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Deckers Outdoor Corp. (DECK)

Q3 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. Thank you for standing by. Welcome to the Deckers Brands Third Quarter Fiscal 2025 Earnings Conference Call. At this time, all participants are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. Instructions will be provided at that time for you to queue up for questions. [Operator Instructions] I would like to remind everyone that this conference call is being recorded.

I'd now like to turn the call over to Erinn Kohler, VP, Investor Relations and Corporate Planning.

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

Hello, and thank you, everyone, for joining us today. On the call is Stefano Caroti, President and Chief Executive Officer; 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 other than statements of historical fact are forward-looking statements and include statements regarding our current and long-term strategic objectives, capital allocation, anticipated impacts from our brand and marketplace management strategies, changes in consumer behavior, strength and performance of our brands, demand for our products, product and channel distribution strategies, including DTC, plans for and the launch timing of new products, marketing plans and strategies, disruptions to our supply chain and logistics, our anticipated revenues, product mix, margins, expenses, inventory levels, promotional activity and our anticipated rate of full price selling, the expected timing of adjustments to certain brand operations, 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 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 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.

Please note, as previously disclosed, the company affected a six-for-one forward stock split during the second fiscal quarter. The share per share and resulting financial amounts mentioned on this call have been adjusted to reflect the effectiveness of the stock split.

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 Stefano.

Stefano Caroti

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

Thank you, Erinn. Good afternoon, everyone, and thank you for joining today's call. It's great to be here with you today to discuss our superb third quarter, the largest and most profitable in Deckers' history. UGG and HOKA continue to drive our success, as both brands are creating unique and innovative products with purpose that are increasingly embraced by consumers worldwide.

Highlights of our record third quarter performance include revenue growing 17% over last year to $1.8 billion, gross margins improving to 60.3% and diluted earnings per share increasing 19% to $3. We are very proud of the exceptional quarter just completed, thanks to the hard work of our global teams.

I want to especially recognize, employees supporting our distribution centers, retail stores, customer and consumer experience, e-commerce, marketing, planning and allocation, merchandising and sales, who collectively contributed to the successful execution of our largest quarter ever.

Once again, our brands were able to maintain a high degree of full-price business, while competing with more promotional brand in the global marketplace, choosing to prioritize brand health. As we continue to manage and build our brands and business for the long-term, we're even more encouraged by what Deckers has delivered over the last nine months. Our fiscal year-to-date performance, as compared to last year, includes significant revenue growth in key areas, with HOKA increasing 29%, UGG growing 15%, international markets rising 28% and balance increases of 19% across the DTC and wholesale channels.

The shape of our growth and evolution of our business is directly tied to our long-term strategies and guiding principles, which provide the foundation for how we manage our brands to maintain a pull model of demand. Overall, Deckers' third quarter and fiscal year-to-date performance has exceeded our expectations. Our increased revenue outlook for fiscal 2025 now calls for 15% growth, which would be our fifth consecutive year of growing mid-teens or higher. Steve will provide further details on third quarter performance and this updated outlook later in the call.

But before that, I will share brand highlights from the third quarter. Starting with UGG. Global revenue in the third quarter increased 16% versus last year to $1.2 billion. From a channel perspective, UGG delivered balanced revenue growth of 16% versus last year across both direct-to-consumer and wholesale.

UGG DTC channel highlights in the third quarter includes strong growth across our global markets, gains with new and existing consumers, as the brand experienced double-digit increases in both acquisition and retention, a 25% increase in UGG Reward members and encouraging progress for UGG men's, with growth outpacing total brand growth in the channel.

In the wholesale channel, UGG experienced growth across all regions, with the majority of the increased revenue coming from international markets. Close partnerships with influential retailers continue to elevate the UGG brand and enhance global exposure with target consumers.

During the third quarter, UGG collaborated to create special corner shop takeovers with Selfridges in London and Nordstrom in New York City. Both of these partnerships were activated with on-site events and media that drove great brand buzz and connections with consumers. Across the global wholesale marketplace, we believe that UGG was a top-performing brand in the holiday quarter, highlighted by exceptional levels of full price sell-through that drove healthy margins for our partners and lean inventory in the channel exiting the month of December. We believe the UGG brand's success around the world results from a purposeful product assortment that is informed by consumer insights and infused with UGG brand codes. This approach has driven consistent product performance throughout the fiscal year with progress in key segments, including Icon Reimagined with the Tasman and Ultra Mini franchises continuing to experience strong global adoption from consumers, Hybrid Versatility as the emerging Golden and Lowmel collections experienced rapid sellouts, while the Weather Hybrid collection more than doubled versus the prior year, a new Winter lifestyle highlighted by the Mini Dipper success in the US and EMEA.

