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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 Second 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. 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, Vice President of Investor Relations and Corporate Planning.

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 current fiscal year and long-term strategic objectives, changes in consumer

behavior, strength of our brands and demand for our products, product distribution strategies, marketing plans and 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 levels and promotional activity, our potential repurchase of shares and the impact of the macroeconomic environment on our operations and performance, including fluctuation of foreign currency exchange rates.

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.

On this call, management may refer to financial measures that were not prepared in accordance with Generally Accepted Accounting Principles in the United States, specifically including constant currency. The company believes that these non-GAAP financial measures are important indicators of its operating performance because they exclude items that are unrelated to, and may not be indicative of, its core operating results. Further, the company reports comparable direct-to-consumer sales on a constant currency basis for operations that were open throughout the current and prior reporting periods.

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 pleased to be here with you today to discuss the strong results delivered by our portfolio of compelling brands as we make continued strides towards our long-term strategic vision even amidst a challenging macroeconomic environment.

For the second quarter, revenue increased 21% versus prior year to \$876 million. In the quarter, our two largest brands, UGG and HOKA, drove compelling revenue growth of 6% and 58%, respectively. Steve will provide further details on the strength of our second quarter later in the call.

But for now, I'd like to focus on how our first half results demonstrate Decker's progress towards longer term goals. As a reminder, our long-term vision is to build HOKA into a multibillion-dollar major player in the performance athletic 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, while maintaining top-tier levels of profitability for the company overall.

With the continued focus on moving our in-demand products into the marketplace early ahead of the UGG brand's peak selling season, and while at the same time, fueling year-round demand for the HOKA brand, we are pleased with the progress we have made thus far against our annual outlook of the current fiscal year.

As we continue to track our progress, I reflect on the first half results of fiscal 2023, which thus far have delivered consolidated revenue growth of 21% versus last year and 64% versus two years ago; HOKA revenue growth of 57% versus last year, with the brand now representing 44% of consolidated revenue, up from 35% last year and

28% two years ago; UGG revenue growth of 3% versus last year, with international driving growth aligned with our strategy despite currency headwinds; and a 63% increase in DTC acquisition versus last year for HOKA, and a 54% increase for UGG, reflecting the strength of demand of our brands, which propelled revenue growth of 26% for the first half.

Results like this demonstrate the success of Deckers' multi-pronged approach to creating growth and proactively managing our brands to progress towards our long-term vision, while delivering quality profitability.

Deckers is able to deliver on our objectives while managing through external factors because of our flexible operating model, omnichannel capabilities and our nimble organization. Our compelling brands are well-positioned for the second half of the fiscal year, and I'm confident in the team's ability to continue executing.

Steve will provide further details on our updated thoughts on guidance and the macroeconomic environment later in the call. But for now, let's dive into the brand and channel performance highlights for the second quarter and first half.

Starting with UGG. As a reminder, Anne Spangenberg joined our company earlier this year to leave the Fashion Lifestyle group, which includes the UGG and Koolaburra brands. With her wealth of experience, Anne is already having an impressive impact on UGG as a leader with passion and a clear vision that puts the consumer at the center of everything the brand is doing.

And aligned with the UGG brand strategy implemented over the last few years, Anne is focused on refining a few key elements of the brand's approach to product and demand creation, which include expanding the base of UGG consumers through a clear strategic vision of brand purpose and experience, prioritizing the design DNA of UGG in the product proposition, editing and focusing UGG products and experiences to maximize consumer impact, and elevating the pinnacle expression of UGG. I'm looking forward to seeing more of Anne's vision integrated into the UGG brand's bright future ahead.

Moving to the UGG brand's first half results. Global revenue in the second quarter increased 6% versus last year to \$477 million. For the first half, UGG revenue increased 3% over the prior year. We've been talking for some time about the diversification of UGG product and the brand's focus on developing franchises to complement core Classics. The UGG product team has done a fantastic job, broadening the consumer appeal beyond Classics, while also ensuring Classics remain the pinnacle expression of UGG.

Keeping Classics special is essential to our UGG marketplace allocation and segmentation strategy that spans multiple countries and critical to UGG maintaining high levels of brand interest around the world.

From a product standpoint, UGG has quite literally elevated core Classics through the introduction of fashion-forward platform versions of the brand's most iconic styles. Generating tremendous press coverage from being spotted on top models and going viral on TikTok, platform Classics are already trending in the top 10 amongst new consumers in 18 to 34-year olds, and the fall season is just getting started.

Additionally, with excitement building around the platforms, we've also seen a significant demand uptick in the original core Classics that inspired them, as DTC revenue from the Classics Ultra Mini and the Classic Mini in the first half increased more than 200% and more than 60% versus last year, respectively.

Beyond Classics, UGG has continued to find success with hybrid styles, of which the latest and greatest example has been the Tasman. For the first half of this year, the Tasman has been a top five style for UGG overall and the

number one style purchased at DTC. We've been encouraged to see the Tasman being adopted as a genderless style, a movement being led by the UGG brand's 18 to 34-year-old cohort as the second most popular and most popular style among female and male consumers in the age group, respectively.

Further to the Tasman's popularity and the prevalence of platforms, UGG introduced a platform Tazz last year, and the style is already in the top 10 amongst 18 to 34-year olds. We're excited about the continued opportunity with this franchise as it speaks to the UGG brand's growing year-around appeal and increased category diversification.

