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Deckers Outdoor Corp. (DECK)

Q1 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and thank you for standing by. Welcome to the Deckers Brands First Quarter Fiscal 2022 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 and instructions will be provided at that time for you to queue up for questions. [Operator Instructions] I'd like to remind everyone that this conference call is being recorded.

I'll now turn the call over to Erinn Kohler, Vice President of 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 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 in 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. We're excited to discuss a strong start to fiscal year 2022 for our portfolio of category-leading brands. First quarter revenue increased 78% versus last year to \$505 million. Gross margin increased 130 basis points to 51.6%, and we delivered a profitable June-ended quarter with earnings per share of \$1.71.

While unique marketplace dynamics contributed to this result, we believe the growing influence of HOKA, with its more evenly spread seasonal volumes, will continue to drive our organization toward a more balanced business across quarters.

Performance in the first quarter was driven by global wholesale growth of the UGG, HOKA and Teva brands, whose compelling products are continuing to build market share and overcome the disruption in the channel that began during the pandemic.

The direct-to-consumer growth in HOKA, as the brand continues to build awareness through digital marketing, introduced innovative products and category disruptors that drive new consumer acquisition and deliver a consistent consumer experience for online replenishment. Additionally, our brands are benefiting from strategic marketplace management globally, which continues to drive high rates of full-price selling across our entire portfolio of brands.

This quarter represents further progress toward our long-term strategies, which include accelerating consumer adoption of the HOKA brand globally to build the brand's revenue to \$1 billion and beyond, building UGG as a year-around global lifestyle brand through a diverse product offering, and executing a digital-first approach by prioritizing direct-to-consumer acquisition online and working towards a direct business that will represent 50% of total revenue for the company over time.

While we remain firmly committed to these strategies over the long term, it is important to recognize certain aspects unique to fiscal 2022 related to lapping the pandemic, which is still having varying effects in different locations.

Specific to the quarter just completed, we experienced higher wholesale shipment volumes as well as earlier shipments as compared to the prior year. The earlier shipments primarily relate to replenishment of depleted UGG wholesale account inventories that resulted from exceptionally higher levels of sell-through during fiscal 2021. These earlier shipments for UGG, combined with strong demand for spring and summer products across our entire portfolio of brands, drove a significant increase in our wholesale business.

Given the momentum of our brands and their respective market share opportunities, we are focused on meeting consumers where they want to shop to optimize growth in this less-than-certain marketplace, but remain committed to driving direct-to-consumer demand over the longer term. Steve will provide more detail around the unique dynamics we're anticipating for the balance of this year later in the call. For now, I will share more detail around first quarter brand- and channel-level performance and some context for the remainder of fiscal 2022.

Starting with the brand highlights. Global UGG first quarter revenue increased 71% versus last year to \$213 million. Performance was driven by strength in domestic and international wholesale as the brand lapped disruption in last year's spring season and refilled depleted domestic inventory that resulted from record sell-through in the prior season; growth of international DTC, as UGG benefited from localized marketing investments to reignite the brand in Europe and China, which was partially offset by softness in domestic DTC resulting from the decline of extraordinary slipper growth unique to last year's stay-at-home orders.

The strength of global UGG wholesale resulted from the brand's marketplace management strategies that left UGG with unusually lean inventories entering the year. This positioned UGG to accelerate some would-be fall shipments, helping avoid anticipated bottlenecks in the supply chain and providing the brand with an opportunity to meet in-store consumer demand. We saw this strategy play out effectively as online traffic for UGG was predictably lower than last year's exceptionally high levels, while sell-through at physical retail was strong.

With a highly fluid consumer environment, we're managing our omnichannel business to ensure UGG has a meaningful presence with the brand's target consumers' intent to spend. However, we continue to closely manage our product allocation and segmentation strategies to ensure UGG maintains healthy levels of full-price sell-through.

UGG continues to see high levels of consumer demand as the brand maintained positive mind share with 18- to 34-year olds in the US. According to YouGov, brand consideration among women in this group remained roughly flat to last year's record highs. And among men, UGG brand consideration is at an all-time high. These new levels of consideration among men are leading to the growth of UGG Men's continuing to outpace that of the total brand.

Helping to drive more consumer love and connection for the brand, UGG recently held its fifth annual PROUD Prom event in partnership with the Pacific Pride Foundation. This event is an inclusive opportunity for UGG to connect with local LGBTQIA+ and allied youth from Santa Barbara and surrounding coastal communities that celebrates identity and love. This year's event featured friends of the UGG brand that included musical artists, Lil Nas X and actress Hari Nef.

Further on the brand-building front, UGG has continued to engage with brands and designers to create powerful product collaborations that elevate the brand's fashion credibility and perception among consumers. In June, UGG teamed up with famed fashion designer, Telfar Clemens namesake brand, Telfar, to release the first of multiple product collaborations. The first product drop sold out on ugg.com in just a few hours, but more importantly, garnered positive press for the brand, which included features in leading fashion publications. We are excited to once again collaborate with this exciting designer as we unveiled the second UGG x Telfar product drop in September, which will include more footwear and apparel items.

From an international perspective, we have been pleased with the progress in Europe and Asia Pacific as the brand is building a younger audience through greater acceptance of the UGG brand's diverse product line. We're gaining confidence in the UGG brand's turnaround based on continued positive response from consumers in both regions. During the first quarter, DTC acquisition in Europe and the Asia Pacific region more than doubled pre-pandemic first quarter levels. And these new consumers are purchasing products such as fluff, sandals and sneakers.

With the strong sell-through UGG is experiencing within wholesale accounts, growth in our international DTC business and exciting spring product innovations to come, UGG is well positioned for continued progress in the spring and summer season next year.

Looking ahead to the balance of this fiscal year, we expect UGG to continue experiencing elevated levels of global wholesale demand as we replenish domestic inventories and reignite the brand in Europe and China, maintain positive momentum with younger consumers around the world and work to convert a higher percentage of consumers to repeat purchases across categories, accelerate international DTC demand by showcasing the brand's diversified product offering through localized marketing tactics, and mitigate pressures related to lapping heritage slipper demand in the US.

Overall, we feel very positive about the UGG brand start to this year and the teams are working hard to acquire new and repeat consumers around the world with bold and exciting products that provide the luxurious feeling of UGG.

