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Deckers Outdoor Corp. (DECK)

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and thank you for standing by. Welcome to the Deckers Brands First Quarter Fiscal 2023 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 would like to remind everyone that this conference call is being recorded.

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

Erinn Kohler

Vice President-Investor Relations, Corporate Planning & Business Analytics, 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, inventory and liquidity position, our potential repurchase of shares, and the impacts of the macroeconomic environment on our operations and financial conditions.

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. I'm excited to dive into another quarter of exceptional results, which represent a strong start to fiscal year 2023 and further progress towards our long-term strategies.

First quarter revenue increased 22% versus last year to \$614 million and we delivered earnings per share of \$1.66. Revenue growth was primarily driven by HOKA, as the brand achieved its first ever \$300 million quarter. With strong HOKA growth, we were able to deliver another profitable first quarter as we continued to reduce the historical seasonality of our portfolio through the expansion of year-round HOKA demand and further diversifying the UGG category mix.

Importantly, our first quarter result demonstrated momentum behind our long-term vision to build HOKA into a multibillion-dollar major player in the performance athletics space, further diversify the UGG brand's product, geographic, and seasonal mix, grow our DTC business through consumer acquisition and retention, and drive international markets through strategic investments.

We are making clear progress in each of these initiatives, as during the first quarter HOKA delivered global revenue of \$330 million, an increase of 55% versus last year. UGG products mix shifted into sandals, away from seasonal fall styles. UGG regional mix shifted towards international regions as these markets drove year-over-year revenue growth. Global DTC across all brands grew 15% as a result of increasing consumer acquisition and retention by 13% and 28% respectively. And revenue from international markets increased 36% versus last year, which includes earlier distributor shipments.

These highlights reflect the strength of Deckers' marketplace management and omni-channel capabilities across our portfolio of exciting brands. Our disciplined approach to managing brands, markets, and distribution channels continues to serve us well as we create the future of Deckers. While the macroeconomic environment is evolving quickly, I'm confident in the consumer demand of our brands and our team's ability to remain nimble and deliver on our goals in this dynamic environment.

Steve will provide further details around our forward-looking expectations later in the call. In the meantime, let's dive into the brand and channel performance for the first quarter of fiscal year 2023. Starting with the brand highlights, global HOKA revenue for the first quarter increased 55% versus last year to \$330 million. This is a significant achievement that resulted in HOKA global revenue in the trailing 12 months ended June 30 breaking the \$1 billion barrier, with much more growth ahead.

The HOKA brand's exceptional growth also delivered a new milestone for Deckers as a whole, with HOKA revenue representing more than 50% of total portfolio quarterly revenue for the first time. With this year-around demand that utilizes infrastructure during off-peak UGG periods and full-price sell-in at premium price points, the HOKA brand's growing scale is improving Deckers' overall quarterly financial and operational performance.

The HOKA brand's strong quarter featured outstanding revenue growth across the brand's far-reaching global ecosystem with access points, highlighted by international markets increasing 66% versus last year led by the strength of the EMEA region, which was partially influenced by the timing of sell-in to our distributors as we strategically build new markets.

US increasing 49% versus last year with DTC growth leading wholesale, global DTC increasing 58% versus last year driven by continued momentum with retained consumers as well as continued acquisition of new consumers, and global wholesale increasing 53% versus last year as the brand increased market share at existing accounts and benefited from select doors added to strategic accounts.

We are excited by the positive brand indicators and continued share gains that HOKA is building upon across its entire global distribution network. A few highlights include increasing market share within US run specialty while commanding higher retail prices. HOKA style is accounting for at least half of the top 10 styles according to aggregated US run specialty store data. Doubling revenue in France led by gains in Paris, which was our third fastest growing European city during the quarter. And APAC driving the highest regional DTC growth rate led by strength in both China and Japan, as these countries benefited from stores aiding awareness with consumers.

Across the globe, HOKA stores have continued to build excitement with the new audience and drive compelling levels of traffic and purchase activity. This is especially exciting in China which has been a slow build as HOKA took some time to find its voice with the consumers local to the region. With a refined visual merchandising strategy enhancing the consumer experience, our China stores are now driving higher conversion rates and we're better equipped as we open additional locations in the region.

In the US, the retail team continues to work towards opening the HOKA brand's first permanent location in New York City during the spring of calendar year 2023. This is an exciting endeavor as the HOKA store will feature an elevated design that is fit for our premier performance brand.

In the meantime, HOKA is opening a second New York City pop-up location near Lincoln Center within the next month. Our Chicago location, which was opened in the last three months, is seeing excellent traffic and driving strong conversion, giving us even greater confidence in the consumer appetite for HOKA retail stores. We will take a disciplined approach to opening a limited number of doors, but we're excited about the opportunity to engage with consumers in key cities around the world.

Further on direct-to-consumer, across global markets, HOKA continues to increase the number of acquired and retained consumers at remarkable levels compared to the prior year. During the quarter, DTC acquisition increased 48% and retention increased 58% versus last year, with gains among 18- to 34-year-old consumers far

outpacing these increases. This led to a 4-percentage-point increase in the mix of 18- to 34-year-olds among individuals purchasing from hoka.com.

We are seeing incredible momentum behind HOKA as the brand continues to inspire humans to fly over the earth. The HOKA brand ethos just echo through its new globally integrated marketing campaign dubbed FLY HUMAN FLY. This campaign was thoughtfully designed as an invitation for humans around the world to experience the HOKA ride.

