructure.

Our fiscal 2022 guidance excludes any charges that may be considered onetime in nature and does not contemplate any impact for additional share repurchase. We will not be providing formal quarterly guidance as the environment remains highly uncertain with regional differences in the pace and scope of economic recovery from the pandemic as well as continued disruption across the entire supply chain as a result of the pandemic.

In addition, with significantly lower inventory in the channel; the normal order and delivery pattern has shifted this year with a greater increase expected in the first half, further complicating expected timing of delivery. Therefore, it is important to note that a focus on a full year guidance best represents a holistic view of how we are driving full year long-term targets.

For further context on how we are looking at the first half of the year; we expect strong global wholesale growth from both UGG and HOKA as both brands lap disruption in the channel from last year and UGG benefits from earlier wholesale orders to fill in depleted inventories, continued expansion of global HOKA direct-to-consumer as the brand acquires new consumers online through increased awareness and more consumers migrate online for replenishment, higher marketing costs to keep UGG top of mind with consumers as less people are working from home as well as a step up in our investment in localized content for international regions, higher marketing costs for HOKA as the brand increases its presence at events with the world opening up as well as increased spend to begin building awareness in China, increased spend on people as we build our workforce and lap some savings experienced last year due to a hiring and merit freeze, elevated warehouse and logistics costs to support the increased scale of business both domestically and internationally with continued safety measures in place and higher freight costs continuing to be a drag on gross margins. Overall, we anticipate first half revenue will represent a larger percentage of the full year revenue than in prior years.

And finally, on capital allocation. With the build of our cash balance over the last year, we completed a thorough review of our strategy. Based on our goal to drive shareholder value, the board of directors has approved an increase of \$750 million to the company's share repurchase authorization. This increased authorization in conjunction with higher capital expenditure investments supporting our key initiatives highlights the board's confidence in management's ability to achieve our strategic plan and drive shareholder value while maintaining strength and liquidity.

Deckers will maintain a competitive position versus peers based on growing multiple brands in our portfolio including one of the fastest growing footwear brands in HOKA, evolving our channel distribution with the long-term goal of reaching a 50% mix of DTC, achieving top tier levels of profitability and leadership in ESG space as we seek to do business in the right way by making positive contributions to our communities and the world at large.

To close, I'd like to thank our employees for their dedication to managing through tough circumstances to deliver record results in an unprecedented year. I'm excited for the years ahead as we invest behind the evolution of Deckers and capitalize on our strong portfolio of brands.

Thanks, everyone. And I'll now hand the call back to Dave for his final remarks.

David Powers

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

Thanks, Steve. Fiscal 2021 was an exceptional year for Deckers as our company was able to build awareness and globally expand the HOKA brand as well as capitalize on the unique tailwind to the UGG brand.

Our long-term strategies enabled our brands to accelerate consumer acquisition online, which helped the company achieve the milestone of delivering a record operating profit of \$0.5 billion. With strong momentum in our brands, we're going to maintain an aggressive approach to taking market share at wholesale while also strengthening our digital capabilities to acquire consumers through our direct channels.

We believe each of our brands has a compelling product offering for their respective target consumers. The health of our brands and the excitement for our products provide a strong setup for the year ahead. Our guidance includes mid to high teen revenue growth with multiple brands expected to grow double digits, implying over \$800 million of revenue added over a two-year period.

Deckers will remain top tier among peers while making important investments to the long-term evolution of the organization. We are confident in our long-term vision to drive more business to our direct-to-consumer channels, build the HOKA brand beyond \$1 billion in revenue and increase our mix of business from international markets.

To achieve these objectives and enable new opportunities with our portfolio of strong brands, we are focused on fostering existing talent within the organization as well as acquiring new talent for added capabilities. I am proud to be leading this organization and greatly appreciate all the work of our employees over the past year and recognize the energy already being put forth to make fiscal 2022 just as great. Thank you to all of our stakeholders for your continued support.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instruction] Our first question comes from Camilo Lyon of BTIG. Please go ahead.

