

03-Feb-2022

# Deckers Outdoor Corp. (DECK)

Q3 2022 Earnings Call

## CORPORATE PARTICIPANTS

### Erinn Kohler

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

### David Powers

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

### Steven J. Fasching

*Chief Financial Officer, Deckers Outdoor Corp.*

---

## OTHER PARTICIPANTS

### Camilo Lyon

*Analyst, BTIG LLC*

### Laurent Vasilescu

*Analyst, BNP Paribas Exane*

### Jonathan R. Komp

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

### Sam Poser

*Analyst, Williams Trading LLC*

### Paul Lejuez

*Analyst, Citigroup Global Markets, Inc.*

### Jim Duffy

*Analyst, Stifel, Nicolaus & Co., Inc.*

### Jay Sole

*Analyst, UBS Securities LLC*

---

## MANAGEMENT DISCUSSION SECTION

**Operator:** Good afternoon and thank you for standing by. Welcome to the Deckers Brands third quarter fiscal 2022 earnings conference call. At this time, all participants are in a listen-only mode. [Operator instructions] I would like to remind everyone that this conference call is being recorded. I will now turn the call over to Erinn Kohler, VP, Investor Relations and Corporate Planning. Please go ahead.

---

### Erinn Kohler

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

Hello, and thank you everyone for joining us today. On the call is Dave Powers, President and Chief Executive Officer; and Steve Fasching, Chief Financial Officer. Before we begin, I would like to remind everyone of the company's Safe Harbor policy. Please note that certain statements made on this call are forward-looking statements within the meaning of the federal securities laws, which are subject to considerable risks and uncertainties. These forward-looking statements are intended to qualify for the Safe Harbor from liability established by the Private Securities Litigation Reform Act of 1995.

All statements made on this call today, other than statements of historical fact, are forward-looking statements, and include statements regarding 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 and supply chain, 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 Factor section of its Annual Report on Form 10-K and Quarterly Reports on Form 10-Q. Except as required by law or the listing rules of the New York Stock Exchange, the company expressly disclaims any intent or obligation to update any forward-looking statements.

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

---

## David Powers

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

Thanks, Erinn. Good afternoon, everyone. And thank you for joining today's call. I'm excited to review our third quarter results that underscore the momentum of our brands and their continued execution of key strategy as we build the future of Deckers Brand. As we continue to navigate a challenging logistics environment, I reflect on both the exceptional demand for the UGG and HOKA brand and the added pressure we faced to keep pace with the growth in a constrained environment.

While we don't currently see signs that elevated logistics cost or supply chain bottlenecks will subside anytime soon, we do see value in supporting our strong brands through expediting key product inventory, giving our brands the opportunity to gain market share.

Steve will provide a more detailed update on the status of our supply chain network and the actions we're implementing to provide our brands with the best opportunity to thrive in this challenging marketplace now and into the future.

With that said, Deckers' third quarter revenue increased 10% over the prior year-to-\$1.188 billion, representing our largest quarter in history. We saw a balanced growth across our entire brand portfolio as Direct-to-Consumer, wholesale and multiple geographies drove impressive result.

Performance in the quarter and throughout the year has been the result of our execution on our long term strategy, including driving HOKA, diversifying UGG, building DTC and developing our international market.

More specifically, we have made progress across these key areas as HOKA grew 30% in the quarter despite port congestion and inventory constraint and has grown 54% year-to-date over prior year, contributing half of our total portfolios incremental revenue. UGG increased 8% over last year in Q3, and has driven double digit growth year-to-date propelled by global adoption of the brand's diverse product assortment.

Direct-to-Consumer growth outpaced wholesale growth, improving DTC mix to 50% of third quarter revenue, up from 48% last year and 44% two years ago. And our international regions contributed a significant portion of global growth year-to-date, increasing 27% over the prior year, and outpacing the US increase of 19%. For UGG, our international regions have sold their most diverse offering of UGG products ever, which helped the brand deliver impressive global growth fiscal year-to-date.

In addition with HOKA continuing to expand its share of the global performance market, we believe our portfolio contains two of the strongest brands in the footwear industry with much more promising growth ahead. Now let's get into some of the brand highlights starting with UGG. Global UGG third quarter revenue was \$946 million, reflecting an 8% increase versus last year, and a 21% increase versus two years ago, in the brand's largest quarter.

These results when combined with the UGG brand's outstanding first half equate to fiscal year global revenue growth of 13% above last year and 21% above two years ago, reflecting the continued steady growth in the US which is up high single digit on top of last year's mid teens increase and a strong return to growth within the brand's international region which have increased north of 20% versus last year and double digits versus two years ago, all of which has been fueled by diverse assortment of compelling UGG products across gender and categories that are being embraced by a broader and younger consumer base.

In terms of the UGG brand's success, year-to-date, the majority of growth has come from categories outside of women's classic boot. This includes continued gains across men's and kids footwear, women's slippers and fluff, as well as apparels and accessories. While these categories are driving the bulk of UGG growth, it is important to note that women's Classics have also performed very well this year. Fiscal year-to-date women's Classics boot have driven year-over-year revenue growth, represent a smaller percentage of total brand revenue, and reflect greater style diversity within the category as items outside of the core such as the Ultra Mini, Classic Clear and Neumel have been key drivers of consumer acquisition this year.

The Neumel with its broad consumer appeal is this year's largest dollar volume style across the entire UGG assortment. The UGG product and design teams have done a great job developing companion versions to build a franchise which continues to be a large driver of men's growth.

Additionally, our consumer data has shown that the adoption of UGG Men's product skews younger, as the 18- to 34-year age group represents a larger portion as compared to the brand average. And the Neumel remains a top acquisition style amongst these consumers. Our product teams are actively utilizing these insights to design new styles that will allow UGG to build upon momentum with these target consumers.

Turning to kids footwear, UGG has driven impressive gains in kids' categories over the past few years. We believe this is a strong indicator of brand health as purchasing patterns reflect consumers buying UGG for the family with the majority of top styles representing popular items from the men's and our women's product range.

These bundled purchases are obviously great for increasing cart values and wholesale open to buy but also act as a great avenue to introduce UGG to the next generation of consumers. Beyond footwear, UGG has been focused on acquiring new consumers through a compelling apparel assortment. To build awareness in the category, UGG developed its first-ever apparel dedicated marketing campaign, which helped drive a 40% increase in apparel consumer acquisition year-to-date.