As part of the campaign, HOKA launched the fifth edition of the mark, which has quickly become a top five style for the brand, as well as a completely redesigned consumer website. The upgraded website features a brand new aesthetic that elevates product presentation with greater technical detail, and enhances the visibility of brand values and storytelling throughout the site.

FLY HUMAN FLY has been live for just over a month now, and we have been very pleased with the consumer response and feedback for our wholesale partners. For the FLY HUMAN FLY landing page on hoka.com, 83% of visitors were new, which aligns with the campaign's intent to reach a new audience. We believe this campaign will have a significant impact on building awareness of HOKA as we expand the brand into a multibillion-dollar major player in the performance space over the long term.

Speaking of performance, I'd like to congratulate HOKA-sponsored athlete Adam Peterman for winning the 100-mile 2022 Western States race. This was an incredible feat for Adam having this been his first time ever competing in a 100-mile race. He won while wearing a recently launched HOKA Speedgoat 5 5, which is a completely redesigned version of the brand's most popular trail shoe with less weight and enhanced traction, with Vibram Megagrip to inspire confidence in any terrain.

Results like these emphasize that HOKA brand's leadership as a premier performance brand, enabling athletes to achieve peak levels of performance. [ph] Another (00:10:45) congratulations to Adam and all the other athletes who competed in this year's HOKA-sponsored Western States 100-mile.

Moving to UGG, global revenue in the quarter decreased 2% versus last year to \$208 million. UGG performance was driven by higher international wholesale and distributor sell-in that was offset by category shift dynamics impacting the brand's global direct-to-consumer business. The UGG brand's international regions continued to experience benefits from the marketplace allocation and segmentation strategies implemented to build brand heat and increased demand overseas.

With core fall product limited in the marketplace, UGG was able to drive full-price sell-through during the past holiday season and generate open-to-buy opportunities in the spring season driving the quarter's results. UGG captured incremental market share with transition styles such as the Ultra Mini and Coquette, as well as the newly launched Sport Yeah sandal, all of which are driving sell-through.

Briefly touching on the category dynamics impacting UGG global DTC, over the last couple of years, the Fluff franchise experienced increased relevance as consumers turned to UGG for comfortable and stylish hybrid slippers to wear in the home. Expecting shifts in consumer behavior towards outdoor wearing, the UGG product team continued to evolve the franchise with the introduction of more spring, summer and outdoor-ready styles, which included the Sport Yeah sandal.

Sandals were the standout category for UGG during the quarter, showing a strong demand for the brand outside of the fall and winter timeframe. While successful in shifting consumer adoption from heritage Fluff franchise

styles into beach-ready styles, the lower average selling price in the sandal category created a revenue headwind relative to the exceptional volumes of Fluff that were sold during Q1 in the last two years. That said, the Fluff Yeah continues to be a top style among acquired and retained consumers, including with 18- to 34-years-olds.

Across UGG global direct-to-consumer, even though revenue dollars were below last year due to these product mix shifts, demand for UGG remained robust as the brand experienced increases of 8% and 13% in acquired and retained consumers respectively versus the prior year. Importantly, international DTC acquisition and retention gains are trending well ahead of these global figures, as we continue to build brand heat overseas.

Key styles driving new consumer acquisition globally include the aforementioned Fluff Yeah and Sport Yeah, as well as the Clem and Goldenstar fashion sandals and the Tasman franchise, which continues to be on fire. We are encouraged by the continued consumer interest and broader adoption of the UGG brand's diverse product assortment.

Overall, the first quarter represented a solid start to the year for UGG. We believe UGG is well-positioned to drive a successful fiscal year 2023. And I'm even more excited for the brand's future after our recent announcement of Anne Spangenberg as the President of Fashion Lifestyle. Anne is a proven leader with meaningful experience building brands across our industry, most recently serving as Nike's Chief Merchant. Anne has already hit the ground running in the last few weeks as she begins to immerse herself with all things UGG and engage with our talented brand team and cross-functional business partners.

In her new role, Anne will be building upon the strategic priorities for UGG, focusing on product diversification, consumer adoption and franchise evolution across our omni-channel marketplace. I'd like to welcome Anne and thank the UGG team for the cross-functional collaboration and teamwork that enabled the brand to maintain a strong positioning in the market as we work to fill this role.

From a channel performance perspective, in the first quarter, global wholesale segment revenue, including distributors, was the primary driver of growth, increasing 25% versus last year. Strength in these channels resulted primarily from continued global market share gains for HOKA, as well as the benefits from added doors with strategic accounts. UGG also contributed to wholesale revenue gains based on the continued adoption of the brand's diverse product assortment among international regions, which continue to benefit from marketplace reset activities.

On direct-to-consumer, global revenue for the first quarter increased 15% versus the prior year. DTC growth was driven by significant increases in consumer acquisition and retention for the HOKA brand, which was partially offset by the category and seasonal dynamics unique to the UGG brand that I covered earlier in the call. Overall, our direct-to-consumer business continues to benefit from the HOKA brand's growing influence, especially in quarters outside of historical peak selling periods for UGG.

In the quarter just completed, HOKA represented 53% of DTC revenue, which is up from 39% last year and 27% two years ago. With nearly all of the HOKA brand's DTC business occurring through e-commerce, our most profitable channel, this brand shift dynamic is accretive to our bottom line.

