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# Deckers Outdoor Corp. (DECK)

Q4 2023 Earnings Call

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### David Powers

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

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### Jonathan R. Komp

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

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good afternoon, and thank you for standing by. Welcome to the Deckers Brands' Fourth 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'd like to remind everyone that the conference call is being recorded.

And at this time, I'd like to turn the floor over to Erinn Kohler, VP, Investor Relations and Corporate Planning.

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### Erinn Kohler

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

Hello, and thank you, everyone, for joining us today. On the call is Dave Powers, President and Chief Executive Officer; and Steve Fasching, Chief Financial Officer.

Before we begin, I would like to remind everyone of the company's Safe Harbor policy. Please note that certain statements made on this call are forward-looking statements within the meaning of the federal securities laws, which are subject to considerable risks and uncertainties. These forward-looking statements are intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995.

All statements made on this call today, other than statements of historical facts, are forward-looking statements, and include statements regarding our current and long-term strategic objectives, changes in consumer behavior,

strength of our brands, demand for our products, product distribution strategies, marketing plans and strategies, disruptions to our supply chain and logistics, our anticipated revenues, brand performance, product mix, margins, expenses, inventory levels and promotional activity, and the impact of the macroeconomic environment on our operations and performance, including fluctuations in 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, including constant currency. In addition, 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. 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.

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

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## David Powers

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

Thanks, Erinn. Good afternoon, everyone, and thank you, as always, for joining us today. I'm delighted to be here today to discuss another exceptional year for Deckers, as we delivered record results on both the top and bottom line and continued to progress against our long-term strategic initiatives. For fiscal year 2023, our brands achieved revenue growth of 15% on a reported basis versus the prior year to more than \$3.6 billion, which is 42% and \$1.1 billion above revenue of two years ago. Operating margin aligned with the high end of our guidance range at 18%, which is top tier in our industry, and a more than \$3 increase in earnings per share, representing a 19% increase versus last year.

Specifically, our progress in fiscal year 2023 includes HOKA driving global revenue growth of 58% versus last year to eclipse \$1.4 billion; UGG revenue holding steady in constant currency with the brand increasing its mix of both direct-to-consumer and international business; global portfolio DTC adding more than \$0.25 billion of incremental revenue, growing at nearly twice the rate of wholesale; and our international markets increasing 20% versus the prior year on a reported basis, which when accounting for an approximate \$100 million headwind from currency fluctuations increased 30% in constant currency.

Reflecting on the past few years, our company's performance is remarkable, particularly given the consumer climate and speed with which we have had to build our infrastructure to support this incredible growth. We still have much more work ahead to build upon the foundation for long-term sustainable growth, but I'm truly proud of how far we have come. We believe that the strength of our operations, omni-channel management and brand teams have enabled our organization to prove resilient and capable of achieving the goals we have set forth, including driving significant top-line growth, while maintaining an 18% operating margin and reducing inventories to more appropriate levels.

I want to thank our employees and our tremendous leaders across the organization for their hard work and collaboration that contributed to Deckers' outstanding execution. Steve will provide further details on fiscal year 2023 results and what's ahead for fiscal year 2024, but first I will share more about our 2023 brand and channel performance.

Starting with the brand highlights. Global HOKA revenue for fiscal year 2023 increased 58% versus the prior year to \$1.4 billion. This is the fourth consecutive year HOKA has delivered revenue growth above 50%. For the year, HOKA growth was driven by a more-than-30% increase in global brand awareness in fall 2022; an acceleration of DTC, which grew 85% versus the prior year; broader category adoption; market share growth with existing points of wholesale distribution; and additional access points with our strategic partners, which was complemented by increased availability of product inventory and an improved supply chain environment.

In June of 2022, HOKA launched FLY HUMAN FLY, its first-ever globally integrated marketing campaign. The campaign was designed to build awareness and elevate the HOKA brand in the minds of global consumers through rich storytelling and targeted activations in key cities. The HOKA team utilized connected TV, and digital and out-of-home channels to reach a broader audience with creative that combined emotionally connected brand and product messaging. As a result of the investments behind this campaign, HOKA awareness increased across a broad spectrum of key markets such as the US, France, the UK, China and Germany, with three of those countries increasing awareness more than 40% compared to fall 2021.

Given the success the brand has experienced, we continue to see a significant opportunity for growth in each of our markets over the long term. Specifically, we are working to close the awareness gap between the US and international regions to build a more global brand. The HOKA marketing team has done a fantastic job developing insights from the initial campaign to evolve the next iteration of FLY HUMAN FLY, which will focus on the brand's roots and performance through inclusive storytelling that emphasize the joy of movement for everybody. Stay tuned for more details on the campaign when it launches next month.

On the direct-to-consumer business, the HOKA brand's exceptional growth helped drive a 5 percentage point increase in DTC mix, up to 34% of total brand revenue as compared to 29% in the prior year. Importantly, HOKA continues to bring new consumers into the brand, while also retaining existing consumers, evidenced by a 78% increase in acquisition and an 81% increase in retention as compared to last year. Momentum with younger consumers in the US helped drive these increases as HOKA more than doubled the number of purchasers aged 18 to 34 years old.

As HOKA continues to expand, we are encouraged by the broader product adoption from consumers beyond the brand's heritage running styles. We've seen this trend among DTC consumers and continue to gain category shelf space with wholesalers. Among DTC purchasers in the US and EMEA, multi-category purchases increased 79% and 127% versus last year, respectively. Across all channels, HOKA more than doubled revenue on trail and hike products, aided by the Speedgoat and Challenger updates, as well as market share gains with the Kaha and Anacapa franchises, and fitness and recovery products benefiting from greater ORA Recovery sandal adoption and the introduction of both the Solomar and Transport styles.

With the success HOKA is experiencing across a variety of innovative products, we're very excited to now offer a selection of our most popular items to the next generation of HOKA athletes with the brand's recently launched first-ever youth collection through our DTC channel and with various select wholesale partners. We view the opportunity with kids as an avenue to further expose the brand to parents and younger athletes over the long term.