Our consumers have responded particularly well to ready-to-wear sportswear and outerwear items that contain visual UGG DNA, logo treatment and deliver on the expected feeling of UGG. This was the first season for a number of retailers carrying UGG apparel, many of whom are concentrated in the youth and sports lifestyle channels.

These channels have been driving strong performance with UGG footwear for some time now, and we're excited that they are onboard to expand into a head-to-toe UGG offering. On the domestic front, this is the fourth

consecutive year UGG has delivered strong year-to-date growth in the US where brand consideration remains at an all-time high among 18- to 34-year-old according to [ph] Hugo (00:08:48).

The brand's development of a more youthful and diverse product assortment as well as the ongoing US wholesale marketplace management strategy has helped UGG strategically expand within youth and sports lifestyle account.

While UGG has built market share across its account base, the youth and sports lifestyle accounts have significantly outpaced growth with department stores. Additionally, UGG has driven significant gains in DTC acquisition with 18- to 34-year-olds over the past two years, as this age group has grown at a 25% CAGR year-to-date over the same period of fiscal 2020.

Critical to this success has been the product adoption among those younger consumers who are purchasing both heritage products like the Classic Short and Mini, but also new franchises like the Neumel, Fluff, Tasman and Classic Clear.

From an international standpoint, regions outside of the US have accounted for approximately half of UGG's growth this year, with EMEA and China driving the majority of gains over last year.

Approximately three years ago, UGG's implemented a marketplace reset strategy in the EMEA region based on the successful strategy that reignited the brand in the US. This involved a reduction of wholesale accounts to the tune of approximately 35% over the last three years, allocating and segmenting core product and elevating brand positioning while also working to create demand for complementary UGG products in new categories.

Beyond the marketplace activities in EMEA, the UGG marketing team began localizing global content to more effectively connect with consumers living in European and Asian countries. More recently, UGG developed market-specific collaboration and brought on local influencers to help highlight the brand's compelling product.

These actions have helped drive the international turnaround of UGG which is now delivering growth in high full price sell-through with the brand's most diverse product assortment effort. Importantly, the return to growth of international UGG regions aligns with our global category growth initiatives, further aiding the brand's diversification into categories outside of women's classic. Fiscal year-to-date, women's core Classics and derivatives have moderated to below 40% of international revenue. This is more in line with the US and compares to north of [ph] 15% (00:10:58) just three years ago.

With a tightened supply of core product, international regions are driving healthy growth with popular global styles such as the Fluff franchise, Ultra Mini, Classic Clear and the Neumel. By highlighting new categories, reducing the supply of core product and tailoring marketing campaigns to local consumers, UGG has begun to expand its audience to younger consumers in both Europe and China.

In Europe, this has led to new strategic points of distribution in the youth and sports lifestyle channel. The volume generated with these retail partners is still relatively small but growing significantly faster than average. And if the US is any indication, these emerging segments can be a big driver of growth and volume in the future. Similar to the US, we believe younger consumers are leading the UGG brand's increased popularity among international market. The brand has worked hard to create localized content that resonates with sub-35 age consumers in their respective market.

In Germany, France and the UK, this age group is driving over 40% of traffic conversion from paid social. In China, this age group is driving DTC growth in key franchises including global styles such as Fluff and the Classic Clear. The UGG team has a lot to be proud of with the progress it has made as the brand continues to drive global growth with a diverse assortment of in-demand product.

Looking ahead, we were excited for UGG to build upon this year's head-to-toe demand with a compelling new rainwear proposition that features two new styles, the Drizlita and the Tasman X which we believe will help the brand further expand its year-round appeal to consumers around the world. We are already receiving great feedback on the sell-through of this collection of rainwear product and are excited to share more on our year-end call. Congratulations to the UGG team on a great fall season, and we look forward to continued success this spring.

Shifting to HOKA, global revenue in the third quarter was \$185 million, reflecting a 30% increase versus last year and nearly double the volume of two years ago. Despite dealing with stockouts and delayed inventory, HOKA performed well in the quarter, driven by global strength in the Direct-to-Consumer channel which increased 52% over last year, and continued global wholesale market share gains, particularly among international region as unit growth outpaced domestic.

Fiscal year-to-date global HOKA revenue has increased 54% versus last year, reflecting strength across the brand's ecosystem of access point as domestic, international, wholesale and Direct-to-Consumer continue to drive impressive growth. From a Direct-to-Consumer standpoint, we have seen strong global demand for HOKA year-to-date as US search interest increased 74% over the prior year, according to Google Trends.

New consumers visiting the European HOKA website during Q3 increased 88% over last year helping the region maintain the highest DTC growth rate thus far in fiscal 2022 and drove a more than 30% increase in conversion rate during China's Double 11 event, demonstrating improved awareness in the region. DTC continues to be a great avenue for HOKA to make connections with consumers, drive replenishment and increase category adoption as it more effectively displays the breadth of the brand's product assortment. We are actively testing and developing the HOKA consumer experience at pop-ups in the US and owned locations in China.

In China, we plan to utilize strategic retail locations to continue building HOKA brand awareness as we develop the marketplace further and create a model for future wholesale partners to leverage. In the US, we have seen great engagement from consumers at pop-up locations and are exploring other select cities to test the HOKA experience.

At the same time, HOKA is building the experience at DTC, the brand continues to build credibility and awareness with consumers through partnerships with strategic retailers. This spring, HOKA will be strategically expanding with key partners to satisfy incremental demand and further augment the brand's market share. We are pleased that our partners have continued to express excitement about the HOKA brand and their desire to expand further, and we look forward to continuing to grow those relationships. At the same time, we remain disciplined in our approach to steadily and sustainably building HOKA to a multibillion-dollar brand over time.

Shifting to product highlights for the third quarter. We launched the Bondi X at the beginning of October. This innovative style combines the signature cushion of a traditional Bondi with a carbon fiber plate to give athletes a more propulsive and efficient ride. The Bondi X launch drove significant traffic to hoka.com, 65% of which were first-time visitors. The style was even named one of the best running shoes according to GQ's 2021 Fitness Awards.

Beyond the Bondi X, the HOKA brand is expanding consumer awareness with two of its newer franchises, the Rincon and the Mach. Both franchises were designed for an audience of consumers under 35 years old. The HOKA team strategically developed Rincon and Mach social content for platforms possessing a higher concentration of this key demographic. As a result, the Rincon and Mach have been key catalysts for the HOKA brand's accelerated acquisition of younger consumers, and these franchises are driving superb growth.