The UGG team continues to build brand heat and relevance through powerful collaborations. During the quarter, I was able to reach a new audience and elevate the in-line assortment through the release of two highly sought-after collaborations with Los Angeles-based fashion brand Gallery Department and UK-based skate brand Palace. These partnerships featured iconic styles, such as the Tasman and the Ultra Mini, which gained global exposure from being spotted on influential professional athletes and music superstars. The success of these iconic styles is closely linked to the emerging hybrid styles in the assortment.

The Goldenstar Clog continued to see strong global growth in the quarter, and we saw consumers in the US and in Europe embrace the Lowmel as a lifestyle sneaker, lending the style in the UGG brand's top 10 during the third quarter. Adding to our enthusiasm for the UGG sneaker success, we've just added sizing for men's and kids and also launched a companion style, the Lo Lowmel, that hits lower to the ankle and is built with greater versatility for warmer months.

In other Hybrid collection that performed well in the quarter was the UGG brand's weatherized hybrids, featured as part of our men's focused marketing campaign staring Post Malone. This campaign drove significant increases in search and engagement, with over 3 billion impressions in the US alone for both the product collection and the UGG brand overall. Through high impact out-of-home content, media placement with Amazon, Thursday Night Football, ESPN and Spotify and a 10-day experiential field house retail pop-up store that culminated with a VIP performance by Post Malone.

This campaign represents great progress in our journey to increase connections with male consumers around the world, even propelling the Tasman with a hybrid to become the UGG brand's number one men's style in China this past quarter, a region where the brand continues to make solid headway. At the same time, we're seeing strong adoption of our UGG Men's product among professional athletes, a group that often shapes the future of fashion. Altogether, this was a splendid quarter for UGG, as the brand continues to perform in a league of its own.

Heading into the final stretch of fiscal 2025, UGG is delivering on the objectives we set for the year, with balanced growth across channels driven by outsized growth from international markets and maintain strength in the US. We believe this special brand can continue to deliver sustainable growth through distinctive and ownable category segments that are uniquely UGG. Congratulations to Anne and her entire UGG team on these amazing accomplishments and the bright future ahead.

As UGG has continued to solidify its positioning as a leading global lifestyle brand, I would like to provide an update regarding the Koolaburra brand. To maintain focus on our most significant organic opportunities, we're planning to phase out the Koolaburra brand stand-alone product collections and operations. As part of this change, we expect to sunset koolaburra.com at the end of this fiscal year and wind down Koolaburra in the wholesale channel throughout the calendar year 2025. We'll provide a more complete update on this forthcoming change during our earning call in May as part of our forward-looking guidance for fiscal year 2026.

Okay. Shifting to the HOKA brand. Global revenue in the third quarter increased 24% versus last year to $531 million. From a channel perspective, HOKA delivered impressive revenue growth versus last year throughout the global marketplace as DTC increased 27% with strong growth across every region and wholesale grew 21%, primarily driven by outside increases from international distributor markets as we prepare the marketplace for upcoming key franchise upgrades.

HOKA DTC channel highlights in the quarter include accelerated growth in the APAC region, with China contributing the largest incremental dollar revenue of all international regions, persisting gains in consumer acquisition and retention, the latter of which was particularly strong, indicating a high degree of loyalty from existing consumers and increased mix of business from trail categories, which drove outsized growth in part due to the introduction of the Kaha Frost weather collection.

The Kaha Frost collection features the HOKA brand's first cold-weather ready styles, including a $280 hiking boot and $200 slipper moccasin, both of which are trail-ready with Vibram megagrip outsole. The consumer response was excellent around the globe, driving impressive sell-throughs and generating great breadth for the brand, including being named the Best Multifunctional Hiking Shoe of 2024 by GOGO Shanghai, an influential annual publication of lifestyle awards in China, and a Must Have Item for a Week in the Mountains by Italian Vogue.