With that, I'll hand the call over to Steve to provide further details on our first quarter financial results as well as our reaffirmed outlook on fiscal year 2023.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

Thanks, Dave, and good afternoon, everyone. As Dave just shared, our first quarter results demonstrated great progress toward the fiscal year guidance that we outlined in May. While we advanced a number of key initiatives for our business this quarter, HOKA was the primary driver of performance as the brand continues to build global market share.

UGG revenue came in slightly lower than last year, primarily due to category shifts occurring during the quarter as well as lapping earlier sell-in during the prior year. But we feel the brand is well-positioned to deliver another strong year and are excited for what lies ahead under Anne's leadership.

With ongoing uncertainty in the macroeconomic environment, we're continuing our disciplined and responsible approach to managing our business and will remain nimble to react to this dynamic environment. Our demand signals lead us to believe that our portfolio of brands will continue to resonate well with consumers. And though not immune to the macroeconomic headwinds, Deckers has historically demonstrated an ability to course-correct when necessary. We remain committed to our long-term strategies that have continued to serve us well and will build upon the strong operating model we have built over the last five years.

Now, let's get into the details of our first quarter fiscal year 2023 results. First quarter fiscal 2023 revenue was \$614 million, up 22% versus prior year. HOKA revenue increased 55% versus last year, accounting for nearly all of this quarter's revenue growth due to the exceptional demand experienced across the brand's global ecosystem of access points and improved inventory availability. For the first time ever, HOKA represented more than 50% of total portfolio quarterly revenue and, over the last 12 months ended June 30, the brand has delivered over \$1 billion of revenue.

Gross margins for the quarter was 48%, which is down 360 basis points from last year's 51.6%. This aligned with our first-half direction that anticipated headwinds from higher freight costs from ocean and air, as well as impacts from unfavorable foreign currency exchange rates that we anticipate will pressure margins for the remainder of this year.

Additionally, first quarter gross margin was impacted by product mix and normalized promotional activity for UGG, as the brand sold more sandals and discounted select styles, in line with pre-pandemic activity, and channel mix shifting toward the wholesale and distributor segment, in particular our international distributor business that shipped product earlier than in years past. These headwinds were partially offset from benefits from increased revenue mix of HOKA as the brand commanded the highest gross margin in the portfolio during Q1 and benefits from HOKA price increases.

SG&A dollar spend in the first quarter was \$238 million, which is up 20% from last year's \$199 million. As a percentage of revenue, we delivered 60 basis points of leverage to help offset freight and FX impact to gross margin.

Our tax rate was 21.3%, which compares to 21.9% in the prior year. These results drove diluted earnings per share of \$1.66 for the quarter, which was \$0.05 below last year's \$1.71 per share.

Turning to our balance sheet at June 30, 2022, we ended June with \$695 million of cash and equivalents. Inventory was \$840 million, up 83% versus the same point in time last year, and important to note that last year's inventory levels were below normal operating levels as a result of supply chain disruption and during the period we had no outstanding borrowings.

During the first quarter, we repurchased approximately \$100 million worth of shares at an average share price of \$260.12. As of June 30, 2022, the company had approximately \$354 million remaining under its stock repurchase authorization. Subsequent to quarter-end, the board of directors approved an increase of \$1.2 billion on top of the company's existing share repurchase authorization, which now in total represents more than 15% of our market capitalization, highlighting the board's confidence in our long-term strategic plan.

Now, for a supply chain update, over the last several quarters we've shared an update on the status of our logistics network and our continued mitigation efforts as we navigate macro supply chain disruption. We are pleased that there have been relative improvement in this area in Q1, but I will share some brief thoughts before I touch on our fiscal year 2023 outlook. Transit times have improved relative to last year, but we are still experiencing latency and lower visibility into the timing of inventory with nearly 40% in transit and thus are continuing to prioritize holding inventory in the country of sale.

For example, during the first quarter, inventory generally arrived earlier than anticipated. As a result, we shipped more product out. However, with low visibility into when certain shipments will arrive, we are comfortable holding higher levels of inventory to enable our brands to meet the significant marketplace demand we are seeing. Though difficult to predict the timing of when inventory will land, we expect that heightened inventory levels will continue throughout this fiscal year.

On the cost front, we are confident that the price increases implemented in the HOKA and UGG brands will offset freight headwinds and help bolster second half margins to deliver our full fiscal year 2023 guidance. Given the earlier arrival of inventory, we now expect to use less airfreight than originally anticipated for the HOKA brand. However, as the dollar has continued to strengthen, we are anticipating greater currency headwinds and this reduction in planned airfreight should help offset these currency pressures.

Now, turning to our guidance. And with these dynamics in mind, we are reaffirming our full fiscal year 2023 guidance which, as a reminder, includes revenue growth of 10% to 11% versus last year, gross margin 50 basis points higher than last year, anticipating approximately 51.5%, SG&A at approximately 34% of revenue, and operating margin in the range of 17.5% to 18%, a tax rate in the range of 22% to 23%, and with the share repurchase executed during the first quarter just completed, diluted earnings per share will now be expected to be in the range of \$17.50 to \$18.35, reflecting a \$0.10 increase.

While we have maintained our overall guidance, I'd like to highlight a few additional items contemplated within the guidance which include stronger HOKA revenue growth now expected to increase in the 40% range versus last year, reflecting upside from greater inventory availability, which aligns to our expectation of using less airfreight than originally anticipated, and incremental foreign currency headwinds primarily affecting UGG growth due to the brand's wholesale business model and concentration of planned growth from the international regions.