On the collaboration front, HOKA partnered with global luxury brand Moncler to release a limited edition of the HOKA Mafate Speed 2. This was a great opportunity for HOKA to build global awareness by partnering with a well-known European fashion luxury brand. The collaboration drove significant positive PR for HOKA and sold out in the first hour of availability. Collaborations like this are a great indicator of the brand's growing appeal beyond its traditional performance root and into the space of fashion.

While fashion is not a top priority for HOKA right now, we see this as an opportunity for the brand to capitalize more broadly in the future. To close HOKA, I'd like to congratulate the entire team for the brand being named Footwear News Brand of the Year. This is a fantastic accomplishment and speaks to the incredible momentum of HOKA as the brand marches closer to \$1 billion in revenue and beyond. We have enormous confidence in the brand's ability to continue building share in a highly competitive marketplace.

While we continue to operate in this constrained environment, we are prioritizing the fulfillment of HOKA demand, though carefully balancing stringent quality standards as the brand's growth has required adding further manufacturing capacity. Ramping production of this highly technical performance product will require some additional time, but our measured approach will ensure HOKA is built to become a long-term major player in the performance space, while delivering the quality product our consumers expect.

With respect to channel performance in the third quarter, global Direct-to-Consumer revenue increased 13% versus the prior year and plus 42% versus two years ago. From a comparable sales perspective, Direct-to-Consumer increased 11% versus last year, fueled by strength in both retail stores and online. UGG and HOKA drove the majority of the year-over-year dollar volume increases, but DTC demand was robust across the portfolio. Facing bottlenecks during the UGG brand's historical peak period of demand, we took specific actions that benefited UGG DTC, which included encouraging preorders on key styles to help smooth demand, carrying a broader exclusive assortment that provided the option of alternate in-stock products where there were shortages and offering the option to purchase back ordered products that had incoming inventory.

In a constrained supply environment we have experienced this year, our omnichannel capabilities proved advantageous in reducing the impact on the UGG brand's business. From a wholesale perspective, global revenue in the third quarter increased 7% versus last year and 14% versus two years ago. Growth in the quarter was primarily driven by international UGG and global HOKA with slight offsets from a reduction in domestic UGG that resulted from earlier shipments of fall products as compared to the prior year. Wholesale comparisons remain unique as macro logistics pressures and bottlenecks continue to alter shipment timing as compared to historical pattern.

With that, I'll hand the call over to Steve to provide further details on our third quarter financial results, status of the dynamic supply chain challenges facing our industry and our updated fiscal year 2022 outlook. Steve?

---

## Steven J. Fasching

*Chief Financial Officer, Deckers Outdoor Corp.*

Thanks, Dave, and good afternoon, everyone. I'd like to echo Dave's remarks regarding the success of our key strategies. With three quarters of the year now behind us, including the peak UGG holiday season, we feel great

about the strength of our brand portfolio. Throughout the year, UGG has driven global growth with a diverse assortment that is resonating with consumers across multiple categories, including apparel and accessories.

At the same time, HOKA continues to build share with compelling performance products across its ecosystem of access point. The growth delivered by our two largest brands was achieved despite significant supply chain disruption that we expect to remain a headwind for the foreseeable future.

While this challenge persists, we have a great deal of confidence in the demand for our brands, bolstered by our omnichannel capabilities, flexible operating model and fortified balance sheet. Ultimately, we believe that prioritizing our long-term strategic goals will allow our brands to remain successful and drive continued market share gains.

Now for the financial specifics of Q3 results, third quarter fiscal 2022 revenue was \$1.188 billion, representing a 10% increase versus last year and a 27% increase versus two years ago. Q3 growth was driven by our two largest brands, UGG and HOKA, as international UGG increased 29% versus last year, led by a return to growth in our EMEA region and an acceleration in China. And global HOKA increased 30%, aided by a more than 50% increase in DTC.

Gross margins for the third quarter were down 470 basis points versus last year to 52.3%. The decrease as compared to last year was due to higher freight costs as ocean container rates have significantly increased, third-party delivery fees have increased, and we have used a substantial amount of air freight. The increased cost in freight, including all of these components, amounted to approximately \$55 million above last year in the quarter.

SG&A dollar spend for the quarter was \$328 million, up 15% from last year's \$285 million. Increased spend was primarily driven by greater marketing expense to increase localized content, highlight new categories and fuel brand heat globally as well as higher warehouse expenses as we grow our logistics network and other variable expenses.

Our tax rate for the quarter was 20.5%, which compares favorably to the 22.2% last year due to discrete tax benefits and a higher proportion of international revenue. This resulted in a diluted earnings per share of \$8.42 for the quarter, which compares to \$8.99 in last year's third quarter. The \$0.57 decrease versus last year was primarily driven by lower gross margins that resulted from higher freight costs, higher marketing, warehouse and variable expenses with partial offsets from the revenue growth of our two largest brands and benefits from a lower tax rate and share count.

Turning to our balance sheet, at December 31, 2021, we ended December with \$998 million of cash and equivalents. Inventory, including in transit was \$551 million, up 80% from \$305 million at the same time last year, with the large majority of that increase still in transit and delayed due to port congestion. And we had no outstanding borrowing.

During the third quarter, we repurchased approximately \$131 million worth of shares at an average price of \$369.12. Fiscal year-to-date through December, we have repurchased approximately 736,000 shares, spending a total of \$267 million. At December 31, 2021, the company still had \$544 million remaining under its stock repurchase authorization.

Before we move into our final outlook update for fiscal year 2022, I'd like to provide an update on the status of our logistics network and the actions we are taking to mitigate future effects on our business. The most material challenge facing our business continues to be prolonged transit times for items produced overseas to reach our

warehouses. This has led to a much higher proportion of inventory classified as in transit. At September quarter end, we noted that approximately 45% of inventory was in transit, which compared to roughly 20% in the prior year at the same point in time.

As of December 31, we have not seen improvement as approximately 50% of our inventory remained in transit, which compares to roughly 25% in the prior year at 12/31. We do not expect this issue to be resolved near term. And as a result, we plan to carry elevated levels of inventory at fiscal 2022 year end and into fiscal year 2023, placing an emphasis on receiving product into the country of sale at the expense of inventory efficiencies in the short-term.

We will continue to utilize airfreight where strategically necessary to import products and leapfrog port congestion to maintain share. More specifically, with the rate of growth our brands are experiencing, particularly HOKA, which has more consistent demand throughout the year as well as a greater percentage of at-once business, aligning sufficient inventory levels with elevated demand has become increasingly difficult. To help offset this issue, we have stepped up our airfreight usage to supplement ocean and port delays, but shipping by air is causing gross margin compression.

