01-Feb-2024

Deckers Outdoor Corp. (DECK)

Q3 2024 Earnings Call

CORPORATE PARTICIPANTS

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

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

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

Stefano Caroti
Chief Commercial Officer, Deckers Outdoor Corp.

OTHER PARTICIPANTS

Tom Nikic
Analyst, Wedbush Securities, Inc.

Laurent Vasilescu
Analyst, Exane BNP Paribas

Jay Sole
Analyst, UBS Securities LLC

Janine Stichter
Analyst, BTIG LLC

Sam Poser
Analyst, Williams Trading LLC

Jonathan R. Komp
Analyst, Robert W. Baird & Co., Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and thank you for standing by. Welcome to the Deckers Brands Third 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. Instructions will be provided at the time for you to queue up for questions. [Operator Instructions] I would like to remind everyone that this conference call is being recorded.

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

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

Hello, and thank you, everyone, for joining us today. On the call is Dave Powers, President and Chief Executive Officer; Steve Fasching, Chief Financial Officer; and Stefano Caroti, Chief Commercial 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; anticipated impacts from our brand and marketplace management strategies; changes in consumer behavior; strength of our brands; demand for our products; product and channel distribution strategies, including direct-to-consumer; 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; the impacts of the macroeconomic environment on our operations and performance, including fluctuations in foreign currency exchange rates; and our ability to achieve our financial outlook.

Forward-looking statements made on today's call also include the expected timing and impact of the company's announced leadership transition and the future composition of the board of directors. 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 today's call. Before we discuss our third quarter results, I'd like to speak to the leadership announcement we made today. After 11 years at Deckers, I've decided to retire as President and Chief Executive Officer effective August 1st. I will continue to serve as a Member of the company's Board of Directors. On a personal note, after 30 years in this industry, I'm looking forward to spending more time with my family, pursuing my other life passions, and exploring more ways in which I can make a positive impact on the world.

Serving as CEO of Deckers has been a great honor and it's a privilege to work with some of the best talent this industry has to offer. I'm incredibly proud of our accomplishments and our unique culture built on doing good and doing great. Deckers continues to demonstrate exceptional performance and we have a strong foundation from which to continue driving results, a deep bench of talent and innovative products that are resonating with consumers globally. I believe it's a good time for us to make this transition.

We're all thrilled that the board has selected Stefano Caroti, our Chief Commercial Officer, as Deckers' next President and CEO, following a thorough succession planning process. Many of you know him already, but for those of you who don't, Stefano has an extensive industry experience, and he has seamlessly led our omni-channel, regional, and HOKA brand operations during some of Deckers' most pivotal years.

He is passionate about Deckers and its values, and he has been a key member of the executive team, helping to craft and progress our consumer-focused marketplace strategy and our inclusive and engaged culture. I know

Deckers will be in excellent hands with Stefano at the helm. Over the next six months, Stefano and I will continue to execute on Deckers' proven strategy. We're invigorated about this next phase of our work together and for Deckers' bright future.

Now, let's turn our attention to our Q3 performance. I'm glad to be here today discussing another record-breaking quarter for Deckers Brands as our two leading brands continued bucking industry trends to deliver high-quality growth via full-price consumer demand. Key highlights of our record-breaking third quarter results include: total company revenue increasing 16% to $1.56 billion; DTC revenue increasing 23%, representing a quarterly record, 55% of total company revenue; total UGG revenue increasing 15% to achieve its first-ever $1 billion quarter; total HOKA revenue increasing 22% to $429 million; total company gross margins increasing over 500 basis points to an all-time quarterly high of 58.7%; and diluted earnings per share increasing 44% to $15.11.

We believe the success of our brands and company as a whole continues to be the direct result of: innovative product that is on trend and resonates with consumers across the globe; decision making that is guided by our long-term strategic objectives; alignment between product creation, marketing, and omni-channel distribution that centers around the consumer; and the strong execution of our teams to deliver in real-time, while remaining focused on the longer-term vision of our marquee brands.

We are thrilled by the success of this quarter, but I feel it's important to reflect on how these results represent a continuation of strong year-to-date performance as well as many years of careful strategic execution. Our brands are thinking long-term, and while we are happy to produce great quarterly results, we are even more pleased to see the consistency of performance. With the first three quarters of this fiscal year behind us, we believe we are on track to deliver mid-teens revenue growth, which would be the fourth consecutive year of revenue growth in the mid-teens or higher.

Highlights from the first nine months include: global HOKA revenue growing 25% versus last year, led by a near 50% increase in DTC; global UGG revenue increasing 16% versus last year, led by international regions growing close to 30% and global DTC increasing more than 20%; and total portfolio DTC revenue increasing 28%, with robust growth in both consumer acquisition and retention. I'm extremely proud of the collaboration across the Deckers organization to deliver these exceptional results through the first nine months of fiscal year 2024.

We are creating remarkably distinct, relevant, and breakthrough product concepts that are deeply rooted in consumer insights and brand DNA. This is distinguishing our brands from the competition. Our strategic execution of brand and marketplace management, combined with our financial discipline, preserves Deckers' position of strength as we focus on closing out fiscal year 2024 and plan for the significant opportunity in the years ahead.

Steve will provide additional color on this quarter's financial performance and our related increased outlook for the full fiscal year, but in the meantime, let's dive into third quarter brand and channel highlights. Starting with UGG. Global UGG revenue for the third quarter was $1.07 billion, representing a 15% increase versus the prior year. Revenue growth was primarily driven by global DTC, which increased 20% in the quarter to represent 62% of total brand revenue up from 60% last year, aided by international and domestic consumer acquisition increasing 14% and 8%, respectively, and retained consumers increasing 26% and 8% across international and domestic regions, respectively.

In addition to driving a significant increase to gross margin, the outsized growth from DTC helped deliver a double-digit increase in the brands consolidated global average selling price. As in general, DTC selling results in a much higher ASP and a favorable gross margin relative to the wholesale channel, UGG commended extraordinarily high levels of full-price selling and the brand benefited from select price increases on a few of its most popular styles. The cohesion of product, marketing and consumer targeting, in addition to a reduced SKU count, drove focused energy behind key styles, which has greatly contributed to the success UGG is experiencing this year.