Camilo Lyon

Analyst, BTIG LLC

Q

Thank you. Good afternoon, everyone, and congrats on a strong finish to the year. I want...

David Powers

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

A

Hi.

Camilo Lyon

Analyst, BTIG LLC

Q

Hi. I wanted to follow up, Steve, on a comment you made just at the end of your remarks regarding in-filling some of the wholesale partners of yours with inventory sooner. Clearly, I think there's an anticipation there to avoid some of the supply chain disruptions that many have suffered this past year. I'm curious, how are you thinking about inventory build in anticipation of any chase opportunities given that you're probably having to hold on to some of that inventory a little bit longer into the season given the earlier shipments that you've spoken about?

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

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Thanks, Camilo. A good question. What we're seeing – and I'll take a step back just to explain what's going on. I think with inventories low, our own inventory again down 11%, and lower inventories, as you mentioned, kind of lower in the channel, we do want to bring in more inventory in the first couple of quarters. And we do want to get it out to our wholesale customers so that they have it in stock and on shelves during the prime selling season.

So that is a shift from what we normally see. It may limit, I would say, the chase opportunities. That's why we're seeing kind of a more robust first half. I think that's why it was important to talk about kind of that first half context because we're going to see a significant portion of that growth as we expect to fulfill those wholesale orders really in the first half as we bring inventory in. So we're replenishing our depleted inventory and we're getting that out to our wholesale accounts sooner so that they have it in stock, so we'll see. Again, it's one of the challenges that

we're dealing with. As you know, there's significant disruption in the whole supply chain channel, another reason to try to get this inventory in earlier so that we can avoid some of that disruption.

David Powers

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

A

And just to add on to that, we did submit orders earlier than usual this year, so we are a little bit ahead of the game as far as production goes. But getting product into the country through the logistics domestically and on to our key accounts poses a pretty meaningful challenge. We think we can overcome it. But the demand for inventory right now is still very strong. So our accounts are looking for inventory to keep the momentum going but also start building reserves and stocks heading into the fall and holiday timeframe as well for all of our brands.

Camilo Lyon

Analyst, BTIG LLC

Q

Got it, a few just quick follow-ups. Within that context, Dave and Steve, you mentioned some inflationary pressures impacting gross margin. Is there any price-taking that you are embedding in UGG or HOKA?

And then just from a longer-term perspective, you talked about the investment that you're making in the business and the right investment to be making in terms of infrastructure, distribution centers, digital investments to further the growth and long-term opportunities that you have in front of you. How do you think about what that looks like in the context of longer-term EBIT margin opportunities as you start to leverage these investments this year in years two, three, and four from now?

David Powers

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

A

I can start. So in price increases, selectively but not broad-based. And so we're looking at opportunities by categories where we can. Fluff is an example of that. But generally speaking, we're not passing on price increases across the board, just more selective styles going into the back of this year. I think we have more flexibility in our DTC channels to maybe do things here and there. But the season's sold in, the inventory is on its way, and the wholesale accounts are expecting the prices that we've already established. But we have healthy margins and we're expecting healthy full price sell-throughs again. And I'm confident in that.

From an investment perspective, with this rate of growth and the way that we pulled back on spend last year, we have some investments we need to make. We think that the demand for our brands is certainly stronger than it's ever been. Our brands matter to our consumers. They're really meaningful both on a product but also an emotional level. And we see a healthy path for growth, but we need to invest in the infrastructure to not only allow that but then to sustain it and build it even further.

So we think the 17% to 18% range is about right to be able to continue double-digit growth of the top line, but we also have to spend to fuel that. Over the out years, there may be a little upside to that and we can think about flowing that through, and we'll see how this year goes. But right now, we feel like the right balance from a healthy brand-building sustainable business is in the 17% to 18% range.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

And I think just to add on to that, Camilo, it's more than just a one-year investment.