Our strategy is to prioritize HOKA market share in the ultracompetitive performance footwear space. And as such, we are willing to maintain higher air freight usage to fulfill this demand. Meanwhile, the HOKA team is actively working through product launch adjustments to best align with the current logistics environment.

On pricing, we spoke last quarter about raising prices on select HOKA styles this spring and taking a look at UGG for the fall of 2022 season. Our product teams have completed a thorough review of their respective brand price elasticity and are continuing to adjust prices on target styles accordingly. While these changes can help offset some of the inflationary pressures on materials, we still expect elevated freight expense to be a near-term headwind above these pricing adjustments.

Please note this does not constitute gross margin guidance for next year as pricing and freight are only a few of the many variables that factor into our gross margin forecast. From a factory production standpoint, we maintain a network of strategic third-party manufacturers and have been actively seeking additional production lines with existing and potential new partners.

Despite ongoing activities, we expect some of our growth in the upcoming fiscal year to be limited by manufacturing capacity constraints. To ensure product quality and integrity, particularly with HOKA given the complex nature of the brand's high-performance products, it will take time to ramp-up additional production. These efforts are made more difficult by the existence of the ongoing pandemic. We will provide a more thorough update on our fiscal year 2023 expectations during our year end call in May.

Now with that context in mind, and moving to guidance, for the full fiscal year 2022, on revenue, we are narrowing our range to reflect a \$20 million increase on the low end and maintaining the high end of our prior guidance, now expecting a range of \$3.03 billion to \$3.06 billion. This represents growth of approximately 19% to 20% over fiscal year 2021.

Gross margin is now expected to be at or slightly below 51.5%. Included in this is our annual spend on freight that is now projected to be \$100 million over last year. SG&A is still expected to be approximately 34% of revenue, and we expect our operating margin to land within the prior range at approximately 17.5% of revenue.

We now expect a tax rate of approximately 21.5% for the year. And taking these into account, we are narrowing our prior earnings per share expectation to a range of \$14.50 to \$15.15 for full fiscal year 2022. At this point, our full year guidance does not anticipate additional significant supply chain disruption beyond what we have covered here today, excludes onetime charges and does not contemplate impact from additional share repurchases. We look forward to providing additional updates on next year during our fourth quarter call in May. Thanks, everyone.

And I will now hand the call back to Dave for his final remarks.

---

## David Powers

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

Thanks, Steve. Our brands have performed exceptionally well this year, notwithstanding logistical challenges facing our industry. Fiscal year-to-date, Deckers has delivered revenue growth of 22% above last year and 37% above two years ago, while maintaining top-tier operating margins among peers. Our impressive margins have been achieved as we continue investing in the long-term future of our organization and prioritize growing the market share of our exceptional brands, all while navigating headwinds related to the global pandemic and supply chain disruption.

As I said at the opening, our brands are incredibly well positioned across the globe, but demand continues to outpace our current ability to supply it. And we are managing the business to deliver strong results in this uncertain environment. We have continuously evolved our strategies to mitigate the impacts of the dynamic state of the logistics environment. Key actions we are taking include tightening our product assortments to increase SKU efficiency, raising prices selectively based on assessing the competitive landscape of our brands, utilizing the strength of our balance sheet to carry increased levels of inventory in response to supply chain disruption, optimizing channel mix to fulfill consumer demand and scaling production to support the growth of our brands.

With the realities of the current logistics environment, we recognize that HOKA will remain in chase mode for much of the upcoming year. HOKA has tremendous runway ahead, and we will continue to provide the resources necessary to build HOKA into a major multibillion-dollar player in the performance space. On behalf of the entire leadership team, I'd like to recognize and thank our employees for how well they have managed an intense workload, especially as we all continue to deal with the added stress and struggles caused by the ongoing pandemic. We are doing our best to support our employees and their families through this difficult period of uncertainty. Thank you all for joining us today, and thank you to all of our stakeholders for your continued support. We look forward to sharing more on the bright future of Deckers brand.

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

## QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] The first question comes from Camilo Lyon with BTIG. Please go ahead.

**Camilo Lyon**

*Analyst, BTIG LLC*

Q

Thank you. Good afternoon, everyone. And very nice job in a very tough environment.

**David Powers**

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

A

Hi, Camilo.

**Camilo Lyon**

*Analyst, BTIG LLC*

Q

I wanted to start off – hi, how are you? I wanted to start off the conversation on where you left off on HOKA, if we could. You talked – Dave, you just said that it's going to remain in chase mode. Up 30% is certainly nothing to sneeze at for sure, it's a fantastic growth rate. But clearly, it seems like you could have done more if you had more product. Can you help us think about what the right run rate is going forward, given everything you said about the lack of inventory availability and the slow build that you expect to see on alternative factory and manufacturing partners to ramp up that production?

**David Powers**

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

A

Yeah. Appreciate the question. And obviously, it's a pretty dynamic environment. 30%, as you said, we're proud of that result considering all the challenges we had getting inventory through the bottlenecks. And obviously, we had to spend a little bit more in airfreight to mitigate some of those challenges. And what we've seen, quite honestly, in the last six months is the demand for the brand has accelerated from what we thought it was going to be six months ago. And so we are in chase mode.

It's a good position to be in. It's challenging in this environment. We think we'd be closer to a 50% growth rate on an annual basis. And that could be higher depending on what inventory we can get into the country and get it out to the marketplace to the consumer. But generally speaking, we're pleased with the makeup of the HOKA business globally. We're seeing great traction in the international markets. North America continues to be very strong, strong sell-through. And the challenge is that accelerated demand has put more pressure on the supply chain.

So we've had to go secure additional sourcing partners in the Far East. And that doesn't happen overnight, obviously. So with the challenge of slowed inbound into the DC on a regular basis, bringing on new factories to be able to keep up with the increased demand over the next year and beyond, there's a lot going on there, but the bottom line is that demand is exceptional. The teams are doing everything they can to keep the brand heat going and stealing market share. And as you saw in the quarter and the year we were spending money to maintain the sales even at 30%.

So we are air-freighting a lot of products. That's a headwind that we've absorbed this year while still delivering guidance of a healthy operating margin at the end of the year, and something we're going to continue to evaluate.

But we are taking, what I would say is a more cautious, but aggressive stance on the HOKA brand and all of our brands. The goal is continuing to drive top line and steal market share where we can. And we have to pay some more in airfreight in the short-term to enable that growth and continue the dominant pace that HOKA has. We're comfortable doing that. And we're figuring out how do we absorb that, but still deliver top tier results, which is what we're doing and confident that we can mitigate the challenges going forward.