Recognizing that there was unmet consumer demand last year and capitalizing on the continued brand momentum driven by that scarcity, the UGG team invested in additional inventory to support its most popular product. Helping fuel brand heat and further the conversation with target consumers during the third quarter, UGG spearheaded meaningful collaborations, most notably with Palace Skateboards, selling out in minutes across key cities like New York, Los Angeles, London, and Tokyo; hosted pinnacle brand experience feel houses in New York, Paris and Seoul; and launched a first-of-its-kind UGGextreme Capsule that features fashionable performance products capable of handling winter's most brutal conditions.

These top-of-the-funnel brand activations, combined with community building and social listening across digital platforms, help UGG create positive brand buzz and increase opportunities for consumer connections that offer feedback in real time. This year's coordination between DTC operations and product marketing on social channels elevated the launches of new styles or colors, and brought greater traffic and attention to the brand when hot products were being restocked.

From a regional standpoint, UGG has maintained high levels of brand heat and demand, almost universally across the globe, to deliver strong year-to-date growth across the US, Europe, and Asia. Helping bolster UGG performance in the third quarter, the brand opened a couple of exciting new stores in key markets, including a Shanghai flagship, which offers one of the most contemporary visual expressions of UGG anywhere in the world, and the brand's first full-price location in Germany with a new Munich store.

Both stores are performing extremely well. In Shanghai, we are seeing average transaction values that are approximately 20% above the average UGG store in China, as well as the conversion rate more than double that of the average. Though early days, the Munich store is experiencing ATVs that are 25% higher than the average European UGG store, with conversion rate well above that of the average UGG store in Germany.

Similar to what we often see in markets where a new store is opened, Germany's online business for UGG benefited from this additional consumer touchpoint, posting both the highest online growth rate and highest conversion rate of any European country in the third quarter for the brand. We are pleased to see these new consumer touchpoints are helping produce positive results in key international markets, where we continue to see long-term opportunities for the UGG brand.

The success UGG is now experiencing among international regions is a direct result of our thoughtful multiyear marketplace management implementation that fostered the alignment of product creation, localized marketing content, and brand-enhancing distribution partners. With the momentum and brand heat UGG has created among international markets, we are even more excited about the global opportunities ahead.

From a style perspective, UGG experienced growth and success with key franchises like the Tasman, Ultra Mini and Classic Mini, including the fashion-oriented platform versions of each, as well as new introductions that include the Weather Hybrid Collection, Goldenstar Clog, and the Lowmel Sneaker. The Weather Hybrid Collection was positioned as a modern weatherized update to a few of the UGG brand's most popular styles, including the Tasman, Neumel, and Classic Boot. Our PR teams partnered with influential NBA star, Jaylen Brown, to highlight the launch, which helped its all-gender collection drive strong sell-through among all consumers.

The Goldenstar Clog was somewhat of a surprise hit during the holiday season as it was created to bolster the shoulder seasons outside of winter, complementing the rising Goldenstar Sandal. The Lowmel, which we see as the first unmistakably UGG sneaker, represented a continuation of our hybrid strategy to redefine categories through UGG DNA. We believe Tasman's adoption of the sneaker versus previously being purchased primarily as an indoor slipper has given UGG permission to play in the sneaker category, in which the Lowmel performed extremely well, selling out quickly across the globe. Both the Goldenstar Clog and Lowmel have been positioned for expansion into the spring and next fall as the UGG brand continues to build connections with consumers through a cohesive year-round product assortment.

Through the first nine months of this fiscal year, UGG has delivered undeniably impressive results. The brand has driven exceptional growth in focus areas, including international regions and global DTC, and has done so by acquiring and retaining target consumers with full-price products. I'd like to congratulate and thank the entire UGG team for their hard work and collaboration that enabled the brand's success in the third quarter and fiscal year-to-date.

Shifting to HOKA. Global HOKA revenue in the third quarter was $429 million, representing a 22% increase versus the prior year. HOKA has continued to deliver consistent year-over-year growth and volume each quarter this year, reflecting the brand's balanced seasonality and year-round demand. Similar to what HOKA experienced in the first half, third quarter growth was primarily driven by gains in the DTC channel, as intended, with HOKA diligently managing the wholesale marketplace to drive market share gains with high levels of full-price sell-through.

More specifically on DTC performance, HOKA revenue in the channel increased 38% in Q3, representing over 40% of total brand revenue, which is 5 percentage points higher than last year. DTC growth has been driven by significant increases in consumer acquisition, with international and domestic experience growth of 50% and 27%, respectively, and important gains in retained consumers, which increased 55% internationally and 33% in the US.

The HOKA brand's DTC business has been strong in every single region this year, but has been particularly powerful in Europe and China, two regions where we have been emphasizing growth in the channel as brand awareness grows. Both regions have benefited from a greater retail presence. In Europe, HOKA opened its first retail location in Covent Garden, London during the third quarter, which is performing exceptionally well, and the brand has a location plan to open in Paris in time for the Olympics.

In China, HOKA has added four new company-owned locations throughout this year, in which the consumer experience has continued to improve, particularly with a greater focus on key stories and a new capsule collection of apparel that rounded our compelling in-store product assortment. Complementing the added stores in China, we continue to see our premiumization efforts online paying off, as HOKA has achieved high levels of full-price sell-through online, which is a channel that China generally uses for promotion activity.

One example of this during the third quarter was China's annual Double 11 event, better known as Singles' Day, which is a countrywide event that features widespread discounts across brands and product categories, known for driving significant consumer traffic online. This year, HOKA benefited from the online traffic despite low levels of promotion and maintained strong full-price selling, particularly in comparison to competitive brands.

