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Deckers Outdoor Corp. (DECK)

Q2 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

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

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

Erinn Kohler

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

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

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

David Powers

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

Thanks, Erinn. Good afternoon, everybody, and thank you for joining today's call. It's great to be here with you today to discuss our exceptional second quarter where our two marquee brands experienced high levels of full price consumer demand, leading to revenue increasing 25% versus last year, eclipsing \$1 billion for the first time in our September ending quarter; gross margin improving 520 basis points versus last year; and diluted earnings per share increasing nearly 80% versus last year to \$6.82.

Our Direct-to-Consumer business was the fastest-growing component of revenue growth in the second quarter, increasing nearly 40% versus last year, with HOKA growing 46% and UGG increasing 38% as both brands experienced a greater than 30% global increase in consumer acquisition.

Our global Wholesale business also put up strong revenue growth in the second quarter, increasing 19% versus last year, again, driven by our two largest brands, UGG and HOKA. Our Wholesale accounts also continue to see incredible heat and momentum for our key styles across both brands.

With this strong consumer demand, sell-in for Wholesale in the quarter included some accelerated fall seasonal shipments, benefiting our first half results and increasing our confidence to achieve our outlook for the fiscal year. As we continue to focus on our strategic marketplace management, we are pleased to have captured the strong momentum of demand early in the year, particularly with these products capturing high levels of full price selling across all channels.

As we focus on delivering the full year, I think it's important to reflect on our year-to-date performance. We closed out a record first half for Deckers with total portfolio revenue across all channels growing 19% versus last year driven by HOKA revenue increasing 27% from global strength across its ecosystem of access points; UGG revenue increasing 18% primarily from gains across international regions and global DTC; total portfolio, global DTC acquisition and retention increasing 29% and 27%, respectively; and international revenue across all brands increasing 23% versus last year.

While Steve will provide further details on our financial performance and related increased outlook later in the call, I'd like to emphasize how proud we are of the continued alignment of our strong near-term performance with Decker's long-term objectives to build HOKA into a multibillion-dollar performance brand, grow UGG through Direct-to-Consumer connections with elevated products and experiences, expand DTC through consumer acquisition and retention gains, and drive international growth through targeted investments.

With that, let's get into the highlights of our successful first half, starting with HOKA. Global revenue in the first half increased 27% versus last year. This impressive result reflects the HOKA brand's successful marketplace management execution, which is driving more business to DTC in conjunction with market share gains from high full price sell-through at our existing points of wholesale distribution.

HOKA revenue growth in the first half was led by Direct-to-Consumer, which increased 54% versus last year and represented 38% of revenue, up from 31% in the prior year. This was aided by global increases in brand awareness according to Decker's proprietary brand tracker study; consumer acquisition, which is up 47% versus last year; and consumer retention, which is up 52% versus the prior year.

HOKA experienced significant growth and awareness across all major markets, with the US growing to approximately 30% and international regions on average rising to mid-teens with much more room to grow.

Specific to our gains in DTC in the first half, consumer acquisition in EMEA DTC nearly doubled to help achieve a 75% year-over-year increase in channel revenue for the region. This represents great progress for our EMEA region, and though DTC remains a relatively small percentage of its total revenue, we see this expansion as a positive indicator that HOKA is increasingly resonating with the European consumer.

As we have demonstrated in the US, thoughtfully building brand awareness through marketing activations and strategic marketplace presence served as a catalyst to DTC acceleration as the brand begins to take hold with the local consumer. To that end, HOKA recently opened its first European flagship store in Covent Garden in London, giving the brand a powerful presence in one of the most influential footwear markets around the world.

In the US, HOKA continues to deliver exceptional growth. DTC revenue increased nearly 50% versus last year for the first half, with strong growth among 18- to 34-year-old retained consumers, which increased 70%. We believe some of this demand was fueled by HOKA having increased resonance in the back-to-school timeframe with college-age students. Brand loyalty among this group is especially exciting given the increased potential lifetime value of repeat purchases.

The HOKA marketing teams have done an exceptional job building global brand awareness through compelling FLY HUMAN FLY campaign content, connecting with consumers at HOKA-sponsored events, and highlighting the incredible performances of HOKA athletes.

We continue to sponsor key running events around the globe as part of our commitment to support the sport and provide a platform to showcase our innovative performance products. This includes events from 5Ks to elite ultramarathons for all types of athletes around the world, allowing us to elevate the brand with pinnacle performance-minded consumers and also to broaden worldwide awareness of the achievements capable in HOKA products.

This year's HOKA-sponsored UTMB or Ultra-Trail Mont-Blanc World Series finals held in Chamonix, France is the perfect example of our team's 360-degree collaborative approach to building HOKA brand awareness and

performance credibility. This trail running event allows us to celebrate the roots of HOKA, which was born in the French Alps, further connecting the brand with European consumers.

At the UTMB World Series Finals, the HOKA team set up a base camp that offered consumers the opportunity to engage with the brand in a unique way through athlete meet and greets, 24-hour product testing, and shoe personalization. We received overwhelmingly positive feedback on the experience and are already looking forward to leveraging these learnings at future events.

HOKA made its mark on the event both from a product and athlete performance standpoint, with several impressive achievements, including HOKA athlete, Jim Walmsley, making history, becoming the first American man to win the Dacia UTMB, a 106-mile race that included more than 6 miles of elevation gain, completing the course in a record time of less than 20 hours; HOKA ranking top among all brands with the most top five finishes across the series of three races and HOKA remaining the number one brand won by UTMB participants.

