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Deckers Outdoor Corp. (DECK)

Q1 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and thank you for standing by. Welcome to the Deckers Brands' First Quarter Fiscal 2024 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. [Operator Instructions] I'd like to remind everyone that the conference call is being recorded.

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

Erinn Kohler

VP-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 the 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 impacts 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.

David Powers

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

Thanks, Erinn. Good afternoon, everyone, and thank you for joining us. I'm pleased to be here today to discuss another strong quarter for Deckers, starting off fiscal year 2024 on the right path as we build towards delivering another year of great results. Our results give us increased confidence to achieve our updated outlook for full fiscal year 2024, which includes a raise to our prior expectations.

For the first quarter, our performance slightly outpaced our expectations with revenue increasing 10% versus last year to \$676 million, gross margin improving more than 300 basis points, including beneficial brand and channel mix dynamics and diluted earnings per share growing 45% to \$2.41. Revenue growth versus last year was driven by our key areas of focus.

With global HOKA expanding 27% to deliver \$420 million; global DTC increasing 35% to represent 37% of portfolio revenue, up from 30% last year, and international UGG delivering strong growth. As anticipated, we had some offsets to the growth in the quarter due to timing dynamics in UGG US wholesale, with accounts choosing to receive product spread later into the year, as opposed to a front-loaded preference we saw in the last couple of years.

As we look to best manage our wholesale account product flow, we also continue to monitor marketplace inventory levels to maintain a healthy omnichannel presence that services our end consumer in the best way possible and preserves the premium nature of our brands. Our ability to propel the targeted opportunities of global HOKA, global DTC and international UGG further demonstrates the success of our omnichannel marketplace management and strategic investments.

We will continue to remain nimble in execution, as we always have, to deliver strong results on both the top and bottom line. With the continued execution of our long-term vision, we believe Deckers is emerging as a leading creator of compelling consumer connections through highly desirable products that infuse disruptive innovation across both fashion and performance.

As a reminder, our long-term strategic vision remains focused on building HOKA into a multibillion dollar major player in the performance athletic space, growing the UGG brand by connecting with consumers through elevated experiences and a segmented product offering, expanding our DTC business through consumer acquisition and retention, and driving international growth through strategic investments.

Steve will provide further details around our increased forward-looking expectations later in the call. In the meantime, let's dive into the brand and channel performance for the first quarter of fiscal year 2024. Starting with the brand highlights. As mentioned, global HOKA revenue increased 27%

versus last year to \$420 million, a quarterly record and the first time the brand eclipsed \$400 million in a single quarter. The HOKA brands well-managed ecosystem of access points continues to flourish.

DTC was the primary growth driver in the quarter, increasing 63% versus last year and accounting for approximately two-thirds of total brand growth. DTC growth was broad-based as each region grew the business more than 50% versus the prior year. Global consumer acquisition increased 58%. Global consumer retention increased 57% and 18- to 34-year-old consumers in the US increased to 68%.

This exceptional DTC demand resulted in an improvement in gross margin as HOKA maintained high levels of full price selling and continues to benefit from shifting a greater proportion of revenue mix to DTC. While the HOKA brand's DTC business is still predominantly e-commerce, our select retail stores are augmenting the brand's presence, by increasing awareness and brand engagement with a physical presence in key strategic markets, creating personal consumer connections through community-oriented experiences and broadening category adoption by showcasing the depth of the HOKA product offering.

For these reasons, we expect to continue testing potential permanent locations through pop-up doors. We are excited about a couple of new doors that are in the pipeline and look forward to sharing more soon. From a wholesale perspective, HOKA continues to drive growth and manage the marketplace to build market share in existing points of distribution, maintain high levels of full price sell-through, increased category shelf space through differentiated products and expand brand awareness with a broader consumer demographic.

HOKA has preserved high levels of full-price sell-through and remains one of the fastest turning brands within the majority of its wholesale accounts. We continue to tightly manage marketplace inventory and closely monitor HOKA key performance indicators in the channel to ensure the brand maintains its premium positioning across its ecosystem of access points. As excess consumer demand materializes, we prefer that HOKA satisfies upside through the brand's DTC business, which is what we saw happen this quarter.

We are encouraged by the momentum that HOKA has sustained across this distribution landscape and continue to make investments that build awareness and affinity for the brand across key markets. In June, HOKA launched the second edition of its FLY HUMAN FLY global marketing campaign and is already seeing the benefits of this upgraded rollout. This addition of the campaign was designed to reinforce that HOKA stands for joyful and inclusive performance at its highest level.

As campaign content and activations continue to roll out across the globe, HOKA has seen a powerful response from consumers in the first few weeks, including robust growth in online engagement across social channels and digital platforms, especially with the release of the campaign's focal film titled MURMURATION, which embodies the brand ethos of moving together. Tightened attention brought directly to hoka.com with the vast majority of digital campaign asset clicks yielding first-time visitors to our brand's e-commerce platform globally.

More than doubling the conversion rate of hoka.com landing page visitors and significant impressions from out-of-home activations. We are optimistic about the reach and broad appeal of this campaign as HOKA continues to introduce itself to new consumers around the world. And the brand is as visible as it's ever been with connected TV advertising, billboards, special running events and several compelling activations in the pipeline.

On the heels of the FLY HUMAN FLY campaign rollout, HOKA launched the all-new Mach X, which was designed for propulsive every day running and features high rebound cushioning and a Pebax plate. Mach X media content was seamlessly weaved into the FLY HUMAN FLY launch and HOKA further celebrated this innovative product creation with several regional activations to aid Mach X awareness.