This reaffirmation of guidance excludes any charges that may be considered onetime in nature and does not contemplate any impact from additional share repurchases. Additionally, our guidance assumes no meaningful deterioration of current risk and uncertainties, which include but are not limited to further impacts of the ongoing COVID-19 pandemic on our operations and economic conditions, including supply chain disruptions, constraints and related expenses; labor shortages; inflationary pressures; changes in consumer confidence and recessionary pressures; further strengthening of the US dollar; and geopolitical tensions.

While macroeconomic uncertainty persists, we believe in the power of our brands and continue to see positive signs of consumer demand. Deckers has a history of remaining nimble, displaying a unique ability to react as

marketplace dynamics evolve, and we are well-positioned to deliver compelling revenue growth and top-tier operating margins.

Thanks, everyone. 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. We are quite pleased with the start to fiscal year 2023, as our portfolio drove revenue growth above 20% in the first quarter and our organization continued to make progress against key strategic initiatives. I want to congratulate the entire HOKA team and all of the shared service individuals that support the brand on reaching the \$1 billion revenue milestone. This is a huge feat for HOKA but also for Deckers as a whole to have a second brand in our portfolio to reach this significant point of scale.

The exciting part for our company is that we believe HOKA has much more growth ahead, as the brand stays laser-focused on its strategic expansion plan. The brand's FLY HUMAN FLY campaign is just the beginning of our journey to build awareness and broaden the consumer aperture for HOKA.

From a talent perspective, we are fortunate to have bolstered our executive leadership team with the recent promotion of Angela Ogbechie to Chief Supply Chain Officer and the hiring of Anne Spangenberg as President of Fashion Lifestyle. I'm excited to be working closely with both of these experienced leaders and look forward to their contributions that are sure to further enhance Deckers' workplace culture and drive success against our long-term strategic initiatives. I'd also like to thank our executive leadership team and all of our employees for remaining flexible and staying focused on our goals while managing through transition.

With our strong portfolio of brands, dedicated employees and disciplined management of the business, I don't think I've ever been this excited for the opportunities ahead for Deckers. And I view the board of directors' recently approved increase to our share repurchase authorization, which in total now represents more than 15% of Deckers' current market capitalization as an impressive vote of confidence in our company, brands, people and strategic plan and the future of our organization. A big thank you to all of our stakeholders for your continued support.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] In the interest of time, please limit yourselves to one question and one follow-up. [Operator Instructions] The first question comes from Jonathan Komp with Robert W. Baird. Please go ahead.

Jonathan R. Komp

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

Q

Thank you. Good afternoon. I want to ask just first on the UGG brand. Curious to maybe get your thoughts on just the overall health of the UGG brand in the marketplace? Maybe this is more of a domestic question, but just levels of inventory, comfort with orders that you may have with your wholesale partners, and just overall thoughts on how you expect UGG to fair in the current environment.

David Powers

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

A

Yeah. This is Dave. I can answer the beginning of that. We're pleased with how UGG is performing. It's down a little bit for the quarter as expected and that's largely due to us trying to lap the Fluff Yeah business from last year. So, you can attribute pretty much all of the miss or the decline versus last year, I should say, to the Fluff franchise. And we've made up some ground on that with Sport Yeah and some of the other classic slippers, which are doing well. But the Sport Yeah is at a lower price point. So, as an example, on our e-commerce website in the US, sales were down for UGG brand but units were up. So, it's a quarterly dynamic. We're working through the tail-end of the Fluff business, but the core business across the globe is still strong and healthy. Our order book is strong and healthy. And we feel that our chances are good in the rest of the year and we certainly have inventory in place to do that.

And Steve can talk about a little bit more about the inventory. But the good news is, is we have inventory here, it's here earlier and we're able to get it to our accounts earlier. So, the setup from a brand perspective going into the back half of the year is still looking good. But we're being a little bit cautious here because it's still early in the year and there's a lot of concerns about over-inventory in the channel and the consumer. But as far as the brand health goes globally, we're still seeing very positive signs, order book is still looking healthy and we have inventory should the business be there to be after.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah. I think, Jon, just to add on to that, as Dave said, order book's holding up. We're seeing strong demand for the brand. So we feel good about that. As we said on inventory, we were going to bring inventory in earlier this year. So, kind of on message, we're delivering on that. That is contributing to an increase in our inventory levels, which again just remind to everybody that last year's levels were unusually low and below normal operating levels, so feel okay with the inventory where it stands. That will continue to build, but we're well-positioned from that standpoint to fulfill the orders that we have and we're continuing to see consumer response to it. So, still very positive on how UGG is performing and the outlook.

And then just to remind everybody, we're coming off two strong years of UGG growth.

David Powers

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

Yeah.

A

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

And as we said and well-documented through last year, it was replenishing depleted levels of inventory in the channel. So we're comping strong growth as well as replenishing inventory and feel comfortable about that.

A

Jonathan R. Komp

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

Yeah. Great. And then maybe just one separate question on HOKA. Dave, I think you mentioned broadening the aperture of the brand. And I wanted to just follow up and get your thoughts maybe both near term, any specific initiatives? And then longer term, what are your views of that comment and the opportunity for HOKA that you see today?

Q

David Powers

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

Yeah. It's really related to two things. One is just expanding the reach of the product to reach new consumers and then also expanding our reach internationally, particularly in China. But this is, at its core, a running brand and we have incredible authenticity and our very important brand in that space, and we'll maintain that authenticity as we go forward. Hence, the Western States and the UTMB and the IRONMAN championships. That is the core of this brand and always will be. But we obviously see expanded opportunity in trail, in hike and then in walking and also lifestyle.