From a product standpoint, first half HOKA growth was driven by a variety of categories and styles, which includes among others the Clifton franchise, which benefited from the ninth edition launch as well as new successful lifestyle versions with suede uppers; stability staples like the Arahi and Gaviota franchises, the latter of which launched its fifth edition during the second quarter as we are seeing increased adoption of this category from consumers; trail and hike favorites, the Challenger and Anacapa franchise, is benefiting from new innovations incorporated in recent updates; speed shoes highlighted by the Rocket X refresh and the all-new Mach X; and new lifestyle options, including the popular Solimar and Transport styles.

We remain encouraged by the breadth of category adoption across the innovative HOKA product assortment, which continues to evolve and attract new consumers to the brand. We are implementing greater segmentation across the ecosystem of HOKA access points. To ensure our accounts are best positioned to serve their respective consumers and emphasize DTC as the pinnacle destination to experience the full depth of the brand's product offering, for the balance of the year, the HOKA team remains focused on executing its marketplace management strategy, which includes a focus on building global brand awareness and heat to increase demand which is helping to drive high full price sell-through at DTC and across Wholesale, allowing the brand to deliver healthy growth with best-in-class margins and inventory turns. Complemented by several new innovative product launches coming up in our fourth quarter, we expect HOKA to continue delivering strong results for the remainder of this fiscal year and well beyond.

Now shifting to UGG, global revenue in the first half increased 18% versus last year. The brand's strong first half performance was driven primarily by high levels of brand heat, disciplined marketplace management leading to product scarcity on key styles exiting last fall, and intentional pull forward of the brand's fall marketing campaign relative to past years.

We currently have the most cohesive, globally aligned product, marketing, and consumer targeting strategy I've ever seen for UGG. Marketplace management has been a core strength of the UGG brand for some time now. The allocation and segmentation of core and popular new styles continues to serve the brand well, helping drive high levels of full price sell-through.

Last year, we shared that we did not fully capture demand on several key styles. As we began this fiscal year, we strategically developed targeted inventory that caters to the brand's most popular products and [ph] seeded (00:12:48) the fall marketing campaign, Feels Like UGG, in July as opposed to the typical September timeframe.

From July 15 to August 15, we saw a groundswell of influencer public service announcements, reminding consumers to buy UGG now. Videos using #UGGs received over 25 million views during that timeframe, and UGG saw twice the level of engagement on Instagram as compared to last year. We believe the UGG team's strategic marketing shift served as a catalyst for earlier fall consumer demand globally. In the US specifically, this shift helped fuel greater back-to-school demand with search interest increasing 46% versus last year, according to Google Trends.

To keep this momentum going, at the tail end of September, UGG celebrated the official kickoff of #UGGseason with music superstar, Cardi B, whose video announcement featuring the new Classic Dipper had nearly 20 million views. This resulted in significant press and media coverage of our launch with influential publications such as Billboard and Vogue featuring UGG.

Brand heat created by the UGG team directly translated to incredible first half results, particularly from the global DTC business and international regions, which both experienced a revenue increase of above 25% versus last year. Furthermore, UGG gross margins benefited from transitional and fall products selling at full price during the second quarter. This dynamic is in contrast with prior years with the brand's DTC business has historically been more weighted towards end of spring and summer products that generally carry a lower average selling price.

The Tasman franchise, including the [ph] Tas platform (00:14:32), as well as the Classic Mini and Ultra Mini franchises have been the focal products of UGG's search interest and revenue growth in the first half as expected. We are also excited that some of the new fall franchises are beginning to resonate with consumers as well, including the aforementioned Classic Dipper, a key globally marketed style, the all-gender hybrid weather collection, which includes modernized weather-ready versions of the Tasman and Neumel, and the Lowmel, a sneaker hybrid take on the original Neumel. UGG is well-positioned to capture consumer demand during the holiday season with great products like these.

Considering the demand we've seen thus far, we are already in chase mode for a select group of popular items and colors for which we are expediting production to ensure greater DTC inventory through the season. The UGG brand's first half growth sets us up well, especially when factoring the signals of a weakening global economy and lower consumer confidence. Given this dynamic, we are glad to have captured some demand earlier to help reduce the pressure of competing with more promotional brands during this upcoming holiday season as we seek to continue selling premium UGG products at full price.

Moving on to our discussion of consolidated channel performance, global growth was across both direct-to-consumer and wholesale, with DTC being the primary driver of revenue gains in the first half, increasing 37% versus last year. Our portfolio experienced DTC strength relative to last year across consumers with acquired and retained increasing 29% and 27%, respectively, brands with HOKA and UGG revenue increasing 54% and 26%, respectively, regions with international and domestic revenue increasing 48% and 34%, respectively, and channels as consumer demand was robust in stores and online.

Additionally, we saw a double-digit increase in average selling price as a result of a greater mix of HOKA, higher full price selling for UGG, combined with a focus on fewer proven SKUs and more favorable foreign currency exchange rates.

Regarding global wholesale, revenue in the first half increased 11% versus last year. Growth was driven by strength in UGG and HOKA, as well as across both our domestic and international regions. Market share gains continue to be the primary avenue of wholesale growth for HOKA, which is now the top-selling brand in US-run specialty stores in aggregate, according to third-party market sources. HOKA has also quickly become the top

running brand with key strategic partners in applicable doors. Our teams are extremely proud of the HOKA brand's top market share achievement, which further validates the brand's performance rooted credibility.

UGG wholesale performance in the first half is right in line with our strategy this year, with international regions fueling the majority of growth, while the brand maintains its strong business in the US. With these first half results, it is clear that our marketplace management strategies are working well, positioning our brands to excel during the holiday quarter and capture increased consumer demand across their respective ecosystems of access points.