Including a demo run in Germany, where participants were challenged to run as far as they could for 30 minutes, a sprint relay in France across a 2-kilometer loop in [indiscernible] (00:10:31), a college event in Eugene, Oregon posting demo community runs to celebrate the US track and field championships, and a two-day HOKA experience clinic at our retail store in Japan and at our pop-up location in Thailand.

These global events, combined with the connected TV, social media and digital out-of-home content have created significant energy behind the HOKA brand's latest shoe innovation. The Mach X was treated as an exclusive launch in our own DTC channel and with our run specialty partners as we continue to work towards greater segmentation of the HOKA brand's compelling product line.

Just a few weeks into the second quarter, the Mach X is close to cracking the top 10 sellers globally on hoka.com, and we are getting great feedback so far from our run specialty partners. HOKA continues to build a bigger business through the expansion and increased adoption of its lineup of innovative products. We see the Mach X as an incremental addition to the already stellar portfolio of footwear, led by the brand's most popular styles, Clifton and Bondi.

The Mach is a great example of franchise development, where the team has innovated upon the original Mach, which continues to perform exceptionally well by introducing the snappier and more competitive version, the Mach X. It is with this approach to product line management that HOKA is able to broaden the aperture of HOKA consumers, while maintaining pinnacle positioning in the

performance athletic space.

HOKA has an amazing roster of athletes around the world who are competing at the highest level and achieving incredible results wearing commercially available versions of our shoes. During this past quarter, HOKA athlete Cole Watson finished first in the Canyons Endurance 100k, wearing the HOKA Tecton X carbon plated trail running shoe. Congratulations to Cole who, with this victory punched his ticket to the UTMB Mont-Blanc, a HOKA sponsored event to be held in Chamonix, France at the end of August.

Moving to UGG. Global revenue in the first quarter decreased 6% versus last year to \$196 million. As expected, this decline resulted from lapping earlier wholesale shipping patterns over the last couple of years in the US. UGG was able to offset this challenging compare in the US with the strength of the brand's international regions.

International strength was broad-based across multiple regions and in both wholesale and DTC channels. In particular, our EMEA region as well as China, which benefited from lapping lower demand from lockdowns in the prior year drove above-average growth.

These regions found success attracting consumers with more transitional styles like the Ultra Mini, Tasman and Classic Mini as well as seasonal franchises like the Goldenstar and LA Cloud. We are encouraged by the continued progress of international regions to increase the adoption of key global franchises year-round. Part of the excitement behind these franchises is being driven by the brand's more focused approach to product marketing, creating greater global alignment of key stories.

With this more focused approach, UGG is maintaining high levels of brand heat with more consumers actively searching for the brand. During the first quarter, online search interest across Europe increased 60% versus last year, with outsized strength in the UK and France. The same is true in the US, where search interest increased 21% versus last year, according to Google Trends. UGG brand momentum also benefited from this spring's fieldhouse activation at Coachella. The fieldhouse first launched in the fall of 2022, is a multisensory community experience dedicated to making self-expression comfortable for all.

UGG invited individuals from around the world to experience this latest iteration of the fieldhouse, which was designed as an oasis for creatives in Palm Springs, California. The fieldhouse was decorated with signature artwork from New York City-based artist KidSuper, who partnered with UGG to design a quick strike collaboration of the Tasman X.

This global activation drove significant press coverage with the likes of influential publications such as Esquire, Teen Vogue, Daily Mail and Hypebeast. As a result of the UGG team's continued brand activations and compelling products, UGG global DTC increased 6% versus last year. UGG experienced consumer demand, both in stores and online. But we have been particularly excited by the interest of consumers who are shopping in person, especially during the spring and summer seasons.

We believe this dynamic is partly attributable to the development and greater adoption of transitional franchises that embrace the brand's heritage DNA and have a greater year-round wearing occasions. By maintaining this momentum, the entire UGG product portfolio benefits, especially in our stores where consumers can feel and directly engage with the broader product offering. For this reason and aligned with our focus to elevate the UGG brand in an influential international market, subsequent to quarter end, we opened our newest flagship store in the high tourist traffic Harajuku shopping district of Tokyo.

With the first quarter behind us, we remain confident in executing the UGG plan we outlined for fiscal year 2024, evidenced by the continued momentum of global markets as consumers actively search for UGG, growth of global direct-to-consumer with improved margins from full-price business and strength of iconic silhouettes like the Ultra Mini and Tasman driving year-round excitement.

Entering the second quarter, the UGG team is working hard to stage its global omnichannel marketplace to connect with consumers through engaging experiences in the autumn/winter season. To execute this vision, UGG will be expanding on and embracing the celebration of culture and community by creating meaningful experiences such as the fieldhouse that serve as an invitation to develop an emotional connection with the brand.

This fall, UGG will celebrate its brand heritage through consumer-centric moments around the world with new winter lifestyle themed fieldhouse executions, an exciting new winter product aimed at capturing more of the winter fashion and resort-focused consumer.

Shifting to our discussion of consolidated channel performance. Global direct-to-consumer drove first quarter revenue growth increasing 35% versus the prior year on a reported basis and 33% on a

comparable basis.