In terms of HOKA wholesale for fiscal year 2023, revenue increased 47% versus the prior year, driven by market share gains with existing points of distribution, which accounted for approximately two-thirds of global dollar growth and additional access points with strategic partners. HOKA continues to prioritize delivering a pinnacle experience with performance products with the brand's exceptional run and outdoor specialty partners, while expanding the addressable market through strategic relationships that broaden brand awareness beyond the traditional specialty consumer.

With expanded distribution, HOKA is placing greater emphasis on segmentation to align product and marketing with the respective distribution partners' target consumer. HOKA is leveraging the run and outdoor specialty channel to maintain authenticity and brand credibility by offering exclusive high-performance products that are only available at DTC and select specialty doors. Marketplace management continues to be a top priority for HOKA as the brand enters fiscal year 2024. At the current scale north of \$1.4 billion, our focus is to protect the HOKA brand's premium positioning and maintain a pull model.

HOKA plans to emphasize growth in the DTC channel, driving high full-price sell-through and building market share with existing points of wholesale distribution, especially in light of a dynamic consumer environment. This focus on marketplace management will be particularly evident in our EMEA region as HOKA expects to prioritize low levels of promotion in the coming year. Steve will get into more specifics on our HOKA outlook later in the call, but I'd like to congratulate the HOKA team for delivering another special year and look forward to the brand's continued success in the upcoming year and well beyond.

Moving to UGG, global revenue for fiscal year 2023 was \$1.9 billion, which is down 3% versus last year on a reported basis, but up slightly in constant currency. UGG performed in line with expectations as the brand focused on driving growth through DTC and international markets, while facing tough comparisons from the prior year related to refilling domestic wholesale inventories as well as currency exchange rate pressures overseas. Despite these unique dynamics, UGG maintained high levels of brand heat and demand as evidenced by the strength of global DTC acquisition and retention, which increased 16% and 15% versus last year, respectively.

While this is a tremendous growth figure in terms of worldwide consumers, we have been even more encouraged by the trends in our international markets where acquisition was up 29% and retention increased 37% over the prior year. EMEA was the fastest-growing DTC region across the globe, aided by an 80% increase in new visitors to UGG.com in Europe. Helping drive the buzz around UGG, the brand was featured in a number of highly respected fashion publications, including Vogue and Harper's Bazaar, each touting the brand's fashion relevance. The UGG team has done an excellent job executing a brand-appropriate collaboration strategy over the past few years, which continues to benefit awareness and increase visibility with target consumers.

Most recently, UGG partnered with London-based skate brand, Palace; LA-based lifestyle brand, Madhappy; and just a few weeks ago, UGG launched an exciting new collaboration, centered around the Tasman, with New York-based fashion brand, Opening Ceremony. We believe the UGG brand's focus on winning with younger consumers through strategic collaborations, presence on fashion week runways around the world, and product designs rooted in brand DNA have been key drivers of building this excitement internationally and maintaining record levels of brand heat in the US.

Reflecting this exceptional demand for UGG, search interest in the US increased 26% versus last year, according to Google Trends. Additionally, from a purchasing perspective, UGG continued to over-index with 18- to 34-year olds, which increased 21% versus last year, outpacing all other age groups, and remaining the largest cohort of UGG consumers in the US. UGG products that drove demand in this fiscal year included Heritage Classics, like

the Short and Mini; fashion updates to core styles such as the Platform Classics, Neumel and Tazz; and hybrid styles, like the Ultra Mini and Tasman.

The popularity of these items reflects the brand's consumer appeal across an exciting range of products, helped by the successful category diversification strategy the UGG brand has been working towards over the last five years. Now more than ever, the UGG brand is leaning into its consumer-first approach, sharpening the product lens to create a cohesive consumer experience that feeds product strategy through direct engagement and insights. The brand plans to concentrate on product families featuring recognizable brand codes consumers love and expect from UGG, while reducing inefficient skews. Over time, we believe this strategy will drive better margins and greater efficiencies, allowing for more selectful and impactful storytelling across a globally aligned and focused UGG product offering.

UGG is now transitioning to the next phase of growth. Over the past several years, the brand has successfully established heightened consumer attention and increased global brand heat through product propositions that are both complementary and counter-seasonal to its core lineup. This work increased the UGG brand's connection with consumers, established a permission to play in new categories, and reenergized the love for the brand's most iconic UGG silhouettes. In fiscal year 2024, the brand is placing greater emphasis on these icons, ensuring inventory is strategically weighted to meet demand for the most popular products, and building on its foundation for healthy, full-price growth across a variety of category and gender offerings in the future.

Overall, UGG delivered a fantastic result given the challenges it faced, both in terms of comparing to abnormal shipping timing and volumes and impacts from currency headwinds. The UGG team is developing compelling products through the integration of consumer data and insights within each layer of the product creation process. We are excited for the year ahead as the brand continues to build on the international opportunity and maintain the exciting momentum of the last few years.

Turning to Teva, global revenue for fiscal year 2023 increased 12% versus last year to a record \$183 million. This is the second consecutive year of double-digit growth for Teva as the brand continues to be a leader in the sports sandal category with aspirations to become a destination brand for the modern outdoor consumer. We are confident about the opportunity ahead for Teva as the brand works toward future growth through additional investments this fiscal year aimed at driving increased closet share over the next five years.

From a channel performance perspective, fiscal year 2023 results were driven by strength across our direct-to-consumer and wholesale businesses, both of which drove more than \$200 million of incremental revenue. For the year, DTC revenue on a reported basis increased 21% to nearly \$1.5 billion, representing 40% of consolidated revenue. On a DTC comparable basis, revenue increased 23% versus last year with healthy growth in both the physical and digital segments. Gains in our direct-to-consumer business were driven by the continued momentum of global consumer acquisition and retention, which increased 28% and 29%, respectively, versus last year. We are encouraged that all major regions drove double-digit DTC growth in reported dollars, especially considering the significance of currency headwinds in our international markets.