Driving the success of, and early attention to, UGG this fall was the brand team's enhanced global marketing campaign strategy that leans into the consumer feedback derived from a recent brand survey.

With concrete consumer feedback across the eight global markets provided by the surveys, UGG designed this year's campaign dubbed Feels Like UGG to deliver a unified brand message via local influencers that were cast specifically for each of these individual key markets, which leans into the feeling and comfort that are core to the brand's DNA.

Beginning with an influencer event in Paris that coincided with the UGG collaboration with opening ceremony and continuing on to a collaboration with 6pm that was featured during Fashion Week Milan, the Feels Like UGG campaign was launched on the runway and broadcast globally through social engagement by a community of ambassadors and consumers who love the brand.

We are seeing tremendous response from consumers thus far, as in the second quarter, search interest for the US increased 11% versus last year, with two-thirds of the ugg.com visitors new to the site, 18 to 34-year old site visitors in EMEA more than doubled versus last year, Asia Pacific DTC business grew 11% versus last year, and global DTC retention increased 50% versus the prior year.

The consumer response has been positive globally for the UGG brand. First half revenue was driven by international regions as the US lapped significant wholesale refill activity from the prior year. Additionally, some of this year-to-date growth overseas is due to lapping supply chain latency in the first half of last year, but we feel the UGG brand's international regions returning to growth is proof of the successful marketplace reset initiatives implemented over the last few years.

All in all, the UGG brand is positioned well for holiday with inventory availability having improved relative to last year in key markets across the globe. We're encouraged by the results we've seen early in the season, but as always, remain cautious with our busiest period still to come.

Shifting to HOKA, global revenue for the second quarter increased 58% versus last year to \$333 million, a quarterly revenue record for HOKA, leading to a first half revenue increase of 57% versus last year. HOKA growth continues to be driven by the brand's exceptional global ecosystem of access points, which is building market share through increased awareness and benefiting from strategic door count increases.

While greater market share with existing accounts is responsible for the majority of HOKA growth this year, the brand has made some notable addition to access points, which include expanded distribution with strategic growth accounts, 12 owned and operated stores to build awareness and serve the mono-brand China market, two stores in Japan and five pop-up stores in the US. Each of these access points are designed to build HOKA brand awareness and increase consumer access to new geographic locations.

In addition, the HOKA brand has rolled out exciting out-of-home FLY HUMAN FLY campaign content in highly visible cities around the world, helping to drive a 145% increase in search terms in New York and Los Angeles. With these efforts, we've seen the HOKA brand's DTC growth rate accelerate from the first quarter into the second.

Overall, for the first half, HOKA has driven exceptional increases in DTC retention and acquisition, increasing 70% and 63%, respectively, across global markets. All of these actions are driving incredible increases in brand awareness. Over the last two years, HOKA awareness across all consumers has improved 9 percentage points and even crossed the 20% threshold, with awareness among runners even higher according to Decker's proprietary brands tracker study.

Outside of the US, awareness is much lower, with most regions sitting in the low teens percentage, but seeing similarly explosive growth in awareness, which highlights the significant opportunity for continued HOKA brand expansion.

Augmenting the global marketing campaign, HOKA global event sponsorships have continued to help the brand maintain and build performance credibility with extreme athletes around the world. One recent example of this is the HOKA brand sponsorship of the Ultra Trail du Mont-Blanc, the UTMB World Series. In the brand's first year sponsoring the UTMB Series, we saw positive results as HOKA achieved a 34% share of shoes tracked on race participants, which is well-above last year's total.

Additionally, HOKA athlete Ludovic Pommeret placed first in the 145-kilometer TDS race at Chamonix in this year's UTMB series wearing the HOKA Speedgoat trail shoe to conquer the course's diverse terrain.

The HOKA brand's alignment with the ultra-competitive UTMB series highlights the brand's focus on becoming a leader in the growing outdoor trail and hiking segment.

The aforementioned Speedgoat is the HOKA brand's top trail shoe. Coinciding with the UTMB event, in order to complement the Speedgoat, HOKA launched the Mafate Speed 4, which is an innovative update to a heritage style designed to broaden the brand's footprint in trail. Early reads from consumers purchasing Mafate have been exceptionally strong across global markets, which is exciting for HOKA as the brand focuses on building market share in the trail category.

For hiking, HOKA now has two franchises in the Kaha and the Anacapa that are experiencing immense growth and building market share. Thus far, in fiscal year 2023, both of these hiking franchises have made their way into the top 10 most purchased styles for HOKA. We believe this is because of the unique HOKA DNA that sets these franchises apart with their lightweight platform and maximum cushion that compares favorably to bulkier products from the competition.

Importantly, while we're seeing really strong growth in new categories of focus such as trail and hiking, HOKA is also delivering exceptional growth and results with core running styles like the Bondi.

With the support of the increased global brand awareness I mentioned earlier, the brand's launch of the eighth evolution of the flagship Bondi franchise was even more impactful as the Bondi 8 was the top-selling style globally in the second quarter, more than double last year's Bondi 7 volume among 18 to 34-year-old consumers, and was the top five DTC style across Decker's entire portfolio of brands for the first half despite just launching in August.

With this latest addition, Bondi, the brand's most plush ride got softer and more comfortable, with the lightest HOKA foam to date in an all-new extended shell geometry, featuring rear crash pads that provide a soft and balanced transition built for long distance.