Strength in the channel was driven by continued increases in HOKA consumer acquisition and retention globally. HOKA consumer growth was robust across regions and various age demographics with outsized growth among international markets in the 18- to 34-year-old cohort, which remain key targets for us. The UGG DTC business also experienced growth, driven by a more than 20% increase internationally that benefited from China catching up from lockdowns in the prior year.

The strength in China resulted from increased adoption of both sneaker and sandal styles. From a wholesale perspective, global revenue was down 1% as gains in HOKA were offset by UGG US shipment timing realignment to pre-pandemic cadence as well as a continued focus to manage the marketplace inventory of our brands to maintain high levels of full price selling in this more promotional consumer landscape.

Overall, we are pleased with these channel results, which reflect the power of our marketplace management strategies that continue to benefit our wholesale partners, DTC business and ultimately, Decker's bottom line.

With that, I'll hand the call over to Steve to provide further details on our first quarter financial results as well as our increased outlook for fiscal year 2024. Steve?

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 first quarter and demonstrated great progress toward our full fiscal year and raised outlook. HOKA was the driver of growth in the quarter, led by strong performance in the DTC channel, and UGG continues to elevate its presence globally as represented by international growth.

As anticipated, UGG global revenue was lower than last year, primarily due to lapping earlier sell-in during the prior year. But the brand maintains high levels of consumer interest, capturing increased demand through our DTC in the quarter. As we continue to operate in a very dynamic consumer environment, we remain committed to executing against our strategic priorities and maintaining our disciplined approach to managing our business.

We are encouraged by the demand signals we are seeing and believe our portfolio of leading brands continues to resonate with consumers globally. With that, let's get into the details of our first quarter fiscal year 2024 results. Revenue was \$676 million, up 10% versus prior year. HOKA revenue increased 27% versus last year due to the exceptional demand experienced across the brand's DTC channel and global ecosystem of access points. Gross margins for the quarter was 51.3%, which is up 330 basis points from last year's 48%.

First quarter gross margin benefited from lower freight costs, a greater mix of HOKA brand revenue and an increased mix of DTC business with slight offsets from unfavorable foreign currency exchange rates compared to the same period last year and select closeouts of seasonal inventory. SG&A dollar spend in the first quarter was \$276 million, which is up 16% from last year's \$238 million.

SG&A growth was driven by reinvestment in key areas of the business in support of our growth targets which includes strategic marketing, including the spend intended to amplify HOKA awareness in leading international

markets, supply chain footprint to match the growing scale of our organization, enhanced e-commerce capabilities and talent across the organization, including areas we've delayed in the enterprise support functions. Our tax rate was 21.9%, which compares to 21.3% in the prior year.

These results, coupled with higher interest income and a lower share count as a result of our share repurchase program drove diluted earnings per share of \$2.41 for the quarter, which was \$0.75 above last year's \$1.66 per share, representing growth of 45%.

Turning to our balance sheet. At June 30, 2023, we ended June with \$1.05 billion of cash and equivalents. Inventory was \$741 million, down 12% versus the same point in time last year. And we had no outstanding borrowings.

During the first quarter, we repurchased approximately \$25 million worth of shares at an average price of \$485.95. As of June 30, 2023, the company had approximately \$1.3 billion remaining under its stock repurchase authorization. Now moving on to our updated outlook for fiscal year 2024. With the HOKA brand's DTC business exceeding our expectation in the first quarter, we are increasing our full year top line revenue guidance to be approximately \$3.98 billion from our previous range of approximately \$3.95 billion.

This increase represents full year growth expectations of approximately 10% versus the prior year. As a result of this update, we now expect HOKA growth to exceed 20% for the fiscal year 2024 compared to fiscal year 2023, with the majority of growth anticipated to come from the brand's direct-to-consumer business. UGG revenue is still expected to increase low single digits driven by international expansion and a focus on driving more business to DTC.

Beyond our updated revenue outlook for full fiscal year 2024, gross margin is still expected to be approximately 52%, representing a more than 150 basis point improvement relative to last year. SG&A is still expected to be approximately 34% of revenue as we reinvest gross margin improvements in key areas of the business.

Operating margin is still expected to be approximately 18%. Our effective tax rate is still projected to be 22% to 23%. And we are increasing our diluted earnings per share expectation now to be in the range of \$21.75 to \$22.25. The \$0.65 increase is related to the increased expectation for HOKA DTC and an increased expectation for interest income as we benefit from working capital improvements, including inventory management, driving higher cash balances that are earning at a higher interest rate.

Please note, this guidance excludes any charges that may be considered onetime in nature and does not contemplate any impact from future share repurchases. Additionally, our guidance assumes no meaningful deterioration of current risks and uncertainties, which includes, but 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.

We remain confident in our disciplined operating model, well-positioned brands, robust financial profile and ability to remain nimble as we adapt to evolving marketplace dynamics.

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

David Powers

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

Thanks, Steve. Fiscal year 2024 is off to a nice start with HOKA continuing its strong momentum and the balance of our brand portfolio on track to our full year expectations. While keeping our long-term strategies top of mind, we are operating fiscal year 2024 with a sharp focus to prioritize DTC growth across all of our brands, while managing wholesale marketplace inventory to drive online acquisition, and a high level of full price selling, expand HOKA brand awareness globally, lead with UGG products that have proven to resonate with global consumers, thoughtfully manage inventory to align with consumer demand and invest in enterprise infrastructure in key strategic growth areas. We believe Decker's unique ability to infuse exciting innovation into both fashion and performance products is why our differentiated brands are able to create lasting consumer connections.