On wholesale for the year, revenue increased 12% on a reported basis versus last year, which primarily reflects global market share gains for the HOKA brand, which was partially offset by a reduction of UGG domestic wholesale revenue, as we did not repeat the fill-in activity that occurred in fiscal year 2022. The success we are seeing with both DTC and wholesale is a testament to our omni-channel brand and marketplace management. Maintaining the authentic and premium positioning of our brands in their respective markets continues to be our top priority, especially as we navigate an ongoing dynamic consumer environment.

With that, I'll hand over to Steve to provide further details on our fourth quarter and full fiscal year 2023 results as well as our initial outlook on fiscal year 2024. Steve?

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## Steven J. Fasching

*Chief Financial Officer, Deckers Outdoor Corp.*

Thanks, Dave, and good afternoon, everyone. As Dave just covered, Deckers delivered another outstanding result for fiscal year 2023 with double-digit top-line growth, even with substantial foreign currency headwind and, once again, delivered a high-teen operating margin. Deckers flexible operating model and financial discipline continue to serve us well as we react to a fluid macroeconomic environment.

Our omni-channel, brand management and marketing teams have collaborated to create and capitalize on high levels of brand heat and demand for our brands, while maintaining the high percentage of full-price selling, leading to record-earning levels in fiscal year 2023. Deckers' commitment to long-term strategic priorities, coupled with our execution and financial discipline, are the foundation for success as our portfolio of strong brands continue to drive long-term profitable growth in the years ahead.

With that, let's get into a recap of our fourth quarter and fiscal year 2023 results. For the fourth quarter, revenue came in at \$792 million, representing an increase of 8% versus the prior year. Performance in the quarter was driven by continued momentum with HOKA, including the brand nearly doubling last year's DTC revenue; as well as strength in Teva, as the brand recaptured revenue lost in the previous year due to supply chain disruption. This was partially offset by a reduction in UGG revenue, as the brand lapped abnormal wholesale shipping patterns in the prior year from pandemic-related supply chain issues and experienced more normalized DTC demand.

Gross margin in the fourth quarter was 50%, a 130 basis point increase from the prior-year period. The improved gross margin primarily relates to reduced air freight usage, favorable brand and channel mix from the strength of the HOKA DTC business, and lower ocean freight rates, which were partially offset by increased promotional activity for UGG as the brand sought to reduce inventory levels of noncore seasonal product and continued headwinds from unfavorable foreign currency exchange rates.

SG&A for the quarter was \$290 million, representing 36.7% of revenue, which compares to last year's \$277 million and 37.7% of revenue. SG&A as a percentage of revenue was down year-over-year as we gained leverage on marketing where we avoided spend in areas of over-performance. These results, coupled with higher interest income and a lower share count as a result of our share repurchase program, drove a diluted earnings per share increase of \$0.95 to \$3.46, which compares to \$2.51 in the prior-year period, representing a 38% increase.

With the strength of our fourth quarter, Deckers delivered exceptional full year fiscal 2023 results, which includes revenue increasing 15% on a reported basis versus last year to a record \$3.63 billion. As compared to last year, revenue growth was driven by HOKA as the brand added more than \$0.5 billion through global expansion across its well-managed ecosystem of access points and benefited from an improved supply chain and logistics environment.

Gross margins for the year was 50.3%, down 70 basis points versus last year. The decrease in gross margin was primarily related to unfavorable foreign currency exchange rates, higher levels of promotion and lower margin closeouts, and higher ocean freight rates in the first half, with positive offsets from reduced levels of air freight, a greater mix of HOKA brand revenue, including benefits from price increases, and an increased mix of DTC business.

SG&A dollar spend for the year was \$1.17 billion, up 12% versus the prior year's \$1.04 billion. SG&A represented 32.3% of revenue, which is 80 basis points below last year. SG&A leverage, as compared to last year, was driven primarily by lower marketing spend as a percentage of revenue as we reduced spending in areas, where inventory was short, to help offset currency headwinds and delayed some spend targeted to build awareness. This all resulted in a full fiscal year 2023 operating margin of 18%, which is 10 basis points above last year despite significant currency headwinds.

For the year, our effective tax rate was 22.4%, which is above last year's 20%. Taxes were higher this year primarily as a result of changes in jurisdictional mix of business. Our strong performance, along with higher interest income and a lower share count that resulted from share repurchase, culminated in a record diluted earnings per share of \$19.37, which represents a 19% increase over last year's \$16.26.

Turning to our balance sheet, at March 31, 2023, we ended the year with \$982 million of cash and equivalents. Inventory was \$533 million, up 5% versus the same point in time last year. And during the period, we had no outstanding borrowings. For the year, these results returned invested capital at approximately 35%.

During the fourth quarter, we repurchased approximately \$103 million worth of shares at an average price per share of \$421.53. For the entire fiscal year 2023, we repurchased over 900,000 shares for approximately \$297 million at an average price per share of \$320.35. At March 31, 2023, the company still had approximately \$1.4 billion remaining under its stock repurchase authorization.

Now, moving to our outlook. For the full fiscal year 2024, we expect top-line revenue of approximately \$3.95 billion, representing growth of approximately 9% versus the prior year, with HOKA as our main growth engine increasing in the range of 20% versus the prior year, as we prioritize marketplace management, expecting the majority of the growth in the brand's DTC channel, and with wholesale growth assuming no net new doors added globally; UGG increasing low-single digits, driven by international expansion and a relatively flat US marketplace as we focus on driving the full-price business by maintaining the brand's pull model; and DTC growth, once again, outpacing wholesale, as we drive consumer acquisition and retention, margin improvement and prioritize marketplace management.

Gross margin is expected to be approximately 52%, which is more than 150 basis points above last year, as we are anticipating favorability from increasing DTC mix, increasing HOKA mix, with slight offsets from promotions, which we expect to be higher than last year, as we anticipate a consumer environment that may have greater uncertainty. Currency and freight are expected to be slight net tailwinds to our gross margin for the full fiscal year, but we expect to see headwind and tailwind fluctuations between quarters when compared to last year.

SG&A is expected to be approximately 34% of revenue, as we reinvest gross margin improvements in key areas of the business, which include talent across the organization, including areas we've delayed in the enterprise, supply chain footprint to match the growing scale of our organization, e-commerce capabilities, and strategic marketing, which includes HOKA spend to grow awareness in leading international markets.