Moving to HOKA. Global revenue for the first quarter increased 95% versus last year to \$213 million. This quarter represented a significant milestone for Deckers and HOKA as the brand's revenue slightly surpassed that of UGG for the first time in the company's history. As has become standard for HOKA, growth was balanced across the brand's ecosystem of access points with all regions and channels of distribution experiencing impressive growth. HOKA continues to build its consumer base through a combination of disruptive product innovation, emotionally connected inclusive marketing and a consistent consumer experience, based on the premium quality of the brand's products and distribution partners.

Helping to drive the HOKA growth during the quarter, the brand launched an update to its flagship Clifton franchise with the introduction of the Clifton 8. This eighth-generation Clifton features the brand's all-new innovative ultra-light midsole foam, which is designed to offer maximum cushion with an energetic response to each step. Consumers have enthusiastically embraced this franchise update, making the Clifton 8 a top 5 style for hoka.com despite only launching in June.

Search interest for HOKA in the US continues to expand as the brand experienced a 69% increase versus last year's first quarter according to Google Trends. The Clifton 8 launch helped boost traffic to hoka.com during the quarter. And on top of that, HOKA continues to build awareness with new consumers through targeted digital marketing. During Q1, 72% of online traffic was from consumers who had not previously shopped on the HOKA website.

We have been encouraged by the loyalty of consumers who buy HOKA online. During Q1, the number of consumers who purchased HOKA two or more times increased 46% versus the prior year. Through these repeat purchases, HOKA is expanding closet share with existing consumers as the brand is seeing adoption across multiple categories. To help achieve this goal, the HOKA team is building innovative products in trail, hike and fitness categories.

At the beginning of July, HOKA launched a brand-new hiking silhouette, known as the Anacapa, which is available in low and mid heights. We are excited about the launch of this franchise, which is intended to build market share in the hiking category and attract new consumers to the HOKA brand. This hiking boot features recycled materials, waterproof construction and a Vibram Megagrip Outsole, but most importantly, is built with lightweight HOKA technology to feel like a sneaker.

Coinciding with Anacapa launch, HOKA has teamed up with non-profit organization Soul Trak to encourage outdoor exploration by participating in the HOKA x Soul Trak Hike Challenge on the Strava application.

While virtual consumer touch-points, like the Strava challenge, have been great avenues to connect with consumers globally, we have been excited about the return of in-person events over the last few months. In June, HOKA was the title sponsor of the Western States Endurance Run, which is the world's oldest 100-mile trail race. This event was the first trail ultramarathon to be covered by our live stream telecast with over 30 hours of coverage from start to finish.

Congratulations to HOKA Athlete, Jim Walmsley, who wore the brand's EVO Speedgoat trail shoe and Adventure bucket hat to win the Western States event for the third consecutive year. The HOKA team's approach to product, marketing and distribution has been highly effective in building consumer awareness and an affinity for the brand.

With the brand rooted in performance running, we continue to see higher awareness among those consumers, but recently the growth of total consumers aware of HOKA has outpaced increases in awareness among runners, according to our proprietary HOKA brand tracking data. We view this as an important positive step in the evolution of HOKA and expanding the brand's addressable audience.

For the balance of this year, we anticipate HOKA growth will continue at an impressive rate, though lower than the quarter just experienced, driven by new consumer acquisition as the brand expands global awareness, including a key market focus in Germany, the UK and China, innovative product updates and increased category adoption from consumers, market share gains with wholesale partners across the globe, greater global brand presence through in-person event sponsorship and higher frequency product drops to maintain excitement with loyal consumers.

As we continue to scale HOKA, we are building the right team for the brand's long-term future success. As you may have seen in a press release not long ago, the brand has hired two key footwear design and apparel team members, intended to enhance the evolution of HOKA over the next three to five years.

Shifting to Teva. Global revenue in the first quarter increased 66% versus last year to \$58 million. What is truly impressive about the standout quarter from Teva is the brand's growth in both fashion with its heritage Universal franchise and function with a more rugged Hurricane franchise. Strength in the Hurricane franchise, we feel, has been driven by the brand's roots in the Grand Canyon, as national parks have seen record attendance this year.

From a DTC perspective, Teva delivered solid growth on top of last year's extraordinary increase. As compared to last year's first quarter where Teva more than doubled consumer acquisition, the brand maintained a similar number of acquired consumers this year, increased retained consumers by 41% and saw a 10% increase in average order value among online purchasers.

Additionally, growth of 18- to 34-year-old consumers continued to outpace total consumer growth, leading to younger consumers maintaining the largest mix among all age groups for Teva. For the balance of this year, Teva

is expected to build market share with closed toe products such as the brand's Ember franchise, and increase DTC consumer acquisition and continue to grow the already high percentage of loyalty among 18- to 34-year olds.

With respect to channel performance in Q1, global wholesale revenue increased 140% as compared to last year. Wholesale growth was unique this quarter as a result of disruption in the channel last year, refilling domestic UGG inventories that were depleted from record product sell-through and shipping UGG product earlier than in prior years in order to mitigate macro supply chain pressures. As a result, UGG wholesale is up significantly relative to the past couple of years. HOKA also experienced meaningful growth as the brand is building market share and benefiting from the Clifton 8 launch.

From a direct-to-consumer standpoint, global revenue increased 15% versus last year's first quarter. HOKA drove the majority of DTC growth as the UGG brand was pressured by exceptional demand last year that resulted from the stay-at-home orders benefiting online sales in the slipper category. Because of the pandemic's disruption of both owned and wholesale physical retail locations last year, we experienced a significant increase in DTC mix during the first quarter of fiscal year 2021.

Given physical store reopenings and shifting consumer shopping patterns, we saw a decline of DTC penetration this quarter as compared to last year, but have been pleased to maintain DTC mix above pre-pandemic levels. Longer term, our focus remains on building DTC towards representing approximately 50% of our total business.

Before I hand off the call to Steve, I wanted to take a moment to highlight some of our brand's recent activities on the sustainability, ESG and DEI fronts, which we believe are having a positive impact on consumers' passion for our brands and the culture at the company.

Over the past few months, our Deckers Gives program provided meaningful donations as nominated by our employees and community to 10 non-profit organizations championing racial and social justice. We have improved the diversity of hiring with 49% of new hires over the past year coming from BIPOC communities.