Before I hand it off to Steve to discuss our results in more detail, I'll note that we also announced our plan to divest Sanuk. At Deckers, we're focused on the most effective allocation of our resources that are in alignment with long-term objectives. Consumers have long valued Sanuk for its fun, innovative and comfort-first products. Over the coming months, we will work to find the right owner to support the brand's next chapter while we continue to execute our growth priorities.

Thanks, everyone. And now, I'll hand it over to Steve.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

Thanks, Dave, and good afternoon, everyone. We are excited by the strong performance HOKA and UGG continue to exhibit through the first half of fiscal year 2024, stemming from our strategic marketplace management execution that continues to benefit our brands. As Dave covered, HOKA drove another quarter of strong growth, led by DTC, while UGG demonstrated broad-based growth across regions and channels by continuing to captivate consumers and elevate its presence around the world. Our record second quarter revenue exemplifies the exceptional demand for our brands, and we look forward to continuing this momentum as we enter our largest and most complex fiscal quarter.

While ongoing macroeconomic challenges persist, we believe we are well-positioned to navigate this dynamic marketplace. With a strong financial framework and in-demand brands, we remain committed to building the foundation for success that drives long-term sustainable growth.

Now, let's get into the details of second quarter results. Second quarter fiscal 2024 revenue was \$1.092 billion, representing an increase of 25% versus the prior year. On a constant currency basis, revenue grew 24% versus last year. Growth in the quarter was primarily driven by strong demand experienced across the HOKA DTC channel, which increased 46% versus last year, and contributed to delivering total brand revenue of \$424 million for the quarter, and broad-based UGG growth across regions and channels, delivering \$610 million of revenue, with global DTC increasing 38% and wholesale increasing 25%.

With the HOKA brand's performance consistent with our expectation, the outsized UGG growth in the second quarter benefited from, first, a higher level of wholesale shipments in Q2 this year that in the past couple of years were captured in the first quarter, as transit times have reduced, supply chain logistics have improved and availability of inventory is more consistent relative to during the pandemic; second, seeding the fall global UGG campaign earlier in the quarter, reminding consumers of the scarcity that took place in the prior year, which created brand heat and demand for those same, popular styles that sold out quickly last year, driving earlier consumer purchasing this year; and third, an increased level of demand for the brand during the back-to-school period, which signaled some wholesalers to desire shipments on an accelerated timeframe relative to our original plan.

Gross margin for the second quarter was 53.4%, up 520 basis points from last year's 48.2%. Second quarter gross margin benefited from lower ocean freight rates, favorable UGG product mix, partially driven by earlier fall demand, favorable UGG full price mix, favorable channel mix, with DTC continuing to grow faster than wholesale, and a slight benefit from foreign currency exchange rates.

SG&A dollar spend in the second quarter was \$358 million, up 22% versus last year's \$294 million, as we continue investing in key areas of the business. As a percentage of revenue, SG&A was 32.8% versus 33.6% in the prior year, 80 basis points lower than last year. This resulted primarily from the aforementioned timing, considerations regarding earlier consumer demand and timing of certain spend.

Our tax rate was 23.8%, which compares to 21.2% for the prior year. These results culminated in diluted earnings per share of \$6.82 for the quarter, which is just over \$3 above last year's \$3.80 diluted earnings per share, representing EPS growth of 79%. This increase in diluted earnings per share was approximately evenly split between gross margin benefits and higher revenue, with a small benefit from a reduced share count resulting from the share repurchases made over the past year.

Turning to our balance sheet at September 30, 2023, we ended September with \$823 million of cash and equivalents. Inventory was \$726 million, down 21% versus the same point in time last year. And during the period, we had no outstanding borrowings. During the second quarter, we repurchased approximately \$185 million worth of shares at an average price of \$534.53. As of September 30, 2023, the company had approximately \$1.1 billion remaining authorized for share repurchases.

Now moving into our updated guidance for fiscal year 2024, we are increasing our full-year revenue guidance to be approximately \$4.025 billion from our previous guidance of approximately \$3.98 billion. This increase now equates to a full-year growth expectation of approximately 11% versus last year.

From a brand perspective, we now expect UGG growth of mid-single digits, up from our prior expectation of low-single digits. This upside comes from the continued strength of global brand heat, driven by robust early demand. We still expect full-year HOKA revenue growth of above 20%, with third quarter percentage growth anticipated to be slower due to this year's timing of product launches being weighted towards the fourth quarter, and we have reduced our expectation for Teva due to softening macro backdrop.

In addition to our fiscal year 2024 updated revenue outlook, gross margin is now expected to be in the range of 52.5% to 53%, reflecting the strength of UGG full price selling in the second quarter, as the brand was able to capture DTC demand early. SG&A as a percentage of sales is now expected to be in the range of 34% to 34.5%, as we continue to invest in key areas of the business.

Operating margin is now expected to be approximately 18.5%, reflecting the improvement in the gross margin. Our effective tax rate is still projected to be in the range of 22% to 23%, and we are increasing our diluted earnings per share expectation to now be in the range of \$22.90 to \$23.25.

Please note, this guidance excludes any charges that may be considered onetime in nature and does not contemplate any impact from additional share repurchases. Additionally, our guidance assumes no meaningful deterioration of current risks and uncertainties, which include, but are not limited to, changes in consumer confidence and recessionary pressures, inflationary pressures, geopolitical tensions, labor shortages and fluctuation in foreign currency exchange rates.