In just a few months of selling, the Bondi 8 has already been named the Best Road Running Shoe by both the SELF Certified Sneaker Awards as well as the GQ Fitness Awards. Congratulations to the HOKA team for the continued success and balanced growth across global regions and product categories. We look forward to delivering more exciting and innovative products throughout the rest of this fiscal year and beyond.

From a channel performance perspective, the first half was strong in both wholesale and DTC, fueled by a 39% increase in consumer acquisition and 44% increase in retention. First half global direct-to-consumer revenue grew 26% versus last year. HOKA continues to be a significant driver of consolidated DTC growth, and the brand's growth rate even accelerated from the first quarter into the second, overall increasing 66% versus the prior year for the first half. UGG also contributed to the first half DTC growth, as the brand returned to growth in Q2, leading to a 4% increase for the brand in the first half.

On wholesale, global revenue in the first half increased 20% versus last year. Strength in the wholesale channel was primarily driven by HOKA gaining global market share and the brand benefiting from select additional doors with strategic accounts. UGG also contributed to first half wholesale growth in the brand's international regions.

Our first half performance highlights the strength of our omni-channel marketplace management strategies that have allowed our brands to build market share with strategic retailers, while capturing DTC demand at the same time. And while we continue to see great demand in the marketplace for our brands, as we move into the back half, the environment is evolving quickly, which may present challenges outside of our control. However, our teams are focused on the variables that are within our control as we work towards this year's objectives.

With that, I'll now turn the call over to Steve, who will walk you through further details on second quarter performance, as well as the context of our reaffirmed full-year top and bottom line guidance.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

Thanks, Dave. And good afternoon, everyone. As Dave just covered, Deckers delivered strong results in the second quarter to finish the first half of fiscal year 2023 in a position of strength. HOKA drove another quarter of exceptional growth and UGG continues to elevate its presence globally.

While there is plenty of heavy lifting ahead and we are now operating in our historically largest and most complex fiscal quarter, I'm confident in our team's demonstrated ability to execute on our plans even as macroeconomic challenges persist, most notably the continued strengthening of the US dollar.

We will lean on our omni-channel capabilities, flexible operating model and strong balance sheet to remain nimble in navigating any dynamic marketplace shifts that may occur as we provide our brands the opportunity to continue building long-term sustainable market share.

Now let's get into the details of the second quarter results. Second quarter fiscal 2023 revenue was \$876 million, representing an increase of 21% versus prior year. On a constant currency basis, revenue grew 25% versus last year.

Growth in the quarter was primarily driven by the expansion of HOKA, which increased 58% versus last year, delivering record quarterly revenue of \$333 million, and a 20% reported increase in UGG international regions as the brand benefited from marketplace reset initiatives implemented over the past couple of years, as well as lapsing disrupted wholesale shipments in the prior year.

Gross margin for the second quarter was 48.2%, which is down 270 basis points from last year's 50.9%. Roughly half of the decline in gross margin was driven by unfavorable foreign currency exchange rates, with additional impacts from higher promotional activity for UGG as compared to last year's exceptionally low levels, with the brand primarily utilizing higher margin DTC closet events to move through excess spring season inventory; higher ocean freight rates, which was partially offset by benefits from a reduction in airfreight usage, HOKA price increases and favorable brand mix with HOKA driving the majority of growth.

SG&A dollar spend in the second quarter was \$294 million, up 23% versus last year's \$239 million. As a percent of revenue, SG&A was 50 basis points higher than last year, primarily due to higher advertising spend as a percentage of revenue. Our tax rate was 21.2%, which compares to 20.1% for the prior year.

These results culminated in a diluted earnings per share of \$3.80 for the quarter, which is \$0.14 above last year's \$3.66 diluted earnings per share.

Turning to our balance sheet at September 30, 2022. We ended September with \$419 million of cash and equivalents. Inventory was \$925 million, up 45% versus the same point in time last year, primarily from HOKA brand as we bring product in to continue momentum with the brand. And during the period, we had no outstanding borrowings.

During the second quarter, we repurchased approximately \$50 million worth of shares at an average price of \$290. As of September 30, 2022, the company had approximately \$1.5 billion remaining authorized for share repurchases.

Now moving into our updated guidance for fiscal year 2023. We are reaffirming prior consolidated revenue, operating margin and diluted earnings per share guidance. Our full fiscal year 2023 guidance now includes reaffirmed reported revenue growth of 10% to 11%, anticipating between \$3.45 billion and \$3.5 billion.

With HOKA now expected to increase up to 50% versus last year, helping to offset larger currency headwinds as a result of a continued strengthening of the US dollar, and UGG is expected to be down mid-single digits on a reported basis, primarily due to negative currency impacts.

Gross margin now expected to be approximately 50.5%, which is a reduction from our prior guidance, primarily due to increased currency impacts, as well as some additional promotional activity.

SG&A as a percentage of sales now expected to be approximately 33%, reflecting variable savings to help offset further gross margin pressure that we have now incorporated.

Operating margin range is still expected to be in the range of 17.5% to 18%. Tax rate is now expected to be approximately 22% and diluted earnings per share is reaffirmed in the range of \$17.50 to \$18.35.