HOKA received the 2020 Vendor Partner of the Year Award from REI in recognition of the brand's performance and commitment to doing business in the right way, and our employees are close to finishing our first-ever plastic-free July competition, which aims to reduce the abuse of single-use plastics.

Here at Deckers, we have a philosophy known as do good and do great, which is a core value that drives and inspires our company and our people to make a positive impact. Our progress in the ESG and DEI space exemplifies this philosophy and our journey continues.

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

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

Thanks, Dave, and good afternoon, everyone. As Dave just covered, fiscal 2022 is off to a great start, and we are proud to have delivered our most profitable first quarter ever. Our long-term strategies continue to serve us well. We are in an advantageous position with two of the most in-demand brands in the footwear space and considerable opportunity ahead for our brands.

While our strategies have helped propel performance, we recognize the existence of unique circumstances that have, in some cases, benefited results and, in others, put pressure on our brands. Through it all, we remain confident in the strength of our brands, our solid operating foundation, and ability to remain flexible and nimble in a dynamic marketplace.

First quarter fiscal 2022 revenue came in at \$505 million, representing an increase of 78% versus the prior year. Performance in the quarter aligns with our setup for the year and discussed on our last earnings call, with shipping more product earlier this year as we look to mitigate exposure to supply chain challenges and get product into the marketplace.

Q1 growth versus the prior year was driven by the HOKA, UGG and Teva brands. And for the first time, HOKA contributed the largest share of revenue in a quarter at \$213 million, an increase of 95%. UGG increased 71% over the prior year to \$213 million with global wholesale and international DTC growth offsetting a difficult domestic DTC comparison. And Teva increased 66% over the prior year to \$58 million based on the strength of domestic wholesale.

Across our entire portfolio of brands, wholesale was the primary driver of growth, increasing 140% over last year, in part due to unique marketplace dynamics which include lapping disruption in the channel last year, refilling depleted channel inventories for the domestic UGG accounts and shipping UGG product earlier than in the prior year to mitigate ongoing macro supply chain pressure and ensure we have product well positioned in the marketplace.

Irrespective of these unique dynamics specific to the pandemic, our brands are resonating well with consumers, and we are aggressively pursuing market share where we see opportunity. Gross margins for the quarter were up 130 basis points over last year to 51.6%. The increase was related to favorable brand and product mix as HOKA increased as a percentage of the total company and UGG benefited from earlier wholesale shipments of fall product; a reduction in reserves related to uncertainty in the prior year and favorable foreign currency exchange rates with offsets from channel mix and greater utilization of airfreight.

SG&A dollar spend for the quarter was \$199 million, up 32% from last year's \$150 million. Higher spend was primarily driven by increased compensation related to higher warehouse wages, including hazard pay; onboarding additional talent to scale the organization and long-term incentive performance compensation, reflecting noncash expense; also, increased marketing to maintain momentum in our brands and reignite international markets for the UGG brand; increased variable warehouse logistics and IT costs with savings related to a reduction in bad debt.

Our tax rate for the quarter was 21.9%, which compares to 1.2% benefit on last year's pre-tax loss. This all resulted in diluted earnings per share of \$1.71 for the quarter, which compares to a basic loss per share of \$0.28 in Q1 of fiscal year 2021. The nearly \$2 increase as compared to last year was driven by revenue growth in HOKA, UGG and Teva, and related favorable mix of brand and product, SG&A leverage as revenue growth exceeded expense growth with offsets from channel mix favoring wholesale and taxes on net income this year as compared to last year's loss.

Turning to our balance sheet at June 30, 2021, we ended June with \$957 million of cash and equivalents. Inventory was \$458 million, up 5% from \$435 million at the same time last year, and we had no outstanding borrowings. During the first quarter, we repurchased approximately \$82 million worth of shares at an average price of \$329.55. As of June 30, 2021, the company had \$728 million remaining under its stock repurchase authorization.

Moving to our outlook, for fiscal year 2022, we are raising our guidance to reflect further strength in the HOKA and Teva brands and adjusting our gross margin and operating expense assumptions based on the latest available information. For the full fiscal year 2022, we now expect a year-over-year top-line growth of 18% to 20%, resulting in revenue in the range of \$3.01 billion to \$3.06 billion, with HOKA increasing its growth rate over last year to be in the 50% range, crossing the \$850 million milestone; UGG still growing in the high-single digit to low-double digit range; Teva now growing in the high-teens range; Koolaburra still growing in the low-double digit range; and Sanuk still expected to be approximately flat to last year.

Gross margin is now expected to be slightly below 53%, which is lower than our prior guidance due to pressures from increasing costs related to ocean containers and greater utilization of airfreight. SG&A is now expected to be approximately 35% of revenue, reflecting a similar dollar spend as reflected in our prior guidance on increased revenue estimates.

Similar to commentary from our year-end call, we expect SG&A spend to ramp throughout the year. The lowered ratio of spend to revenue is related to expected delays in the pace of hiring as the labor market remains highly competitive, and more efficient variable marketing spend fueling demand for our brands.

We anticipate these adjustments will help offset higher-than-expected logistics costs that are pressuring gross margins, allowing us to maintain prior operating margin guidance of 17.5% to 18%. We still expect a tax rate of approximately 23%. With these updates and the share repurchase executed in the first quarter, we are raising our earnings per share guidance for fiscal year 2022 to now be in the range of \$14.45 to \$15.10.

As a reminder, during this fiscal year, we're thoughtfully investing to create the long-term future and success of Deckers. These foundational strategic investments include adding logistics capacity with another distribution center in the US and larger facilities internationally; enhancing consumer experience on our e-commerce platform with increased personalization capabilities; improving planning and data analytics with new tools to optimize logistics efficiencies and data insights; seeding HOKA and reigniting UGG brand heat in China through localized investments; and bringing in new talent across the organization as we scale, enabling emerging opportunities with added capabilities.

And while disruption in the supply chain persists across the industry, we're working hard to mitigate impacts on our brands, including working with factories to prioritize certain products to ensure timely marketplace entry, planning greater DC bypass and collaborating with wholesale partners to get product on to shelves more quickly, utilizing airfreight where necessary to maintain strategic product launches, and optimizing distribution center workflow to support peak season DTC shipments.