David Powers

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

A

Yeah.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

So as Dave said, we've kind of targeted a range that we think is appropriate, that kind of balances the investment as well as what it can drive in sustainable growth both from a revenue and an earnings perspective. And yeah, there are some things that we'll be able to look at once these investments are in place to see what we can then leverage. But I think, as Dave said, we need to make these investments now. Let's see how they go. And then we'll be in a better position down the road as to kind of figuring out how we could benefit from some of these investments.

David Powers

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

A

And as we've been talking about the last few years, a much higher percentage of our OpEx is variable, so we have a lot more flexibility in the year to either flow through or invest faster to drive top line growth. So we feel pretty confident that these are sustainable levels. And as I said, there might be opportunity for increase as we get into the next couple years.

Camilo Lyon

Analyst, BTIG LLC

Q

Excellent color, congrats on the momentum.

David Powers

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

A

Thanks, Camilo.

Operator: Our next question comes from Jonathan Komp with Baird. Please go ahead.

Jonathan Robert Komp

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

Q

Hi, thank you. Maybe, Dave, just first a follow-up. I think you just mentioned double-digit top line growth. So I just wanted to maybe follow up the context and your thoughts beyond the next year, if you think that's a sustainable growth rate and maybe any thoughts on the pieces.

Maybe relatedly, Steve, I think you mentioned some efficiencies from some of the infrastructure and analytics investments. Any ability to break out some of the benefits you expect to see from some of the investments this year?

David Powers

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

A

So I'll answer your first question, Jonathan. We see that path – certainly this year is a little bit of a higher than normalized growth rate because of the fill-in component of particularly the UGG business and refilling the inventories for our wholesale accounts. So 19% is the highest we've ever guided, and we're confident in it. But

we're mindful that a portion of that is fill-in. So you'll see the growth rates probably start to normalize closer to low double digits over the next year or two. But at this point, we feel like we have a clear line of sight to be able to continue to grow our brands globally, especially with the return to growth that we're starting to see in international and HOKA really taking hold, and the investments that we're making.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

And then, Jon, just on kind of the leverage that we talked about kind of from a two-year stack, so clearly, what we're passing through is some benefit that we've seen in 2021. So as Dave kind of mentioned, we benefited by an acceleration of revenue and didn't necessarily spend against that revenue acceleration in FY 2021. So 2022, there will be a bit of that catch-up to spend against really a two-year stack of high teen revenue growth. That we believe sets the foundation for growth.

In reference in my prepared remarks, where I talked about how we've progressed from where we were, say, two years ago, we're taking some of that leverage that we achieved in 2021 and really passing it through in 2022 as we've seen some of those efficiencies. So it's some of the full price selling. There is going to be some on talent from where we were, say, two years ago. And so that's where we start to settle down from a proportion of SG&A spend to revenue in that, call it, roughly kind of 35% – 35.5% range.

So again, to the earlier question also, let's see how things go. This is a year where we're coming off the heels of strong revenue growth. We constrained some of that spending. 2022, we think it's important that we get back to making those investments that are setting us up for continuing this growth that we're seeing.

Jonathan Robert Komp

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

Q

Great, then just one more on HOKA. Any commentary on how some of that newer distribution in wholesale is faring either domestic or globally. And then it looks like a lot of new products coming up the next few months. So just any more comments on the pipeline and the approach to new product drops.

David Powers

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

A

I would say generally speaking, across the board in new and existing counts, sell-through continues to be very strong. And as you know, we've been very methodical. The teams have done a great job of controlling strategic distribution, not going to too many doors too fast. That's just the case of DICK's, et cetera. That philosophy is applied globally. And we're focused on healthy full price sell-through and creating demand and that is paying off and that's working.

The areas that we're expanding into is obviously bolstering outdoor, so trail and hike. You're going to start to see a little more product and focus in marketing on lifestyle opportunities. So still performance product but adapted for a lifestyle consumer. And then we're going to continue to drive that growth across the board globally. Each market is a little bit different as to which category we push first and how we get there, but that's the intent.