Please note, this guidance excludes any charges that may be considered one-time in nature and does not contemplate any impact from additional share repurchases. Additionally, our guidance assumes no meaningful deterioration of current risks and uncertainties, which include, but are not limited to, further impacts from the

ongoing COVID-19 pandemic on our operations and economic conditions, including supply chain disruption, constraints and related expenses, labor shortages, inflationary pressures, changing consumer confidence and recessionary pressures, further strengthening of the US dollar and geopolitical tensions.

Now, for some additional context on the state of our business as we approach the busiest part of our year. From a logistics standpoint, we are still experiencing delays and the timing of container arrivals remains difficult to predict. But we feel good about the improvement in transit times, which has led to a reduction of inventory in transit on both a dollar and percentage basis as compared to last year.

Additionally, I am pleased to report that container costs have come down, but would caution that we won't start to see that improvement in our gross margin for a few quarters. With that said, the headwinds we have experienced from ocean freight in the first half are expected to turn neutral for the remainder of this fiscal year.

With the improvement we've seen on transit times and our strategic prioritization to bring inventory in earlier and hold higher levels in the country of sale, we no longer expect to use a material level of air freight in this fiscal year.

Additionally, with the strength of our brands and ability to move through some promotional inventory during the quarter, we have seen our year-over-year inventory growth rate moderate as compared to recent quarters, with inventory levels 45% higher as of September 30th compared to the same date last year, at which point inventory levels were below normal operating levels.

While we are still chasing the exceptional demand for our brands, particularly with the opportunity we've outlined for HOKA, we are likely to see inventory growth outpace sales in part to hedge against future disruption.

On the promotional environment, given how clean we have been over the last few years, with very little promotion across our portfolio of brands, we have experienced increased levels of promotion so far this year related to clearing some excess inventory, largely UGG spring season product and shifts in the macroeconomic environment. Embedded in our updated guidance for the full year, we expect more promotional activity relative to the exceptionally low level of promotion in prior years.

Further on gross margin, I'd like to touch on currency as this has increasingly been a topic of interest. For the first half, we have seen a currency revenue impact to the tune of approximately \$30 million and a 110 basis point impact to gross margin. With our business being second half weighted and no signs of a weakening dollar, we are anticipating a second half revenue impact of approximately \$70 million, primarily impacting the UGG brand.

In total, we now expect currency to negatively impact our gross margin rate by approximately 140 basis points for the full fiscal year 2023. This increased currency headwind is the primary driver of our change in our updated gross margin outlook.

As our top and bottom line guidance has been maintained, despite the continued strengthening of the US dollar being incorporated, we are reflecting an underlying operational raise from our variable levers to remain on track with our original full-year outlook.

Excluding the negative impact of currency now projected in fiscal 2023, our guidance would indicate gross and operating margin expansion in comparison to the prior fiscal year. This currency neutral margin expansion would be driven by reduced airfreight usage, competitive marketplace price increases and brand mix benefits with the growth of HOKA being partially offset by first half ocean freight pressures, as well as increased promotional activity.

Though, clearly, there is much to overcome for the balance of our fiscal year, I am confident in the strength of our brands and ability to leverage our flexible operating model to deliver the compelling guidance we set out at the outset of this fiscal year.

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

David Powers

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

Thanks, Steve. We are excited about the strong results delivered in the first half of fiscal year 2023. But, again, it's important to acknowledge that we are still operating within an uncertain environment where things can change quickly and the bulk of our fiscal year is still ahead. With that said, Deckers is fortunate to have two of the strongest brands in the footwear space that continue to engage and attract new consumers every day.

The UGG brand's diverse product assortment is positioned well for holiday, led by elevated platform Classics, which are driving heat and excitement around the core, as well as the continued interest in more transitional hybrid styles like the Tasman and Ultra Mini. Paired with a compelling marketing campaign that is resonating across global markets, we expect UGG to perform well this holiday season.

Our powerful brands, paired with strategic marketplace management, omni-channel capabilities and disciplined financial management, gives me the confidence that our organization can achieve the compelling guidance set forth for fiscal year 2023, even in the face of macro pressures that will impact the broader retail space.

Of course, none of this will be possible without the dedication and hard work of our employees, who I'd like to thank in advance of our busiest period of the year.

I'd also encourage everyone listening to take a look at our FY 2022 Corporate Responsibility Report that we'll be launching next week and will be posted on [deckers.com](https://www.deckers.com), further highlighting our company's efforts to do good and do great in the communities where we operate and beyond.

Thanks, everybody, for joining us here today, and thank you to all of our stakeholders for your continued support. We look forward to continue sharing the exciting future ahead at Deckers.

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] Our first question comes from Laurent Vasilescu from Exane BNP. Please go ahead.

Laurent Vasilescu

Analyst, Exane BNP Paribas

Q

Good afternoon. Thank you very much for taking my question, and congrats on such solid results in this environment. Dave, Steve, I wanted to ask about the implied 2H rev guide. On a reported basis, it looks like 3%. Maybe on a CC basis, it's about 6%, 7%. Tell me if I'm wrong there. But can you maybe unpack that a bit? How much you're expecting wholesale to grow or not grow versus strength in DTC?

And I know, Steve, you don't typically guide by quarter, but any nuances we should consider between 3Q and 4Q? I know you've had shifts in revenues over the years due to shipments. But anything that we should consider as we model the rest of the year?