While we have tried to incorporate what we know at this point, our full year guidance does not anticipate any further significant supply chain disruption, excludes any charges that may be considered onetime in nature and does not contemplate any impact from additional share repurchases.

Our teams have a great handle on what is under our control and will remain nimble to react to this dynamic environment. Our brands are well positioned to deliver another fantastic year, despite these challenging circumstances. And I'd like to thank our employees for their tremendous work and dedication to delivering consistently exceptional results. I'm excited for what lies ahead as we evolve our brands and business model to create the future of Deckers.

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. As we just covered, fiscal 2022 is off to a great start and we are pleased with the result we have delivered despite their macro challenges. We are especially excited about the expanded consumer adoption we are seeing across brands, gender and categories within our entire portfolio. There is a high degree of confidence in our organization about the strong demand our brands are experiencing, and our teams are working hard to minimize any macro pandemic-related challenges that persist in the current environment.

We are focused on our long-term strategies to increase consumer awareness and adoption of the HOKA brand to build a multibillion-dollar global performance brand over time, enhance the year-round adoption of UGG as a global lifestyle brand with broad acceptance of the brand's diverse product offering, and driving consumers to our online ecosystem to increase our DTC mix to 50% of total company revenues over time. We are actively building our workforce and making other key investments in the business to support these strategies now and for the future.

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. [Operator Instructions] Our first question comes from Jay Sole from UBS. Please go ahead.

Jay Sole

Analyst, UBS Securities LLC

Q

Great. Thank you so much. I just want to ask if you can elaborate a little bit on the growth with HOKA. Can you just talk about within the North America market how much of the growth has been with new products? How much has been the existing products? How much is new doors? How much is just comp in the existing doors, particularly in the wholesale channel? And can you give us a sense of sort of what your expectation was for HOKA growth in Q1 versus where it shook out and sort of how do you see it playing out by quarter over the rest of the year? Thank you.

David Powers

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

A

Yeah. Thanks, Jay, appreciate the question. Obviously, HOKA is on quite a tear. And the good news is that it is absent really any increased distribution. So, we're continuing to sell in the very strategic accounts that we've been in. The only place we're really expanding a little bit is a few more doors in DICK'S going to 40 doors in DICK'S. And then in Nordstroms, we're in about 25 doors, but not expected to go to more until the spring. So, the growth that you experienced in the past quarter was driven largely by our DTC business and existing distribution.

At the same time, the majority of the business that we're seeing is in core franchise styles such as Bondi and Clifton, but we're starting to see more adoption in – for other categories as we talked about in trail and hike. The launch of Anacapa hiking boot has been received extremely well also. So it's broad-based growth across both channels, across franchise styles and extended into new categories. And the demand is just continuing to be

super strong. And the awareness of the brand amongst runners is still in the mid-20%, even lower across all consumers.

So, what we find is when people hear about the brand and they try it, they're hooked and they're in. So, our job now is, continue to increase awareness and adoption of the brand in the existing distribution plan globally. So, we're super excited about how things are continuing to perform. The performance in the quarter, it was in line, but a little bit better than expected, hence the raise for the rest of the year. And we're continuing to focus and drive that momentum and continue to reinvest marketing dollars to keep it going.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah. And Jay, this is Steve. Just to add on to that. So, the improvement in revenue guidance that we're now flowing through for the full year outlook, the majority of that increase is coming from the better-than-expected results of HOKA in Q1. And I think as you think about the balance of the year, as we compare against bigger quarters last year, the percentage increase in growth is expected to reduce.

Overall, we're still growing significantly with HOKA, but we're going to start lapping bigger quarters against last year. So, that percentage growth may decrease. And the nice thing about HOKA is it's a nice balanced year, right? There isn't the seasonality that we have seen, say, with the UGG brand. So, as you think about HOKA, continued growth, little bit less on percentage terms and a nice balanced year.

Jay Sole

Analyst, UBS Securities LLC

Q

Got it. Thank you so much.

David Powers

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

A

Thanks, Jay.

Operator: The next question comes from John Kernan from Cowen. Please go ahead.

John Kernan

Analyst, Cowen & Co. LLC

Q

Yes, excellent. Thanks for taking my question and congrats on a great start to the fiscal year.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Thanks, John.

John Kernan

Analyst, Cowen & Co. LLC

Q

You've talked about HOKA obviously being, I think, \$50 million of the \$60 million increase in guidance for revenue, but UGG had a phenomenal quarter in the first quarter. Can you talk to the dynamics of UGG that's embedded in the guidance for the rest of the year?

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah. Sure, John. I'll take a crack at it first. So I think it goes back to what we said on the last earnings call, which was, we were going to shift UGG shipments earlier in the year. And part of the reason we haven't given quarterly guidance is because we weren't certain of the timing of that. But I think as indicated in Q1, we have been able to ship more in Q1. So, that's what's driven significant growth with the HOKA brand, but also within the wholesale channel.

And just as a reminder there, the intent there was to get more product out into the marketplace, because we saw disruption within the supply chain. So, this was a strategic move on our part to work with wholesale customers to take product earlier than they traditionally do. And this is for UGG, right? This is what's really driving the UGG growth, to your question.

So, it's atypical in the sense of we're moving more product in Q1 in anticipation of mitigating supply chain disruption. We've been able to move more, but it also aligns with what we said again on the last earnings call, which was, the growth of the UGG brand was really going to occur in the first half, as we were shipping and anticipate shipping in the first half product that we typically have shipped on a wholesale account basis in Q3. And so, that's what's driving the very strong UGG result in Q1.

Again, it's not necessarily that we're doing more at this stage. It's more about anticipating supply chain disruption and trying to get more product out into the marketplace to mitigate the supply chain [ph] disruption (00:35:25). But it also then allows us to focus on fulfillment of DTC as we get into that [indiscernible] (00:35:32). So, that's kind of the strategy and the growth behind UGG that you're seeing in Q1.

John Kernan

Analyst, Cowen & Co. LLC

Q

Understood. I don't think that's my line, but one more for me. You talked about DTC going to 50% longer term of the business. We can see from the model the direct-to-consumer from a contribution margin or segment margin, whatever you want to look at, up 700 basis points over the last two years, and it now exceeds wholesale in terms of overall margin. How should we think about the profitability of DTC versus wholesale as it scales towards 50%?