And the pipeline from my perspective is very strong. We have some great launches coming up this year. We have the Clifton 8 launching in the next quarter, which we have a lot of demand. We're already pre-selling it on our website and the demand is there. So we feel great about the pipeline assuming we can get the product to the supply chain, of course, and then expanding into other categories over the next 12 to 18 months. We're very excited about it.

Jonathan Robert Komp

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

Excellent. Thank you.

Q

David Powers

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

...sorry, Clifton 8's in June.

A

Jonathan Robert Komp

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

Yeah, that's right. Okay, thank you.

Q

David Powers

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

Okay.

A

Operator: Our next question comes from Jay Sole with UBS. Please go ahead.

Jay Sole

Analyst, UBS Securities LLC

Great. Thank you so much. Dave, I was just wondering if you could elaborate on the last answer a little bit. If you could maybe just take a step back and tell us where you see HOKA and the maturity curve of this brand as it grows to a much bigger brand. As you see where the brand is right now, what's baked into the guidance? Maybe take us through geographically where you see the biggest opportunities and where you hope to end the year by and where you see going it from there. And then maybe that would be a great place to start. Thank you.

Q

David Powers

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

Sure. So as we said in the script, we think that HOKA can get to \$800 million this year. Obviously, that's continued very aggressive growth opportunities. We also talked about the fact that the international growth is really kicking in from a units perspective, which is great to see the balance of that business globally and the balance across distribution. The one area that we talked about investing in and we're starting to invest in infrastructure building this year is China. It's still a relatively small business in China. It's a very exciting market for us to get into. We've been leveraging really the UGG team on the ground there for DTC for HOKA. But it's time to start putting dedicated fulltime heads on the HOKA team in China to get after that.

A

So \$800 million this year. Obviously, we're on the path to \$1 billion earlier than we expected. And the momentum seems to be just building as people become more aware of the brand and we bring more consumers, particularly younger consumers, into our ecosystem really focusing on repeat purchases and expanding into new styles beyond just core running. We think the formula there is right. I think the controlled distribution, the product assortment, the fact that we are resonating in multiple categories in multiple markets globally gives us a lot of confidence that I'd say, in some ways, we're still in the early innings for this brand.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah. And I think, Jay, just to add on to that. What we're seeing – and we had the question on the wholesale distribution. So as Dave said, we're seeing tremendous progress within our wholesale distribution. As Dave also said, what we're seeing is an acceleration of units. Now you don't necessarily see that in the same proportion on revenue because much of our international is through distributors.

So when we think about HOKA and as Dave said, approaching \$800 million faster than we previously thought, clearly, \$1 billion in our sights; a lot of opportunity, one, as we bring more customers through our direct channels. We're seeing higher adoption through direct-to-consumer channel. On the international front, the investments that we're making will drive greater acceleration of growth on the international front. And then we have a channel opportunity that we can think about kind of down the road. So clearly, very excited about the potential of HOKA and where it can go. And we're sitting in a very great place.

Jay Sole

Analyst, UBS Securities LLC

Q

Got it. That's super helpful. Thanks so much.

David Powers

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

A

Thanks, Jay.

Operator: Our next question comes from Sam Poser with Williams Trading. Please go ahead.

Sam Poser

Analyst, Williams Trading LLC

Q

Good afternoon. Thanks for taking my questions. I guess is your SG&A going to follow the flow of the business in the year? So should we think about that 35% – will we see it more frontend-loaded on the investment or is it going to spread out a little more?

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

It's going to be spread out. Some of it needs to ramp. So you will see it a little bit in disproportion to the revenue growth. So we're going to see more revenue growth upfront as we're filling in the wholesale channels. We're going to be ramping investments really throughout the year. So more revenue growth on the front half, a ramping of investments really over the year.

Sam Poser

Analyst, Williams Trading LLC

Q

Okay. And then I got two more. One, do you expect the wholesale absolute revenue from UGG to be higher in Q2 or Q3 in absolute dollars? Or is Q3 still going to be the biggest, it's just going to be less growth?