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah. Sure, Laurent. So just to give a little bit of perspective on the back half and, you're right, we don't give quarterly guidance. So I think how we're seeing the year play out, and I know everybody's models are a little bit different, but it is, I think, laying out to the way we expected, which is much more growth in the first half.

So I think, remember the context of last year, our first half was very disruptive in terms of inventory and product availability. And so, when you see the big percentage increases in the first half of this year, we are as we intended to do shipping out more product earlier in the year. That's benefiting clearly HOKA. You can see from the growth numbers, as well as UGG.

Last year, as we started to see more inventory coming in, in the second half of the year, it was setting up a bigger half last year. So we are now comping against that bigger half that you saw last year. So that's why you see, from a percentage basis, the second half with lower percentage growth because we're comparing against that bigger second half quarter.

We're still seeing significant growth with HOKA clearly in our guidance. Again, not quite to the same level of percentage increase. But, remember, we had a very big fourth quarter last year. And that was not only applicable to HOKA, but UGG as well.

So, again, we're not breaking out quarters. But as I said, the year is playing out much to our expectation. Embedded in our updated guidance is an operational improvement, and that's largely coming from increases related to HOKA. So we're continuing to see strength. I mentioned it in my updated guidance in terms of now seeing growth for the full year of HOKA up to 50%, so before it was kind of 40%, 45%. So you're seeing that.

I think the other thing, remember, is last year was more growth with wholesale, as we were replenishing the channel last year. So we're comping against a replenished year last year in the wholesale business. So you're going to see slightly lower percentage growth on the wholesale business. But, overall, trending very strong, demand signals very strong. The year is playing out well, seeing a strong start to Q3.

So, again, as we've said before – and again, this is part of the reason we don't give or did not give quarterly guidance this year is because of the disruptive nature of last year. And we knew that there would be movements between quarters and we knew that first half was going to be much bigger growth this year, with percentage increases lower, but still strong dollar growth in the second half.

David Powers

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

A

And I would just add on to that. We've been spending a lot of time planning the back half of the year. And we're really proud of the fact that we're able to maintain guidance despite some really significant headwinds on the margin front potentially, from a promotional standpoint, but significant FX headwinds as well.

And we've aligned as a leadership team across the organization, and we feel confident that we can still deliver, despite some of these significant headwinds, and that's our objective. And we're going to optimize the strength of our brands right now to deliver its healthy margin and promotional-free season that we can.

Laurent Vasilescu

Analyst, Exane BNP Paribas

Q

Very helpful. Thank you very much. And then as a second question, a follow-up on UGG. I think, Dave, you mentioned that UGG international grew 20% reported. I'm just going to kind of ballpark it that, on a CC basis, it's probably up over 30%. Maybe can you unpack that?

What's driving that? Is it Japan? Is it Europe? And then, I guess, maybe the US UGG number was probably down low-single digits for this quarter. Was there something with regards to cancellations or just a late start on the DTC side? Anything on that would be very helpful. Thank you.

David Powers

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

A

Yes, sure. We're really pleased with how things are playing out internationally. We've been working at transitioning those markets much like we did in the US a few years ago and we're starting to see fruits of that work in a positive way, particularly around diversified Classics in the UGG brand and younger consumers.

And so, the marketing campaign, the key styles, the platform styles are really resonating well in those regions. But I think a key factor is that we are showing up a more local than we are a global brand. So we're working closely with key influencers in the regions. That's not something we've generally done this aggressively in the past before. We've got some great partnerships with local influencers and celebrities, and also Fashion Institute in China that is giving us access to local designers to collaborate with. And we're showing up more – with more of a local understanding of the consumer versus purely just kind of peanut butter spread of global campaigns.

So we're getting surgical on the regions, both in assortment and distribution, but also the consumers that we're going after and leveraging those local relationships as best we can, and that's driving a very healthy business right now. So it's good. Despite some of the challenges, obviously, at a macro level in both Europe and in China right now, our brands are still coveted and are performing well. And like I said, it's great to see that turnaround, and we see it continuing.

A little more challenging in UGG in the US, just some of the wholesale nuances with shipping and things we've had last year versus this year. But, overall, it's off to a really good start. And like I said, in this environment, it's tremendous to see the international region is doing so well.

Laurent Vasilescu

Analyst, Exane BNP Paribas

Very helpful. Thank you very much.

Q

David Powers

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

Yeah.

A

Operator: The next question comes from Tom Nikic from Wedbush Securities. Please go ahead.

Tom Nikic

Analyst, Wedbush Securities, Inc.

Hey. Thanks very much for taking my question. I guess on the FX side, it sounds like, were it not for FX changes over the last three months, you would have been raising guidance today. Is there anything – like, do you make – trying to make any pricing adjustments or anything like that, given how dramatically the exchange rates have shifted and the relative values in the different markets have changed dramatically? Or do you just take the changes in FX rates and what they've done for the prices and the margin rates of those businesses and just kind of run with it from there?

Q

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

Yeah, Tom, this is Steve. Good question. I think you're correct. And we did say this is – yes, on a constant currency operational basis, we are increasing our outlook. That increase has been offset by a stronger US dollar. So that's why we're holding guidance. It is an offset to the increase that we're seeing in the business.

A

In terms of price increases, as you know, we have introduced pricing increases on HOKA this year. We have some other price increases on selected styles in UGG that are starting in Q2. It's difficult in season to change pricing. And, therefore, there really isn't an opportunity once you're in season to adjust pricing. It is something that we can look at going forward, but it's not anything that will impact this year.