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah. We haven't given specifics on profitability other than to say our e-commerce channel is our most profitable segment, and hence, our significant emphasis on growing that part of the business and is the big driver of the total DTC growth to get to 50%. So again, we haven't given specifics on that, per se, in terms of profitability, but it is our most profitable channel and why we are intently focused on driving that proportion, DTC, as a total of sales to 50%.

John Kernan

Analyst, Cowen & Co. LLC

Q

That's great. Thank you.

David Powers

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

A

Thanks, John.

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

Jim Duffy

Analyst, Stifel, Nicolaus & Co., Inc.

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

Q

David Powers

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

Hey, Jim.

A

Jim Duffy

Analyst, Stifel, Nicolaus & Co., Inc.

I wanted to start asking about UGG and some of the seasonal and comparison influence, with the wholesale business, is there a possibility we're going to see similar pull forward from the fiscal third quarter to fiscal second quarter, or with more product now in the marketplace, should we not think about that as an influence?

Q

And then, I'm also curious, the difficult comparison influence on DTC, will that continue into the fiscal second quarter and fiscal third quarter?

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

Yeah. So Jim, I'll take a stab at it first, and Dave, feel free to jump in here. I think the HOKA dynamic is a little bit different than UGG. So with UGG, because of the seasonality of the business, it was easy to identify what we traditionally sell in, in Q3 and especially from a wholesale account and how we could identify and strategically move up some of those shipments.

A

With HOKA, what we're seeing is we're shipping to wholesale, but we're also seeing demand increase. And so, that's where you're seeing the outperformance and the carry through in the outperformance to our full year outlook. So there, it's about really the success of HOKA driving kind of additional sales that we're seeing in the quarter.

What we're more aligned, I would say, in terms of kind of a traditional cadence as it relates to wholesale accounts for HOKA, there, it's about just getting inventory in to accommodate our wholesale dates as well as some of the launch dates, and that is where we are seeing some pressure and looking to expedite and use some of that airfreight.

So there, it's a little bit about less pull forward and it's more about seeing increased demand and how we meet that increased demand in the marketplace and bring product in, in an expedited manner to match that demand. And so, that's where HOKA is a little bit different than UGG and a little bit more challenged in the sense of how much more can we do given constraints and disruption in the supply chain, and how we then work around that with expedited freight. So, it's not so much about a pull forward, but it's more about increasing demand and meeting that increased demand.

Jim Duffy

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. Related to that, before we get into the DTC comparison dynamic, Steve, the gross margin guidance change pencils to about \$20 million, is that all airfreight? Is that how we should think of it?

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

The large, large majority, so yeah, I think the way you're thinking about it is about right in terms of what we anticipate. I would say, not just airfreight, but kind of all additional costs associated with trying to get inventory in sooner. So, it's not solely all airfreight, but airfreight is a big component of that. We're also seeing increase in other costs related to trying to expedite shipping.

Jim Duffy

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. And then, the DTC comparisons – sorry, I know this is stretched to be more than one question. It started as one, I promise. The DTC comparisons with strong slipper sales and so forth, is that a dynamic you expect, will challenge progress in the DTC business in fiscal 2Q, 3Q? Or are you kind of through that now, given...?

David Powers

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

A

Yeah, I think it's to call the ball on that right now at this point, Jim. We did see a little bit of that challenge in lapping last year's stay-at-home orders because of primarily the slipper growth that we saw. I think you're going to still see some more challenges, more so on the UGG side of DTC as wholesale opens up versus last year.

But our philosophy is, at this point is, we want to be ready in all channels to wherever the consumer wants to shop. And so, we're making sure that we're getting our wholesale inventory levels in line. We're prepared on DTC, both in stores and e-commerce globally. And it's still a very uncertain environment.

So if there are further lockdown orders or the Delta variant takes on a whole new life, we're going to be ready no matter where the consumer has to shop. But we're confident that we'll be ready to meet the demand across all those channels. So, you'll probably still see a little bit more pressure on DTC in the short term. But longer term, we think we'll get back to a normal mix and a more increased growth in DTC over time.

Jim Duffy

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thank you so much, guys.

David Powers

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

A

Thanks, Jim.

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

Sam Poser

Analyst, Williams Trading LLC

Q

Thank you for taking my question. So I'm just going to ask this. Could you give us what the DTC revenue was by brand for the quarter or the wholesale revenue by brand for the quarter, either way you want to do it, please?

Erinn Kohler

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

A

Hi, Sam, I'll take that one. So by brand, this will be global wholesale, including distributor. So for the total wholesale channel for UGG in the quarter, that was \$135 million; for HOKA in the quarter, \$151 million; Teva, \$43 million; Sanuk, \$10 million; and other brands, \$4 million.

Sam Poser

Analyst, Williams Trading LLC

Q

Thank you very much. And then two other questions real quick. How do you view just the clean merchandise margins? What do they look like? What are you doing with pricing of products? And then, do you have any thoughts on M&A, Dave? Thanks.

David Powers

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

A

Yeah. So, the first one just on margins and pricing. So as you know, we have a very tight and clean distribution for all of our brands in wholesale, and we're maintaining high levels of full-price sell-through. As far as price increases go, we haven't had dramatic price increases this year. The product is on the water, if not already in the DC and in the accounts. The margins of the product, [ph] the tier (00:43:38) is considered in the guidance going forward with a little bit of hedging for some of the supply chain disruptions. But we're pretty confident in the sell-through, in the margin that we're going to have this year.

Next year, we are looking at some price increases across the board on a global level across all brands. It's an exercise the management team is going to be going through the next couple of months to mitigate some of the potential expense increases that are coming down the pipe in the supply chain. So this year, no price increases, steady, healthy margins is how we're looking at the business. We don't see any real reason to think differently about that. It's more about continuing high premium sell-through and distribution of the brands.

From an M&A perspective, we've talked about this before. It's not a major priority for us. We are continuing to have conversations, as we have had in the last three to five years. We're not looking at a major acquisition that's going to dramatically change the shape of the organization. We feel we have so much organic growth amongst our marquee brands now, both across footwear, geography, channel and then ultimately with apparel. So, we want to make sure we're not taking our eye off the ball, particularly in UGG and HOKA.

But at the same time, we are interested in smaller brands, whether they're footwear or apparel that could provide healthy growth in the out-years, three to five years from now, something that we can incubate, such as we've done with HOKA over the last 9 or 10 years. And we feel right now, if we're going to do anything, it'd be in that space, smaller brand, but not a major priority. We're just continuing to have conversations and evaluate what's out there.