A

So we are well aware of the fact that there is a broad base of consumers that are purchasing the HOKA brand across age groups, demographics and end use. And so, with the new FLY HUMAN FLY campaign that we launched, reestablishing our authenticity in ultra sports with the events that I mentioned, and at the same time speaking to a broader base of consumer that is into this brand for a lifestyle perspective or a walking perspective, or just overall comfort. So, we welcome all those consumers. We consider them athletes. They're on their feet all the day and they need performance footwear, and we're working on ways to establish more communication and engagement with those folks, while staying true to the authenticity of the brand.

And that's more on a product standpoint. We're not necessarily opening up new distribution to go after those consumers. We're pleased with the business in DICK'S. We're in less than 20% of their stores. Just starting to go into Foot Locker and opening more stores globally, particularly in China where we're seeing broad base of consumers coming into our stores and on our websites really loving the brand.

But what's also incredibly exciting on the lower age spectrum is 18- to 34-year-olds. They're increasingly purchasing the HOKA brand. We're starting to hear comments about people are trading their all-white Nikes for all-white HOKAs. And so, that's very encouraging for us as well and we have a lot of optimism going into the account – Foot Locker account to see what we can do with the younger consumer there too.

Jonathan R. Komp

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

Yeah. That's great color. Thanks again.

Q

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah. Thanks, Jon.

David Powers

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

A

Thank you.

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

Sam Poser

Analyst, Williams Trading LLC

Q

Good afternoon. Thanks for taking my questions. Well, I'm just going to do my normal question. Can you give us – and you sort of talked a little bit about it on earlier, but can you give us wholesale revenue by category or brand, please?

Erinn Kohler

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

A

Hi, Sam. Sure. This is Erinn. So, wholesale distributor net sales, I'll give you just that component by brand. So, for UGG, that was \$138 million; HOKA, \$232 million; Teva, \$47 million; Sanuk, \$11 million; and then all other which includes Koolaburra, \$2 million. So that gets you to your total wholesale figure of \$429 million.

Sam Poser

Analyst, Williams Trading LLC

Q

Thank you very much. Then a couple of – two more. You lost a bunch of sales in UGG even though you had a good quarter in the third quarter of last year. How are you seeing the third quarter of this year now that your inventory is flowing better?

And then with HOKA, you're doing \$330 million. Can you give us some idea of the cadence to get to the 40% increase that you're thinking about? Because \$330 million is well above any quarter you've ever had. And is that a new normal or what – how should we think about the flow of revenue there to get to the 40%?

David Powers

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

A

Yeah. So I'll start with UGG and then let Steve tackle the HOKA question. So we're optimistic about UGG in Q3. And as you said, we were light on inventory last year. We potentially missed some sales last year. And the good news is that we have inventory obviously in the channel earlier and we have more inventory coming. So, from an inventory standpoint, I think we're going to be in very good shape for Q3.

There's just a lot of questions out there still on the consumer level, promotions, etcetera. We're not – even the last couple of years for UGG in Q3 have been very, very clean, minimal promotions, tight on inventory. We see a little bit of return to a normalized season, but we're not expecting or modeling in heavy promotional activity at this point. We want to protect the health of the brand and not chase top line, because we think we can make up a lot of revenue if we need to on the year with HOKA.

But as far as how the setup looks, we're in inventory position. We have exciting new product launches in the UGG brand that we think are going to resonate very well. And we have a new campaign, holiday campaign that we're working on right now. So, as far as tackling the opportunity, we're in good shape. I think the question is the macroeconomic environment globally and what that's going to do to not necessarily just the brand, but the wholesale partners who are tied on inventory as well or heavy on inventory in general.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah. Then, Sam, on the HOKA question, what we've said and kind of indicated in a strong quarter one performance where we shipped more product with increased availability of inventory in June, and that was largely driven by HOKA. And so, that gave us an opportunity to ship product more than what we kind of anticipated could happen with that availability of inventory. That was largely HOKA-driven, right? And so I think what you're seeing in the quarter is our ability to get that product into the market a little bit sooner than what we expected, which is always encouraging, and we'll closely watch the sell-through. But that's what's driving some of this timing issue.

And it's, again, going back to why we're not giving quarterly guidance. We're just seeing timing shifting between quarters. And so it's very difficult with what we're dealing with to kind of precisely show when things are going to go. But when we have an opportunity to move product out a little bit earlier than what we anticipated, we're going to take full advantage of it, and that's really what you've seen with HOKA in this quarter.

David Powers

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

A

Yeah.

Sam Poser

Analyst, Williams Trading LLC

Q

One last thing. Do you expect the DTC business to outgrow wholesale this year, given sort of some of the maneuvers at the end of last year in the wholesale shipments?

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah. I think right now the way we're kind of looking at things is equivalent between those channels. So still early and we'll see, but right now the way we're looking at it, it's kind of equivalent.

Sam Poser

Analyst, Williams Trading LLC

Q

Thank you. And continued success.

David Powers

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

A

Thanks, Sam.