We are very encouraged by the increasing adoption of HOKA across international markets, particularly in the DTC channel, where we have been focusing our growth efforts while managing the wholesale environment to maintain high levels of full-price sell-through. We believe HOKA is still in the early stages of expansion internationally, as we continue to build brand awareness in key markets to establish HOKA as a major worldwide player in the performance space.

Over in the US, where we also see a significant opportunity for growth, I want to take a moment to highlight an amazing event that HOKA had a huge impact on during the third quarter. HOKA was a presenting sponsor of the 44th Annual Foot Locker Cross Country National Championships, outfitting thousands of elite high school athletes with complementary footwear and apparel. This event was the center of the [ph] US Running World and Media (00:17:54) for three days, driving significant impressions and some of the highest brand engagement we have ever seen for HOKA.

On the product front, HOKA continues to develop and refine a compelling assortment of performance products that enable athletes of all kinds to achieve their goals. This morning, HOKA announced the introduction of the all-new Cielo X1 that sits atop the brand's assortment as the ultimate race day shoe for the most discerning athletes. The Cielo X1 was designed with insights and feedback from the HOKA brands roster of elite athletes, incorporating the most advanced geometry, foam compounds, and plate technologies to enable record-setting results.

Before it was even commercially available, the Cielo X1 has already made its podium debut as HOKA NAZ Elite member, Kellyn Taylor, won the Rock 'n' Roll San Jose Half Marathon wearing the Cielo X1, qualifying her for the 2024 Olympics Marathon Trials for Team USA. Beyond the brand's pinnacle performance product, HOKA is also experiencing success with exciting lifestyle-oriented products. These products feature the same quality and comfort expected from a performance HOKA shoe, while packaged in an everyday wear aesthetic for more versatile wearing occasions. The HOKA Transport has become the brand's go-to casual shoe, now sitting within the brand's top-10 bestsellers.

The HOKA brand's captivating collaborations are also furthering its resonance with the lifestyle consumer. They are designed to reach a new audience by partnering with logical, yet unexpected brands. Most recently, HOKA partnered with SATISFY Running, a French running apparel brand to co-create an exciting new take on the Clifton LS, which sold out almost instantly. Highlighting the partnership's theme of highs and lows, SATISFY created a one-of-a-kind community experience that brought together the skateboard, trail, and running communities to join in a sprint down the steep hills of San Francisco.

As we continue building HOKA for the long-term, our focus is to remain a top brand in road running, expanding with innovative performance footwear, become a dominant off-road player with disruptive trail and hike products, and bring the HOKA experience to the lifestyle consumer, while keeping the brand rooted in performance. While we are at different stages of this journey across domestic and international markets, we see significant global opportunities ahead with this powerful brand. We are proud of the consistent momentum HOKA is achieving around the world, our efforts to build brand awareness and drive high full-price sell-through continue to bear fruit and have set the stage for a strong finish to the year with another record quarter.

Now, moving to our discussion of consolidated channel performance. During the third quarter, performance remained strong across both DTC and wholesale. However, in line with our strategic objectives, DTC remained the fastest-growing channel, increasing 23% versus last year to represent a record 55% of the quarter's revenue, up from 52% in the prior year. DTC's success continues to be broad-based across brands with HOKA and UGG DTC increasing 38% and 20%, respectively; regions with international and domestic DTC increasing 40% and 16%, respectively; and consumers with acquired and retained increasing 13% and 16%, respectively, across all brands.

In addition, as discussed, we are also experiencing strong engagement with our brands, both online and in-store, reflecting the quality of our omni-channel operations and ability to provide a consistent consumer experience. Furthering the success of DTC, we continue to see a double-digit increase in the average selling price through the third quarter, driven by a greater mix of HOKA, which carries the highest ASP in the portfolio, higher UGG full-price selling, including benefits from select price increases, and favorable foreign currency exchange rates.

With respect to consolidated wholesale performance, third quarter revenue increased 9% versus last year, with domestic HOKA and UGG contributing the majority of the incremental dollar volume. We are very pleased with this strong wholesale result, especially considering the tight marketplace management we have been focused on executing during this fiscal year. As a result of these efforts, our brands drove high levels of full-price sell-through, entering calendar 2024 with lean channel inventories that have created opportunities for market share gains going forward.

Thanks, everyone. And now, I'll hand the call over to Steve to provide more specifics on third quarter performance and an update to our fiscal year 2024 guidance.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

Thanks, Dave, and good afternoon, everyone. Our third quarter performance exceeded expectations and demonstrated the continued strength of our brands. As Dave mentioned, UGG delivered strong growth in the quarter as exceptional brand heat continued to capture consumers globally and we were able to meet incremental demand through our DTC channel in the quarter with expedited shipments of the brand's most popular styles.

HOKA drove another quarter of solid growth, led by the DTC channel, as we continued to diligently manage the wholesale marketplace, all while driving high levels of full-price sell-through. These results are a testament to the exceptional demand for our brands, as our compelling and innovative product offerings continued to resonate with consumers globally during the holiday season and well beyond, helping drive phenomenal performance. Our disciplined operating approach and robust financial profile have continued to enable our brands and company to execute a strategy that delivers strong results while keeping us positioned to achieve our commitment to driving success over the long term.

Now, let's get to the specifics of the third quarter financial performance. Third quarter fiscal 2024 revenue was $1.56 billion, representing an increase of 16% versus prior year. On a constant currency basis, revenue grew 15% versus last year. Growth in the quarter was primarily driven by broad-based UGG growth across regions and channels, delivering $1.07 billion of revenue with global DTC increasing 20% as brand heat remains robust with all DTC regions exhibiting a double-digit percentage growth in the period and continued strong demand across the HOKA ecosystem of access points with particular strength in the DTC channel, which increased 38% versus last year, contributing to the brand's total revenue of $429 million in the quarter.

Notably, HOKA's DTC performance for the quarter was aided by global increases in consumer acquisition, which was up 31% versus last year and consumer retention, which was up 35% versus last year.