Sam Poser

Analyst, Williams Trading LLC

Q

Thanks very much. Continued success.

David Powers

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

A

Thank you.

Operator: The next question comes from Camilo Lyon from BTIG. Please go ahead.

Camilo Lyon

Analyst, BTIG LLC

Q

Hi, everyone. Thank you. Dave, I was wondering if, given the consumer data that you're tracking and the work that you do on your own consumers that have come to your channel, have you seen those customers that were new to the brand last year that probably came through and bought slippers, come back this year and buy a different type of footwear products? Have you seen any sort of retention that's come back to the brand?

David Powers

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

A

Yeah, we're definitely seeing that, Camilo. What we talked about in the last couple of quarters is we're bringing in a younger, more diverse consumer, and this is for all of our brands. And then we are seeing more repeat purchases. So the trend that we talked about last year around this time in Q2, where people were coming to the brand and buying traditionally a classic, they're now coming in and buying a fluff or a different category of product for the first time. And then they are coming back, particularly with the fluff franchise we've talked about, there's a lot of newness. There's a lot of excitement. There's a lot of innovation. And as we expand that franchise to be more of a sandal than a slipper, we're starting to get increased purchases that way as well.

We're also seeing really strong results from our loyalty program, and that's driving a significant amount of our sales and repeat purchases. So, a lot of our repeat purchases are loyalty members. So, what's great is we get these new consumers in, we get them signed up in our loyalty program and then we can cultivate new opportunities across a diverse category offering. So, this is a big change from where we've been in previous years, where we now have exciting, compelling product beyond core classics in slippers and sandals and sneakers, in rain boots, in fashion, winter boots. And we're starting to see those categories really resonate, which is great. And as you know, that's a key strategy of ours is diversify. And then, obviously, some strong adoption that we're starting to see with apparel.

So, what gets me really excited about the UGG momentum right now is that it's broad-based. It's cross-genders, it's cross-categories, it's global. And we think that there's a lot more opportunity down the road to continue down some of these new categories and build more of a year-around business.

Camilo Lyon

Analyst, BTIG LLC

Q

That's good to hear. Thank you for that color. If I could ask just one more. I think, Steve, you addressed this a little bit, but I want to kind of try and pin you down and see if you can give us some sort of quantitative benchmarks to help understand the dynamics around slippers.

If you could help us understand the pre-pandemic mix of slippers in this quarter relative to what it was last year and what it went down to this year, and maybe help us understand how that will modulate into the next quarter. So just really trying to understand the depth of a comparison that we're facing as we transition into the fall season, into a more normalized shopping behavior pattern relative to where we were last year at this time.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah, sure, Camilo. And I can give you probably more a high-level overview rather than specific numbers, because we're dealing with two unusual years here. So going back a year ago, right, with the pandemic kind of really taking effect as people were working from home, we saw a very significant increase in terms of the slipper business. And that was largely, again, from a channel basis, then driven through our DTC business.

So, we saw considerable growth with the UGG slipper business. We are comping that growth, but it's also changing because of this dynamic where we're shipping more product early this year. So, it's not a true apples-to-apples comparison. What we can say is that we're continuing to see growth. Part of that growth is this year that we've shipped some of that product earlier. And so, I think we need to see how the next few quarters play out in terms of that growth.

The encouraging news is it's still a growing category for us, even on top of last year's exceptional growth. But we are shipping some of that product earlier. And so, we'll see some of the growth moderate in future quarters, and we'll have a better read on it as we get through the season. But we're still encouraged by growth that we're seeing in that category.

[indiscernible] (00:50:17)

David Powers

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

A

Fluff Yeah franchise was the number one style in UGG for the quarter, similar to last year. So still seeing that strong reaction there, a little bit of growth in that style versus last year. But obviously, a very compelling program that we're going to continue to build on and there's still strong demand for it.

Camilo Lyon

Analyst, BTIG LLC

Q

Got it. So that's encouraging to hear that. Slippers was part of that big replenishment that you had in this quarter.

David Powers

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

A

Yeah.

Camilo Lyon

Analyst, BTIG LLC

Q

Is there a way to quantify what the total replenishment was to this quarter, if we separate out just generically spring product sell-through versus replenishment? What does that add [ph] to the product (00:51:00)?

David Powers

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

A

Yeah.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah. There isn't a specific number to speak to yet in terms of replenishment because it will be dependent on kind of future sell-through, too. So, we can't peg to a number at this stage. I would say stay tuned on that. What we are saying, though, is that the growth, as I mentioned on one of the previous questions, that you're seeing in the UGG

growth in the quarter, a good component of that is building inventory in the wholesale channel. So clearly, the replenishment will be dependent on what sells through of that. And so, that's where we need the next couple of quarters, because we are shipping and did ship in Q1 some fall product, right? And this is all to mitigate some of the disruption that we're seeing with supply chain.

So, don't have a specific number at this stage, other than to say the growth that you're seeing in UGG wholesale in Q1 is really our strategy of getting more product out early to replenish inventory in the wholesale channel, which we've done. We are seeing good sell-through, but some of that product is there rebuilding inventory and then we'll see as we get through the next couple of quarters of how much of that rebuilt inventory versus how much of that sold through. And then we'll be in a better position to say how much is replenishment.

Camilo Lyon*Analyst, BTIG LLC*

Q

Very good color. One last one, if I could. Given that it's becoming pretty well known, I think even by consumers, that inventories are fairly lean and if you see something, maybe you want it you should probably buy it. Are you seeing that materialize in the earlier purchases of fall product?

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

A

I wouldn't say that's necessarily happening just yet. What we're selling is a good healthy mix of spring and summer in fashion, classics, and particularly in slippers and the New Male. If we're seeing it anywhere, it's probably in the New Male and the Classic Mini versus previous years. But we're not seeing a lot of early shopping based on inventory. We've been able to maintain a good healthy mix of inventory. The wholesale channels are getting fulfilled again and sell-through is healthy. But I wouldn't say we're necessarily seeing people shop early because they're afraid of not being able to get it.

Camilo Lyon*Analyst, BTIG LLC*

Q

Got it. Thanks so much, guys, and good luck.