Through the reinvestment of gross margin improvements into critical operating expense areas, we expect to maintain an approximate 18% operating margin, in line with what we've delivered in fiscal year 2023. We are projecting an effective tax rate of 22% to 23%. This all results in an expected diluted earnings per share in the range of \$21.10 to \$21.60. Capital expenditures are expected to be in the range of \$110 million to \$120 million, which is above last year, as we invest in capital IT projects, retail refreshment, including opening select new strategic locations and bolster our supply chain and warehouse capabilities.

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 supply chain disruptions, constraints and related expenses, labor shortages, inflationary pressures, changes in consumer confidence and recessionary pressures, foreign exchange rate fluctuations and geopolitical tensions.

With a focus on delivering the full fiscal year, we will not be providing formal quarterly guidance per normal course. However, given we are halfway through the first quarter, we wanted to provide some context around our expectations for the quarter ending June 30. These include revenue growth slightly below the 9% full fiscal year guide, as UGG is not expected to repeat the early US wholesale shipments that the brand had experienced over the last couple of years during the first quarter, and HOKA international wholesale growth anticipated to be slower due to not repeating the earlier distributor shipments that occurred in last year's first quarter.

Gross margin is expected to be similar to the full fiscal year guided rate, and SG&A dollar growth is planned to be up double digits, as we anticipate significant deleverage in the first quarter due to the phasing of certain investments.

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

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## David Powers

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

Thanks, Steve. We continue to remain focused on executing against our strategic priorities and driving progress towards our long-term vision, while actively managing the marketplace for our brands to build HOKA into a multibillion-dollar major player in the performance athletic space, continue to grow the UGG brand by connecting with consumers through elevated experiences and a segmented product offering, expand our DTC business through consumer acquisition and retention, and drive growth in international markets through strategic investments.

These strategies, coupled with our disciplined operating model, position us well to drive the development of our portfolio of powerful brands, while maintaining top-tier levels of profitability as a global organization.

Again, I'd like to emphasize some of the points Steve outlined in our guidance for fiscal year 2024. To summarize, we plan to grow DTC faster than wholesale, as we prioritize marketplace management and direct [ph] to (00:30:11) consumer acquisition, focus on UGG products with the recognizable brand codes to feed the global momentum with young consumers, continue to manage inventory to align with our consumer demand, and invest behind key strategies and infrastructure to further bolster our organization to support our scaling business.

On behalf of our entire team, I'd like to thank all of our employees for their dedication and support in helping us drive record levels of earnings in fiscal year 2023. Our results demonstrate the strength of our brands, people, and our commitment to delivering value to all of our stakeholders. We are incredibly proud of our accomplishments across the whole Deckers organization and look forward to building on this success in the years ahead.

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

## QUESTION AND ANSWER SECTION

**Operator:** Ladies and gentlemen, at this time, we'll begin the question-and-answer session. [Operator Instructions] Our first question today comes from Laurent Vasilescu from Exane BNP Paribas. Please go ahead with your question.

**Laurent Vasilescu**

*Analyst, Exane BNP Paribas*

Q

Thank you very much and good afternoon, and congrats on really just another great year. Dave...

**David Powers**

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

A

Laurent.

**Laurent Vasilescu**

*Analyst, Exane BNP Paribas*

Q

...I'd love to ask about your HOKA business, the global potential. I know you give really good details around channel mix dynamics by quarter, but just maybe for the audience, can you maybe just kind of size up where HOKA is in its international journey? How big is it overseas in a pairs' perspective and dollar perspective? I think you mentioned that the growth for 20% assumption for this year assumes no net new doors, but where are you on your journey potentially for China? Would you be open to working with some local partners there to open up stores? Any color there as we think about HOKA's potential would be great. Thank you.

**David Powers**

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

A

Yeah. Thanks, Laurent. Happy to talk about HOKA, so thanks for the question. The first thing I would say is we're in this for the long game. And we feel like we have a very special, very, very strong brand with a lot of runway ahead of it. So, in some ways, we're in no rush, right? But we don't want to flood the market ahead of demand. We want to control our product experiences. We want to segment across doors and consumers appropriately. And so, we're managing, doing this the right way with exceptional growth at the same time. And so, I think the teams have done just an exceptional job, as you know, managing this in the marketplace across all of our channels, balancing the inventories, launching, segmenting by consumer, and we're going to continue to do that.

So if you look at the international growth, certainly, yeah, there is more opportunity. I would say, we're still – I mean, the whole brand in many ways is in the early innings, but international is in the early innings. Meaning that there's still a lot of things we need to do to make sure that we are managing the marketplace correctly, we have segmentation across the right doors. In some cases, we – in certain markets, such as Italy, we're going to close some doors to have a distribution that better represents the brand, and working with our distributors to make sure that they have the right presentation of the brand in the marketplace. So if you look at Europe, yeah, you'll probably see some door closures this year, which is strategically done so that we can improve the presentation of the brand and the long-term health of the brand.

If you look at a market like China, really early days, right? The COVID pandemic there, it set everybody back, it set our brands back a little bit. I will say, they both performed, HOKA and UGG, better than expected through COVID, and some of the investments we've made are working well. And particularly to HOKA, we're seeing solid

success and the doors are opening. And we do have a number of partner doors. We have some key partners, some of the best at this in China that work with some of the bigger brands. And I agree with you, I think we can accelerate faster, given that we don't get ahead of demand in the marketplace and that we are improving awareness across these international markets at a better rate.

And so, that's really our focus right now is, globally, I think our awareness for the HOKA brand is around 24%, certainly lower in EMEA and China, as you can imagine. And so, we need to build that demand, we need to build a representation of the brand in front of the consumer and the experience. And we're really excited about those opportunities. And we see these all – all these markets, including some distributor markets in the Asia Pacific region, as very exceptional growth opportunities for this brand. But as I said at the beginning, we're going to manage it the right way for the health of the brand, health of the profitability, full-price sell-through, and consumer experience, so we're at this for a long time.