---

**Camilo Lyon**

*Analyst, BTIG LLC*

Q

Great. Thanks for that, Dave. Certainly a great position to be in. I guess, on that same sort of broader topic in terms of gross margin and pricing actions that you're taking and layering that into how you're diverting products from wholesale to DTC, how do you think about the balance of those inputs to protect the share that you have, but also continue to deliver the growth that you have been experiencing? Is there an added intention to raise price to mitigate the – what seems to be like well, long duration of airfreight expenses into next year? And do you expect to favor or prioritize your DTC channel more than you have been, again, to serve that direct customer more so?

---

**David Powers**

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

A

Yeah. I mean these are all what you're describing are all the levers that we get to pull in this environment. And the good news is that the strength of the brand gives us the ability to raise prices where we think we can. And to give you a little bit more clarity on that, HOKA started raising prices in December on spring products and on some of the Bondi, Clifton and Rincon. And that a lot of that price increase is hitting right now in this quarter in Q1, roughly around 6% to 8% increase across the board. And the HOKA brand is continuing to look at opportunities going into fall and next spring to continue to do that to offset some of the headwinds in supply costs.

From an UGG perspective, we've been raising prices strategically and surgically over the last couple years. But we are taking a broader look at the assortment for this coming fall and you're going to see some price increases mostly on some of our bigger styles, not the Classic Short, but you'll see it in Neumel and Classic Mini and other few areas where we are going to be raising prices. We have a good deal of inventory coming in for UGG, which is at the older price, the cost of making that product, which is good for us. So that helps with the logistics headwinds and then some of the price increases that we think we can put in will also help on the margin going forward.

But I think I just want to make it super clear. We don't see the challenges with supply chain and the bottlenecks at the port getting better for quite some time. And so we're taking that stance going forward that what we're experiencing now is going to continue, and we're planning the business going forward. With that in mind, until we see signs that things are opening up, but we have not seen any of those signals yet.

---

**Steven J. Fasching**

*Chief Financial Officer, Deckers Outdoor Corp.*

A

Yeah. And, Camilo, this is Steve. Just to add to that. You mentioned increasing price to offset. On air, we're not necessarily seeing or looking to offset the air [ph] increase (00:37:09).

---

**David Powers**

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

A

Correct. Yeah.

---

**Steven J. Fasching**

*Chief Financial Officer, Deckers Outdoor Corp.*

A

So, the increases that we have are offsetting material inflation and ocean freight, but we see air more as transitory. At what point does that get better, we're not certain, but we won't be able to completely offset the air increase.

**Operator:** The next question comes from Laurent Vasilescu with Exane BNP. Please go ahead.

**Laurent Vasilescu**

*Analyst, BNP Paribas Exane*

Q

Good afternoon. Thank you very much for taking my question. UGG's growth of 8% in the quarter, I'd just say that's pretty impressive considering there was a lot of concerns out there. Dave, Steve, could you maybe potentially quantify if there was a material shift into 4Q fiscal? Because I think you talked about 50% of the inventory was in transit.

**David Powers**

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

A

Yeah. So I think, Laurent, kind of you're saying is there a shift between quarters. Remember, we haven't talked much about the quarter cadence. So we're really looking at this kind of on a whole year basis. I know various models kind of had different scenarios in terms of what – kind of what was projected for UGG.

As we've said, largely the year is being delivered as we've said and expected from an UGG perspective, so. As we said at the beginning of the year, we expected that there are going to be shipment timing issues between quarters, which is part of the reason that we haven't given quarterly guidance. I think earlier on, we anticipated more growth in the front half of the year. We've seen some of that drift into the back half. But I think from how we're seeing the cadence of the year from an UGG perspective, we're still on target with kind of what we've said, and we've seen the cadence of the business kind of continue as we expected.

So in good shape, I agree with you. I think there was some concern on the performance of UGG in the quarter. I think we've demonstrated the brand has performed well, demand is still very strong and consumers are seeking the brand out.

**Steven J. Fasching**

*Chief Financial Officer, Deckers Outdoor Corp.*

A

Yeah. And I would add, if your question was, do we see inventory delivery shift from Q4 into Q3, no, because we were chasing inventory the majority of the quarter. There was some shift of Q3 in Q2 that we contemplated on the year-to-date results. But I think what's important on the quarter for UGG is just to understand where the growth came from. And a lot of the growth came from international regions, which is something we've been working on in transforming those marketplaces to a younger, more diverse audience and diverse product offering, consolidating wholesale accounts in Europe – the marketplace and attracting and having success with a younger consumer with new product franchises such as the Fluff and the Classic Clear and the Tasman.

So I'm excited about the fact that it's right on strategy. What we've been working on in those regions for the past few years, we're starting to see the results of that. It's very exciting. And it just shows the strength and the global appeal of this brand and the fashion product that we're putting into the assortment.

**Laurent Vasilescu**

*Analyst, BNP Paribas Exane*

Q

That's great to hear. And then I'd love to hear more about HOKA. One on the product launches. For example, the Kawana. I know it's super early. You just launched on the website. Just love to get some read on that assortment. And then I think a few quarters back you talked about DTC getting to 50% of the company. How do we think about – I'd love to hear how the stores, the HOKA stores, the pop-up did in North America? And how – what your early reads are on the HOKA store in Shanghai as we think about store expansion over time for the brand?

**David Powers**

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

A

Yes. So just on the product launches, obviously, with the supply chain challenges, the brand team has had to adjust on the fly the timing of different launches based on when they can get all the inventory here in time, et cetera. It's early days in the Kawana. We're excited about what that could do from a cross-training perspective and bringing that type of running product to a unique consumer that's looking for that from us. But we'll continue to innovate and expand into different categories as we go forward, but it's early days on that style.

I think from a store perspective, we're very pleased with how things have gone so far. The store in New York is far exceeding expectations, and I think that is a good signal when you have awareness of a brand that you can see strong growth. The experience that we're seeing in China is good from a traffic perspective, but conversion isn't quite as high as we'd like to be yet. So that just speaks to people getting familiar with the brand over time. It's early days in China. People are still relatively unfamiliar with the brand. But the experience that our stores are providing for the consumer there and giving confidence to our partners in the marketplace is very strong.

And so we're pleased with how things are going. But a heavy lift over time to get China to where it needs to be, but we're off to a good start. And then real optimism around what a store concept could do as we expand into the US and Europe over time as well.