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

A

You're welcome.

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

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

Q

Yeah. Thank you. I want to ask about HOKA. Steve, maybe first, just when you think about seasonally for HOKA, typically, it looks like the first quarter is among the lowest in terms of the sales by quarter throughout the year. It doesn't look like that's the way you're planning or at least embedded in the guide. So, any additional color kind of seasonally how we should think about HOKA and any constraints to growth, if there are any?

And then, Dave, when you think about the view to a multibillion-dollar brand opportunity, could you share a little bit more just what that looks like when you think about geography, channel, product? Do you have any sort of color you can on the mix in those areas?

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Sure, Jon. So, I'll go first and talk a little bit about HOKA. So you're right. I think traditionally, we've seen Q1 be smaller. That is why you're seeing higher percentage growth currently. So as we see it become a more seasonally balanced brand, that's why you're seeing higher levels of growth in what have traditionally been or historically been smaller dollar quarter. So with the higher percentage, they're catching up to some of the bigger quarters.

In terms of constraints, right now, it's not demand, it's product and getting product in quick enough to fulfill demand. There is demand out there for HOKA and we're just trying to meet that demand in a constrained environment. And so, again, to one of the earlier questions where I was talking about airfreight, HOKA is a brand that we're looking to expedite freight to get it in to meet the demand. So, we've gotten a few questions in terms of HOKA and how we see it. Clearly, it is a big grower. It's growing very rapidly.

The challenge is more just us getting products made and to the market. The sell-through is incredible. Pricing is very clean. Sell-through is great. We're building the smaller quarters. And so here, the challenge really is just getting inventory in and getting it in, in time to meet the demand in the marketplace. And in some cases, that's where we're seeing some pressure with the brand. So, overall, very healthy, growing incredibly well. We're very pleased with the progress that we're making, and we're just trying to keep up with the growth that we're seeing out there.

David Powers

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

A

Jon, can you – do you mind repeating the question you had about multi-brand?

Jonathan Robert Komp

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

Q

Yeah. I misspoke. The multibillion-dollar opportunity you see for the HOKA brand, Dave, could you just talk about, any broad strokes, how you view that playing out by channel or geography or even product category? Just trying to conceptualize how you're thinking about the opportunity for HOKA.

David Powers

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

A

Yeah. I think – we think we can surpass the \$1 billion milestone with the current distribution and current category mix, so heavy on road and trail running, still primarily is our drivers of revenue and growth. So, the Bondi and Clifton franchises, as an example. Longer term, on a multibillion-dollar opportunity, continuing to take market share from our competitors globally in core run, really expanded outdoor hike business. REI is a great example of the potential there. We're starting to see traction beyond that and stealing market share there as well.

From a channel mix – sorry, to finish also, there is also a significant lifestyle opportunity for us, and we're starting to see product in there in that category and seeing success there early on. And I think you'll see spring 2022 and fall 2023, some really compelling crossover styles that are still rooted in performance, but have a broader wearing appeal for consumers. Ultimately, there is an apparel opportunity that we're incubating. As you saw, we brought in a new head of design for apparel, so we're getting serious about that.

Broad-based will probably be larger international in the US over time. But that is going to be driven by a healthy mix, probably 50% of DTC and 50% wholesale again, and just continuing to increase the breadth of the line,

increasing reach in particular places like Europe and Asia Pacific with a big focus on China on top of that continued growth in North America.

Jonathan Robert Komp

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

Q

That's great. I appreciate all the color. Thank you.

David Powers

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

A

You bet.

Operator: The next question comes from Janine Stichter from Jefferies. Please go ahead.

Janine Stichter

Analyst, Jefferies LLC

Q

Hi. Thanks so much for taking my question. I want to ask about the SG&A. I think you said you're looking at dollars similar to how you had previously planned it, but with the better sales. So, can you help us just think about the relationship of fixed versus variable in the model? And then, it sounds like maybe there are some areas where you would ramp SG&A more, if you could. Maybe speak to those areas and what your optimal level of spend would be?

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Sure, Janine, I'll take that. So, I think what we're seeing and what we spoke to on the last earnings call is a commitment to increasing. So again, last year, I think as everyone acknowledged, was a unique year in the sense that we saw an acceleration of revenue and we weren't keeping pace necessarily with investments in a year of uncertainty.

And so, we've approached this year much more around building capabilities in infrastructure and marketing for brand awareness, as we now look to continue to grow the organization and grow our brands. And so, you are seeing a step up and a step up as a percentage of sales, as we've currently guided in that, approximately 35% of revenue, it's a good point to be, we think, for the current year.

What we do and are also doing is increasing our variable component of that. And so, with that, we're being very tight in terms of management on fixed costs, which is allowing us to create more variable spend specifically around marketing and global marketing to build brand awareness. So as we're seeing tremendous growth with these brands, fueling that with marketing to drive brand awareness.

At the same time, we are leveraging our fixed costs, which is what we're seeing in an overall picture, again, ignoring what happened last year, to build that profile. And so, we're very comfortable with that. We like the profile of what we've got in the current guidance that gives us that flexibility.

What we are seeing to that and what we've flowed through currently is we're seeing some challenges with hiring and getting people when we thought. And so, that is some of the reduction that you're seeing in the current SG&A guide versus the prior SG&A guide. That will be something that may change slightly in the future as we're trying to build talent in the organization to support the level of growth that we see in the coming years.

So, overall, comfortable with what we're guiding this year, more variable to drive marketing globally and brand awareness globally, leveraging on the fixed cost, but also recognizing we're probably a little bit behind where we thought we would be a quarter ago and that's giving us a little bit of leverage in the current year.

Janine Stichter

Analyst, Jefferies LLC

Okay...

Q

David Powers

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

Yeah. And I would just add...

A

Janine Stichter

Analyst, Jefferies LLC

Go ahead.

Q

David Powers

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

Sorry, Janine, I would just add to that that we're having ongoing conversations about how we're tracking with hiring. As Steve said, that's a little bit more challenging in this environment than we anticipated. So, anywhere that we have money that is not being spent or potentially freed up, we're doing our work to reallocate that to marketing dollars to drive the brand – all brands going forward and also international growth so we can turn these markets around at a faster pace.