We are proud of the first half performance by the HOKA and UGG brands, two of the strongest in our industry, which led us to increase revenue guidance heading into the back half of our fiscal year despite what appears to be a more challenging macroeconomic environment. The HOKA brand's global gains in awareness, combined with the early fall demand we are seeing from UGG, give us the confidence to achieve this exceptional outlook.

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

David Powers

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

Thanks, Steve. HOKA and UGG have delivered incredible results for the first half, and we believe our company is well-positioned to deliver on the increased full fiscal year objectives we outlined today. Marketplace management remains paramount to the ongoing success of Deckers and our continued ability to buck industry trends as we build awareness and drive demand for our brands.

Our proficiency in the implementation and delivery of strategic objectives is what truly differentiates Deckers as an organization, allowing our brands to create lasting consumer connections. We are focused on continuing to deliver meaningful consumer experiences with great products and dedicated to doing so with our long-term objectives at the forefront of everything we do. This approach, alongside our flexible operating model, financial discipline, innovation across fashion and performance brands, and our purpose-led culture are what empowers our highly engaged employees to deliver exceptional results and shareholder value.

I'd like to thank our entire executive leadership team and all of our employees across the organization for their continued dedication to Deckers' values, as our company seeks to do good and do great. For more information on these efforts, I'd encourage you to read our forthcoming FY 2023 Creating Change report, which launches next week. Thanks, everyone, for joining us here today and thank you to all of our stakeholders for your continued support. We look forward to continue sharing the exciting future ahead at Deckers.

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

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from John Kernan from TD Cowen. Please go ahead.

John Kernan
Analyst, TD Cowen

Q

Excellent. Congrats on a phenomenal quarter. And I just wanted to hone in on UGG. Obviously, tremendous momentum as you go into Q3. Q3 is almost 50% of the full year sometimes in terms of total revenue. So just curious, given all the momentum you see, particularly in DTC, in Q2, how should we think about UGG in the back half of the year and particularly Q3?

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

A

Yeah. This is Dave. It's a great question. First of all, I want to recognize the momentum that you called out, that the UGG brand experienced in Q2. The team did a phenomenal job of recognizing the opportunity earlier in the year, capturing demand that we left on the table last year, cleaning up the marketplace, putting some exciting activations in place with Cardi B and other influential partners for that brand. And the buzz is something that, in my experience at the company, I have never witnessed before. It's palpable. The full price sell-through, the health of the marketplace, the teams just collectively have done an amazing job across the globe to set this brand up for success. And we're really excited that we were able to capture some demand early in the season before holiday shopping and before there's potential slowdowns in the marketplace.

So, we're set up incredibly well. We're optimistic that this is going to continue for us throughout the year. We're mindful of the fact that it could be a challenging marketplace. So, we're not naïve to that fact but we are prepared for it. As we mentioned in the prepared remarks, some of the key styles that we put into the marketplace this year have sold out – or sold very well so far. We are in a bit of a chase mode in some of those styles. But I think across the board, we feel really confident that we have a breadth of products across many silhouettes that are performing well. We have inventory in the right places, a little bit lean in some, but we're going to react and chase those. We've eliminated a lot of noise in the assortment in the marketplace. We have incredibly powerful campaigns and activations across the franchises and the brand. We have an exciting new launch of UGGextreme, which is a winter lifestyle collection that we're going to start investing in in a deeper way.

And we have great relationships with our wholesale partners. They need us, especially in this environment. And we want to stay above the promotional marketplace. So, we don't want to get caught up in that. We want to maintain a healthy and clean marketplace and continue to drive real strength through our DTC channel. And that's our strategy and it's working well so far. We're really excited how the fall season has kicked off and we feel really good about how it's going to continue.

John Kernan
Analyst, TD Cowen

Q

Got it. Maybe one quick follow-up just on the margin profile in the back half of the year. It looks like SG&A dollars are planned up on a growth basis pretty significantly. Can you just talk to some of the investments you're making behind UGG and HOKA?

David Powers

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

A

Yeah. I'll let Steve get into the details. But the top four things that we're investing in, which is similar to what we talked about earlier in the year, which is important for us to maintain this level of growth going forward and to be able to continue to grow these brands, is really around people, talent and culture. We're big believers that our culture is one of our secret sauce component, so to speak, and that we have incredibly motivated and collaborative teams that are fired up to win. We're continuing to invest in innovation. We have a powerful innovation pipeline that we want to continue to bolster that supports all of our brands.

Systems and data, I don't think there's a company out there right now that feels good about their systems and data, where they're at. We're not alone there. We have some work to do there, but we want to be providing our teams with the right level of visibility so they can run their businesses effectively and leverage AI technologies coming down the pike. And then, continue to heavily invest in marketing. We feel that in a constrained environment and a lot of other peers that are struggling with inventory and promotions and lower margins, with our profile right now, we have an opportunity to continue to take share in this environment, and we're going to stay aggressive with marketing dollars to do that.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah, John, this is Steve. I think just to kind of further on Dave's comments, what we've said now for a number of years is that I think, one, we're very well financially disciplined as an organization, and we're very careful about where we're placing investments. And I think an indication of that is the increase in the operating margin that we're now guiding to.

And so, I think we're taking these times of performance and using that to invest in the business. And that's what we've been saying for the past few quarters, is that trust us, we're going to make the investments in the right places. We know that sales have been outpacing what we originally thought. And so, we are making the proper investments, as Dave said, in the business that continue to drive these levels of sales. I think we're demonstrating marketplace management, disciplined investment approach, and that's the way we're operating. And even with that increased investment, leveraging some of the increase in the gross margins to lift our profitability for the year. So we're doing it in a very strategic, thoughtful, disciplined way.