Tom Nikic

Analyst, Wedbush Securities, Inc.

A quick follow-up. I've just got a quick follow-up on – so UGG last year in Q4, I recall you said that you had a bunch of stuff that you had shipped for the wholesale channel and the wholesale partners are planning to pack it away and release it for holiday 2022. Does that have a meaningful impact on the back half or the shape of the back half? It causes a pretty difficult compare in the fiscal Q4. So I just wanted to touch on that.

Q

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

Yeah, it's a good question, Tom. So in terms of, and especially related to Q4, again, we're not giving out kind of a quarterly Q3, Q4 breakout. But to your point, in Q4, I think the thing to recall last year was, as we were experiencing significant supply chain disruption, ship build up at the ports, congestion at the ports, we were not able to ship products as much as we would have liked in Q3. A lot of that started to clear up in Q4. So we were shipping more product in Q4 last year than what we would normally do in a regular year. You would have seen some more of that in Q3.

A

The other is, we saw a good demand on the DTC side in Q4, too. So that was another buildup in the quarter. So we're still building on that business. Again, it's overshadowed by the strength of the US dollars and the significant impact of foreign currency. So you don't necessarily see that level of growth because on the international front, we do get hit with the currency.

So we are comping a very strong back half last year, especially in Q4. And so, again, it's not changing necessarily the shape of the business for the back half. There is some quarterly cadence between the two quarters, but we're building on an exceptionally strong back half last year this year. It just gets a little bit overshadowed by the strength of the US dollar and currency impact.

Tom Nikic

Analyst, Wedbush Securities, Inc.

Q

Got it. Thanks very much. And best of luck in the holiday season.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

All right. Thanks.

David Powers

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

A

Thanks, Tom.

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

Jonathan R. Komp

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

Q

Yes. Hi. Good afternoon. Thank you. Steve, maybe just a follow-up on the gross margin assumptions for the second half. Can you maybe just talk about how your promotional assumptions changed for the second half, if at all, versus what you maybe previously thought embedded in the gross margin? And then, bigger picture, any change in your confidence that you should be a low 50s gross margin business over time?

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yes. I think answering the last question first, it depends, right? It depends on everything that's going on. So the gross margin decline, again, on a full year guide, because that's what we provided, the 51.5% to 50.5%, the large majority of that is currency driven.

So when you do your model and you calculate what we just delivered in the first half and you calculate your second half, the large bulk of that decline is driven by the further strengthening of the US dollar. And just one other item to recall is Q3 and Q4 are big quarters for us, with Q3 being the biggest.

So we are going to feel more of that currency impact in Q3 because we have more business, wholesale direct business on the international front. So, that is – there is a slight component of an increased promotion factored into that. But, again, a large majority of the change or reduction is driven by foreign currency.

Jonathan R. Komp

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

Q

Got it. Understood. And then maybe, Dave, switching to HOKA, could you share a little bit more on your reaction to what you've seen following the launch of the marketing campaign this summer? I know you mentioned a pretty impressive improvement in awareness. Just curious, how marketing has contributed to that?

And as you think for HOKA, the balance of this year and into next year, what are you looking at in terms of what could be the most incremental for growth going forward here for HOKA?

David Powers

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

A

Yeah. I would say, on the marketing, we're very happy with how the FLY HUMAN FLY campaign has been received globally. It's been very early received from all of our partners around the globe. It's resonating very well with the consumer. We shared some of the metrics in the prepared remarks. And those results are incredible. In L.A. and New York, to have that kind of uplift on additional marketing spend. And we are shifting more money to top of funnel and experiencing with different mediums. And we're learning a lot, and it's paying off.

So we're going to continue to do that. As you know, we've said for many years now, we're going to continue to invest in our brands through marketing and talent. And this is just a great indication of when we get a powerful unified global campaign for this brand and move some more money to the top of the funnel that has a very positive impact. And so, that's a new learning for us. We're going to continue to lean into that and explore different ways of connecting with our consumer.

I think for HOKA going forward, we have some exciting launches. We just lost – we're launching the Clifton 9 coming up in Q4. That's going to be a major launch for us. And we're continuing to have a very healthy and exciting pipeline of product. But as we've talked about before, we're dominant in run and trail. We need to bolster our opportunities in hike. And we're getting tremendous response from some of our lifestyle distributions such as Free People in the US.

And so, it's extending the reach of our brand. It's bringing in a younger, more fashionable consumer. And really, it's hitting on all cylinders. So it's just a matter of where we want to focus our launches, where we want to focus our marketing spend and drive the upside surgically over the next six months. But there's a lot of opportunity here. We're just really optimized – focused on optimizing margin and sell-through and creating awareness at a top level.

Jonathan R. Komp

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

Q

Great. Thank you very much.

David Powers

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

A

Yeah. Thank you.

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

Jay Sole

Analyst, UBS Securities LLC

Q

Great. Thank you so much. Dave, I want to follow-up on the HOKA question. I think in the opening remarks, you mentioned that your long-term vision is to build HOKA into a multibillion dollar brand. Maybe can you just elaborate on how your vision has evolved over the last three months? What you see is the potential for HOKA? And if you could put any numbers around that multibillion, do you mean \$2 billion, \$3 billion? Anything around that would be helpful.