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

Laurent Vasilescu

Analyst, BNP Paribas Exane

Q

Oh, good afternoon. Thank you very much for taking my question. I wanted to follow up on HOKA and the global marketing campaign. Dave, were there any key learnings you could share with us from that campaign? And can you remind us – I think in the 10-K for fiscal year 2022, marketing was about 8% of sales, meaningfully up over from, like, a few years ago 5%, which is great to see. Steve, where do you think marketing goes for this fiscal year? And can you maybe talk a little bit about the nuances, the spread maybe in terms of marketing spend as a percentage of sale for between the two big brands?

David Powers

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

A

Yeah. I'll talk a little bit about HOKA. This is the first global campaign that the brand has ever done. So we felt it's important to refresh the messaging and the communication from the brand. And we've obviously evolved our thinking as to what this brand can be for folks globally. And we've been on a track of inspiring athletes all around the world of all types to get active and be there for them. And so this is a way for us to bring all the different product launches that we go through, whether it's a Clifton or a Bondi or Speedgoat, to have a little bit more consistency in the look and feel of the campaign, to have a consistent tone of voice, and to be more consistent with global consumers around the globe.

So we're very pleased with how it's been received. We're getting very positive feedback from our wholesale partners. We're getting very positive KPIs on our website. The amount of new visitors for the quarter was up tremendously, and very healthy for us as you see in some of the retention and acquisition figures are all heading in the right direction. And we think this is a foundation and a story that we can continue to build on head-to-toe and build real power and an aspirational positioning for the brand. So, so far, so good.

I think we need to add in a little bit more greediness, if that's the right word, into the campaign and pull off some of the great performances and athletes in the UTMB and Western States and IRONMAN, and leverage those influencers a little bit more in the campaign. But we feel the platform is right. The redesign of the website is proving to be very successful so far. Our landing page spend time and dwell time and conversion rates are up. And so we're very pleased. But it's the beginning of a long journey with this campaign, but so far we're seeing great adoption globally, and positive reaction from consumers and wholesale accounts.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah. And Laurent, this is Steve. Just on the marketing spend, over the past few years, we have been increasing marketing spend. As it relates to brands, we spend more in marketing on a proportional basis to sales on HOKA than we do other brands. And that is part of what's driving our overall marketing increase and marketing as a percent of revenue increase. What we're seeing, as Dave just articulated, is great productivity with our marketing spend and what's contributing to building brand awareness, as we talked about quite a bit.

HOKA brand awareness is still relatively low in comparison to other brands. And so, with the marketing spend, with the campaigns that we're launching, we're seeing great productivity and how that's driving consumer awareness of the brand and building brand awareness. So it's a lever that we're using very efficiently and productively, and we'll continue to do that and as you've seen with the global campaign. And as Dave said, we'll continue to refine and continue to build awareness through those campaigns.

Laurent Vasilescu

Analyst, BNP Paribas Exane

Q

That's great. Great to hear. And then as a follow-up question, I think you mentioned in your remarks, Dave, on Foot Locker. Maybe you can give us a little more granularity on what type of consumer you're seeing there, what's the response. And then, Steve, I think in your 10-K, you signed another lease for a pretty significant distribution center that could be up and running over the next year or two, followed by the Indiana distribution center last year.

But can you just maybe kind of frame up the need for that? Is that really focused on the multibillion-dollar target for HOKA? Is there a channel effort there between wholesale and DTC? Any color on that would be very helpful. Thank you.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Sure.

David Powers

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

A

Yeah. I'll tackle Foot Locker first. So, we're – it's early days. We just put the product in Foot Locker. It's in a handful of positioned stores that we feel are right for the consumer we're going after, which is younger, more athletic minded, but still fashion-minded consumer, in stores that we think the Foot Locker Group can represent the brand positively. And then we're online with some styles as well. So, too early to share any results, but I will say that we're pleased with how the launch has gone. We're pleased with the feedback we're getting from Foot Locker.

As I mentioned, we're seeing younger consumers more increasingly adopt the brand. So we feel good about it long term. So far, so good with the launch. We're going to take our time and maintain the discipline that we always have with expanding distribution, much as like we've done with DICK'S. But both of those are strategic in reaching consumers where they want to shop, in environments that can showcase the brand in a positive way, and they're both doing that. And we're going to continue to monitor and see how things go. But there's no major plans to drastically increase door count. We're still in less than 20% of DICK'S stores. And you can see the results we're getting through our own DTC channels. So, very healthy right now and we'll continue to monitor these and trickle out distribution.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah . And just on the distribution centers, Laurent, we are, as you mentioned, expanding our presence and space available. That is, in part, to handle the growth that we anticipate with the business and specifically kind of help handle the additional growth in the HOKA business. We do have levers as well. So there we have other arrangements and 3PLs that we can change distribution patterns. But – so we have our main facility in Moreno Valley. We're increasing space in the Midwest, as you mentioned. We also have some distribution through 3PLs on the East Coast that we can also look at.

So it's helping us plan for the future. We know these things take time. What I would also say is we're introducing more automation. And so, a big part of what we're developing in the Midwest is an increased automated fulfillment center, so being able to be efficient as we get those up and running efficiently. So more to come on that, but that's how we're looking at that.

Laurent Vasilescu

Analyst, BNP Paribas Exane

Q

That's just great to hear. Thank you very much for taking my questions.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Right.

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. Really nice work, guys.

David Powers

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

A

Hey, Jim.

Jim Duffy

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Yeah, I wanted to ask about the state of wholesale channel inventories in the specialty running channel. HOKA has clearly been a share gainer, but the category has been very strong. Do you feel HOKA's caught up on having inventory and equilibrium in that channel now? And then I'm curious if you're seeing any indications of moderating growth in the category and if that's catching some of the other brands wrong-footed on inventory?