In the wholesale channel, our primary focus during the quarter was to set the stage for the Bondi 9 launch by moving through existing inventory of the Bondi 8 while also driving high full price sell-throughs across the lineup of innovative products we've introduced throughout the year. As brand awareness and consumer appetite for HOKA continues to build, we're excited to be adding select doors with our strategic partners worldwide in conjunction with the start of our Spring 2025 season.

During the third quarter, the HOKA team did an outstanding job in driving consumer engagement with the brand through events and activations around the world. Key global moments included HOKA being the second most worn brand at the Foot Locker Cross Country High School National Championships in the US, hosting HOKA Fly Lab experiences at the Frankfurt Marathon Germany and the IRONMAN 70.3 World Championships in Taupō, New Zealand, and producing a benchmark consumer experience at the Shanghai Marathon, where HOKA was the fifth most worn brand.

As you can tell, our marketing teams are working hard to maintain and build performance credibility while growing global brand awareness through activations in key cities. The HOKA brand's shoe count achievements are made possible by the HOKA product team's laser focus to build product solutions that deliver transformational experiences for consumers around the world. HOKA has two exciting products launching in the fourth quarter, which are the Bondi 9 and a 2.0 update to our fastest and most technically advanced race shoe, the Cielo X1.

Having just launched a couple of weeks ago, we are very pleased with the early consumer response to the Bondi 9, with the new premium midsole, increased stack height, its 3D molded collar, this franchise has been upgraded from top to bottom, providing a soft, yet resilient ride for everyday miles.

The Bondi 9 release is the HOKA brand's most globally integrated launch to date, supported and enhanced by our Everybody Bondi marketing campaign with out-of-home content on high-traffic displays in key cities around the world, a Bondi 9-week fitness challenge that culminates in participants completing a 9-mile run, partnering with local and global influencers, including decorated US Olympic gymnast Suni Lee and activations at regional and global events such as the Miami Marathon, Paris Half Marathon and London Winter Run.

While the Bondi 9 represents a significant upgrade to one of our most accessible franchises, we've also enhanced our pinnacle race shoe, the Cielo X1, making it faster and smoother for the highest-performing athletes.

In the 2.0 version of the Cielo X1, we've tweaked the rocker and geometry to provide greater stability without adding weight, enabling greater speed through the toe transition. Commercially available in February, this is a shoe that we have been testing with our athletes for months now and have high hopes to see on podiums in the future. HOKA has an exciting future ahead with a strong pipeline of new innovations and a growing global marketplace to serve the brand's increasing demand.

Thanks, everyone. I'll now hand it over to Steve to detail our third quarter financial results and provide an update to our fiscal year 2025 guidance.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

Thanks, Stefano, and good afternoon, everyone. Our record third quarter performance illustrates the continued strength and robust momentum of the UGG and HOKA brands. As Stefano mentioned, UGG delivered another exceptional quarter of results as the brand attracts and maintains consumers around the world with a relevant and elevated product assortment.

HOKA continues to deliver solid controlled global growth as the brand builds market share with performance products that consumers love. Our team's disciplined long-term approach to managing these brands' respective global marketplaces supports our pull model while sustaining exceptional levels of full price selling.

Our results this quarter again demonstrate the power of our model and disciplined marketplace management. Maintaining this flexible operating model, we will continue to build these incredible brands with long-term health top of mind.

Now let's get to the details of our third quarter results. Third quarter fiscal 2025 revenue was $1.83 billion, representing an increase of 17% versus the prior year on a reported and constant currency basis. Growth in the quarter was primarily driven by UGG increasing 16% versus last year, delivering record quarterly revenue of $1.24 billion, with particularly strong demand captured later in the quarter as we maintained favorable inventory on key styles relative to the prior year and consistent strength across the HOKA brand's global marketplace, with HOKA growing 24% versus last year to deliver quarterly revenue of $531 million.

Further on UGG, I would note that the brand experienced a strong December selling period relative to our last year. Our increased and earlier inventory position aided our ability to fulfill orders during the third quarter on key styles compared to the prior year.

Recall that in the third quarter of last year, we sold out of key styles that were later fulfilled in Q4. While this dynamic was a tailwind to our third quarter performance this year, it is highly likely to have an adverse comparison impact on the UGG brand's current quarter.