Additionally, I would note that this quarter's revenue growth was aided by a higher percentage of full-price selling as well as the UGG brand select price increases, both of which contributed to dollar growth outpacing unit growth. While we will always manage our brands with the intent to deliver high levels of full price selling, the level we experienced this year, particularly for UGG in its peak season is one we don't expect will always repeat. This dynamic, combined with a larger-than-expected impact from price increases due to the strength of performance from affected styles, is part of the catalyst for our increased full year expectations for UGG growth.

Gross margins for the quarter was 58.7%, which was up 580 basis points from last year's 53%. As compared to last year, gross margin in the quarter benefited from higher mix of UGG full price selling, freight savings, select pricing action and favorable brand and product mix, favorable channel mix with DTC continuing to grow faster than wholesale, and favorable foreign currency exchange rates.

While we are exceptionally proud of these remarkable results, we remain mindful that the outsized margin expansion seen this quarter is above normalized levels and it's not something we anticipate will repeat to the same degree. While we do see opportunities to continue to deliver top-tier profitability through our key strategies, items that we anticipate may not repeat in a normalized environment include the extremely low levels of promotional activity achieved for our two major brands, considerable benefits from UGG pricing actions and very low freight costs that are now on the rise as well as other potential macroeconomic factors such as foreign currency exchange rate fluctuations.

SG&A dollar spend in the third quarter was $429 million, up 23% versus last year's $350 million. As a percent of revenue, SG&A was 150 basis points higher than last year, primarily due to investment in talent to support key functions within our growing organization and higher marketing spend.

Our tax rate was 21.9%, which is lower than last year's 23.7%. These results, combined with favorable interest income relative to last year and a lower share count drove record diluted earnings per share of $15.11 which compares to last year's $10.48 diluted earnings per share, representing EPS growth of 44%.

Turning to our balance sheet. At December 31, 2023, we ended this fiscal third quarter with $1.65 billion of cash and equivalents. Inventory was $539 million, down 25% versus the same point in time last year and during the period, we had no outstanding borrowings.

On inventory specifically, I'd note that with the strong levels of selling that we have seen this year, we are now below normal operating levels for the current size of our organization. And heading into next year, we expect to see incremental inventory investment to keep up with growth.

Today's inventory position reflects the upside that has already been captured in the quarter just completed, which could have a small impact on sales in the fourth quarter. During the third quarter, we repurchased approximately $100 million worth of shares at an average price of $507.95. As of December 31, 2023, the company had approximately $1.05 billion remaining authorized for share repurchase.

Now moving into our updated guidance for fiscal year 2024. Based on the strong demand experienced in the third quarter, we are increasing our full-year revenue guidance to be approximately $4.15 billion, up from our previous guidance of approximately $4.025 billion. This increase now equates to full-year growth expectations of approximately 14% versus last year.

From a brand perspective, we now expect UGG revenue growth of low double-digits up from our prior expectation of mid single-digits. This full-year increase is the result of the strong DTC demand that we experienced and fulfilled in the third quarter.

Full-year HOKA revenue growth of approximately 25%, with strong third quarter sell-through driving wholesale refill upside in the fourth quarter, reflecting our disciplined marketplace management. In addition to our fiscal year 2024 updated revenue outlook, gross margin is now expected to be approximately 54.5%, as UGG experienced high levels of full price selling, including key styles contributing incremental margin from price increases as brand heat continued to drive strong demand.

SG&A as a percentage of sales is now expected to be approximately 34.5% as we have identified areas to accelerate spend in Q4 with revenue growth exceeding expectations for fiscal year 2024. We believe this additional spend, part of which represents top-of-funnel marketing opportunities, gives our brands the opportunity to defend their current positions of strength, setting the foundation for the future.

Additionally, I would note that some of the third and fourth quarter spending timing dynamics relate to unrealized FX gains recorded in Q3 that we expect will be offset in Q4 as rates have recently moved in the opposite direction. With these updates, we are increasing our operating margin for the year and now expect it to be approximately 20%, reflecting the improvement in gross margin experienced. Our effective tax rate is now projected to be approximately 22%.

And finally, with these updates, we are increasing our diluted earnings per share expectations to now be in the range of $26.25 to $26.50. 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, supply chain disruptions and fluctuations in foreign currency exchange rate. This guidance update represents a $3.25 increase on the prior top end of our diluted earnings per share guidance range.

Based on the success that we've seen this year with strong sell-through and high levels of full price selling, there are a few business dynamics related to the fourth quarter that we would like to highlight, including US wholesale shipments that went out at the tail end of the third quarter of this year that have historically occurred in the fourth quarter, meaningful revenue from UGG closeouts last year that will not repeat this year, and low levels of inventory on key styles that have been driving the business this fiscal year.

We, of course, still expect to deliver a strong fourth quarter that is now projected to round out Decker's fourth consecutive year of at least mid-teens top line revenue growth, while also consistently delivering exceptional high levels of operating profitability.

We would note that some of the benefit to our operating profitability we're seeing are outsized and may not repeat in future years. But we remain dedicated to delivering operating profitability in the top tier among our peer group even as we continue to invest in our organization to enable future growth.

As we've said in the past, if revenue growth comes faster than our ability to keep pace with investments, some of the related profit expansion may flow through to the bottom line near term. However, we continue to recognize the importance of funding our strategic initiatives moving into next year and maintain the focus on the long-term vision for our brands. We will continue to be disciplined in our approach as we enter our final fiscal quarter and begin planning for next fiscal year.

Our largest brands are two of the healthiest and most in demand in our industry. With a robust balance sheet and our diligent operating approach, we are well positioned to drive future success and look forward to providing more details on our year-end call. Thanks, everyone.

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

David Powers

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

Thanks, Steve. We are extremely proud of our brand's year-to-date performance, which have produced record revenue and earnings results. As we look beyond fiscal year 2024, I believe we have an incredibly strong innovation pipeline for the UGG and HOKA brands, giving us further confidence in our ability to build upon this year's exceptional growth.

Thinking into the next few years, we believe HOKA remains our primary growth vehicle with considerable opportunity for both region and category expansion as awareness of the brand's innovative performance product increases further, and continue to position UGG for growth through the development of category hybrids that celebrate heritage brand codes to resonate with target consumers across global markets.