And then, Steve, just on the UGG guidance for the year, I think you said down mid-single digits, but could you give us a constant currency guide for UGG for the full year? Thank you.

David Powers

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

A

Yeah. Good question, Jay. I think, obviously, for HOKA, the growth-on-growth that we're experiencing now, the scale of that business, the multiple categories that we're doing very well in and the expansion into more lifestyle product and distribution, all with still performance product, we're just finding more opportunities. The awareness we said in the script of the brand for non-runner is only around 20%. It's single digits in the international regions.

And so, when you start doing the math on awareness increases, the category opportunities head-to-toe, the global markets both in our omni-channel distribution, there's clearly a path to a multibillion dollar opportunity. And as I've said before, we don't see this as just a running brand. This is a running, trail, hike brand that is more like a North Face or a Salomon eventually than it is more like a Brooks.

So we are re-looking at our category approach, we are bolstering up some design and product management talent in our teams, we're elevating our marketing functions and we're going to stay aggressive because we feel we have a tremendous opportunity to create the next multibillion dollar performance brand.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

And then, Jay, this is Steve. On an UGG constant currency guidance, it's more like very low single-digit decline.

Jay Sole

Analyst, UBS Securities LLC

Q

Got it, okay. And then can you just talk about October and the weather compares versus last year? How has October started? And last year was negatively impacted by weather in November, is that fair to say specifically in the US? And what's your expectation this year? Thank you.

David Powers

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

A

Yes.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Go ahead, Dave.

David Powers

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

A

Yeah. So far, so good. We spoke about some of the early launches of the Ultra Mini platform products, both in the Ultra and also Tasman. We're seeing just incredible response to those products. And we've gotten great press from a lot of the runways in Europe and also in New York. Influencers, they're wearing our product in a compelling way. I think the advertising, the marketing campaign is resonating very well with our consumer. We're getting really good feedback on that, and the sell-through of these extended Classics is exceptional. So we're pleased.

And again, we're heading in with a lot of confidence, but we're heading into an environment that is seemingly going to be very promotional. But we're going to try to optimize full price sell-through as best we can and come out clean and healthy.

Jay Sole

Analyst, UBS Securities LLC

Sounds great. Thank you so much.

Q

David Powers

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

Thank you.

A

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

Sam Poser

Analyst, Williams Trading LLC

Thanks for taking my question. So before I get to questions, Erinn, can you give us the – my normal question, please, on what the wholesale revenue is by brand?

Q

David Powers

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

Sure. Sam, that counts as one question.

A

Sam Poser

Analyst, Williams Trading LLC

No, it doesn't because you should just put it on there. You just tell everybody upfront.

Q

David Powers

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

Okay. So, UGG wholesale, \$361 million for the quarter; HOKA wholesale, \$223 million; Teva at \$20 million; Sanuk, \$5 million; other brands, call it, \$28 million; and DTC is \$239 million of the \$875 million in total.

A

Sam Poser

Analyst, Williams Trading LLC

Okay. Thank you. Okay, so now for questions. The FX, you're looking for what? What are the FX headwinds in total that you're looking for in the back half? I'll just ask all my questions together. What are your replenishment expectations for UGG built into your guidance for the third and fourth quarters? And I'll just do those two and I got one more.

Q

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah. So on the second half, as we said in the call script, there's \$70 million of currency headwinds for the company in the back half of the year.

Sam Poser

Analyst, Williams Trading LLC

Q

Just back half.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah. And then in terms of replenishment...

Sam Poser

Analyst, Williams Trading LLC

Q

On the gross margin, though, on the gross margin, what's the [indiscernible] (49:53) on the growth, like just for the back half? That's for the full year.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Correct. [ph] 140 ((50:00)) on back half.

David Powers

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

A

Yeah. I'll just double check that real quick. Did you get the right info?

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah. So [ph] 110 ((50:21)) on the first half impact, and then [ph] 140 (50:28) on the full year impact, and then you can back into the second half impact.

Sam Poser

Analyst, Williams Trading LLC

Q

My math isn't good. But – and then with UGG, what percent of the UGG business in the third and fourth quarter is international versus US? And how does that break down from a wholesale to DTC scenario? Because it looks like the DTC business, I would assume that's very US centric and the demand just looks like it's exceptionally strong. So, how are you thinking about wholesale and DTC from a – you can do a currency neutral or whatever, just for UGG for the balance of the year, especially DTC?

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah. So second half wholesale, we're looking down a little bit. So, again, it is all brands, global. And then DTC, we're looking up. So roughly speaking, kind of low-single digits down on the wholesale second half and high single-digit-ish up on the DTC back half.

Sam Poser

Analyst, Williams Trading LLC

Q

But I would assume that would mean that UGG wholesale is down a lot, just given how strong it was last year and the FX, that's offset by high increases, balance different with HOKA. Is that a fair way to think about it?

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah. And again, part of that wholesale dynamic, to the earlier question, is because last year, we had a lot that went out in the second half. We had a lot that went out in Q4, specifically, especially as we were replenishing depleted wholesale inventories with incoming inventory that arrived in Q4.

Sam Poser

Analyst, Williams Trading LLC

Q

All right. Thank you very much. Continued success.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

All right. Thanks, Sam.

Operator: The next question comes from Dana Telsey from Telsey Advisory Group. Please, go ahead.