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**Laurent Vasilescu**

*Analyst, Exane BNP Paribas*

Q

That's great to hear. And then, as a follow-up, Dave, I think you mentioned DTC will grow faster than wholesale. Maybe can you unpack that a little bit more for the audience? Are you expecting that for – across your two big brands? And if you have any color, just what you're seeing in the US wholesale marketplace, particularly in the run channel, that would be great.

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**David Powers**

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

A

Yeah. So, we are very focused, and we have been, as you know, in our long-term strategy on building up our DTC business. And we're getting better and better at it. We have exceptional teams doing this in our industry. We're optimizing our marketing spend across all of our brands. It's our most profitable channel. We gain all the consumer data information that we can leverage for lifetime value, expand categories for all of our brands. So, when our DTC business grows, we all win. Right? And so, we're going to continue to invest in that channel. Purposely, as we look across the marketplace, we want to funnel more of our business through DTC because of the things I just mentioned. And with our – a flexibility in our model and our ability to spend on marketing and our return on marketing spend, it just makes natural sense that we would drive more business to DTC.

Now, that doesn't mean we don't like wholesale and we're going to pull back from wholesale. We want to be in wholesale in a positive way with the best partners, and that's what we're doing, as you know, as well. So, I think on the long term for this is, ultimately, get the company to probably around a 50% DTC/wholesale mix. We think that's optimal for our pull model and also for our flywheel of introducing new products to people in wholesale and then having them come into our ecosystem in DTC. That works well for all of our brands. And so, you're going to see both HOKA and UGG growing this year ahead at a faster rate in DTC than wholesale.

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**Laurent Vasilescu**

*Analyst, Exane BNP Paribas*

Q

Great, continued success.

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**David Powers**

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

A

Thanks, Laurent.

**Steven J. Fasching**

*Chief Financial Officer, Deckers Outdoor Corp.*

Thanks, Laurent.

A

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

**Jonathan R. Komp**

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

Yeah. Hi. Thank you. Good afternoon. Just wanted to follow-up on the HOKA plans for the year. And any more color to get to the 20% growth rate, what D2C growth you need within that? And then, could you just remind us, given the comments about wholesale not growing doors, how do the door growth look looking backwards for fiscal 2023? Just trying to understand how next year – or this year, I should say, looks different than last year.

Q

**David Powers**

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

Yeah, I don't think we give specifics on the DTC-specific growth by brand, but obviously if we're growing 20%, I can tell you that the DTC number is higher than that.

A

**Steven J. Fasching**

*Chief Financial Officer, Deckers Outdoor Corp.*

DTC is going to be higher than that and wholesale will be lower than that.

A

**David Powers**

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

Yeah. And again, that's by design. I think, what you're seeing in net new doors across the chain, part of that is, like I mentioned in Europe, so if you think of that, that's a global number. And so, we set the marketplace for the long term, you'll have some door closures. But net-net, we're not planning in our guidance any net new doors. Now, one of the things we work really hard to do is evaluate our doors. And so, we pay very close attention to the customer experience, the in-store presentation, and the sell-through and the productivity of our doors that we carry HOKA in. And so, as we look at adding new doors, we want to make sure that the doors we are in are performing at a high level, they're taking share, they're profitable for their account. And then we can expand to doors after that.

A

So, we're constantly evaluating that. There may be, through the year, opportunity to open more doors in strategic locations based on consumer demand and how the economy works, but we don't want to flood the market, as I said. We don't want to end up having a lot of promotions. We don't want to damage the brand from that perspective. We don't want to take back inventory and sell it off-price. We want this to be a premium brand for the long term. And so, I think it's prudent, especially in this environment where we have some key accounts who are closing doors, that we manage this effectively and plan for a year that is net neutral, but an opportunity for more as things progress.

**Jonathan R. Komp**

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

Yeah, that makes sense. And just as a follow-up, sorry if I missed it, did you say roughly how many doors you're in and how that changed in fiscal 2023?

Q

**David Powers**

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

I don't think we've shared that.

A

**Steven J. Fasching**

*Chief Financial Officer, Deckers Outdoor Corp.*

We didn't give specific numbers, Jon, but we did increase number of doors throughout FY 2023. So, we'll be anniversarizing some of that in FY 2024. So, we'll be getting a full year benefit in the wholesale channel related to those [ph] doors (00:40:20). But we haven't given specific numbers. But yeah, there was some door growth in 2023 that will be anniversaried and is shown through wholesale growth in 2024.

A

**David Powers**

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

And yeah – and I would also say our productivity in the doors we're in is very healthy, right, especially compared to some of our peer group. And then, just one thing to note about run specialty and outdoor specialty, that is still a pinnacle marketplace for us. And so, you won't see door closures in that segment. Those are super healthy for us, really important for our category expansion and our customer and healthy margins, and we're continuing to take shares. And so, that strategy has not changed.

A

**Jonathan R. Komp**

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

Okay. Great. And then just to follow-up, if I could, Steve, on the gross margin comments, just so it's crystal clear, did you say about 52% for the first quarter? And I guess, if that's the case, usually it looks like the first quarter is below the full year, typically looking back. So, I don't know if there is something different this year. And maybe more broadly, is there anything that's holding you back to getting back to that 53% level? Thank you.

Q

**Steven J. Fasching**

*Chief Financial Officer, Deckers Outdoor Corp.*

Yeah. So, you're right, Jon. What we've said on Q1 is similar to the full year. Some of that improvement that you're talking about in the quarter, so Q1, is going to be driven by, as we've talked about, kind of a channel mix and a brand mix, with HOKA being the contributor of growth there. So, we're going to get really some benefit there. And then, as opposed to last year, we'll get some ocean freight benefit in the quarter as well.

A

And then, just in terms of further opportunity, I think there – it will be kind of how things play out from an economic standpoint. What we have factored in are the improvements from a freight standpoint and the benefit of ocean freight. I think the levers that we'll be closely monitoring throughout the year will be levels of promotion. So if promotions are not at a level that we expect, there could be some potential there.

**David Powers**

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

Marketplace promotions.

A

**Steven J. Fasching**

*Chief Financial Officer, Deckers Outdoor Corp.*

Yeah, marketplace promotions. And then foreign currency, right? So, we're assuming kind of foreign currency levels at current rates. So, those will be the two that we're kind of watching in the marketplace.