Decker's strategic focus on marketplace management, omnichannel strategy and flexible operating model continues to be the driving force behind our sustained success. We remain focused on executing against our long-term objectives while continuing to deliver high levels of profitability and driving shareholder value.

Additionally, I'd like to recognize and thank all of our employees across the organization for their consistent and dedicated focus to driving results aligned with our long-term strategic vision. Our employees continue to go above and beyond while upholding Decker's values.

Before we turn to Q&A, I want to give Stefano a moment to say a few words. Stefano?

Stefano Caroti

Chief Commercial Officer, Deckers Outdoor Corp.

Dave, thank you for the kind introduction, and good afternoon, everyone. It is a privilege to have been named Deckers' next CEO. During my tenure here, I have had the chance to grow with Deckers, as we've made significant strides, building beautiful and innovative brands that resonate with consumers around the world.

I understand and appreciate the immense effort it has taken to get us where we are today and I'm passionate about our people, our organization and the continuation of our collective success. I believe Deckers is well-positioned to continue cutting through a highly competitive marketplace and take advantage of the many opportunities ahead with the support of our dedicated management team and all the good people at Deckers.

Over the next six months, I look forward to working with Dave, who has become a great mentor, colleague and friend to continue executing on our strategy and ensure a smooth transition. Thanks, Dave. Back to you.

David Powers

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

Thanks, Stefano, and thank you, everyone, for joining us on the call today. We look forward to sharing more next quarter as we continue to build towards Decker's exciting future.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question comes from the line of Tom Nikic from Wedbush Securities. Please go ahead.

Tom Nikic
Analyst, Wedbush Securities, Inc.
Q

Hey, guys. Thanks for taking my question and Dave, congratulations on a great run and, Stefano, looking forward to working with you.

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

Thank you, Tom.

Tom Nikic
Analyst, Wedbush Securities, Inc.
Q

So look, on HOKA, so it kind of sounds like you're embedding a little bit of a reacceleration, I guess, specifically in the wholesale channel in the fourth quarter. Is that just inventory levels being really lean? Is it sell-in of the new products? Is it door expansion with Dick's and Foot Locker, if [ph] I would (00:37:31) just kind of unpack how to think about the drivers of HOKA wholesale, that'd be greatly appreciated?

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

Yes, very happy to answer that question. And first of all, I apologize, my voice is a little rough. I think I'm fighting a cold at the moment. But yeah, HOKA, we had a great quarter for HOKA [indiscernible] (00:37:50) the results right on plan, right on strategy. The teams continue to execute at [indiscernible] (00:37:56) level globally. And Q4, it's a combination of things. There's a lot of refill orders that will be going into wholesale, fulfilling that demand and getting back in stock as we head into spring.

And then as we mentioned before, we have some really exciting new product launches that are coming out in Q4 as well as planned. So continue to be very strong momentum, executing on the strategy, Q4 is looking solid for us. No new doors at the end of the year, no net new doors. We'll continue to evaluate that based on how the market performs and how HOKA sells through. And we're very pleased and optimistic about this quarter ahead.

Tom Nikic
Analyst, Wedbush Securities, Inc.
Q

Sounds good. And just if I could follow up also just one on UGG. Obviously, you've had a couple of great holiday seasons in a row. What do you do for non-core next year?

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

Yeah. Well, it's a good question, right? I mean our history has been a little bit volatile. But listen, I think this is a new era for UGG. We have an incredible new leadership team. The innovation pipeline is resonating incredibly well with our global consumers. We're expanding categories beyond our core icon styles and the momentum is real.

This is the most exciting quarter I've ever seen for UGG with regard to global brand heat, global sell-through. Every region, every channel is performing well with the UGG-brand right now. And we were light on inventory. We have an incredible quarter of growth, but there's still opportunity. And we're going into this coming fall with a position of real strength with healthy inventory levels, clean marketplace. We had some price increases that didn't slow us down. And we still think there's a lot of demand out there to be had.

Across the women's, especially a lot of the icons that we were successful in this year. But with some new introductions like the Lowmel, the Weather Hybrid in men's, we think there's a lot of upside still for this brand. And, we're going to stay the course and manage this marketplace incredibly tight as we have been and prioritize DTC and that formula continues to pay off major dividends for us.

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

A

Yes, Tom. And just to add to that, this is Steve. I think, as we look at the success that we had in Q3, this is where our marketplace management works. We are containing that wholesale channel. We're flowing some of the demand over to our DTC channel. And this is really where you're seeing the power of that work. You see it with the gross margin expansion, and so that's a model that we're going to continue to reinforce next year. And we know we are leaving demand on the table and that's by design. So we continue to build with these brands by controlling that marketplace distribution flowing some of that excess over into DTC and leaving some demand on the table.

Tom Nikic
Analyst, Wedbush Securities, Inc.

Q

Sounds good. Thanks very much and Dave, best of luck in your future endeavors

---

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

A

Thanks Tom. Appreciate it.

Operator: Thank you. And your next question comes from the line of Laurent Vasilescu from BNP Paribas. Please go ahead.

Laurent Vasilescu
Analyst, Exane BNP Paribas

Q

Good afternoon. Thank you very much for taking my question. Dave, I want to wish you the best for your future endeavors. You will be missed by many.

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

A

Thank you.

Laurent Vasilescu
Analyst, Exane BNP Paribas

Q

And Stefano, it's great to have you on the call.

Stefano Caroti
Chief Commercial Officer, Deckers Outdoor Corp.
A

Thanks Laurent.

Laurent Vasilescu
Analyst, Exane BNP Paribas
Q

I want to just follow up – I want to follow up, Dave, on some of the – there are some targets out there long term. There's that $5 billion to $6 billion target, 50% DTC mix. Is there anything that changes over the long term on these targets that maybe you want to update?

And then could you maybe also provide, Steve, I think you maybe kind of alluded to, sometimes you overearn with that 20% EBIT margin for fiscal year 2024. Is there a way like resting heart rate for EBIT margin for this business long term?