**Steven J. Fasching**

*Chief Financial Officer, Deckers Outdoor Corp.*

A

Yeah. And then – this is Steve, Laurent. Just on the DTC mix, I think what you'll see in the quarter is we had strong DTC performance and it was especially strong in December. So we benefited with some short supply out in the wholesale channel, consumers coming directly to us. And I think that starts to demonstrate the strength of our DTC and omni capabilities, not necessarily representative of where the mix will be on a full-year basis as it's stronger in this quarter, but a good demonstration of the progress that we're making on that front.

**Laurent Vasilescu**

*Analyst, BNP Paribas Exane*

Q

Great. Thank you very much for all the color.

**David Powers**

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

A

Thanks, Laurent.

**Operator:** The next question comes from Jonathan Komp with Robert W. Baird. Please go ahead.

**Jonathan R. Komp**

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

Q

Yeah, hi. Thank you. Good afternoon. I wanted to ask about the UGG business, the performance. Could you maybe share a little more color on the third quarter D2C performance there? And if you could give some color on US versus international and just how we should think about the fourth quarter would be helpful?

---

**David Powers**

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

A

Yeah. DTC business for UGG was very strong. As Steve said, particularly in the back half of December, we saw a real uptick in that business, and that continues to be a solid driver for us. And just speaks to the consumers' demand for the product. If they can't find it in wholesale, where they like to shop, they're coming to our website, and we're doing our best to service them.

Broadly speaking, I'm very pleased with how the UGG brand is evolving and has evolved away from the core Classics business. We're still – we still have a robust and healthy business there. But it's much more diverse across tall and shorts and minis and Tasman and Neumels, et cetera. The Neumel is a runaway story right now. It's the number one style across men's and women's, doing incredibly well, and it's being adopted globally in sports lifestyle channel that is really driving a lot of business.

Men's is on the upside as we've spoken about. Kids is on the upside. And then when you look at apparel, that businesses are now starting to contribute to some of the growth. That business is up 50% year-to-date and with still a lot of upside in that category as well.

So when you think about where this brand was a few years ago to where it is now, diversified across gender and category and then head to toe and super pleased with how we're seeing the international regions evolve both in wholesale and e-commerce. So, yeah, we could have done more business in the quarter with UGG if we had – we were able to get our hands on more inventory, and that's slowly coming in Q4. But again, the brand is in a very good place. Management of the assortment and the SKUs and the marketplace is very tight and very strong, full price sell-through is there, margins are healthy. A lot of reasons to be optimistic for a brand of this size. Certainly not the upside on an annual growth basis that you see with HOKA, but still very strong in the context of the footwear industry.

---

**Jonathan R. Komp**

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

Q

Yeah. That's really helpful. And then maybe one follow-up on the freight picture. The \$100 million that you called out, Steve, this year, just any thoughts directionally how that could look going forward? And then in the broader context, is the right way to think about it, I mean without that \$100 million this year you'd be north of 20% operating margin. So is that still eventually a level you think you can get to once everything normalizes, understanding there's a lot of uncertainty of when that happens? Thank you.

---

**Steven J. Fasching**

*Chief Financial Officer, Deckers Outdoor Corp.*

A

Yeah. Yeah. Thanks, Jon. Good question. And clearly, it's something that we're looking at. We, again, haven't given guidance, but I think the way you're looking at it is right in terms of what the impact is. Now we did in the current year cut back in other areas. So those are probably things we wouldn't necessarily cut back in a normal year.

So you're right in terms of the \$100 million, if you add that back, you get to kind of a 20%. But we have course corrected during the year and not spent as much on some other areas of the business that we typically would. So I would say stay tuned, we'll be able to give you a better picture of what that looks like.

And then the other thing is it's just trying to determine when all this begins to normalize. I think a big component of the \$100 million, it's clearly airfreight. We're hopeful that things begin to normalize, and so we wouldn't have to use as much airfreight in the future. But still, there's factory disruption, there's still port congestion. And with a brand like HOKA, we're having to use more air than what we even anticipated kind of three months ago.

So that's something that we're still watching. I think the other thing just to be aware of is the increase in ocean freight. And so I think that's going to take a lot longer than the air to begin to normalize. So we'll see how all that shakes out. I think we're going to learn more in the next three months, and we'll be able to give you a better perspective of what that looks like in a couple months on the year-end call.

---

**David Powers**

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

**A**

Yeah. And I think at that point, we'll be able to share. I mean, we still need to make some investments in the business to sustain the growth. And from a logistics standpoint, DCs, infrastructure systems, talent, with this kind of demand and growth ahead of us, there's going to be some additional investments we'll need to make and we'll talk more about that going forward.

So, yes, to know that we could have done 20% this year if we had taken out the airfreight makes us feel good, and I'm really proud of the team's ability to adjust this year to still deliver on our operating margin guidance. At this point, considering the fact that we had to absorb \$100 million bogey in the year. That just speaks to the flexibility of our model and the capabilities of the leadership team.

---

**Jonathan R. Komp**

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

**Q**

Yeah. Great. Thanks again.

---

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

---

**Sam Poser**

*Analyst, Williams Trading LLC*

**Q**

Good afternoon. Thanks for taking my questions. I have a few, and I'm going to read them all. One, I would love for you to give us the sales by wholesale or DTC, whatever you prefer by brand and update full-year guidance by brand, HOKA was expected to hit 50% plus on the prior guidance, UGG up high single-digit and so on. If you could update that? And I also wanted to know about what the merchandise margin improvements are ex-ing out all the other stuff and inventory by brand and then transit by brand? Thank you very much.

---

**Erinn Kohler**

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

**A**

Hi, Sam, it's Erinn. So I'll provide you with the global wholesale and distributor sales for the third quarter just completed. So for UGG, that was \$432.1 million, for HOKA \$122.6 million; Teva, \$16.3 million, Sanuk was \$3.1 million and then other – largely Koolaburra \$24.2 million.

**Sam Poser**

*Analyst, Williams Trading LLC*

Thanks.

Q

**Steven J. Fasching**

*Chief Financial Officer, Deckers Outdoor Corp.*

Yeah. Then just the guidance by brand, Sam, this is Steve. Really not a significant change. We've held the top end of the range. So feel comfortable with what we've given before. We've lowered the – sorry, increased the bottom end of the range. You can attribute that largely to some improvement in the UGG Q3 performance. So there, again, ranges consistent with what we've guided to before and pretty consistent with what we said last time as well. And then...

A

[indiscernible] (00:49:54)

**Steven J. Fasching**

*Chief Financial Officer, Deckers Outdoor Corp.*

Yeah.