Gross margin for third quarter was 60.3%, up 160 basis points from last year's 58.7%. Third quarter gross margin benefited from favorable product mix, primarily due to higher-margin products within UGG driving a larger percentage of growth, reduced closeouts to the wholesale channel, higher levels of full price selling for UGG and a small benefit from favorable foreign currency exchange rates, with partial offsets from higher freight costs and an increased discounting for HOKA as anticipated, primarily related to preparing the marketplace for key model upgrade.

While we are proud to deliver this record gross margin, I would caution that the extremely high levels of full price selling and very low levels of wholesale closeouts are abnormal and not something we would normally expect to repeat going forward. Further, though we experienced a small revenue and gross margin benefit from favorable foreign currency exchange rates in the third quarter, we have since seen rates move against us, and as a result, expect to face an FX headwind in the upcoming quarter.

SG&A dollar spend in the third quarter was $535 million, up 25% versus last year's $429 million, as we continue investing in key areas of the business. As a percentage of revenue, SG&A was 29.3%, which is above last year's rate of 27.5%, primarily driven by increased marketing spend, unfavorable impacts from foreign currency exchange rate remeasurement, and higher head count across strategic growth areas of the business.

Our tax rate for the quarter was 21.8%, which compares to 21.9% for the prior year. These results culminated in diluted earnings per share of $3 for the quarter, which is $0.48 above last year's $2.52 diluted earnings per share, representing EPS growth of 19%.

Turning to our balance sheet. At December 31, 2024, we ended December with $2.2 billion of cash and equivalents. Inventory was $577 million, up 7% versus the same point in time last year. And during the period, we had no outstanding borrowings. During the third quarter, we repurchased approximately $45 million worth of shares at an average price of $162.85. As of December 31, 2024, the company had approximately $641 million remaining authorized for share repurchase.

Now moving into our updated guidance for fiscal year 2025. Based on the strong demand experienced in the third quarter, we are raising our full year revenue expectations to just above $4.9 billion, which equates to approximately 15% growth, which compares to our prior guidance for growth of approximately 12%.

From a brand standpoint, we now expect UGG revenue growth of approximately 10%, up from our prior expectations of mid single digits as a result of stronger global demand. And with continued execution against our full year expectation, we still expect HOKA to increase approximately 24% versus last year. While we do not provide quarterly guidance, we acknowledge that with only one quarter left in our fiscal year, this provides visibility into our anticipated fourth quarter growth expectations. And we realized that while we have increased our full year guidance, this update highlights distorted growth rates implied in the fourth quarter for our two largest brands, each for unique reasons.

For the UGG brand, as planned, our improved product in-stock positioning versus the prior year allowed us to satisfy incremental consumer demand during our third quarter. While in the prior year, we ran low on product availability and continued to catch up to fulfill demand through Q4 last year. This year, we believe this demand was captured in Q3. Given how strong UGG has performed year-to-date, we are limited in the fourth quarter by available inventory left to sell.

For HOKA, our guidance implies the fourth quarter to be the largest volume quarter for the brand ever. This is on top of last year's fourth quarter that included a significant amount of sell-in to wholesale accounts related to door expansion as we set up fiscal year 2025. And while this creates some year-on-year variations in the quarterly growth rates, we are still on track to achieve an annual growth rate of 24%.

Then, with the strong gross margin achieved in the third quarter, we are increasing our full year expectation to now be at or slightly better than 57%, as we recognize the exceptional levels of full price selling UGG achieved in the third quarter and continued product mix benefits, but maintain our expectation for continued freight headwinds and a more promotional and closeout environment in the balance of the year as compared to last year's unusually low levels, and as mentioned, a headwind from unfavorable foreign currency exchange rates in the fourth quarter.

SG&A is still expected to be approximately 35%, aligned with our commitment to continue investing responsibly to support the long-term sustainable growth of our business. With these adjustments, we now expect an operating margin of approximately 22%. We expect our effective tax rate to be approximately 23.5%. And as a result of our improved revenue and gross margin expectation, we are increasing our diluted earnings per share expectations to now be in the range of $5.75 to $5.80.

Please note, this guidance excludes any unforeseen charges that may be considered non-recurring to our ongoing business or impact from any future share repurchases. Additionally, our guidance assumes no meaningful deterioration of current risks and uncertainties that may include, but are not limited to, fluctuations in foreign currency exchange rates, changes in consumer confidence and recessionary pressures, inflationary pressures, supply chain disruptions and geopolitical tensions.