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

Yes, Laurent. Good question. So with regards to long-term strategy, I think it's important to stress, it's particularly coming up that we are still focused on what we've talked about before. So Stefano and I are sitting here saying, hey, there's a major change that needs to happen. It's more about continuing the momentum that quite frankly, Stefano and his team have helped create. So the targets that we spoke about before, those are ranges that we've talked about. We think there's potential to get there. It's not a hard target. But the strategy is in place.

The way we're managing the marketplace and the way they're presenting these brands in the market to our consumers, the way we're connecting with our consumers, just gives us more confidence especially coming out of a quarter like this, that those targets are achievable. And I think this, the quarterly results represented great examples of how we're migrating closer to DTC and more business through DTC and then building more heat for these brands over time.

So as we get more consumers into the fold, that will continue, and we remain incredibly excited about the opportunity for HOKA, but also for UGG at the same time. So stay the course, lots to get after still, particularly with the strength of the international markets coming on now, and we're confident we can get there.

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

Yeah. Then, Laurent, on the operating margin. And we have talked about this before on prior calls. The way we look at the business is kind of a high-teen margin business. And as I've said in the past is when we have an opportunity, when the business runs so well and delivers margins above that like we've seen in Q3, we will let some of that margin run through. We're not out just to spend money for the sake of spending money. We carefully watch where we're placing our investments. And when we see the opportunities to invest, we will take that and that's the way we approach kind of every year.

In a given year, where we're seeing such strong full price selling like we did this year, where our brands and products are in such demand is a perfect case where we can flow through some of that. You've seen that in prior years. But at the same time, as we've indicated in our full-year outlook, where we've raised it, we're also looking at where we can continue to invest in our brands because we know the competition is stepping up as well.

So this provides us an opportunity that when we are performing well, we'll pass-through some of that. But at the same time, we're looking at the long-term health of the business, and we'll make the right investments to continue to drive this business forward in the long run. So that's our approach. That's not going to change, is working for us, and you can kind of see how that's driving these types of results.

Laurent Vasilescu
Analyst, Exane BNP Paribas

Q

Very clear. And as a follow-up question on the UGG business, Steve, I think you alluded to some timing shifts between 3Q and 4Q. Maybe for the audience, could you quantify that number? And then going back to Tom's question about next year's oncore Dave, Steve, Stefano, we are getting that question from investors like, oh, just 50% UGG growth for this year – for this quarter, just it's going to be that much harder. I know you're not prepared to guide for next year, but any indication on the order book for next fall would be very helpful. Thank you very much.

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

A

Yeah. So, I'll start Laurent. In terms of some of the shifts, what I mentioned in the prepared remarks is, yeah, we are seeing where some of the overperformance of Q3, because, again, as you know, we haven't guided orders. Where we did see some earlier wholesale deliveries in Q3, that's slightly impacting our Q4. In terms of our full year, we have raised our full year and that's really a reflection of the strength that we've seen in Q3. Because we haven't given quarterly guidance, I know everybody models maybe a little bit different. And so, it's hard to say specifically kind of how you're looking at it.

The way we've looked at it is some of the business that we thought may happen in Q4 did come at us in Q3 as the sell-through was very strong. And so, we took advantage of that and we were able to kind of [indiscernible] (00:46:09). Generally speaking, what you're seeing is the business has performed better than what we expected. We have flowed that through on our full year lift, and we're seeing Q4 kind of as we've seen it with a little bit of [indiscernible] (00:46:24). But overall, I think the takeaway is incredible performance in Q3, we've flowed that through, we've lifted our full year, business is incredibly strong, and the demand for our brands is there.

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

A

Yeah. And with regards to coming up into the fall of 2024, we're confident. We see UGG now as a growth brand within the portfolio. Will it be double digit, 15%, like we just experienced, we'll be planning for that, but we still think there's growth to be had. And I think it's important to remind folks that UGG is in a very different position than it has been in the past, and I talked about this in the last call. We used to sell primarily Classics, Classic Short, Classic Tall, different colors, iterations, and a few slippers to go with that, and the distribution was pretty similar across the marketplace.

UGG is much more diversified now. We're selling boots, we're selling slippers, we're selling new hybrid innovations, and we're starting to sell our version of sneakers. And it's a younger consumer, it's a more diverse consumer, we have segmentation in the marketplace globally. We have a lot of untapped potential in the international markets, and we're going to continue to play this through with the strength of our product innovation pipeline and the strength of our marketing teams to continue to drive this as a growth brand for years to come.

Laurent Vasilescu
Analyst, Exane BNP Paribas

Q

Super helpful. Thank you very much for all the color, and best of luck, Dave.

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

A

All right. Thanks buddy.

Operator: Thank you. And your next question comes from the line of Jay Sole from UBS. Please go ahead.

Jay Sole
Analyst, UBS Securities LLC

Q

Great. Thank you so much. Dave, I wanted to follow up on some of those comments you made about UGG as how much more diversified the product line is today. Can you give us a sense of, in the third quarter, what percentage of the business was boots, kind of the Classic II and sort of the derivatives of that versus sort of the newer stuff, Neumel and some of the – your version of sneakers and some things that's really kind of different over the last couple years? And if you could sort of compare that to where that was a couple years ago that would be helpful.

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

A

Yeah. I don't have the exact specifics on that, but I will say the core Classics are really just to maintain business at this point. So, it's not like, we're purposely trying to shrink those. Those are still healthy. We're just managing that category and that product better in the marketplace. But the growth is coming from some of the newness, the Tazz, the Platform Styles, the Ultra Mini, and then, like I said, some of the sneaker versions and the hybrid winter programs. And as you noticed, we launched UGGextreme, which is our first serious foray into more performance products.