David Powers

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

A

In some ways, it's hard to call that right now, Sam, because of the supply chain challenges. And so that's one of the reasons that quarterly guidance is challenging because it's hard to say exactly when product is going to arrive and when we can get it out based on the quarter-end. So that's one of the things we're kind of dealing with is putting in more confidence into when product can arrive and calling the ball on that. Certainly, you're going to see

an increase in the first half bigger than we have in the past. But exactly how that relates to Q3 versus Q2 sales, still a little early to make that call.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah. And I think the other challenge, Sam, is we had such a strong Q3-Q4 that when you look at the comparison 2022 to 2021; we're going to be comparing against some very strong quarters in the back half. So when you think about percentage growth, it's really front half loaded in those terms, especially as we're trying to fill that wholesale channel earlier this year.

Sam Poser

Analyst, Williams Trading LLC

Q

Got you. And what percent of the marketing – of that increased SG&A is being put towards digital marketing?

David Powers

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

A

Yeah, I'd have to get the exact number on that. It's significant. And we're continuing to invest in marketing across the board for HOKA. And then also – but in key categories, incremental marketing spend for UGG. So as a percentage of sales, marketing is going up across the board. So I don't know if we have the exact number of that. We can maybe get into a Q&A later. But that's how we're thinking about it. So a big part of the growth is reliant on the fact that we are increasing marketing spend broadly and in new areas such as apparel and UGG, for example, and men's and kids'. But the rest is really on head count and resources on the ground in China and infrastructure building.

Sam Poser

Analyst, Williams Trading LLC

Q

Thanks. And then one last thing. M&A, are you looking at anybody? You talked about building out HOKA apparel and you said you might hire it, you might buy it. I know I'm not going to get an answer, but I'll ask anyway. So you did a collab with Cotopaxi, very interesting, both with the shoe you did as well as the apparel line, the outdoor apparel line itself.

David Powers

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

A

And yeah, just...

Sam Poser

Analyst, Williams Trading LLC

Q

[indiscernible] (00:57:57).

David Powers

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

A

Yeah, just good business practice. We're always having conversations. And we're open but very selective. The biggest challenge for us is we have so much opportunity in our organic business today, it's hard to contemplate really doing something significant on top of that from a resource and just management's time perspective. The focus has served us well over the last four or five years. And we're going to continue down that approach.

But that being said, just part of my job is just knowing what's happening out in the environment, talking to different brands and companies, early stages, late stages. But right now, we're intently focused on the core organic growth that we have in front of us. And as it relates to apparel, actually, we believe more so now than ever that we don't necessarily need an acquisition to allow us to grow that business. Right now, we're focused on building internal talent and capabilities because of the strength of the brand. We think we can do that on top of our strong DTC channel, our supply chain and our omnichannel capabilities.

Sam Poser

Analyst, Williams Trading LLC

Q

Thanks very much. Continued success.

David Powers

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

A

Thanks, Sam.

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

Jim Duffy

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thanks. Hello, everyone. I'm...

David Powers

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

A

Hey, Jim.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Hey, Jim.

Jim Duffy

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Hope you guys are doing well. I wanted to start on the UGG business. The increasing frequency of purchase, very encouraging. As you're thinking about growth for this year, I recognize a component of it is fill-in. But can you provide some dimension to the domestic growth by discussing it across product categories? Are there any categories that are outsized drivers?

David Powers

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

A

Yes, I think one thing that is really exciting and as you mentioned it is two things. One is the younger consumers that have begun to embrace the brand, which is something we've been working on for a while. And I think the brand has done an exceptional job of being relevant for that consumer both from a communication and product perspective. And we are finding that they're purchasing more often. Our cycle of repurchase for UGG used to be in the 18 to 24 month range. Now we're seeing multiple purchases in the same quarter as the product becomes more relevant year-round. So we're going to continue to build on that.