We are proud of the outstanding third quarter and year-to-date results that our brands have delivered thus far in fiscal year 2025. As our guidance for the full fiscal year indicates, we expect to report Deckers' fifth consecutive year of double-digit top line revenue growth, while continuing to deliver top-tier levels of operating profitability. I remain confident in our in-demand brands, which benefit from our flexible model and robust financial profile that we believe continue to position us well to drive sustainable growth over the long term.

With that, I'll now hand the call back to Stefano for his final remarks.

Stefano Caroti

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

Thank you, Steve. This was truly a special quarter, highlighting the strength of our industry-leading brands. UGG and HOKA continue to drive consistent full price growth through the purposeful creation of relevant, distinct and innovative products that are meeting the demands of our consumers who are discovering our products in a well-managed global marketplace. I'm confident that we'll continue to execute our strategy in the fourth quarter to close another great year for Deckers.

Looking ahead to fiscal 2026, our teams have set the foundation for continued growth with an exciting pipeline of products to come. We remain dedicated to our long-term strategies of building HOKA to become a leading performance brand through disruptive innovation, growing UGG through the evolution of iconic franchises and the creation of new icons, expanding our DTC business through consumer acquisition and retention and increasing our international business through the implementation of our successful domestic playbook.

As we execute against these strategies, we remain committed to maintaining our financial discipline to deliver top-tier levels of profitability, and we'll continue to be guided by our consumer-first mindset, brand-led philosophy, emphasis on innovation and globally driven approach. On behalf of our management team, I want to express our sincere gratitude to all of our employees for their continued efforts to build the future of Deckers.

Thank you all for joining us today, and thank you to our shareholders for your continued support.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] Your first question comes from the line of Jay Sole from UBS. Your line is open.

Jay Sole
Analyst, UBS Securities LLC

Q

Great. Thank you so much. Stefano, I'm wondering if you can sort of pull together a couple of the different themes that you brought up in the prepared remarks. One is just how you're managing the brand, particularly HOKA for the long-term and protecting the health of the brand, even in a promotional environment. And then maybe sort of connect that to how you're thinking about fourth quarter, how you're thinking about growth by channel? And then maybe you talked about the Bondi 9 launch and the Cielo – the next version of the Cielo X1. Can you just talk about some other product launches that you have coming beyond March? And if you still think that HOKA is the type of brand that can deliver 20% growth on an annual basis post this fiscal year? Thank you.

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

A

Of course. Hey, Jay, HOKA is a transformational brand that has the potential of becoming one of the major brands in the athletic footwear space. Our strategy for HOKA has stayed consistent throughout the globe. It's about building awareness and consideration, delivering compelling innovation stories and managing the marketplace for long-term and sustainable growth.

In terms of the Bondi 9, we're very pleased with the Bondi 9 launch so far. It's happening in a controlled retail environment, but we are very, very encouraged with the early response to the Bondi 9. In terms of additional launches, as I mentioned in my prepared remarks, the Cielo X1 is launching in February. That's going to be our fastest shoe to-date. It's an upgrade over the previous model that we launched a year ago.

We have Clifton 10 launching in April. And as you guys know, Clifton 10 is our biggest franchise. In May, we are launching a new product in the trail category, not an enormous program, but it's a pinnacle shoe called the Mafate X, which is going to be followed by the Arahi 8, which is a motion-control shoe and one of our biggest franchises. So, we have a strong lineup of innovation stories hitting in Q4 and in the first half of fiscal 2026. I think, you may have another question?

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

A

Yeah. And I think it was – you had kind of talked about how do we think about growth for HOKA? Jay, this is Steve. I think, this is really, as Stefano said, about how we manage the marketplace. And it's not about necessarily chasing growth for the sake of increasing growth rates. We are building this brand for the long-term. We want to sustain growth for the long-term.

I think you see us as innovative leaders in the space. And so really, it's about how we continue to grow global market share with the right cadence, right? And again, it's not trying to do too much too soon. I think, what you've seen us do is continue to build this brand. We think the global opportunity exists. You're seeing kind of that demonstrated.

We haven't given targets yet for next year. That will be something that comes up on our next call on the year-end as we give guidance out into the future. But this is really about how we continue to build this brand for the long-term, continue to build it successfully across the globe. And so it's not, again, about necessarily chasing numbers. It's about how we continue just to build the base.