So, this is a brand that has really broad shoulders, I've always said that, and I think now we're seeing, once we get the right design DNA into these categories that are really innovative and distinct, there's really nothing like this product in the marketplace. We have a lot of runway. And so, we're going to continue to innovate, continue to attack these categories with a focused assortment of UGG DNA product, and connect with our consumers in a segmented way, and I think there's still tremendous upside there. So, lots to be confident with the UGG brand. I think, this is an indication of the new leadership that Anne has brought to the team and the discipline in the marketplace, as well as our innovation pipeline, and we're optimistic this is going to continue at a healthy pace going forward.

Jay Sole
Analyst, UBS Securities LLC

Q

Got it. Understood. And I'll try to ask it one, a different way. Hopefully, this is okay, but it's just so fast, what you've accomplished with UGG. Can you maybe just tell us what – if we just think about the business where it was five years ago, mainly boots, what was the total addressable market for that category? And sort of where do you – how would you size the total addressable market for UGG today, given the sneakers that you're doing and all the different categories that have emerged?

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

A

I'll let Steve answer that question.

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

A

Yeah. Jay, it's a good question. Clearly, the addressable market has grown where we were five years ago. I think another way to look at it, and I know what you're trying to kind of get at is, what's the future growth opportunities for UGG, right. I think what we've seen, especially in this last year, is how UGG is being adopted for different use cases than it was five years ago. And so, that total addressable market continues to increase as we are seeing greater adoption around our product.

And so, to Dave's point about what we're excited about what we saw in Q3 is we're seeing heritage products resonating consumers. But iterations of that, where we've created newness in categories that consumers are adopting. And so, we've also talked about some of the demographic reach, and we're seeing a younger demographic come into the brand with a strong excitement. You've really seen that come through in Q3. It's what's driving some of that DTC performance. And then, we're seeing it grow internationally.

So, as you recall, five years ago, we talked about how we were going to deliver the progress in North America and then export that success to the international markets. And now what you're seeing is those international markets growing at a faster rate, albeit smaller dollars, but at a faster rate on percentage terms than we're seeing domestic. And that shows you how the consumer is embracing the UGG brand across the globe in different use cases. And through the last couple of years, what we've learned is through some of this casualization, the adoption of UGG, for different use cases, and we're continuing to see that demand grow and that's what gives us excitement about where we can go with this brand.

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

A

Yeah. And the last thing I would say, if you think about this brand five years ago, it was a boot brand and that's – we've had that stigma attached the UGG brand for quite some time, and I think that those days are in the past. We have products that is resonating in different categories that we've never had before. And I'm really excited about the Lowmel, that it's our version of a sneaker, and I think that's going to be a bestseller for years to come and start potentially taking share from some of the sneaker brands out there.

Jay Sole
Analyst, UBS Securities LLC

Q

Got it. All right. That's fascinating. Thank you so much. Really appreciate it.

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

A

Okay.

Operator: Thank you. And your next question comes from the line of Janine Stichter from BTIG. Please go ahead.

Janine Stichter
Analyst, BTIG LLC
Q

Hi. Congrats on the results, and Dave, wish you all the best as well.

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

Thank you so much.

Janine Stichter
Analyst, BTIG LLC
Q

But one thing is surprising a little bit. Yeah. On UGG, can you elaborate on the price increase there? How big was it, when did you take it, and maybe how broad was it in terms of the styles? And then, curious about any future opportunities for price increases? And I guess the same question for HOKA. I think you've talked about being pretty happy where the pricing is there, but do you see any opportunities just as some of your peers potentially look at taking up price? Thank you.

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

Yeah. Thanks, Janine, and great question. We are and we have been, we have been and we'll do continue to look at prices strategically. And so, some of the decisions we made this year were really just on a handful of styles in UGG, but in really some of our bestsellers were proved to be our bestsellers. So, that's why you saw the exponential impact of revenue on some of those styles as they perform so well at full-price, and the added $5 or $10 made a big difference on a lot of units.

Going forward, we'll continue to evaluate it. We don't see massive price increases broad-based this fall. We're still evaluating that, but it will be selected by market and style if we do, do that. And then, the same approach for HOKA. We're comfortable where the prices are right now. We think we are providing incredible value for the dollar. There's opportunities to raise prices a little bit here and there as we continue to roll out more innovation. But pricing, growth through pricing is not a strategy of ours. It's pricing appropriately the product in the market for the consumer and that will drive our decisions.

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

Yeah. And Janine, just to add a little bit on that. As Dave said, it was not across the board. It was very surgical in terms of units that we identified has the potential to absorb a price increase without much consumer resistance to it, and that was significant. And so, it was not a lot of styles. It was on styles that we knew would do well. And so, it was surgical in the sense of those high-performing styles and it drove a big portion. So, [indiscernible] (00:54:42) quantified a little bit...

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

Yeah.

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

...in the quarter, our gross margin from last year was up 580 basis points. I think, the other thing that was a big contributor, along with the price increases, we didn't get promotional. This was a full, strong price sell-through quarter for us. So, of that 580 basis points, about 340 of it came from not being promotional and the price increases that we experienced in the quarter. So, a big driver of the quarter and as Dave said, we're not looking to price increases to kind of continue to drive that. We're going to be very careful about how we place price increases and how we contemplate it, but this year was one year that we benefited from it that we will not necessarily see in future periods.

Janine Stichter
Analyst, BTIG LLC
Q

Got it. That's helpful color. And just in terms of the gross margin, it's fair to assume that there might be some more promotions in the future as that kind of normalizes the price increases [indiscernible] (00:55:39) portion of those 580 basis points remains structural?

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

Yeah.

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

Yeah.

Janine Stichter
Analyst, BTIG LLC
Q

All right. Perfect. Thanks so much and best of luck.

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

All right. Thank you.

Operator: Thank you. And your next question comes from the line of Sam Poser from Williams Trading. Please proceed.

Sam Poser
Analyst, Williams Trading LLC
Q

Well, thank you for taking my questions. So, Erinn, we already have UGG and HOKA. So, could you give me Teva, Sanuk and the Other, for my favorite question, and then I have other question, because [indiscernible] (00:56:11).