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah, Jim. This is Steve. Good question. We are watching that carefully. And as you mentioned, we are growing our presence and inventory has increased. We are not at some inventory levels as some of the others, but our productivity is much higher than other brands. So, run specialty is highly productive. I think we're probably the most productive brand in many of those outlets. That's leaning to significant turnover of that inventory, so our ability to fulfill it.

So I think, again, as inventory increases, as we have more inventory available, we're going to continue to feed that channel. There's more opportunity I think and our teams believe that as well. So we're going to continue to take advantage of that. And now, especially with a better inventory position, we're better positioned to continue to go after that business.

David Powers

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

A

Yeah. And I think also we're hearing a little bit that some of the run specialty accounts are full in general with not just HOKA inventory but all their inventory. So there's a limited capacity to be able to bring in additional inventory. But as Steve said, the productivity of HOKA versus others is exceptional, high retail, high margin, full-price sales.

So – but we have the inventory now and on the way to be able to manage that channel much better than we have in the last two years, and we're really in chase mode.

Jim Duffy

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Yeah. The brand indicators super encouraging, 5 of the top 10 styles, that's really impressive.

David Powers

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

A

Yeah. Yeah. And the other thing on that is we are working on more innovative launches. So we're going to bring innovation and new ideas to market faster and we're going to utilize that channel to do some test and learn along the way as well and get some new innovative products out faster utilizing DTC in the run specialty channel at the beginning of calendar year 2023.

Jim Duffy

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Great. And Dave, I also wanted to ask about the addition of Anne Spangenberg. What's the particular skill set that Anne brings to you that makes her well-suited to lead the Fashion Lifestyle division? And what are the areas you're most excited about her opportunities to have an impact?

David Powers

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

A

Yeah. We are collectively as an ELT, as a board and as an organization, very excited to have Anne join the company. She's been here now almost three weeks. She's hit the ground running. She's been a fantastic addition to the ELT. I would say, first and foremost, she is the right kind of leader for Deckers. She's an inspirational leader. She's an empathetic leader. She's got incredible experience over her years in Nike, all within merchandising and storytelling and brand building. She spent three years on the ground in China, redeveloping, repositioning that market, and oversaw just a massive business for Nike.

And so the core talent that we love about Anne is she is an exceptional merchant, first and foremost. She understands and appreciates products. She understands how to bring product to market in a compelling way with head-to-toe storytelling. She knows footwear and apparel. And she's not from the fashion space, but we have a full team of people who are experts in that space. And what we're really looking for here is an inspirational leader who can get the best out of that team.

And at the same time, really editing and amplifying our storytelling, which is something a lot of people learned from Nike over the years. And so we think just a combination of her leadership, her merchandising experience, the global execution that she was overseeing at Nike gives us great leadership for this brand and can unlock the true potential of this brand going beyond the \$2 billion that it's at now.

Jim Duffy

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Very good. Thank you, guys.

David Powers

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

A

Thank you so much.

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

John Kernan

Analyst, Cowen & Co. LLC

Q

Excellent. Thanks for taking my question. Congrats on another great quarter.

David Powers

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

A

Thank you.

John Kernan

Analyst, Cowen & Co. LLC

Q

Could you talk to price increases you realized in Q1 and what you're planning for the back half of the year and the impact to gross margin as you're planning? Thank you.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah. John, this is Steve. Yeah, we haven't changed anything from what we've said previously. So we have introduced at the beginning of this calendar year price increases related to HOKA. We're seeing that drive some of the gross margin improvement. Clearly, that's being and has been offset with the higher freight. It's helping mitigate some of the pressures and we'll continue to face that really into the next quarter.

What we've also said and haven't changed our stance on is price increases on related select product for UGG. That will really kick in, in our Q3. Again, that was part of what we indicated on our initial guidance. So we haven't changed anything there. So, no change in terms of how we're thinking about price increases. We're going to continue to monitor that. But our prices are pretty well set for the seasons and would be more a future opportunity, not anything we would expect in this year.

David Powers

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

A

Yeah. I think for UGG specifically, we raised prices in about 30% of the line for Q3. So – but in places where we think we can get it, and we've heard that from our wholesale partners that we can get that as well.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yes.

John Kernan

Analyst, Cowen & Co. LLC

Q

Got it. Maybe just one quick follow-up. You mentioned specialty running being a little bit full on the wholesale side of things for HOKA. Anything else you – any other detail you can give as it relates to the wholesale channel for both UGG and HOKA? We have heard some updates from some of your peers in the sector, and it does sound like there's some caution building in that wholesale channel.

David Powers

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

A

Yeah. I mean, from what I'm hearing, I wouldn't necessarily say it's caution, but I think wholesalers are filling up on inventory. They've been light for many of their key brands over the last couple of years, and they're filling up. And logistics is still a challenge for brands and wholesalers. Space is becoming a challenge. And so we're hearing a little bit about that out there in the marketplace, which is why we think it's good that we got inventory in early, and we were able to get inventory into the channel to capture that space.

So I think it's going to be a dynamic this year that wholesale is going to have to work through as they try to fill up their inventories and get back in the right position heading into the rest of the year. So we don't see it really affecting our business yet. Demand is still strong. Brand health is still strong. We're not hearing about crazy cancellations or anything. It's pretty normalized. So we still feel good about our chances, but that is a dynamic that we're hearing about.