Jay Sole
Analyst, UBS Securities LLC

Q

Yeah. Okay. Thank you so much.

Operator: Your next question comes from the line of Laurent Vasilescu from BNP Paribas. Your line is open.

Laurent Vasilescu
Analyst, BNP Paribas Securities Corp.

Q

Good afternoon, Stefano and Steve. Thank you very much for taking my question. I wanted to follow-up on Jay's question with regards to the HOKA launches that are coming up. I think, Stefano, to your point, you've mentioned that Clifton is the largest franchise. And I think, Arahi is maybe potentially the third largest franchise. I know you don't have any DTC read-throughs on that, but I'd just love to get what the reception is from some of your key retail partners.

And then, on the domestic growth in 3Q of 11%, just curious to know if there was a balance there between the two key brands, and how should we think about domestic growth over time? That would be very helpful.

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

A

Yes. As I said, Bondi has been – we're very pleased with the Bondi launch. And the reaction to both Clifton and Arahi 8 has been very positive from the trade. Again, we don't have any consumer read just yet, but both models booked well and within our expectations. But again, to Steve's point, we want to manage the environment. We want to drive a pull model and continue to drive the scarcity that we've created so far.

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

A

Yeah. I think, Laurent, just in terms of – and the last part of the question fell off a little bit, but I think it was kind of how are we thinking about the kind of growth rates in between quarters. And I think just one thing I'll bring up is, at the beginning of this year, we said growth rates between quarters was going to be kind of moving in different directions. It wasn't necessarily going to be consistent across the year. And I think you're seeing that, and that's why we call that out in Q4. That is not an indication of any change in demand.

The demand for these brands is still incredible. This is about how we're managing, again, the marketplace with the inventory that we have. And you're seeing that kind of with the success that we've had with UGG in Q3. We run a scarcity model. It continues to drive demand. And we're – again, we're not chasing outsized numbers just for the sake of delivering a higher number. This is again about long-term sustainable growth.

As it relates to HOKA, I think one of the things that you're seeing in Q4 is a comparison to last year. So, as you recall, last year, what we talked about was opening up new points of distribution within wholesale. A lot of that sell-in happened in Q4, the sell-through happened in FY 2025. So, on that dynamic, the comparison does look a little bit distorted, as I said in the prepared remarks.

So again, this is not about any change in how we're thinking about demand. This is about how we're managing these brands, again, for the long term. That's why we don't guide quarterly. We're not getting hung up on these quarterly compares. These brands continue to resonate with consumers and are doing incredibly well.

Laurent Vasilescu
Analyst, BNP Paribas Securities Corp. Q

Very helpful. And then beyond the quarters, to your point, Steve, I think 18 months ago, I think it was called out that over time, you can achieve $5 billion to $6 billion in sales as a company. The guide today effectively gets to that range. How do we think about longer term the opportunity going forward? Could we see a path? I know you don't do investors, but can we see a path to effectively $7 billion to $8 billion? Are there limitations to the brand – put to both brands that could – that would prevent you to get to that kind of number over time?

Stefano Caroti
Chief Executive Officer, President & Director, Deckers Outdoor Corp. A

I don't think there are any limitations to the brands. The brands are performing very well in the marketplace. UGG is stronger than it's ever been. UGG, remember, used to be a boot and a slipper brand. And now we're playing in sneakers, we're playing in clogs, we're playing in sandals. So, the brand is more solid and more balanced than it's ever been across seasons, genders. All our genders are growing in double digits. It's been fantastic. And the HOKA brand has the potential of being one of the major players in the performance space. So, I think, yes, aspirationally, we definitely want to get there over time.

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

Yes. And I think, Laurent, we're not giving any long-term targets on here. But I think as we've demonstrated this year, right, both brands continue to perform above our level of expectations. But we're not going to let them run away either. So, this is again about how do we continue to fulfill the demand that we're seeing in the marketplace, but at the same time, keep control of our brands in the marketplace. And that's what you're going to see us deliver. That hasn't changed. We still have incredible confidence in our ability to grow the brands.