This, along with our financial discipline, agile operating platform, exceptional marketplace management and purpose-led culture allow us to continue to deliver best-in-class results and exceptional shareholder value.

On behalf of our management team, I would like to thank our employees for their continued dedication to delivering results and making Deckers a great place to work. And I would also like to thank all of our stakeholders for their continued support.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Today's first question, it comes from Jay Sole with UBS.

Please go ahead.

Jay Sole

Analyst, UBS Securities LLC

Q

Great. Thank you so much. My question is on HOKA. You talked about obviously, really strong DTC performance for HOKA in the quarter. Can you just talk about a little bit what you saw at wholesale and then talk about what you're seeing for the rest of the year. And really just going back to the quarter for a second, just talk about some of the drivers of the HOKA growth just across channel in terms of product. That would be great. Thank you.

David Powers

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

A

Yeah. Thanks, Jay. So yeah, obviously, we are super excited about the continued momentum of HOKA broad-based, it's just continuing to meet and exceed expectations for us, and we're really optimistic about the rest of the year. DTC growth, as you saw for both brands was exceptional. Wholesale for HOKA is about where we expected it to be for this quarter, a couple of puts and takes here and there by channel and region. But generally speaking, right in line with our marketplace management expectations.

We love how this flywheel is working for us. We're creating awareness out in the marketplace at a top level of the funnel, awareness is increasing dramatically for the brand, up 20% over last year, and that's driving all channels, but particularly as designed into DTC. So there's some noise out in the wholesale channel with markdowns and promotions from other brands, a lot of inventory in the channel.

So we're managing that tightly by purpose. But again, as I say, raising awareness at a high level, and seeing the brand interest coming directly to our DTC business is super exciting for us. Obviously, it's our most profitable sale.

We gain all the data from that. And it creates even a stronger flywheel going forward in the marketplace as we expand globally.

Some of the things that are driving HOKA for the quarter, this was a HOKA driven quarter as expected, right? So [ph] this isn't a (00:28:52) big quarter for UGG, A lot of the top-selling styles for the company overall for the quarter were driven by HOKA. Again, the Clifton and the Bondi continued to be the front runners here. The Clifton 9 has been received extremely well globally. We're looking to get more inventory into that franchise and continuing the upside of that franchise going forward. And then also on the hike side of things, that business is still very strong in places like REI, where we're the number one running brand and also in hike.

And then in the international regions, particularly in China, we have a very strong hike business. So we're going to continue to go after that. We've got some new innovations launching. We just launched the Mach X, which has been received very well with the [ph] Pevaplate (00:29:35). It is at a little more attainable price point. And then continuing to update franchises throughout the year, with some very, very exciting launches of existing upgrades, but also some new product coming into Q4.

Jay Sole

Analyst, UBS Securities LLC

Q

Got it. Okay, thank you so much.

David Powers

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

A

You bet.

Operator: Thank you. And our next question today comes from Laurent Vasilescu with BNP Paribas. Please go ahead.

Laurent Vasilescu

Analyst, Exane BNP Paribas

Q

Good afternoon. Thank you very much for taking my question and congrats on such good results. Dave, Steve, I would love to ask about your HOKA DTC strategy. I think in the 10-K, it's noted that you have 18 HOKA stores. I believe those are permanent stores predominantly located in Asia. Correct me if I'm wrong, but -- can you provide a little bit of color on how these stores are performing? And what lessons are you learning from the store that you just opened up in -- permanent store you opened up in New York? And how many stores do you envision for the brand over the next couple of years?

David Powers

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

A

I can speak to that. And then Steve, [ph] do you want to get into specifics (00:30:35). But yes, this is -- like we're doing with everything else in our marketplace. We like to test and learn. And when we see positive signs, we like to go fast and capture opportunities. And so far, very good on retail. Fortunately, for us, we know how to run retail stores based on our legacy of UGG retail stores over the last 20 years.

We have the operations globally to do it, and we're leveraging that platform exceptionally well. The stores that we have opened, both pop-ups and permanent are exceeding or on plan. No concerns as of this point. But we do want to take it slow. We want to make sure we're not overextending ourselves. We're going into markets that are

accretive to the overall marketplace strategy, but are also creating awareness to important consumers in key locations around the globe. We need retail to work in China.

We can't have a distributor business with partners if we don't know how to do retail there well. So we're fine-tuning that. But so far, the partners are pleased. We're very positive and optimistic about our own retail stores there as well. Excited to open our first permanent store in New York City. Feedback from that has been exceptional. And I think for us now, it's really about fine-tuning the experience for the consumer in the store.

So the operations behind the scenes, we have dialed but we want to make sure that that is an exceptional experience for the consumer beyond just the product. We're looking at holding events and run clubs and making sure that there is engagement with the community in these stores as well to drive renewed interest or renewed -- sorry, I should say, repeat visits from existing customers, but also creating awareness and showing the full breadth [ph] of the line (00:32:14) for new customers to the brand.

So off to a good start, small in the scheme of things at this point, but we see upside here. And as far as size of stores and how many, we don't have a number put on that yet. It all depends on how the marketplace evolves. But DTC is our primary objectives here and using our stores to grow online and vice versa. But you'll see a handful of key stores being opened in key cities and locations as we go and continuing to leverage our pop-up and test model before we make long-term commitments.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah, Laurent, this is Steve. Just on the number, you're right. 16 are the company-owned stores. So that does not include retail partners that we have in Asia or with some of our distributors. So those are not included in the store count. So the 16 -- sorry, 18 are included are store -- are company-owned, not inclusive of some of our retail partners as well.