Obviously, the Fluff franchise, that slipper hybrid, indoor/outdoor slipper category is going to continue to be important for us. Although slipper as a total category is not as big as you see in sneakers or boots or other areas. But for us, it's very meaningful. So we're going to continue to build on that. Classics, across the board, the Ultra Mini is in the early days for us of excitement and growth. The Classic Clear is a style that we launched last year that sold out. And there's big orders against that coming again this fall. We have a really compelling and exciting rain proposition in the UGG brand. And then you get into the heritage evolutions of things like the Tasman and how we're evolving that product into different materials and different use occasions for both men and women and the Neumel. So it's a combination of multiple categories inclusive of apparel.

What was exciting about FY 2021 is the growth in UGG came from non-core product and then increased growth in men's and kids'. So this is the most broad-based enthusiasm I've ever seen for the brand from gender and category perspective. It's much more balanced than we used to be, which is by design and which is very exciting for us. And I think that it gives us a lot more opportunity to segment product by channel of distribution and consumer to make sure that we're having high sell-through and high rates of adoption across the board globally. So it's tough to put it. We're not reliant on the Classics like we used to be anymore. And there's a lot more exciting product and innovation going in across all the categories.

Jim Duffy

Analyst, Stifel, Nicolaus & Co., Inc.

Q

That's great to hear. And can you comment in a little more detail on what you're seeing with the ready-to-wear apparel business? It feels like that's gaining some momentum. Maybe give us a sense for where that stands as a percent of the mix and if you expect to see outsized growth from that in the coming years.

David Powers

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

A

Yeah, the answer there is yes. You're not going to see outsized growth this year. But what we learned last year with the ready-to-wear launch is that we have struck a nerve with the consumer that is a great combination of fun, fashionable UGG brand DNA and comfortable that I think is perfect for UGG. And I think there's whitespace in the market for us to be able to have a significant share of market and growth globally. It's reliant on retail. It's reliant on getting our e-commerce capabilities for apparel improved so that we can fully showcase head-to-toe looks and drive the business through those channels and selective wholesale distribution globally.

So the team has done a phenomenal job positioning ourselves. Last year was really proof of concept for us and it proved to be very successful. We're super bullish about the opportunity over the next three to five years. And that's one of the areas you're going to see more investment in both on infrastructure but also on marketing and reaching global consumers.

Jim Duffy

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Great. And just a point of clarification. I understand some of the strong growth this year is fill-in. Dave, did I interpret your comment to Jonathan's question that you see UGG as a double-digit growth business over the intermediate term looking beyond fiscal 2023? I'm sorry, fiscal 2022.

David Powers

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

A

That was more related to total company, Jim.

Jim Duffy

Analyst, Stifel, Nicolaus & Co., Inc.

Okay.

Q

David Powers

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

Yeah.

A

Jim Duffy

Analyst, Stifel, Nicolaus & Co., Inc.

Okay. Thank you.

Q

David Powers

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

All right. Thank you.

A

Operator: Your next question comes from Paul Lejuez with Citi. Please go ahead.

Paul Lejuez

Analyst, Citigroup Global Markets, Inc.

Hey. Thanks, guys. Just shifting back to HOKA. You talked about \$800 million this year, \$1 billion plus being inside. That's obviously revenue to you guys. I'm kind of curious how you're thinking about the size of that brand at retail five years down the road. And of that whatever number you might be thinking about in terms of how large it can be, how much of that are you going to really kind of own that revenue versus continue to use the distributor model? And I guess related to that, as you talk about that double-digit growth over the next couple of years, do you incorporate an assumption of bringing some of that distributor business back in-house, I should say?

Q

David Powers

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

So I understand the question. Those are all questions that we're noodling on a constant basis with our ELT and board. All those are opportunities. I think that the \$800 million and the \$1 billion number does not require the takebacks of distributors at this point. I think that's a further-out opportunity for us that requires the right level of investment in infrastructure for us to be able to do that correctly. But it's not necessary for us to hit these short-term targets. The longer-term targets, that along with outsized growth from where we are today in China, down the road expanded categories, apparel potential, you can see this as a multibillion-dollar brand down the road at some point.