A

**Sam Poser**

*Analyst, Williams Trading LLC*

Sorry. Quickly follow-up on that one. Does that mean that we'd expect a sort of a much larger net sales in Q4 for HOKA to get it up to around that \$870 million number that you inferred on the last call, that number is going up and going to accelerate in Q4.

Q

**Steven J. Fasching**

*Chief Financial Officer, Deckers Outdoor Corp.*

That's how we're looking at it. Yeah. Based on inventory, Sam.

A

**Sam Poser**

*Analyst, Williams Trading LLC*

Of course. And I asked about merch margin and inventory as well.

Q

**David Powers**

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

Yeah. So merch margins, I mean, generally speaking, the work that the teams are doing is to absorb additional costs that we're starting to see whether those materials or labor embedded into the product cost. So I would say that the margin upside is – any upside that we see will come in price increases. The regular work that we're doing on merchandise margins is really to maintain the level of margins that we have now versus finding efficiencies and opportunities to increase margin in this environment.

A

So – and we're taking a long-term view of this. As I said, we're reducing SKU counts. We're being more focused, and we're investing and eliminating unnecessary products in the line and trying to make this more efficient, but it's really maintaining margins at this point versus looking for upside in this challenging environment.

**Sam Poser**

*Analyst, Williams Trading LLC*

Q

And then inventory by brand and in-transit by brand?

**Steven J. Fasching**

*Chief Financial Officer, Deckers Outdoor Corp.*

A

Yeah. I can give you inventory by brand. I don't have the in-transit right front of me, but roughly speaking – yeah, so as I said, in total, the in-transit is just above 50%. So 50% of the \$551 million is in transit. The \$551 million, as it roughly breaks out by brand is about \$350 million on UGG, \$130 million on HOKA, \$27 million on Teva, \$10 million on Sanuk and a little over \$26 million on Koolaburra.

**Sam Poser**

*Analyst, Williams Trading LLC*

Q

Thanks very much [indiscernible] (00:52:06).

**David Powers**

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

A

All right. Thanks, Sam.

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

**Paul Lejuez**

*Analyst, Citigroup Global Markets, Inc.*

Q

Hey. Thanks, guys. Couple questions. Curious when this product comes in, when it does come in late, what sort of cancellation rates you're seeing for each of the brands? And also curious if you have to offer discounts when the product has come in late? Or is it more an environment where your wholesale partners are just taking whatever you've got whenever you get it? That's the first question.

Second, you mentioned something earlier, I think, about HOKA new partners. So just wanted to hear a little bit more detail what's going on there. And on the HOKA wholesale business, curious if you can talk about sales to same customers versus new customers that you've seen in terms of the growth of that business this year. Thanks.

**Steven J. Fasching**

*Chief Financial Officer, Deckers Outdoor Corp.*

A

Sure.

**David Powers**

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

A

Cancellations.

**Steven J. Fasching**

*Chief Financial Officer, Deckers Outdoor Corp.*

A

Sorry, I'll start with cancellations. Okay, this is Steve. So we're not seeing significant cancellations. I think to the point you made, we're seeing kind of what we or lower than what we expected in terms of cancellation. So there,

as the brands continue to remain in demand, continue to sell, customers are happy to get product. So we're not seeing anything that we didn't expect. So I think from a cancellation perspective, everything is as we anticipated. And the second question was...

**David Powers**

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

A

So new partners in Asia. So I think you might be referring to what I said earlier about HOKA retail stores. But the best way to think about that is partners that we have on the distributor model over in Asia, we're seeing very strong demand in those partners outside of China and Japan [ph] we get (00:54:03) Australia and some of the Southeast Asia countries.

And then in China, what I really meant there is, over time, we will mirror the model that we've established for UGG with a handful of healthy owned retail stores and then third-party wholesale partners in region who can run stores for us. So in China, what I was speaking to is having a retail presence and showing that we are investing in the brand and creating a compelling experience for the consumer, that's all good for the distributors – potential partners that we're evaluating at the moment to see how Deckers is getting behind HOKA and it gives them a lot of confidence for this brand going forward.

**Paul Lejuez**

*Analyst, Citigroup Global Markets, Inc.*

Q

Got it. Yeah, the other piece is just [indiscernible] (00:54:44) HOKA growth this year, how did it look in terms of sales to existing customers or new doors, new partners? How does that break down?

**David Powers**

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

A

Yeah. I mean, where we're able to get inventory to our partners, again, sell-through is exceptional, both existing partners, primarily in the run specialty arena. But as we've talked about before, DICK'S is continuing to see very strong success. We're continuing to slowly and strategically expand with them as a partner. And so the results and the feedback from all of our wholesale partners, aside from frustration on delivery and timing that the teams had to deal with is very strong, speaking to the product and the demand for the brand and how awareness is increasing. So all good signs there, and that's on a global level. It's just really truly a matter of keeping up with demand right now, which we see accelerating on a regular basis.

**Paul Lejuez**

*Analyst, Citigroup Global Markets, Inc.*

Q

Okay. Thanks. Good luck.

**David Powers**

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

A

Thank you.

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

**Jim Duffy**

*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Thank you. Good afternoon.

**David Powers**

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

Hi, Jim.

A

**Jim Duffy**

*Analyst, Stifel, Nicolaus & Co., Inc.*

I wanted to start asking a question about the UGG brand and whether North America weather wasn't super cooperative through the selling season. Has the brand been diversified to the point where the weather just isn't a consideration that it used to be? Or are there other kind of changes to the brand and composition that's making more insulated to weather impacts?

Q

**David Powers**

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

Yeah, it's a good question. Weather used to be make or break for the UGG brand because we were so reliant on just kind of core products and didn't have a lot of non-weather-related options or fashionable options. So that's changed dramatically.

A

I think weather now is – it's either a small multiplier or up or down a few percentage points. It's probably the way to think about it. It was warmer than we expected in December, but the strength of the brand and the fashion product even though the Classics still performed well, but it's really Neumel, Tasman and the Fluff franchise that was driving the upside. And those tend to be less weather resistant for us.

And as weather starting to – or, for the month of January where weather is cold in the Northeast, we're still continuing to see strong demand for the brand. So we feel really good about the fact that we've kind of mitigated that weather impact and how important it was for our success by having a much more diverse and interesting fashionable product assortment that isn't so weather reliant. And we're going to continue to build on that for sure.