A

**Jonathan R. Komp**

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

Okay. Very helpful. Thanks again.

Q

**Steven J. Fasching**

*Chief Financial Officer, Deckers Outdoor Corp.*

All right.

A

**David Powers**

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

Thanks, Jon.

A

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

**Sam Poser**

*Analyst, Williams Trading LLC*

Thanks for taking my question. And I have my normal question, and that I'm not even going to count as a question, and then we can move on from there.

Q

**David Powers**

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

Do you want to ask it or [ph] you want to just tell you (00:43:00)?

A

**Sam Poser**

*Analyst, Williams Trading LLC*

Yes, I would love the breakdown of wholesale or direct-to-consumer by brand in dollars for the fourth quarter, please.

Q

**David Powers**

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

You got it.

A

**Erinn Kohler**

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

Sure, Sam, I've got the full year here in front of me. I'll give you the full year, you can back in the Q4. So for global wholesale and distributor, for UGG was \$1.004 billion; HOKA, \$925.9 million; Teva, \$149.1 million; Sanuk, \$27.7 million; and that leaves you with other, \$53.7 million.

A

**Sam Poser**

*Analyst, Williams Trading LLC*

Thank you very much. All right. So, now, let's get to it. So, number one, the inventory was in better shape than what I anticipated it would be, and could you give me – you gave color on the last call about the inventory when it was high, that the UGG inventory was down and HOKA was up significantly to support the sales. Can you, one, give us some color as to sort of what this looks like right now?

Q

**David Powers**

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

A

Yeah, I'll give you, and we won't give kind of numbers by brands, but I'll give you kind of direction. So, significant improvement in the UGG inventory, as we did close out some seasonal non-carryover styles within the UGG brand in Q4, that helped drive some revenue, a little bit of pressure on the margin as we closed that out, but really positioned us much better. HOKA, some growth, and as you would expect with a growing brand that we do have with HOKA. So, overall, I think the composition of inventory we're very pleased with. So given our sales rate growths, supporting a high-growth brand in HOKA, I think our inventory levels look really good for where we stand.

**Sam Poser**

*Analyst, Williams Trading LLC*

Q

And then, lastly, your guidance for HOKA, first of all, you talked about your marketing spend and how you're strategically increasing your marketing spend against the HOKA brand. What was the HOKA initial plan marketing or SG&A, however you want to talk about it, in last year? And how much better did the brand do? I mean, you mentioned good ROIC. So, how much of this ROIC is built into the guidance for the 20% increase? I believe, last year, you started out HOKA at 30% to 35% increase and ended up with 58%. Now, that's pretty darn good. So, are you guiding in the same kind of manner you did last year and we could easily end up seeing 40% here?

**Steven J. Fasching**

*Chief Financial Officer, Deckers Outdoor Corp.*

A

Yeah, I'll start, this is Steve. So, Sam, I think the way we're looking at it is the growth that we saw with HOKA, clearly, the marketing we did drove demand. And so, clearly, we benefited from that. Also, we were coming out of FY 2022, where we had a large unmet demand with HOKA brand. So, that was driving a lot of the early in the year increases. I think what we saw throughout the year is continued productivity of our marketing spend. That's where we were able to tailor some of our marketing spend to still achieve that 18% operating margin. So even in the face of the currency headwinds, looking at the productivity of our marketing, we were able to drive some leverage in that respect. That's not necessarily how we're looking at it in the same way for FY 2024.

We're looking to continue, as Dave mentioned earlier, to drive international global awareness around the HOKA brand. So, we are looking at increasing. We'll see how productive that marketing spend is. Last year was also really the first year we benefited from a global campaign. So, probably experienced improved productivity over that. So, I just want to be careful on assumptions going into next year. But we'll continue to invest in marketing. We continue to see high productivity of those dollars spend, we're increasing brand awareness. But we still, as Dave said, early innings and a long way to go here.

**David Powers**

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

A

Yeah. And the marketing focus, as you've heard from us over the last few quarters right now, is really on high-level awareness of the brand. So, that's on an international level. It's not as quick a turnaround of a return on investment as we see on digital marketing going right to our website. This is out of home. This is higher-level connected TV. These things take a little bit more time and need to be consistent and in front of the consumer to get them to then go to purchase. But yeah, suffice to say, we're pleased with the direction. We're improving on the initial launch of FLY HUMAN FLY this year, some very exciting updates and focused on a little bit more of the performance athletes in the marketing. And I think it's kind of a positive impact. And there could be more upside, for sure.

**Sam Poser**

*Analyst, Williams Trading LLC*

Q

And one last thing. I mean, you stated last year, you talked about building awareness for the brand, and I assume that is sort of long-term marketing dollars – marketing dollars for long-term health, but you've got short-term benefits from that. So, in fact, you're guiding the same way that you did last year, and you're not planning for that short-term benefits on the brand [ph] – call it (00:48:32), brand marketing. And then, I'm already getting hit by a bunch of people, based on one of your competitors. Could you just compare sort of your strategy to this unknown competitor from Europe, because I think there is a difference here, especially on the wholesale side?

**David Powers**

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

A

Yeah. I understand the philosophy or the thinking why people would compare the two brands. They're both new. They're both incredibly high growth, exceptional product, but very different, I think, in the makeup of where our brand plays in a very authentic performance space, both in trail and outdoor and road running. And we are committed to that long-term performance. I think, certainly, people are wearing our shoes on casual occasions and for comfort, in walking, but at the end of the day, we are a hardcore performance brand.

When it comes down to distribution, we're operating in a pull model, and I think that has served us incredibly successfully. I think my background, you look at folks like Stefano and our new President, Anne, coming from Nike and other companies that have done this for many years, we know how to do this, and we know it works, and we're all committed to the long-term success of this brand and Deckers. And so, it's worked well for UGG. It's working well for HOKA. We love having demand ahead of supply. I think that's just a healthy way to run a business, and I think that's good for a company like ours where we have premium brands and premium distribution.