A

Janine Stichter

Analyst, Jefferies LLC

Great. I know it's very hard to look out on a multiyear basis now, but you're very much in brand-building mode, especially for HOKA. But do you think the level of marketing spend that you're at now, is that optimal, or could we see that kind of start to moderate as the brand awareness starts to grow?

Q

David Powers

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

I think, a very healthy rate right now for HOKA. The athletic sector tends to have higher rates of marketing with athletes and events and everything else. So, it's working for us. We're continuing to drive it. I don't see us reducing that anytime soon. If we have an opportunity to ramp it up even more so, we probably will because we want to stay super aggressive and competitive here.

A

On the UGG side, we have been increasing the rate of spend over the last three years to very healthy and comparable to some of our peer groups. And we're going to continue raising that. But I think, right now, we're in a very good spot where we have a lot of flexibility and agility with how we spend our money and where we spend our money by brand, region, channel and type. And we're constantly having conversations with our brand leaders and commercial teams on how we can optimize that.

So, marketing is a big lever for us in this environment, super competitive. We want to stay aggressive and we're going to put as much marketing dollars into play as we can, making sure that we also are building our infrastructure to support the growth that we're driving.

Janine Stichter

Analyst, Jefferies LLC

Okay. Great. Thanks for all the color.

Q

David Powers

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

You bet.

A

Operator: And our last question comes from Mitch Kummetz from Pivotal Research. Please go ahead.

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Yeah, thanks for taking my questions. Steve, on the earlier shipping that you talked a lot about, can you quantify the impact that that had on the quarter? Your sales were up \$228 million, I think you said earnings up nearly \$2 from a year ago. Can you parse out the impact on those two numbers from the earlier shipping? And then I have a follow-up on UGG.

Q

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

Yeah. So, Mitch, it's a good question. And we haven't given quarterly guidance. So, what we're saying – and it's probably best viewed through the lens of the change in the annual guidance that we've given. So with increasing revenue \$60 million, what we're saying is what we've achieved – and again, this is largely through HOKA and Teva – that is better performance than what we expected and that's where we're flowing through it on the year. In terms of UGG, what we're saying is that's largely us adhering to the strategy that we set out at the beginning of the year, which is ship as much as we can, as early as we can. And so, that's why you're not necessarily seeing the change in the UGG full year outlook at this stage.

A

So, I think in terms of the – when you look at the change in Q1, we are shipping a lot more than what we historically do. That's not necessarily more business. Some of it is, as demonstrated by the performance of HOKA and Teva. The UGG aspect is really more around the strategy of shipping more product early to replenish depleted inventories and set ourselves up for a successful fall season. That's what we're doing and that's really what you're seeing in the numbers. Because of that outsized revenue increase and largely timing on the UGG side, it's driving a significant profit in the quarter, right? Some of that's getting passed through. But again, not all of it is over-performance, it's largely timing of performance.

And so, best viewed, again, through that lens of compare our full year outlooks and there you can identify it. And then, just speaking to the other components of the P&L, as we've talked about on previous questions, we are seeing pressure with supply chain constraints and bringing inventory in. And so, that is what's leading us to take down our gross margin profile as we expect to incur more costs on that front. And then, we're able to offset some of those increases with some leverage in SG&A versus the prior guidance, which is allowing us to hold the operating profit profile, but with the increase in sales driving the lift in EPS that we're also passing through.

Mitch Kummetz

Analyst, Pivotal Research Group LLC

And then just real quick on UGG, maybe two quick ones. Just following up on Camilo's question around slippers, and I can appreciate all the dynamics there that you mentioned. But I'm curious, the UGG guide is high singles to

Q

low doubles. Are you expecting slippers to be better, or worse, in line with that? And then, maybe a second on UGG. You made some positive comments about men's consideration. Can you remind us kind of where the split is men's versus women's, kind of how the growth rates compare these days?

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah, sure. I think from an overall standpoint, right, as I said, we're still looking at growth. Again, it's not on a percentage basis similar to what you saw last year because of the dynamics of last year and what drove the growth there. But the good news is we're maintaining and continuing to build on that growth.

And then, from a men's shift in terms of percentage of the business, we are continuing to see some increases as we resonate with the male consumer. Yeah, we're still in kind of growing above or at kind of roughly around that 15% range, where historically, if you go back a few years, it was probably closer to around the 10% to 12%. So, yeah, in proportion to sale.

So not only are we growing the dollar amount, right, we're also – we're growing the percentage of that business, too. So, again, good growth, increasing on the male side, as Dave said earlier, as we're resonating kind of with younger consumers, that includes males and so bringing more new customers into the brand. Dave, did you have anything you wanted to add on that one?

David Powers

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

A

Yeah. No, I think that's right. I think what we're seeing in men's, we've been at this for quite some time to make UGG relevant and exciting for the male consumer. The Foot Locker partnership has been a big catalyst for us there, including as well as Journeys. We're getting more penetration in wholesale for men's product, led by the New Male, but also now adopting some of the slipper products and driving acquisition online in our e-commerce business and DTC business.

We have better strength in a place like China, where the penetration of men's is bigger and more broad-based. So, we're going to continue to build on that. We're allocating more marketing dollars against the men's opportunity. We feel that that is a significant space that we can build and take share from competitors in that space and be a meaningful brand for men over the long term. So, the progress there is exciting. And we have a new leader in the men's business that joined us during the pandemic, has tremendous experience. The innovation pipeline for product is strong and we're going to continue to build on that.

I would say just – in closing, I do want to say that I want to give the management team and the whole organization a lot of credit for the way they've managed the last 18 months. We've been maintaining a very aggressive mindset with these brands. We want to continue to steal share. We want to continue to gain shelf space globally.

But the way the executive team and their teams globally have managed around factory planning, staying aggressive on the buys when other brands are cutting inventory, that has helped us tremendously. We're navigating through a lot of the supply chain issues through earlier shipments, close partnership with our key wholesalers to take product early, super tight marketplace management by our brands, we're staying clean and premium.

And the existing product pipeline and what's coming down from an innovation standpoint is incredibly compelling. So, you combine all this with a very purpose-led culture, and there's a lot to be excited about at Deckers, and I'm

really proud of the work the teams have done. And I'm very excited about what's ahead of us for all of our brands on a global scale. So, we appreciate your time.

Operator: This concludes our question-and-answer session. Thank you for attending the Deckers Brands first quarter fiscal 2022 earnings call. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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