A

Paul Lejuez

Analyst, Citigroup Global Markets, Inc.

Got you, I definitely agree. I just want to understand. When you talk about the supply chain and any pressures you might be seeing, I just want to understand. Which brands, which channels is that affecting most right now, and how do you see that kind of fixing itself over the next several quarters?

Q

David Powers

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

A

The first thing I would say is I want to give our operation or supply chain teams a lot of credit for the way they handled last year. This success in our ability to chase demand in this environment and then to ramp up for the growth that we're seeing and standing up a new DC in the Midwest, getting the inventory, the orders in as fast as we can, they're kind of the unsung heroes of this story right now and they're doing a tremendous job.

What that means going forward, the risks and the opportunities exist, broadly speaking, across the board. But the biggest challenge for us is really domestic US, getting the inventory in over the next couple months and getting it through our DCs and out to the wholesale accounts. So it's hard to say precisely which brand, which channel, et cetera. I would just say it's more broad-based. And we have a list of how we're prioritizing brands and channels within that to give us the best opportunity to be successful this year.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah, Paul. And what I would say on the whole supply chain channel disruption, this is not unique to us. This is something, as you see in the news, everyone's experiencing. I think we're in a better position than many of our peers because last year we didn't cut back our orders as dramatically as many of our peers did. And as a result of that, we're in a better position with our factories. So as we're ramping up inventory into the year, we feel we're in better position. Still going to confront constraints and disruptions; but we think we're better positioned than most given how, as Dave said, we navigated last year, but still very mindful of what we're dealing with.

David Powers

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

A

And I think that confidence is reflected in our guidance.

Paul Lejuez

Analyst, Citigroup Global Markets, Inc.

Q

Got it. Thank you, guys. Good luck.

David Powers

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

A

Thanks.

Operator: Your next question comes from Dana Telsey with Telsey Advisory Group. Please go ahead.

Dana Lauren Telsey

Analyst, Telsey Advisory Group LLC

Q

Good afternoon and congratulations on the progress.

David Powers

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

A

Thanks, Dana.

Dana Lauren Telsey

Analyst, Telsey Advisory Group LLC

Q

As you think about the current environment and going into this next fiscal year, how do you unpack the investment spend between the first half and the second half of the year? Do any of the COVID costs, do they roll off? How do you see it in bucketing, whether it's freight, whether it's wages or COVID costs?

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah, good question. As we think about FY 2022 and we think about the ramping of investments, clearly we're coming, as I said earlier, in a position where revenue was coming in faster than we could spend against it to build infrastructure. So I think to Sam's question earlier, we do see investments ramping in the year. So bringing new talent in is going to take time. Putting up some of the infrastructure will take a little bit of time. But there are some upfront costs that we're incurring in the year. So as we think about those aspects, again, you'll see a build in the year related to that.

In marketing, we are doing more marketing up front this year because we want to continue to fuel that demand that's in the marketplace. So you'll see some of the marketing increased investments in the first half of the year. So it's a bit of a mixed bag as you look at the whole year. But generally speaking, it takes some time to build that investment. So generally speaking, you will see a bit of a ramp. But there are components that we're going to spend more aggressively in the first half.

David Powers

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

A

And I think those are really related to, as you said, infrastructure building and marketing ahead of the curve in places like China. But the one variable, Dana, that is the most challenging to call is hiring because it's a competitive marketplace out there. We're selective in looking for top talent around the globe. We were pretty much on a hiring freeze all of last year, so we have a lot of catching up to do. And in this environment, people still working from home; it's hard to call the ball on how fast we can ramp up key hires. But know that we're aggressive about it. It's the number one priority for our new CHRO that came on three months ago and the team. And as I said, we have an opportunity with the momentum in our brands and the strength of our business to really find top talent globally, and that's the priority. We don't want to rush it, but we are urgent about bringing on people pretty quick.