David Powers

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

A

Yeah. And the last thing I would add on that, as you guys know, we've worked hard to ensure that more of our SG&A is variable versus fixed. And so, we maintain a pretty agile, flexible model should we need to cut back on some of those things in the second half of the year.

John Kernan

Analyst, TD Cowen

Q

Got it. Thank you.

David Powers

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

A

Thanks, John.

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

Jonathan R. Komp

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

Q

Yeah. Hi. Good afternoon. Thank you. I want to ask about HOKA, just a follow-up. Could you maybe share a little more detail on the product shifts you mentioned and how that might impact the growth rates in Q3 and Q4? And then as we think about really the pipeline into next calendar year, just how are you thinking about staying ahead of the competition? Everyone seems to be chasing the maximalist cushioning trend. And any color on what you're hearing from your retail partners in terms of some of the order trends?

David Powers

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

A

Yeah. Great question. I'm glad you asked that. So to put a little bit of color on how we're thinking about the launches in the second half of the year, we're strategically pushing launches into the Q4 timeframe. That's when we really get into the beginning of the spring/summer season when running starts to kick in again. Traditionally, the holiday season is kind of less exciting, so to speak, still a lot of volume to do. But we want to make sure that we come out really powerfully at the beginning of spring next year in our Q4 timeframe. It also allows us to stay out of the fray of a promotional marketplace in Q3. So we're anticipating that, particularly in the athletic space where there's a lot of situations where it's over-inventoried with a lot of inventory in the channel and the slowdown of the marketplace, we feel we're better to stay above the fray, so to speak.

I don't want to launch two of our major, major innovation launches coming in Q4 in Q3 when there's a lot of markdowns and promotions going on. So, the teams have strategically decided to push those launches to Q4. I can tell you the innovation that's coming out in two of our launches are incredibly exciting. And then we'll address how the oversized trends are evolving for us, and we're taking that very seriously. We don't want to lose that dominant position in the category that we created. There is a lot of activity, obviously, from competitive brands going in that direction. Some good, some bad, but the bottom line is we're not as differentiated as we were three or four years ago with that type of profile.

But our technology, our focus on materials and geometry, product testing, new use of plates, different foams, different compounds, et cetera, continues to be at the forefront of everything we do. And – but we are addressing the fact people may want a little bit of low profile. They want different uses for their product. We think there's a tremendous opportunity in trail and hike. We're going to go heavy after that. We have a dominant position in that already. So, it's top of mind for the team. I think Stefano as the Interim President of the HOKA brand, with the brand leadership team, has done an exceptional job of fast tracking our innovation pipeline. And we're excited to unveil some of those new concepts coming up in Q4.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yes. And I think, Jon, just to add on that, is this aligns with the strategy that we've laid out. So, this is not a change. As we've said, the importance of controlling the marketplace – product in the marketplace, maintaining full price selling, continuing to build brand awareness aligns with our full-year outlook. And so, we're continuing operate on that. No change on that front. As you can see by Q2 performance, seeing still good growth with the HOKA brand and really impressed with what we continue to deliver. But we're going to be tight on marketplace management, and that's our strategy and that's what's paying off.

David Powers

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

A

Yeah. I think the theme here is really maintaining a healthy marketplace for the HOKA brand. And listen, HOKA is having an exceptional year. You saw the results in the first half of the year. On a promotion event or level, we were dominant at the UTMB event this year in Chamonix, France. Our athlete won the race, first American male winner ever in that contest. Two weeks later, our athlete won the IRONMAN championship in Nice, France. Actually, just today, it was announced by Footwear News that HOKA is the brand of the year. You're seeing the increases in awareness and acquisition from our consumers.

Our full price selling is exceptional. We're still dominant in the run specialty channel. We've got tons of momentum here and we want to make sure that it doesn't get ahead of us, and that we manage the marketplace effectively to continue to drive strength in DTC. And I think the strategy that the teams have laid out and the cadence of product introductions and innovation is spot on.

So, a lot of reasons to be excited. But at the same time, we're not naïve to the fact that this sector is having some challenges right now in Q3, as people are talking about the fact that it may be really tough. We haven't quite seen that just yet. But again, it's a sector economic issue that we're going to pay close attention to, but we want to maintain scarcity in the marketplace, full price sell-through and keep this brand moving in a healthy pace.

Jonathan R. Komp

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

Q

That's very, very helpful. Thank you. And Steve, if I can just ask one follow-up on the financial guidance for the year, if I look at sort of the implied second half performance, it looks like you're implying operating margins down, maybe close to a couple hundred basis points year-over-year and EPS kind of flat to down slightly. Just could you help us make sense of that after the first half [indiscernible] (00:39:42) obviously such strong year-over-year growth rates on both of those? Thank you.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah. I think – it's a good question, and yeah, as you're looking at second half, part of this is recognizing that part of Q2 was benefiting from earlier sales of planned sales that we had in the second half of the year, right? And so while we're raising our overall year, it's not the full beat of that – what we've experienced in Q2 because some of those sales at this point in time appear to be timing. We'll see how the marketplace plays out kind of in the back half. But combined that with some of the timing of back half sales moving into Q2, passing through what we think is a full-year lift, it is taking some of the sales out of the back half a little bit.

But with the overall improvement in the year, and as you know, Jon, I keep saying, we're focused on the year, not quarters, we are lifting our full year, we're lifting our full-year gross margin, we're lifting our full-year operating margin. So like Dave said, we're managing the business for the long run. We're not managing the business on a quarter-to-quarter basis. We look at the full year, that's how we're guiding the full year. And some of that outperformance in Q2 is allowing us to make these additional investments.