And then just as Dave said, I think the performance of those has exceeded our expectations, both from a revenue and a profit standpoint. And we use the pop-ups to inform us on locations. So as we see pop-ups perform very well, it gives us a good indication of store location, and opportunity for a permanent location. So -- and we'll continue to operate in that manner, and we continue to look at areas where we can continue to expand kind of the HOKA retail store presence.

Laurent Vasilescu

Analyst, Exane BNP Paribas

Q

Very helpful. Thank you for all that color. And then just as a follow-up. I think Stefano was elevated to Chief Commercial Officer in April. Just curious to know if you have any update with regarding a permanent find for brand presence for HOKA. And then just another -- sneaking in one more question. You've got \$1 billion of cash on the balance sheet. Can you just remind us your capital allocation strategy [indiscernible] (00:34:02) audience?

David Powers

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

A

Yes. So just with Stefano, super excited to elevate him to that role, well deserved. And as we spoke in the last call, I believe, the HOKA business is in excellent shape under Stefano's leadership. He knows the space incredibly well. And we're excited about the fast tracking of innovation and marketplace management that's happening there. No news to report yet on the HOKA full-time president replacement.

But I would say, trust that we're confident in the business until we do, and we'll be excited to announce that when the time comes.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

And then just on the capital allocation question, no change in terms of how we're thinking about it. Clearly, like to operate from a position of strength, to have an incredibly strong balance sheet, especially in current times, I think that serves us well. Constant conversation with our Board in terms of how we're looking at capital allocation. But as we've indicated over prior quarters, we have been and look at share repurchase as a great way to return value to our shareholder base. So we'll continue to look at that and evaluate that. But yeah, in terms of how we're thinking about it, no change, and we'll continue to have conversations with our board.

Laurent Vasilescu

Analyst, Exane BNP Paribas

Q

Very helpful. Thank you very much. And best of luck.

Operator: Thank you. And our next question today comes from Sam Poser with Williams Trading. Please go ahead.

Sam Poser

Analyst, Williams Trading LLC

Q

Good afternoon. Thanks for taking my question. Erinn, I think 2 of the 5 have been answered. So can you give me wholesale for every brand, please?

Erinn Kohler

VP-Investor Relations & Corporate Planning, Deckers Outdoor Corp.

A

Sure. So wholesale for each of the brands, including distributor at a global scale. So for UGG, that's \$121.5 million; for HOKA, \$260.8 million; Teva, \$35.1 million; Sanuk, \$6.5 million. And then you have some other.

Sam Poser

Analyst, Williams Trading LLC

Q

Okay. Thank you. So either Dave or Steve, on HOKA DTC, can you give us some idea of what you're looking at for the full year there, given that's going to be the big driver of this? I mean, are we going to have a -- I mean, is there going to be a 4 handle on it, a 5 handle on it? I mean.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yes, I think -- good question. Right? Clearly, we've seen DTC perform slightly above our expectation in Q1. We've reflected that in the raised guidance for the year, and we're continuing to watch that. As part of -- and Dave articulated this a little bit, part of our strategy is to manage the wholesale marketplace tightly.

And we'll let some of that excess demand come over into our DTC channel, and we'll fulfill there. But a little bit harder to gauge how that consumer shows up. but we're confident in our ability to grow DTC and with HOKA specifically. And we'll see how the year plays out. But what we're encouraged by is a strong start to the year. Continue to see growth in our DTC business and growth with our HOKA DTC business, and then we'll see how the year continues to play out.

David Powers

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

A

Yeah, I think...

[indiscernible] (00:37:27)

David Powers

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

A

Sorry, Sam. We do have higher comps going forward in the next three quarters to something to be aware of. But I think we're learning what's possible with our DTC engineer. And so this is very encouraging signs for us. The thing to keep in mind also is wholesale is a bit of an uncertain entity right now with inventory in the channel. There's a lot of estimates, there's going to be a promotional back half of the year. So -- the way we're looking at this is we're trying to focus on the total consumer opportunity regardless of channel and have the inventory available for our DTC business, if wholesale continues to be a little bit more challenging. On promotional, we're confident that they'll come to us and with our marketing campaigns at the top of the funnel, we can drive more direct traffic directly to our channels and DTC channels. But this is certainly very encouraging. It's right in line with our strategy to get the whole company at 50% DTC down the road, and we're going to continue to hammer our way out of.

Sam Poser

Analyst, Williams Trading LLC

Q

Thanks. And then lastly, you're investing a lot in the SG&A, but you tend to roll it forward. I mean, is this going to be another year like normal where -- we don't really see that leverage on all that SG&A until we come out of the -- you can't really roll it out of the fourth quarter again? I mean, are we looking at it the same way?

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah. I think the way we're looking at it, Sam, is we're coming out of a year last year, our FY 2023, where we held back on some of those SG&A investments. And that was to offset some of the headwinds that we were experiencing on the gross margin. So that was an intentional hold back to really deliver on our commitment to get to 18% operating margin.

So this year, as we're seeing some of that gross margin expansion, it is affording us kind of that opportunity to invest. So we are looking at it. That's embedded in our guidance for the year. It'll be approximate 18% operating margin. So again, with that gross margin expansion, taking that opportunity to invest in some of the things that we held back on last year. And we'll see how we're doing. I think Q1 is a demonstration where we have invested a little bit more.