Dana Lauren Telsey

Analyst, Telsey Advisory Group LLC

Q

Good afternoon. As you think about the progress in the channels of wholesale and DTC, you had mentioned on one of the last calls about expanded distribution. What are you seeing for UGG and for HOKA in terms of distribution and where you're looking to position?

And then on the DTC side, when you talk about eliminating goods through your own channel, given it's more productive, where are you seeing more of the strength coming from and how you're planning DTC, both in – whether it's outlets or full price going forward? Thank you.

David Powers

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

A

Yes. Good question, Dana. So in UGG, there really isn't expanded distribution happening. So we're sticking to our tight distribution framework that we have globally. We've been working hard at establishing that, closing more accounts than opening.

So we're not really in an expansion mode for distribution in UGG. We're trying to consolidate, work with the strategic players that we have tremendous relationships with and optimize DTC.

For HOKA, it's a little bit different. We obviously want to optimize DTC, and we're doing a great job with that. But we are strategically expanding to doors, not in a massive scale, but I'll give you an example in the US.

Coming up in Q3 this fall, we're going to expand up to 100 doors in DSG, with DICK'S Sporting Goods. So we're slowly opening up more doors with that account and expanding a little bit. We're testing Foot Locker. And then, so – but beyond that, there really isn't much distribution expansion for either of our brands.

What we're seeing is higher rates of productivity and full price sell-through in the accounts we have. Those accounts are – like DICK'S Sporting Goods and Foot Locker – are new-ish and we're still learning a lot. But the growth that we're seeing in existing accounts and the productivity in those doors is very exciting, similar to what we're seeing in DTC.

And then we're going to continue to strategically, thoughtfully expand distribution because we don't really need a lot more distribution right now with the demand we're seeing in the channels we have, and we want to enter into any new distribution in a quality, brand building way.

From a DTC perspective, we use that strategically. One of the beauties of our – the beauty of our omni model is that we can shift pretty easily between wholesale and e-commerce and retail. And we use the DTC channel strategically to exit some goods at a high healthy margin, but also use that as an acquisition for new customer retention. And so, you'll see a little bit more.

Now that we have some inventory, we were so tight last year in inventory that we didn't have probably any excess. You'll see a little bit more on our UGG and HOKA websites perhaps than you've seen in the past, but that's strategic because we make more money in those sales on our own accounts and we get the consumer data versus discounting heavily in the marketplace. So, we want to control this as much as we can, and strategically use DTC as an engine to drive growth and profit and also acquisition.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Q

Thank you.

Operator: Our last question is from Jim Duffy from Stifel. Please go ahead.

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

Q

Thank you. Hello, guys. Really nice work from an operational standpoint. I'm sure that hasn't been easy. So kudos to the team. My question, I wanted to focus on UGG product diversification. You highlighted some great progress. Can you speak specifically to UGG diversification traction in international markets? Is it lagging North America? Has the uptake of styles like the Tasman and the Mini been a US centric phenomenon? Or is that also showing in international markets? Any perspective you could provide there would be great.

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

A

Yeah. No, it's a great question. And it's interesting because we've had such success with more fashionable styles. The Fluff was a big acquisition opportunity for us with the younger consumers, and there's a lot more fashion and fun. But what you're seeing right now is the excitement around our Classics expansion. So, the team has done a tremendous job of taking our core Classics, which we – as you know, we've managed incredibly well over the last three years, pulling back on distribution, allocating inventory. And now, we're going back to these accounts with a more expanded classic offering, which is right on trend.

The platform trend is out there in a big way. That product is selling well globally, as well as the Tasman. Tasman is a little bit more behind on an international level. But generally speaking, the diversification into heritage Classics

and kind of more fashionable product is serving this brand incredibly well. We're bringing in more diverse consumers. We're bringing in younger consumers, people are purchasing more often.

International is a little bit behind on – for example, China is having a moment now with Fluff, where US and Europe, that was last year. So, it's just a little bit of a different cadence in some of the international markets versus the US, but all the product is resonating.

The one difference in, I would say, the Asia Pacific region is that they have a higher penetration of Classics overall, but they also have a much higher penetration of sneakers in those markets, which have been resonating very well also, which gives us more opportunity to lean into that category going forward, which is a big one for the UGG brand to capture.

So strategy is working great. You're going to see an expanded focus on Classics and more functional product coming into next year, which we believe will be accretive to margin and ASP and still some market share from others in that space as well.

So lots of opportunity. We've got some work to do on bolstering men's at the moment and putting more marketing oomph behind that category. But, overall, the new product is resonating well and we're very optimistic.

Jim Duffy

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Very helpful. Then just one more. Steve, you made some comments on difficult comparisons in the fourth quarter that seemed more UGG-specific. Point of clarification, is there a HOKA element to that as well that we should think about modeling the brands?

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yes. There is a HOKA element. So, I think the important thing to remember there was, in both Q2 and Q3 last year, we were really starved for HOKA inventory. And that really arrived in Q4. So, we had a kind of pent-up demand that was being fulfilled in Q4. And so, you saw a big spike in HOKA Q4 of last year, and we're comping that this year. So, yes, that – HOKA does play a part in Q4 as well as UGG.

Jim Duffy

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Very good. Thank you, guys.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

All right.

David Powers

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

A

Thanks, Jim.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Thanks, Jim.

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

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