Jonathan R. Komp

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

Q

That makes sense. Thanks again.

David Powers

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

A

Thank you.

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

Paul Lejuez

Analyst, Citigroup Global Markets, Inc.

Q

Hey. Thanks, guys. Curious if you could talk about the HOKA DTC business, how that trended during the quarter, and if there's any comments you can make about quarter-to-date? And then also on the UGG side, you had some unmet demand last year. You mentioned you're in chase mode again on some UGG styles. And I'm curious about your ability to chase and what are your assumptions for the second half on being able to fulfill that demand?

Thanks.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Okay, Paul. Some of that was a little [ph] harder (00:41:45) – I'm going to – I'll take my best shot. So, this is Steve. So on the HOKA DTC business, strong, very strong Q2, up 46%. And we look at that factor as the real true demand signal. We know there are going to be fluctuations with wholesale orders of when they flow. And so, we closely watch the DTC performance. And having that up 46% in Q2 is just another strong demonstration of how well HOKA is resonating with consumers. So, very encouraged by that.

I think as we've said, and as Dave just articulated, kind of how we're thinking about Q3 and back half, managing the marketplace, we don't want to get into a promotional environment. We know there is a lot of competition out there that's over inventory. We're seeing a lot of promotion. HOKA is not in that space. We're not having to promote like other brands are. And so, how we continue to build this brand forward and then build toward a bigger fourth quarter type increase on percentage terms as we have those new style intros planned for Q4.

And then your other – or second part question was chasing. Do you want to go, Dave?

David Powers

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

A

Yeah. I'll talk about that one. So I think one thing, I think, is important to clarify is if you go back three or four years and you look at the UGG brand and what drove the business, it was really one or two styles. It was all basically Classic, Short, Mini. And outside of Classic, we had varying degrees of success with other styles. If you go back seven, eight years, it was the Bailey Bow and Bailey Button. But we were more, quite honestly, about one-trick pony in those days.

The way the brand has evolved the assortment is we have now five to six top-selling franchises. If you look at the Tasman, the [ph] Tas platform (00:43:34), the Ultra Mini, the Ultra Mini platform, some of the styles like the Classic Dipper, there's a lot more assortment and variation in styles and heights and platforms, et cetera, to choose from. And the good news is that they're all resonating very well. And we have good early reads on things like UGG weather styles, the Neumel Weather and the Classic Weather program. And at the same time, the team has edited the line by about 30% versus prior year. So, you have inventory that we can put – traditionally went into lower selling styles. We put that inventory into the top 5 to 10 styles this year. With Anne's help on in getting

the teams focused and putting more emphasis behind these key styles from a marketing perspective, we've also been able to put more depth in those styles and inventory.

Now a couple of them, we are selling faster than expected due to the earlier demand, but the teams have reacted quickly. We have the ability to chase some inventory, not a ton, but I think going into the back end of December, we'll be in good shape on some of these key styles. So, we feel like we have the inventory to do what we need to do. It's not a bad thing to leave a little bit of demand on the table, if that's the case. And at the same time, we have a very exciting launch with [ph] UGG Weather Extreme (00:44:56) – the UGGextreme collection coming in, which is a new category of focus for us going forward. So I think we're in pretty good shape. We have the inventory and the right styles, which we didn't last year. And I think the teams have done a great job of adjusting and cleaning up the assortment, putting more power across the 5 to 10 styles that are really driving the growth.

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

A

Yeah. And I think, Paul, just to add to that, one of the things with the strength that we've seen in Q2 on some of the styles that have been very popular and were selling down the inventory, we are looking to expedite some of that back in, but there's a limit, right? And we won't necessarily be able to chase every sale nor would we want to chase every sale.

So we'll see how things play out, but we're set up very well. It is the driver of our full year increase so we're very encouraged going into the back half of the year.

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

A

Yeah.

Paul Lejuez*Analyst, Citigroup Global Markets, Inc.*

Q

Thanks, guys. Good luck.

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

A

Thank you.

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

Samuel Poser*Analyst, Williams Trading LLC*

Q

Thank you for taking my question, guys. First of all, Erinn, you've got most of it, but Teva, Sanuk, and other are my normal question. And then I have a whole bunch of questions.

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

A

Hi, Sam. Sure, I'll start off with that. So for the second quarter, for global wholesale and distributor, as you noted, some of this, I think, you can pull out of what we said. But for UGG, \$452 million; HOKA, \$263 million; Teva, \$12 million; Sanuk, \$3.3 million; and that leaves you with other at just about \$30 million.

Samuel Poser

Analyst, Williams Trading LLC

Q

Okay. All right. So let's get this out of the way. With Sanuk that you're going to – are you going to take that as a discontinued operation going through the balance of the year or how should we think about that in guidance and so on?

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah, Sam. So, no, we're not looking to break that to discontinued operations. So we'll continue to report it as we seek to find a buyer. So that's the current plan.

David Powers

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

A

Yeah, yeah.

Samuel Poser

Analyst, Williams Trading LLC

Q

Okay. And then with the way this is flowing in the back half, was there a lot of pull forward in the UGG Wholesale business? I mean, should we expect UGG Wholesale, especially in the third quarter to be down given how much came in in Q2?

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah. So again, depending on your model because we haven't guided the quarter. So – but yes, what we're basically saying is there is a portion of wholesale orders that occurred in Q2 that you may have planned for in Q3 and that is what's leading to the increase in the UGG performance. So again, we haven't given quarterly guidance. I don't know exactly how you had it broken out but yes, I think safe to say that some of the increase in UGG that we've seen in Q2 is wholesale orders that were moved forward into Q2.