So you're seeing a little bit of an increase on that SG&A as a percentage of revenue in the quarter. So we'll continue to see. But I think it's important that we continue to invest in these brands. Part of that, as I mentioned, strategic investment in HOKA marketing. We know that there's an incredible opportunity out there, and this is an opportunity for us to continue to build international brand awareness. And then just on kind of infrastructure and talent. We're in a competitive space.

And with how well we're doing, it's important for us to remain competitive in that space as well. So -- those are all things that we're considering. But again, we're delivering, in my mind, exceptional operating profit level, [indiscernible] (00:40:24) affords us the opportunity with this gross margin expansion to make those investments.

David Powers

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

A

Yeah. And I think just from my perspective, I want to make sure that we have the operations at Deckers to be to take this business to \$5 billion, \$6 billion over the coming years. And so we want to make sure -- and I've said to my leadership team that we need to focus on infrastructure investment, innovation, systems, data accessibility, global supply chain investments, DCs that -- so we are ready for the growth when it continues to come.

And in the past, some quarters, we pushed out marketing spend because we didn't need it to hit our numbers. But we're rethinking this. We're much more strategic now. We want to make sure we're doing more activity at the top of the funnel, connected TV, et cetera. We have some great creative from both HOKA and UGG that you'll see on connected TV this coming season and fall. And the ELT is completely aligned on where additional SG&A opportunities are going to go and how we prioritize them.

So if we see signs that there's opportunity to free up some more spend for some of these strategic initiatives. Steve and I are looking at it quick. We're allocating the money fast, so that teams can get on with it and create more upside. But I am excited about the opportunities of marketing for HOKA

specifically, but also UGG and UGG Men's and some new exciting product launches coming this fall for both of them on the marketing side, too.

Sam Poser

Analyst, Williams Trading LLC

Q

Thank you. Continued success.

David Powers

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

A

Thanks, Sam.

Operator: Thank you. And our question today comes from Janine Stichter with BTIG. Please go ahead.

Janine Stichter

Analyst, BTIG LLC

Q

Hi, good afternoon, everyone. And congrats on the great quarter. And thank you for taking my questions. I wanted to ask about the wholesale environment in the US really for the UGG brand, understanding a tough multiyear comparisons you have there. I'm just wondering what you're hearing from your wholesale partners, both on their broader ordering patterns and then specifically on sell-through for UGG. [indiscernible] (00:42:19) out there. And then also want to hear more about the UGG transitional franchises. It sounds like they're working well on DTC, but wondering what the appetite is for that product and wholesale. Thank you.

David Powers

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

A

Yeah, good questions. This is -- it's always a funny quarter for UGG because we're dealing with deliveries into wholesale, getting ready for fall. We have some left over from spring, and we're comping particularly this quarter for UGG, we're comping a lot of fluff business from last year. So it is a little bit noisy. But the good news that we're seeing in here is how the consumers are reacting, brand interest is up dramatically, especially in 18- to 34-year-olds.

The styles that we have invested in, in -- with heavy inventory this coming fall, the Tasman and the Ultra Mini and Platform styles. We sold out of those styles last year. We're getting back in inventory now. They're already selling through very well despite the heat waves that are going around across the country. So the indicators that we are seeing for the UGG brand consumer interest, consumer buzz, excitement around these franchise styles and even a couple of new styles that we just launched early, a sneaker and then it's more [ph] like to get the name of it, it's (00:43:33) an UGG style that has a knit upper on it.

Those are in the top 10 of ugg.com. So a lot of reasons to be excited. Wholesale partners, they know they need UGG to be successful this season. They know that there's opportunity in these key styles that we're getting after. And those are the things that we have focused [ph] our buys (00:43:51) on for them. The other key thing to keep in mind is we have reduced our SKU count dramatically at UGG. So last year at this time, we were over 600 SKUs heading into fall, this year, we're just over 400.

And so we've cleaned up the assortment. We funneled our inventory into these key styles that we know there's high demand for. And we're getting the marketings behind those styles to really drive high level of interest and sell-through. On the traditional styles, one of the top-selling styles globally is the [ph] scuff hat (00:44:22). And so we're still seeing a lot of interest and renewed interest with younger consumers in some of our core classics, but what's really encouraging is the iterations, that the platforms, styles, really leveraging the Tasman, the [ph] new mill (00:44:35), these Ultra Mini styles and then new iterations that we're going to be launching in the fall and holiday.

Now we've just been through a great deal of work under Anne, the marketing team's leadership on resetting our brand positioning and defining our brand codes and design and applying those to our core classics and iterating off of those with new materials and new outsoles and different shapes is bringing some really exciting product to market. And I think you're going to see some of that start to happen this fall and continue through spring and next fall as well.

Janine Stichter

Analyst, BTIG LLC

Q

Great. And on the SKU count reduction, are there any potential gross margin savings that might go along with that?

David Powers

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

A

Yeah, short and long term, right? And so I just reviewed with the leadership team yesterday the fall 2024 line. And the team's all said to us, listen, this is we're doing less work and the styles that we're spending more time on and getting better and better and more exciting. And so I think you're going to see it both in focused.