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

Sure, Sam. So, real quick for the third quarter, total wholesale and distributor for UGG, as you mentioned, you can calc is $403 million, HOKA $252 million, Teva $20 million, Sanuk $2 million, and then Other, largely Koolaburra, $24.5 million.

Sam Poser
Analyst, Williams Trading LLC
Q

Thank you. Okay. Based on what we've seen so far in January, it looks as if – well, first of all, Dave, congratulations. Totally awesome. I'm very happy for you, and I hope it gets to you before you sail out into the sunset of the beach of Goleta.

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

Yeah. Thank you, Sam. I appreciate that.

Sam Poser
Analyst, Williams Trading LLC
Q

The – we're seeing a lot of sales in your own retail stores around New York. Like, there's – I'm hearing that, like retailers are getting – your wholesale accounts are getting small hits. But are you gearing a lot of what's going on in the fourth quarter for UGG to really more so than usual, like just pushing it to your DTC, given that a lot of those orders are, people are just trying to get rid whatever they can, so you're going to feed yourself a lot more?

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

I wouldn't say that we're forcing more inventory purposely away from wholesale into DTC. What I would say is I think the teams have gotten better at allocating the right amount of inventory for our stores, so that we're not missing sales when the customer comes in. And we've been getting through that in the last few years, not having protected some of the inventory, in this kind of demand, some of that inventory gets sucked up by DTC or wholesale fill-ins. So, we're protecting it better than we have for our stores, and just making sure that we're balancing out across wholesale and retail and e-commerce as best we can for the consumer and how they like to shop.

Just so happens though, when you have this kind of brand heat and momentum, if there are wholesale partners that are running low on inventory, they're going to go to our stores to find it and our websites to find it. And that's – this is an indication of what happened, but it's also a strong indication of how well our pull model is working, and we have a pull model like that, it does help generally benefit your DTC business a little bit more.

Sam Poser
Analyst, Williams Trading LLC
Q

Thanks. And then, lastly, you sort of hinted there was a new thing coming from Deckers X Lab. I heard that it might be the – and I've heard from some retailers, they've seen some of the product for fall, and I heard it might be under the [indiscernible] (00:58:48). Can you give us some color as to what may be going on over there?

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

Yeah. Well, I will say, it's exciting for us. We established this [ph] Deckers Lab (00:58:59) innovation engine a few years ago with the help of Jean-Luc, who is one of the Co-Founders of HOKA, and that has been quietly building as a force for our pipeline for all of our brands. So, some of the innovation you're seeing in UGG and HOKA, and will soon see some of that in Teva as well, has come from that. And one of the things we uncover is I think there's an opportunity for a new kind of sneaker brand.

So, we would put this under the category of a super sneaker brand. It's pretty exciting. It's more sophisticated in styling. It's made for really all-day wear, but it comes with a lot of the technologies that you would find in a performance running brand. So, carbon plates, different foams, different – more modern materials and cleaner lines. A little bit elevated price point, above $200, and obviously, it's early days, we're excited to launch this into the market. I'll let you know the name as soon as if I'm allowed to, but stay tuned, in the next few weeks, you'll hear about the soft launch, and then we'll head into March and April in a more robust way and build from there.

Sam Poser
Analyst, Williams Trading LLC

Q

Thanks very much. Congratulations again.

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

A

Thank you.

Operator: Thank you. And your last question comes from the line of Jonathan Komp from Baird. Please proceed.

Jonathan R. Komp
Analyst, Robert W. Baird & Co., Inc.

Q

Yeah. Hi. Thanks. Good afternoon. One more question on UGG. In a different forum, Dave, I think you recently highlighted long-term potential for UGG to still double revenue potentially without a timeframe attached. Dave or Stefano, could you maybe share any more insights how you think about those comments in relation to the long-term opportunity for UGG?

And then, just separately on HOKA, can you share any retailer feedback on the new styles, thinking about the Cielo X, [indiscernible] (01:00:52) just what are you hearing, especially on some of the premium products you plan to bring out? And any thoughts on sustaining leadership or still growing in core run specialty while you eventually thoughtfully expand distribution?

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

A

Yeah. I'm going to let Stefano answer the HOKA question, and then I'll come back to the first question.

Stefano Caroti
Chief Commercial Officer, Deckers Outdoor Corp.

A

Yeah. On the Cielo X launch, we launched today literally. So, it's a bit early to say how well it's doing, [indiscernible] (01:01:23), they're quite encouraging, but it's early days.

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

A

Yeah. And then, regarding the UGG brand, I actually don't remember saying doubling the business at some point, but that's okay. I would say, listen, we still think this is – we see this more than ever as a growth brand. And we think that a healthy growth rate for this brand is mid-single-digits with – and that's in line with managing our marketplace and growing effectively in a smart way. Does the brand has potential to be doubled at some point? Yeah. I think if you – if we optimize potential in men's and we start to build our apparel engine a little bit more, anything is possible. But right now, we're taking this one year at a time, and really strategically and methodically building it in line with our marketplace strategy.

Jonathan R. Komp
Analyst, Robert W. Baird & Co., Inc.
Q

Okay. Thanks for that. Just one more if I could sneak it in for Steve. Any comments on what bonus or incentive accruals look like in 2024, given the strong performance? And just how to think about that potentially year-over-year in a more normal year for 2025? Thanks.

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

Yeah. So, good question. So, clearly, with the performance that we've got going on in FY 2024, we are accruing for an increase in performance-related compensation. That resets back to approved budget levels. So, on percentage terms, we're not quantifying dollars, but on percentage terms, clearly, the expectations – a couple months left, but given everything we've seen so far, very strong performance. So, there is an increase in performance-related compensation in FY 2024, and then we'll reset that for FY 2025.

Jonathan R. Komp
Analyst, Robert W. Baird & Co., Inc.
Q

Okay. Thank you all again.

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

Thanks, Jon.

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

All right. Thanks, Jon.

Stefano Caroti
Chief Commercial Officer, Deckers Outdoor Corp.
A

Thanks, Jon.

Operator: Thank you. This conclude today's call. Thank you for participating. You may all disconnect.