David Powers

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

A

Yeah. And I think what is still to be determined is how much of the upside and we captured in Q2 was just earlier demand or brand heat that will continue through Q3. And so either way, I think we're positioned well, depending on how the market moves but at this point, the demand seems strong and healthy, and we think it should continue. But as we said, we're heading into an unknown macro environment that hard to say what it's going to look like. But we're optimistic that some of that demand was brand heat that will continue through Q3.

Samuel Poser

Analyst, Williams Trading LLC

Q

So – and then, okay. And then on HOKA, the same kind of question. Given that you're moving a big launch away or moving launches out, does that mean that the Wholesale business in Q3 would look more like Q2? And then from a – maybe as a percentage, but then accelerate into Q4? And then – but there's no real reason for DTC. It appears to slow down very much. I mean, that's good momentum on – you've launched a lot of new products in the last few weeks, I've noticed.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah. So Sam, it's a good question and there's kind of different ways to look at it. So I think as I said and Dave has said, we haven't changed the way we're looking at HOKA for the year. So I think kind of that's most important.

Remember, the underlying fundamentals of that is a very controlled wholesale marketplace, right? And so as we think about Q3, as Dave talked about, we are controlling wholesale in that Q3 period because we want the market to be seen as we're launching some new product in Q4. So I think that's an important underlying.

The other then is, remember, we had very large DTC comps a year ago. So when you're looking at some of those, our DTC comps last year Q3 was 107%. I think Q4 was like 97%. So we're coming off of very big growth quarters a year ago. So that's the other thing to consider, right, as we're talking about this. So there's growth.

Then the other thing, I think, to take into account is what we've said about full year growth. So as we've said, full year growth, our first half has exceeded that average full year growth guide number, which means, by definition, the second half is going to be a little bit lower because we're controlling again that wholesale component of the marketplace. This is part of our strategy.

Now, as we talk and some of our partners have discussed, there will be some wholesale expansion at the end of our Q4, right? So that won't necessarily get captured in our back half but this is set up for next year. So again, everything is playing out like we've said. The brand continues to perform very well and I think there are some dynamics that are in there that are important to understand but most importantly is the brand continues to perform very well.

David Powers

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

A

Yeah. And the last thing I would add to that is, last year, we were opening new doors in Q3. So there was some door expansion and so the setup quantities led to some of the growth in those doors. This year, we're still maintaining a net neutral through Q3 on door growth. So comping that door growth last year could have a little bit of an impact on the wholesale performance, too.

Samuel Poser

Analyst, Williams Trading LLC

Q

Got you. And then lastly, Dave, you've been now how long at Deckers?

David Powers

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

A

A little over 11 years. Is that a long relationship, Sam? What's that?

Samuel Poser

Analyst, Williams Trading LLC

Q

Does that make you the elder statesman?

David Powers

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

A

No.

Samuel Poser

Analyst, Williams Trading LLC

Q

So, you were in charge of that collaboration?

David Powers

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

A

No, I was excited to see it, but I don't want to take credit for that. That was Anne and the team.

Samuel Poser

Analyst, Williams Trading LLC

Q

All right. Thanks very much. Have a continued success.

David Powers

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

A

Thanks, Sam.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

All right. Thanks, Sam.

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

Laurent Vasilescu

Analyst, Exane BNP Paribas

Q

Good afternoon. Thank you so much taking my question and congrats on such solid results. I wanted to ask about HOKA. Dave, I think you mentioned that HOKA International grew 44% in the quarter. If that's the case, maybe can you just give a little bit of color just what you saw by region? What's driving that growth? I think you mentioned a little bit about Europe but how do you see the growth between Wholesale and DTC? Was there a spread between that internationally?

And maybe, Steve, I don't know if you can maybe give us guardrails just how you're thinking about international HOKA growth for the year.

David Powers

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

A

Yeah. So we can validate that number. I don't know if it was exactly 44% but the bottom line is that we are very excited about the growth that we experienced internationally. That's been a focus of ours across all of our brands. The international teams are doing a tremendous job at creating brand heat in that marketplace and then also managing the marketplace effectively across DTC and Wholesale.

The real strength of the growth that we saw in Q2 was really DTC-led, particularly in Europe, exceptional results. Now, a smaller percent of our total business, but we think that speaks to the health of the brand and the demand for that consumer as we're investing in more marketing in the region. The events, we mentioned UTMB and the IRONMAN were held in Europe so there's a lot of buzz around the brand there.

And we're just getting better at managing that brand from a DTC perspective, investing in that team, and the capabilities over there. So really the growth is being driven primarily by the DTC channel. Wholesale is still strong but as we said, in the US, we're managing that tightly to create the excitement and the awareness, but still really ultimately drive the business to DTC, and that's a formula we're going to continue to lean on going forward.

What was the other question? It was the third question for Steve there.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

So Laurent, I think the number you quoted was total company international DTC growth.

Laurent Vasilescu

Analyst, Exane BNP Paribas

Q

Yeah.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

So we didn't provide the HOKA component. So the total 44%, I think, that you quoted was total company international DTC growth.

I think then just to your question on HOKA to me was a little bit about how do we see HOKA internationally expansion.

David Powers

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

A

For the year.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

I think what we see – the trends that we're seeing are similar to what we saw in North America probably a year or two ago, right? So how we're seeing HOKA show up in the run community and then beyond the run community is similar but further behind. And so this bigger expansion or faster growth in percentage terms is another indication that that seems to be the case, that we're seeing the HOKA brand resonate with consumers kind of starts with runners, run community, and begins to build out as awareness grows, very similar trend to what we've seen in North America.