Dana Lauren Telsey

Analyst, Telsey Advisory Group LLC

Q

And on the people you're bringing in, is it marketing, is it merchants for apparel? What's your key priorities in who you're bringing in?

David Powers

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

A

China, marketing, creative, for e-commerce and digital capabilities.

Dana Lauren Telsey

Analyst, Telsey Advisory Group LLC

Q

And then price increases, will we see any price increases this year and does it differ at all by brand?

David Powers

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

A

You won't see broad-based price increases this year. There might be some selective ones based on category and styles. Fluff is an opportunity for us from a pricing perspective. But generally speaking, we feel good about our prices. We think the proposition for the consumer is very compelling from a value proposition. Some other brands I think are talking about raising prices here and there. At this point, it's not a broad-based strategy of ours. We're continuing to focus on making sure that we have a very compelling offer for our consumer.

Dana Lauren Telsey

Analyst, Telsey Advisory Group LLC

Q

Just one last thing, anything on new wholesale customers? You're expanding with DICK's. Any others that we should be thinking about?

David Powers

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

A

Not of that size. Selective ones, think about the HOKA lifestyle opportunity in key accounts like Free People that we are just launching with this year. But more generally, we're reducing accounts for UGG still and focused on the top key strategic accounts that we have. So wholesale expansion, other than opportunities where we're trying to get a younger consumer for UGG or get into new category opportunities in HOKA, but generally speaking, wholesale door expansion is not a major strategy of ours.

Dana Lauren Telsey

Analyst, Telsey Advisory Group LLC

Q

Thank you.

David Powers

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

A

You bet.

Operator: Our final question comes from Laurent Vasilescu with Exane BNP Paribas. Please go ahead.

Laurent Vasilescu

Analyst, Exane, Inc.

Q

Hello. Good afternoon and thank you for squeezing me in. Steve, I think you mentioned in your prepared remarks that you anticipate first half revenues to represent a larger percentage of your overall full-year guide. I understand you're not giving quarterly guides. But can you just kind of give us kind of benchmarks in a consort way? You've been pretty consistent that your 1H revenues are about 37% of your overall revenue. So any framework on that just for us to understand would be very helpful.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

I think the – again, we're not giving guidance. But when you think about the percentage growth for the year, again, as I said earlier on the Q&A, where we will be lapping very strong Q3 and Q4, the large majority of our percentage revenue growth will be occurring, as we expect, if things go according to plan, in that first half.

But again, as Dave said, there's a lot of moving pieces. There's a lot of – still as we're rebuilding inventory, trying to get that inventory in in time and then turned around at our DC. It's also working with wholesalers to have them take product earlier. I think we're in a relatively good place where they're rebuilding their inventory levels as well.

So if things play out as we see it, that will create much stronger growth on a percentage terms in the first half. Now, some of that can drift. Again, which is why we don't want to give guidance yet because we have a lot of shipping that goes out in those final two weeks of quarters. It's just kind of the way it lands. So things can move relatively easy between quarters.

Laurent Vasilescu*Analyst, Exane, Inc.*

Q

Very helpful. And then as a follow-up question in terms of HOKA growth, the 40% growth. And you alluded to it in your prepared marks in terms of the number of pairs, roughly half is done overseas. Maybe can you just kind of give us some context of – for the full year fiscal year 2021, where did your international revenues fall in terms of dollars? And then does the 40% growth, does it anticipate taking any of your distribution in-house in Europe?

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

A

I'll take the last one first. No, we do not. Not at this stage or this year are we looking at it this way. And then in terms of domestic versus international, we don't really break that out other than to say – just to give a little bit of color on the half year, I'll say, a little bit more growth on HOKA in the front half, again, as we lap bigger quarters in the back half again on percentage terms.

Laurent Vasilescu*Analyst, Exane, Inc.*

Q

Thank you very much.

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

A

Yeah.

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

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