You're going to see it in quality and aesthetic and design and you're ultimately going to see a margin opportunity a little bit as well. We haven't flush that out yet, and we don't have it in any of the guidance or anything. But certainly, when brands go through this work, there is certainly

opportunities for margins.

Janine Stichter

Analyst, BTIG LLC

Q

Okay. Thanks so much.

David Powers

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

Thank you.

A

Operator: Thank you. And our next question comes from Paul Lejuez with Citi. Please go ahead.

Q

Hi, guys. This is [ph] Kelly (00:46:02) on for Paul. I got a couple of questions for you. First, on the gross margin in the first quarter. It looks like it came in a little bit light of expectations, and that's despite HOKA DTC driving a beat. So just curious what the driver of that was? I think you've mentioned some select closeouts, the seasonal inventory. Curious if that was not planned going into the quarter? Any color there would be great. Thanks.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

Yes. I think -- [ph] Kelly (00:43:28), this is Steve. I think on the quarter, we pretty much delivered kind of to our expectation. I know some of the models may have been a little bit higher than we were. I'm -- my guess is where you may have been a little bit higher was around a promotion assumption and potentially a foreign currency assumption. When we look at kind of the \$330 million beat, that's a pretty substantial beat in line with what we were thinking.

Just to give you some sense of how that broke down. The freight channel mix in brand was around 450 basis points of it, and that was offset by about 100 basis points, which was a mix of promo and foreign currency. So it's just depending on how you factor that into your model. But generally speaking, in line. But yeah, as we mentioned, we did do some closeouts of seasonal items in Q1, which is impacting that gross margin.

Q

Was that across both UGG and HOKA?

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

Yes. It was -- some of both in the quarter.

A

Q

Got it. And then on the -- so HOKA wholesale grew low doubles in the first quarter. I think that the Italian distributor transition was impacting that. Is there any way to quantify, so we could kind of understand the underlying wholesale growth and how that should trend for the rest of the year. Is the Italian distributor transition 1Q specific?

Or does it carry forward? Any color domestically versus international on the wholesale growth side in HOKA. And then lastly on that, just from a door perspective, your sort of gross door -- new door openings for HOKA. And then sort of maybe on the net basis as well.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Sure, [ph] Kelly (00:48:13). I think there was a lot in there.

[indiscernible] (00:48:18)

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

So you're right. We did do an Italian distributor conversion. So that is impacting. A year ago, Q1 would have picked up the distributor order, which would have covered multiple quarters in a wholesale model. So you're seeing some kind of delay of those sales in the Italy model.

We have not talked about how much that is, but not a huge number in a Q1 impact, but safe to say within the millions of dollars in terms of what the impact was that you'll see pickup in the wholesale business later. So that was impacting some of the wholesale distributor growth in Q1. Then the other parts of your question were...

David Powers

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

A

HOKA wholesale in general and door count.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yes. So

Q

...versus domestic?

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah. So what we're looking at just in terms of -- with it specific to HOKA door count wholesale. Is that what your question was?

David Powers

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

A

I think so.

Q

Yeah. Pretty much.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yes. I think the way we're looking at it is we've -- on our prior call, we talked about kind of no global net new doors. We're going to continue to evaluate and see. What that looks like is we're probably seeing some growth in North America and some declines on the international business as we're cleaning up some of that distribution. And then we'll continue to monitor it. So that was kind of point in time. As we see demand and performance with these doors within accounts, we'll continue to evaluate that.

David Powers

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

A

But no real change in strategy.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

But no change in strategy, yeah.

Q

Got it. Thank you.

David Powers

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

A

Thank you.

Operator: Thank you. And our next question today comes from Jonathan Komp with

Baird. Please go ahead.

Jonathan R. Komp

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

Q

Yeah, thank you, Dave. I want to follow up on a comment you made. I think you said you're building the infrastructure to be a \$5 billion to \$6 billion consolidated revenue company. Would that be on sort of a 3- to 5-year horizon. I don't know any thoughts on that? And I guess, thinking about the next couple of billion of revenue, how would you see that split across the brands. Just curious if you had any more color on those comments.

David Powers

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

A

Let me grab my LRP I'll share with you. No, that's just generally

speaking. Like as my job as CEO, I need to be looking 3 to 5 years out and based off where we are today and on the cusp of hitting \$4 billion mark. My head is like, okay, so how do we get to \$5 billion and \$6 billion? What's it going to take from a team perspective and infrastructure perspective, category expansion, all those things.

So -- when I put out, say, \$5 billion or \$6 billion, that's just generally thinking, hey, down the road, we're going to get to these numbers. I don't have anything to share with how that is -- but certainly, if you put the pieces

together, you could see it happening as well with the current growth we're seeing in HOKA. I think you're going to see a resurgence of UGG over the coming years under Anne's

leadership.

And hopefully, we get Teva to be a meaningful number in the coming years as well. So it's within line of sight for sure, but I would not want to put a timeline or a brand mix and any of that yet. It's early days, but the opportunity we see is for this company to be a \$5 billion, \$6 billion business

over time, for sure.

Jonathan R. Komp

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

Q

Yeah. I appreciate that color. Thank you. And maybe related -- a bigger picture question on HOKA and category expansion. How are you thinking about lifestyle, fitness, other categories, especially, it looks like there's some very favorable reviews of the transport X as a new category, it looks like a hard shoot get a hold of. So just curious how you're thinking about a broader category expansion potential for HOKA?