So in that international arena, we're a little bit behind where we were, still very early innings for both domestic and international, but a little bit earlier on internationally. And that's why we're seeing those growth percentages high total company, but you can extrapolate that to the HOKA brand as well.

David Powers

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

A

Yeah. And the new store we opened in Covent Garden in London is off to a great start, and we're seeing that formula play out, which is a mix of performance and everyday runners and lifestyle driving the results there. A lot of tourists experiencing the brand for the first time in our stores, our own stores. And our partner stores in China continue to perform well also.

Laurent Vasilescu

Analyst, Exane BNP Paribas

Q

That's great to hear. Thank you for that. And then, Dave, I think last quarter, during the Q&A, you alluded to the launch of a new brand that might be small, but maybe just can you give us an update on where that stands? And with the potential divestiture of Sanuk, does that give you capacity bandwidth, time, resources to potentially pursue M&A at the same time as launching a new brand?

David Powers

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

A

Yeah. They're really two separate events. It's not that Sanuk was holding us back from building and launching a new brand. So we look at these separately as just fine-tuning our model.

Just to speak to the Sanuk decision for a second, I'm really proud of how the teams have managed this brand over the last few years from a marketplace management standpoint. And the product right now is very, very strong but what we realized is that the journey to scale that brand so that it's meaningful in our portfolio is just too long. There's other things that we think we can invest in and we think that this is a brand that consumers love. It deserves a good home and somebody who can – is a priority for them versus a fourth or fifth brand in our portfolio. So it's a tough decision emotionally and financially but I think it's the best thing for the company and the brand to do this.

With regards to the new brand we're working on, I don't want to give away too much to our competition, but we're excited. We're going to be taking the best of HOKA and UGG and all the learnings we have from those two brands and creating what we're calling a super sneaker brand across various categories. We have the distribution channels. We have the DTC network. We have a lot of leverage in the marketplace and some really innovative, exciting product. It will be a long haul, but we think this is a space that is emerging and that we want to make sure that we have some skin in the sneaker game going forward beyond HOKA.

And then as far as M&A goes, listen, we have enough organic growth here in our portfolio for the next foreseeable future in years. We're always keeping our eyes on it. We've looked at a lot of opportunities and with regards to what it would do for our company financially and workload and disruption, nothing has come across our desk that we're excited about yet. But it's always top of mind for us, and we're continuing to look. But we think, listen, we have Teva that has opportunity down the road, and we think we can create a new brand and launch that and see if we can make some exciting inroads with both those brands while we focus our real efforts and attention on UGG and HOKA.

Laurent Vasilescu

Analyst, Exane BNP Paribas

Q

Very helpful. Thank you very much for taking the questions.

David Powers

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

A

Thank you.

Operator: Our last question today comes from Janine Stichter from BTIG. Please go ahead.

Janine Stichter

Analyst, BTIG LLC



Hi. Congrats on a great quarter and thanks for fitting me in. Question on HOKA, wanted to hear more about what you're seeing at some of the more recent doors that you've been in over the last few years, Foot Locker, DICK'S, I think. You've recently tested JD. Just curious what the sell-throughs look like there and if you have any thoughts on the type of consumer you're getting, if it's helping you kind of broaden the aperture of the consumer you reach with HOKA.

And then on UGG, would just love to hear a bit more about international. I think you talked quite a bit about international strength at HOKA, but would just love to hear more about what you're seeing there with UGG and if the momentum is similar versus what you're seeing in the US. Thank you.

David Powers

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



Yeah, good questions. So HOKA door performance, new doors that we have opened up are performing very, very well. Was talking to Stefano who's overseeing that brand right now. The new doors that we've opened over the last year in new accounts, all performing very well, high level of full price sales, strong turns, stealing market share, run specialty stores. We have a number one position there that we're fighting every day to maintain and we want to build out in that position. But new doors in Foot Locker and DICK'S and JD, et cetera, they want more so that's a good sign. And the way that we're performing those doors is right in line with what we would have hoped would happen. And we're managing it tightly as we have been doing so that we maintain full price selling and healthy turns and gross margins for our partners.

It's a good question on the type of consumer. Foot Locker, as an example, was a strategic play not just from a volume play, but also strategic to reach a younger lifestyle consumer, both male and female, and we're seeing that happen. I think some of the success in Q2 was probably back-to-school business that we hadn't really realized before. And with our focus on 18- to 34-year-old consumers and college athletes, we're seeing that pay off.

And so it's exciting to see high school athletes and college athletes and beyond gravitating to our brand, going to those doors, looking for the brand, making the choice of HOKA over traditional Nike Dunk or Air Force 1. That's super exciting. We're going to keep a close eye on that because we don't want that to be a big spike and then go away. So we need to manage that tightly and the lifestyle teams are all over that and working with our accounts to make sure that it's a healthy business for the long-term.

And then on UGG International, similar to what Steve was saying in HOKA. UGG is in international, particularly in Europe, is at the point where UGG was a couple years ago really healthy strong growth. They've been working hard on local marketing activations and leveraging PR in the region and the new product is resonating extremely well across the board, but particularly with younger consumers there. And it's really exciting to see and we haven't been in this position in Europe in quite some time, but the momentum is real. The brand heat is improving. The level of acquisition and consideration for our consumers are all heading in the right direction.

So we think this is an opportunity to build on this, particularly in the UK and Germany, our two biggest markets. And we're going to continue to play this playbook out and get more aggressive with marketing activations in the region.

Janine Stichter

Analyst, BTIG LLC



Great. Thanks so much and best of luck.

David Powers

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



Thank you.

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

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