I think if you compare it to other brands, you could look at Under Armour over the years or other brands that have grown really, really fast, and a push model is – it's a model because sometimes it works, sometimes it doesn't, but it's an approach, and it's really around maxing out distribution, putting product in front of consumers. There's a big hope there. You're hoping it sells through and you get the reorders the next year, and you don't have inventory left over.

But we prefer – as a company who is really focused on building emotional connection with our brand and growing premium brands, we prefer the pull model, and we're going to continue with that. Now, it doesn't mean we're going to hold back too much and not be opportunistic and grow as fast as we can, but you know, Sam, we're going to do it in a quality way.

**Sam Poser**

*Analyst, Williams Trading LLC*

Q

Thanks very much, and good luck.

**David Powers**

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

A

Thanks, Sam.

**Operator:** Our next question comes from Tom Nikić from Wedbush Securities. Please go ahead with your question.

**Tom Nikic**

*Analyst, Wedbush Securities, Inc.*

Q

Hey, guys. Thanks for taking my question. Following up on Laurent's question earlier about US wholesale, I want to ask about UGG. Now, obviously, UGG has a big department store presence, and kind of sounds like department stores are feeling a little skittish about the macro environment and some – you also – we got bad results last week from a mall-based sneaker store that has been investing in your brand the last couple of years. So, how are your wholesale partners thinking about UGG for the peak fall/winter season this year? And do you have innovation in the pipeline to kind of keep them engaged following some of the strong holiday results you've had the last couple of years? Thanks.

**David Powers**

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

A

Yeah. Thanks, Tom. It's a good question. I think we all realized that last year we left a little bit of money on the table with UGG. And so, all of our accounts, even the mall-based athletic store could have done more business on UGG last fall. We had a really, really strong success with our Ultra Mini, our Platform Classics, our Tasmans, our Tazz platform. We left money on the table. The demand is higher than we were able to supply. People still want those products, even though it's six months later, and it's a big opportunity for us going into the fall.

At the same time, the one thing I would say, and [ph] I'm maybe a little bit of biased (00:52:47), of course, but key accounts, including some of the lifestyle athletic accounts for us, want UGG. They need UGG. It's high price point, it's high margin, it sells through incredibly well. And so, while their overall business may be a little bit more conservative or pulling back a little bit, there's a handful of brands right now that are winning, and UGG is one of them. And you can see it from our metrics around our consumers, our rates of adoption and acquisition in the 18 to 34 old consumers. The brand heat is stronger than ever.

UGG is a very, very healthy brand right now, and because of the work we've done in inventory, it's a very clean brand in the marketplace, and it's set up perfectly for fall, where we're going to have inventory and key styles. And that's one of the things that our new President, Anne, and her team have been working on is tailoring the line, making sure that we have a really strong portfolio of heritage classics with modern updates. And the innovation pipeline is really exciting. And so, I wouldn't read into the numbers as there is a challenge out there with distribution or worried about the brand. We're going to focus growth into DTC and key accounts, put forth an exceptional product assortment with inventory behind it, and we should have a good season.

**Tom Nikic**

*Analyst, Wedbush Securities, Inc.*

Q

Great to hear. Thanks very much, and best of luck this year.

**David Powers**

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

A

Thanks, Tom.

**Operator:** Our next question comes from Chris Nardone from Bank of America. Please go ahead with your question.

**Christopher Nardone**

*Analyst, BofA Securities, Inc.*

Q

Hey, guys. Thanks for taking the question. I'd like to go back to the HOKA distribution strategy. First, can you clarify what percentage of your HOKA wholesale business comes from the specialty channel today? And do you still think there is opportunity to take share in that specific market segment? And then, I have a follow-up.

**David Powers**

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

A

Yeah, we haven't shared how much the run specialty channel is. It's roughly 1,100 doors in North America, but we haven't given the mix of business, but it's meaningful. And strategically, it's very, very important. And I can tell you that we are continuing to take share. We're not number one yet. And so, as long as we're not number one, there is opportunity to take share, and we're doing that. And I was at the UGG sales meeting last week that we had, it was the first one in-person in three years, and talking to a lot of our distributors and some of the accounts that were there, and they were all saying the same thing. They're seeing declines in other brands and increases in HOKA, a little bit less, this case, in North America, but that's how we take share, and we're going to continue to do that and serve that channel with innovation and support.

**Christopher Nardone**

*Analyst, BofA Securities, Inc.*

Q

Got it. That's very clear. And then, just in terms of the guidance of 20% range for HOKA this year total, and that includes no new doors, I just want to confirm the strategy with Foot Locker and DICK'S Sporting Goods. Have you talked about how many doors you are in today? And are you still growing in those two accounts and that's just not included in the guidance?

**Steven J. Fasching**

*Chief Financial Officer, Deckers Outdoor Corp.*

A

Yeah. So, Chris, this is Steve, I'll take that one. What we've said, right, we have not named kind of specific partners in the space in terms of number of doors. And so, when we say, on a global basis, as Dave was talking about before, we're looking across the globe in terms of there will be some accounts that have door expansions, there we'll have some accounts that may have door contraction. And as Dave mentioned, we're going to look at productivity of doors. So, that doesn't mean that we aren't going to open new doors. What it means is we may open some doors with some accounts, and we're going to close doors with other accounts. But we haven't talked specifically about which accounts or which partners, and we haven't given door accounts by those accounts.

**David Powers**

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

A

But I would say, we're very pleased with the productivity we're seeing in both DICK'S and Foot Locker.

**Christopher Nardone**

*Analyst, BofA Securities, Inc.*

Q

All right. Great. Thanks, guys. Good luck.

**David Powers**

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

A

Thanks, Chris.

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

**Jay Sole**

*Analyst, UBS Securities LLC*



Great. Thank you so much. Dave, you talked about DTC in HOKA, and DTC growing faster than wholesale. Can you just talk about the HOKA stores that you've opened up? I know you've experimented with some pop-up stores and things like that. Just give us a sense of what your learnings have been and what your outlook is for the kind of store – owned store footprint you think HOKA can have over time?