John Kernan

Analyst, Cowen & Co. LLC

Q

Understood. Thank you.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

All right. Thanks, John.

David Powers

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

A

Thanks, John.

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

Paul Lejuez

Analyst, Citigroup Global Markets, Inc.

Q

Hey. Thanks, guys. Curious if maybe you could talk a little bit more about the trends that you saw in the DTC side of the business for each of the brands as you kind of progressed throughout the quarter. If things kind of held steady throughout, or if you saw sort of ups and downs in the business on the DTC side or maybe a deterioration as you moved along, again, both for UGG and HOKA?

And curious if you can just talk about the inventory a little bit more. I think you mentioned you had a high percentage of goods in transit. Just curious what the comparison was versus a year ago and what inventory looks like in terms of units on hand versus last year. Thanks.

David Powers

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

A

Yeah. So I'll talk about e-commerce a little bit. As you saw from the HOKA results, a very healthy quarter for UGG. We did see a lift with the new campaign and the launch when that kicked in. And so, that helped in the back half of the quarter, created a little more excitement, a little more awareness. The first time visitors, it was in the 70% range. And so, a very healthy business that continues to be repeat purchasers, new consumers, younger consumers coming to the site, better KPIs, as I mentioned, on the landing pages and conversion on those pages.

So, that's really good. And it's broad-based. It's across all categories. It's not really a standout amongst the group. It's just the whole brand is seeing that level of interest and adoption.

Within UGG, the real challenge for DTC, as I mentioned, is within the slipper category. And it's a combination of the Fluff business slowing down dramatically from where it was a year ago, still aided by the pandemic. So, that's slowed down, but we've made up some ground with the Sport Yeah, but it's at a lower price point. So, as I mentioned, revenue in DTC was down or e-commerce was down for UGG, but units were up.

So I think, as I said, it's a point in time dynamic. I still think the core business – so I know this core business is still strong, heritage slippers still strong and men's still strong. A little softness in kids, but that was also Fluff-related. So, aside from that, the brand is still performing on expectation in the categories that we need it to. And as I said, as we get into Q2 and Q3, the Fluff dynamic will be behind us and it will be a more normalized business.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

And then, Paul, just a little bit on the inventory. In terms of the in-transit, percentage-wise, we're a little bit better but on a higher dollar amount. So we have higher dollar amount still in transit. I think that's important to note.

And then embedded in that inventory this year versus last year is about \$70 million more of additional freight as rates increased throughout last year. So we're dealing with a significant amount more of freight embedded in those higher inventory values as well.

And then the other with large percentage increase related to HOKA as we're ramping the HOKA inventory to support the growth in that business, that's contributing to the higher inventory balance. And just to remind everyone, the average price on HOKA is greater than the average. So, that's contributing to a lift as well.

Paul Lejuez

Analyst, Citigroup Global Markets, Inc.

Q

Did you say – did you give a breakdown of HOKA versus UGG inventory?

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

No, we don't.

Paul Lejuez

Analyst, Citigroup Global Markets, Inc.

Q

All right. Thanks, guys. Good luck.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

All right.

David Powers

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

A

Thank you.

Operator: The next question comes from Jay Sole. And this will be the last question. He is with UBS. Please go ahead.

Jay Sole

Analyst, UBS Securities LLC

Q

Great. Thank you for taking my question. You gave a bunch of the key factors that impacted the gross margin in the quarter. Is it possible to give us a little bit more detail around how much the supply chain costs affected the gross margin in basis points? And then on the supply chain, you mentioned you're starting to see some improvement. Can you give us a sense of how much it's improved and what kind of visibility you have into the trajectory of those challenges maybe getting easier as we go through the fiscal year?

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah. Sure, Jay. So this is Steve. So, of the 360-basis-point decline versus last year in the quarter, roughly 260 basis points of it is increased freight. So, that's related to both ocean and air, because we did use some air in Q1, which a year ago we didn't. We didn't start using airfreight last year until later in the year. So, that will be where we're going to have some headwinds in the first half of the year versus tailwinds when you get into the latter part of the year.

So, roughly 260 basis points on freight. There's about 50 basis points related to FX. And then everything else were kind of all the other things that we stated. Yeah, and just to remind you, the freight, again, as we talked about, is inclusive of air and ocean.

And then the second part of your question was?

Jay Sole

Analyst, UBS Securities LLC

Q

Just on the supply chain, you said you're seeing some improvements like – yeah, how do you think it trends from here?

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah. So what we're seeing, and this is what's contributed to the strong first quarter, we have seen an improvement, as we mentioned in the prepared remarks. So, product is flowing in a little bit sooner than what we anticipated. So we're seeing things flow. The visibility is still limited, as I mentioned in the prepared remarks too. So we're still trying to get better gauges on arrival of inventory. Good news is, on the West Coast, port labor negotiations, that's still ongoing. So we haven't seen disruption related to that. But again, still ongoing, so we'll keep a close eye on that.

So, again, seeing inventory come in better, which is good, gives us an ability like we demonstrated in the quarter with June and with HOKA, an ability to move it out and be in a better position than we were a year ago in order to kind of meet some of the demand. So we'll see how things go. We're continuing to work on that, continuing to look at ways to improve, but encouraged by some of the improvements that we have seen, but continuing to look for further improvement.

Jay Sole

Analyst, UBS Securities LLC

Q

Got it. Okay. Thank you so much.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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