David Powers

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

A

Yeah, I'm wearing the Transport myself right now and had trouble finding it, honestly. So that one surprised us. I was actually a little bit skeptical about how that was going to be received in the marketplace. It's not necessarily positioned as a performance shoe, although I do run in it and work out in it, so it's very versatile. And I think it's showing us that there is more aperture and appetite for HOKA to be meaningful in the lifestyle space, whether that is collar ups or fabric changes or design details on some of our franchise styles, we pull things out of the vault.

I mean, 10-year old now, we have things actually in the vault that customers ask for. But there's opportunity for new styles like the Transport and the Transport X that we tested this year. And we think that there's an emerging opportunity in lifestyle. It's not just people wearing a running shoe anymore. They want shoes made for all day wear that feel like running shoes, but have a little bit of a different aesthetic. And -- we see a massive opportunity there not only within the HOKA brand, but we're working on launching a new brand actually in the spring timeframe to go after some of that opportunity as well.

So -- as far as category growth, right now, if you ask Stefano and the team, we're focused on being -- maintaining our dominant position in run. We want to be number one in hike and trail over the coming years. We think that's a tremendous opportunity, and that's an important category that's growing within the category, but also has lifestyle implications as well. And then really cultivating the lifestyle distribution and consumer with performance products that has a little bit of a different aesthetic.

If you think about down the road, different categories, we're exploring other categories as well. And those things take time to develop. So we're having the teams on the sidelines, looking at different opportunities, in different categories, whether it's court shoes or whatever else that may be -- but we're thinking that way for the long term. But right now, we're really focused on run,

hike and the lifestyle opportunity.

Jonathan R. Komp

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



That makes sense. Just last one, Steve, if I could. Your gross margin this year, you're still guiding a couple of hundred basis points below your peak. And if I compare to back then, your HOKA revenue contribution has doubled in mix. So just how should we think about that opportunity to get back to 53% to 54% gross margin over time?

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.



Yeah. I think if you're looking back kind of two years ago, the big difference will be around just a promotion assumption. So that was pretty clean I would say, very clean selling in terms of hardly any promotion. You're right, as we're looking at the HOKA contribution increasing, we're going to continue to see an increase. As we see a higher proportion of DTC increase, we'll also see gross margin expansion.

So what you're seeing, I think this year from where we were a couple of years ago, some more assumption around promotion, and we'll see how that plays out this year. And then going forward beyond that is higher proportion of HOKA should continue to give us some gross margin expansion opportunities as well as the higher proportion of DTC business.

Jonathan R. Komp

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



That's great. Thank you.

Operator: Thank you. And our final question today comes from Dana Telsey with Telsey Group. Please go ahead.

Dana Lauren Telsey

Analyst, Telsey Advisory Group LLC



Hi, good afternoon, everyone. Dave, you had mentioned Teva and Sanuk. What is happening with those 2 brands now? How do you see their progress this year? And then as you think about inventory levels, which certainly seem very clean, how are you looking for the progress of the inventory going forward. Thank you.

David Powers

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



Yeah. Thanks, Dana. Good question. We don't talk very often about Teva and Sanuk. And from the quarter results, there's -- it makes sense, there's questions about them. We recently have reorganized our smaller brands, Teva and Sanuk and some incubation work that we're doing under an emerging brands group where we're leveraging resources and we're resetting those brands. So -- we have a new leader there, Lee Cox, who spent a lot of time on the HOKA brand early days.

He's pulling together a long-term strategy for both those brands and --right now, they're doing brand work. So resetting their positioning, tightening their positioning, their proposition, understanding who their consumers are deeply and elevating their innovation pipeline. So I would say the biggest

opportunity right now that we see down the road in the short and long term is Teva. We've looked at a number of brands externally that we could acquire. And quite honestly, none of them look as good as Teva does. It's a

beloved brand. It's got a great 30-plus-year history and a lot of heritage product. And it's healthy in the marketplace. It's got great margins. And -- we think that, that is a brand that we can invest in for the long term. So right now, it's just about resetting the marketplace. That's why you're seeing some degradation in the top line in both Teva and Sanuk because we're cleaning things up. And we're basically getting gearing those up to go back at it with a new and improved version of both brands.

But the Teva opportunity is continued within sports sandal and we are working on a trail sandal for that brand that we're going to be launching early next year, which we think will be incredibly exciting, trail running sandals. Then also expanding into closed toe [ph] and year-round (00:57:29) business through our innovation engine. So you won't see dramatic changes in this year in the P&L for any perspective, but you will start to see improvement going into FY 2025, both on the top line and bottom line, particularly for the Teva brand, as that's the bigger opportunity. And then we have some ideas of what Sanuk could be, and we'll see if those play out over the next coming years as well.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

And then, Dana, just on the inventory, the way we're thinking about it. So to your point, we have made significant improvements from our year ago period, which we had more elevated inventory a lot more in transit inventory. So as that has resolved and improved, we're in a much better position this year.

You'll continue to see that improvement continue in the quarters of this year, won't necessarily be to the same percentage extent. But we were making improvements kind of all of last year. And so you'll continue to see us make improvements not necessarily to the same level that you saw in Q1.

Dana Lauren Telsey

Analyst, Telsey Advisory Group LLC

Q

Got it.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Okay.

David Powers

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

A

Thanks, Dana.

Operator: Thank you. And ladies and gentlemen, this concludes today's question-and-answer session and today's conference call. We thank you all for attending today's presentation. You may now disconnect your lines, and have a wonderful evening.

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