**David Powers**

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



Yeah. Happy to talk about that. We're very pleased with how the HOKA stores are performing. We're in early days of HOKA retail, and we want to make sure that we get the experience right, that our customers are served in a premium way. We have the right assortments. And so, when you're new, it takes a little bit of time to work those kinks out and create a premium experience. And I think the teams have done a great job on that. We're going to be evolving our store design, which is another important component of a store. We want to get that right when we open. And so, we're doing a lot of pop-ups in the US to test markets, test appetite, test the experience. We'll have our first full-time store soon in New York City. I think some of you guys are going to see that in a few weeks, and look forward to your feedback. And then, we're looking to do that in certain markets internationally as well.

Long term, we see DTC and stores, obviously, as an important part of our mix. Retail stores will continue to grow not at a rate above the company, but in line with the company's growth and in line with HOKA's expansion over time. But we do think retail for HOKA in North America, Europe, and particularly China, as a place to experience the brand head to toe and get to know the brand better is important in key markets. And it'll be a component, but not a major component over time. That may change as we build out apparel and accessories for the long term. But at this point, we see it as a modifier to our DTC business versus the leader of growth.

**Jay Sole**

*Analyst, UBS Securities LLC*



Okay. That's helpful. If I can ask, just because you also mentioned that HOKA's still early innings, especially internationally and, at the same time, you're guiding to 20% growth for HOKA this year. I think there is a question out there. Obviously, fiscal 2023 had huge growth, talking about a little bit of a slower growth rate this year. The question is like what should investors understand? Like, what's the long-term opportunity for HOKA? I mean, \$1.4 billion in sales at the end of this year, I mean, do you see this as a \$2 billion brand, as a \$3 billion brand over time? Like, I think people are trying to figure out if – how much of that early innings will translate into bigger sales growth versus a sales growth rate that is slower this year than last year and what exactly we should really be thinking about for HOKA, big picture?

**David Powers**

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



Yeah. So, I would – thing I would say is pretty soon we'll be a \$2 billion brand. We have line of sight for that over the next couple years. And I think you can do the math and figure that out. And then, when you manage that against the level of awareness we have on a global level, it just shows you how much more opportunity we have with a brand like UGG, who is \$2 billion already, but their global awareness is much, much higher than HOKA. So, there is just a tremendous white space for this brand to grow if you look at it from that perspective. When we look at how many people still haven't heard of the brand and what we know about people who do hear about the brand and try it, what that means from a lifetime value perspective, it's a numbers game.

But we do believe that through our innovation engine, through the repeat purchase of our consumer, word of mouth on this brand, desire from accounts who want the brand and – at a global level, and then you think about category expansion beyond road running, into trail running, into hike, outdoor, lifestyle, athletics, kids, apparel, et cetera, this is certainly a multibillion-dollar opportunity. And we have a lot of confidence in the product teams, in the marketing teams, in the global leadership teams that we've established through our omni-channel marketplace management under Stefano and team over the years, our partnerships with key accounts, we know how to do this, but we just want to make sure we do it right. But we certainly see this as a multibillion-dollar opportunity for this brand.

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**Jay Sole**

*Analyst, UBS Securities LLC*

Got it. Thank you so much.

Q

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**David Powers**

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

You bet.

A

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**Operator:** And our final question today comes from Abbie Zvejnieks from Piper Sandler. Please go ahead with your question.

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**Abbie Zvejnieks**

*Analyst, Piper Sandler & Co.*

Okay. Thanks. I have two quick ones. Just on the wholesale growth at HOKA, obviously, slowed a little bit. I know you talked about not wanting to flood the market, but can you talk about if there is any impact from more cautious orders from your wholesale partners, just given the pressures on consumer discretionary spending? And then, can you just give a little bit of an update on the apparel businesses, at both HOKA and UGG? Thanks.

Q

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**David Powers**

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

Sure. I would say no cautiousness we're seeing. So, it's really – if there is any cautiousness, it's in managing their total open-to-buy and being smart in regards to the economic climate right now. But as far as cautiousness on the HOKA brand, we're not seeing any. As I mentioned, for our productivity in these doors, our turns are some of the best in class, if not the best in class, in certain run specialty accounts. And so, if anything, as we said, there is more opportunity there as we look to expand over the years. But right now, the order book this year, I wouldn't say there is any cautiousness at all.

A

On apparel, it's a good question. We've talked about apparel here and there for both UGG and HOKA. I think, for UGG, we got off to a good start. And then, with new leadership and taking a more critical eye, we want to make sure that we have the right line and the right assortment of product in the marketplace. And so, we're taking a little bit of a pause on growing that business to get the assortment right, get the design right, make sure that the lounge collection has the same DNA as the ready-to-wear collection.

If you go into one of our department store partners and look at the lounge product, and then you go into our own store, there is a disconnect between lounge and ready-to-wear. So, we want to clean that up. We also are excited about the winter collection that we're launching this year with more cold weather outerwear and product and boots. I think that's going to be a big part of it. So, what you're seeing now in UGG is really just a reset of the apparel strategy for the long term.

On the HOKA side, as I mentioned, I was at the HOKA sales meeting last week. Our new designer that we hired a little over a year and a half ago, I think, in HOKA, this is the first major collection that she's put forward. The response was very, very exciting by the audience there. And it looks really good, and there's some innovative pieces in there. So, again, this is a long plan for us. I think the product that you're going to see starting in fall 2023 and spring 2024 in apparel for HOKA is getting better and better. But we're going to start with DTC and a few select accounts and grow and build the demand, and then supply the demand as it comes.

So, long-term strategy, certainly opportunities in the hundreds of millions for both brands over time. But as with new leadership in place and resetting the marketplace, we want to get the product right.

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**Abbie Zvejnieks**

*Analyst, Piper Sandler & Co.*

Got it. Thank you.

Q

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**David Powers**

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

Thank you.

A

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**Operator:** And with that, we'll be ending today's question-and-answer session. I'd like to turn the floor back over to management for any closing remarks.

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**David Powers**

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

Yeah. No additional comments for us. Thanks for joining, everybody, and we look forward to speaking to you next quarter.

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**Operator:** And ladies and gentlemen, with that, we'll conclude today's conference call and presentation. We thank you for joining. You may now disconnect your lines.

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