And then I think if you look at the rain product that's in now, that's always been a big opportunity for us, and we have finally come to market what, I think, is a very compelling and an exciting assortment in that category. We see continued upside there. And so you're going to see us build after that opportunity across men's, women's and kids as well.

**Jim Duffy**

*Analyst, Stifel, Nicolaus & Co., Inc.*

Understood. Good progress. Steve, a couple clarifications on your margin commentary. First, the \$100 million in freight that you mentioned, is the convention for that comparable to the \$40 million that you mentioned with the September quarter report? So effectively, you're planning \$60 million incremental. Is that the right way to think about it?

Q

**Steven J. Fasching**

*Chief Financial Officer, Deckers Outdoor Corp.*

That is. Yeah. So, I think you've asked the question a couple quarters ago. So, yes, in terms of – we have stepped up the incremental amount. The full year is \$100 million for all of freight. So not only the additional air freight, but inclusive of the increased rates related to ocean freight.

A

**Jim Duffy**

*Analyst, Stifel, Nicolaus & Co., Inc.*



Got it. Okay. And then you made a comment in the prepared remarks, you talked about pricing actions and looking out to fiscal 2023, we should [ph] now (00:58:41) consider this gross margin guidance, but you talked about pricing not being able to fully offset the freight expense. What other variables should we be considering as we think out with that? And as part of the uncertainty and the reason you stopped short of providing gross margin guidance is you don't know what type of relief you might get on the freight in fiscal 2023?

**Steven J. Fasching**

*Chief Financial Officer, Deckers Outdoor Corp.*



Yeah. Good question, Jim, and thanks kind of for asking because we can provide a little clarification because it is challenging in the current environment, and that is why we're being careful about it. I think – and we got the question before, I think Jon asked just in terms of some of the components of it.

We're having to use more airfreight than what we previously anticipated, your first question. And part of that is just with some of the disruption that we're seeing, continued port congestion and having in-demand brands and especially with HOKA, we need to airfreight that in. So that's going to be a continued kind of headwind until we start to see some normalization around the port congestion. We're not seeing any signs of that yet. So that is a bit of an unknown as how long that will continue.

So we want to be careful about what we're seeing in respect to when we can expect to see that reduce or normalize, right, so. And I think, as I said in three months, hopefully, we're seeing some improvement so we can give you a better update. But right now, nothing in points for that.

I think the other consideration and headwinds that we're dealing with as much of the inventory that we brought in this year has put a headwind pressure related to the ocean freight. So we've been inbounding inventory. The increased expense has largely impacted Q3 and beyond, right? The first two quarters were still at inventory freight levels that were at lower rates. So that will be a continued headwind for us as we go into FY 2023. And again, we'll be able to provide a better perspective on FY 2023 in three months. But those are the headwinds that we're continuing to face.

As I said in the prepared remarks, we were hopeful that we would see some improvement. We're still seeing a high level, nearly twice what we saw a year ago with in-transit inventory. So with these costs still where they're at, we're still using airfreight and more than what we previously anticipated. It's just really difficult in this environment to be able to give you clear guidance on what that gross margin means.

So how that relates to prices is because we know some of this air will reduce in time. We just don't know when. We're not pricing that into our product price increases. So we are increasing prices that are offsetting material increases. We are increasing pricing that's setting – that's helping offset some of the increase in ocean that we expect will continue, but we're not contemplating trying to offset airfreight in that. As we said in the prepared remarks, it's a strategic decision on our part to get product in here to meet demand that's in the market. We want to maintain and grow market share.

So that's the strategic levers that we're using and it does come at some gross margin compression, but we're willing to take that. And then as that eases off, we'll be in a better position where you'll see some gross margin expansion.

**Jim Duffy**

*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Understood. Thank you for that clarification. And like part of the point is you'll be consuming inventories brought in at those higher freight rates into fiscal 2023?

**Steven J. Fasching**

*Chief Financial Officer, Deckers Outdoor Corp.*

A

That's correct.

**David Powers**

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

A

Correct.

**Steven J. Fasching**

*Chief Financial Officer, Deckers Outdoor Corp.*

A

Yeah.

**Jim Duffy**

*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Okay. Thank you, guys.

**David Powers**

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

A

All right. Thanks, Jim.

**Steven J. Fasching**

*Chief Financial Officer, Deckers Outdoor Corp.*

A

Thanks, Jim.

**Operator:** And our last question today comes from Jay Sole with UBS. Please go ahead.

**Jay Sole**

*Analyst, UBS Securities LLC*

Q

Great. Thank you so much. Dave, I just wanted to ask about HOKA. You mentioned brand awareness is rising, I believe. Can you just talk about from a marketing standpoint as you look into fourth quarter and a little bit into next fiscal year, what are some of the strategies you have to continue to raise awareness for HOKA, maybe some of the events or some of the opportunities to continue to elevate the brand and raise awareness not just in the US but globally?

**David Powers**

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

A

Yeah. Good question, Jay. The need to continue to market this brand is intense. And I think just – and it's beyond just the amount of dollars you throw at it. The partnerships are crucial. We're really proud of our Global IRONMAN partnership, and that's having an impact in all the international regions as well. We're looking to expand that where we can into other opportunities, continuing to work with our athletes, both in insights on product, but also

expanding the breadth and the awareness of the brand and supporting our community around the globe. Those are all part of the things that we do on a regular basis. That's true to our brand and really important for the continued success.

But over the past year, we brought in a new head of marketing to the brand, Norman (sic) [Norma] (01:03:46) Delaney, who is doing a great job. And she's also embarked on a project where we're looking at bringing on a global – or, we have brought on a global agency of record to take what we're doing from a marketing perspective to the next level.

I think we've been very good at events and independent launches of products, but we're looking for – in this new approach going forward, a much more consistent voice and message and look and feel for the brand going forward on a global scale. So you'll see that to start to happen in Q1, Q2. We're going to be launching a new updated website with the brand and some of that new creative will start showing on that over the summer.

And then we'll continue to build on that. But the regional global teams are very excited about the new partner from a marketing and agency perspective. And then I think this is going to just be another boost to the brand to have an elevated, consistent global marketing story that we can create more consistency across all the product launches and in the markets. And then we also signed on in addition to IRONMAN, our sponsorship of the primary sponsor of the UTMB series going forward. These are very important races in the space, have global reach and they're very – the pinnacle positioning for both hardcore runners, but also every day runner and fitness enthusiasts.

---

**Jay Sole**

*Analyst, UBS Securities LLC*

Q

Got it. Thank you so much.

---

**David Powers**

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

A

Thank you, Jay.

---

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

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2022 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.