But again, we – I think you would agree are disciplined managers of the marketplace. And you see the benefit of that in terms of the growth that we're delivering, combined with the gross margins that we're delivering. So, good question. Nothing has changed on the front of how we're thinking about the opportunity, other than we continue to see these brands perform very well with consumers.

Stefano Caroti
Chief Executive Officer, President & Director, Deckers Outdoor Corp. A

Laurent, yes, we don't want to be in a position to have to trade brand equity for short-term revenue.

Laurent Vasilescu
Analyst, BNP Paribas Securities Corp. Q

Very helpful, Stefano and Steve. Thank you very much and best of luck.

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

Thanks, Laurent.

Operator: Your next question comes from the line of John Kernan from TD Cowen. Your line is open.

John Kernan
Analyst, TD Cowen

Q

Good afternoon. Thanks for taking my question. So, maybe just to go back to Laurent's question a bit. How did the 12% growth in the US compare to your expectations? And maybe talk to the drivers of that growth? Also, within that, how should we think about international growth potential both in Q4 and then where you see the most opportunity internationally into fiscal 2026?

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

A

Yes. The US grew to our expectations. It's our biggest market. As you know, it's two-thirds of our business, and they performed super well. So, we'll expect international to outpace the US in terms of percentage growth. That's what we said over time, we'd like international to be 50% of sales. And going into Q4 and fiscal 2026, yes, we continue to expect international to outpace the US.

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

A

Yeah. I think, John, just a little bit more color kind of on how we saw a bit of that play out in Q3 and how that is impacting Q4. So, to Stefano's point, definitely kind of continuing to see our brands perform well, largely aligned with our expectation. I think some of the timing of that probably happened a little bit earlier than what we anticipated. And so you saw some of those UGG sales especially come forward from our expectations. So, it's part of the inventory issue that we're dealing with in Q4 and [ph] an inability (00:40:11) with the stock-outs that you're seeing on our most popular styles. So, that's a bit of a limitation. But again, that's okay because it continues to drive brand heat and demand for our brands.

In terms of then how we're thinking about the international growth, again, as we said a few years ago, continue to grow these brands domestically, but law of large numbers, knowing that the percentage growth would be a little bit less, turning much more focus on the international growth rates. And I think the quarter demonstrated how strong our international business performed. And we're continuing to see these brands resonate extremely well across the globe and in the international markets.

John Kernan
Analyst, TD Cowen

Q

That's helpful. Maybe just one follow-up. A lot of questions on top line so far, but the operating margin profile of the business is the highest among the sector peers. As you look at HOKA and UGG, what opportunities are left to improve or maintain this level of margin rate while still reinvesting to grow the business?

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

A

Yeah. Good question. And I think the – again, the power of the scarcity model, people paying full price for these brands. It's – as these brands get bigger, and we've said this in the past, it's going to be difficult to maintain this level of margin. We continue to see pressures, whether it's inflationary pressures or foreign exchange pressures growing. So, I think, you're seeing some of that impact our Q4. So, as you model out the year, you'll see that we are seeing some impacts related to that, including freight.

Our ability to maintain these brands will continue to command high gross margin levels. But you are going to have some other factors that will be impacting our ability to maintain these or deliver these. So, stay tuned. We'll continue to evaluate the year. We anticipate some pressures in Q4. But as you point out, these are incredible brands that are delivering incredible margins. Some of the other macro effects are going to affect everybody, but there will be some pressures and headwinds in kind of the months and year to come.

John Kernan
Analyst, TD Cowen

Q

Understood. Thank you. Best of luck.

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

A

Thank you.

Operator: Your next question comes from the line of Jonathan Komp from Baird. Your line is open.

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

Q

Yeah. Hi. Good afternoon. Thank you. The commentary on the fourth quarter was really helpful, but the consolidated growth rate looks very low and the lowest you've seen in a while. So, I'm just wondering, given the positive commentary you have on consumer demand, as we look forward into 2026, should we be thinking that double-digit growth is possible again? Or just any other context that you could provide?

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

A

Yeah. Sure, Jon. So, again, we aren't giving guidance in terms of next year. In terms of how we think about these brands and how they are resonating with consumers has not changed. We continue to see demand. You see it on our website. If you go to our popular styles on UGG, you're seeing them sold out. So, some of the percentage – and this is why we always talk about trying not to get too hung up on quarters, because quarters are not an indicative underlying indicator of the health of the brand. These brands are performing incredibly well with consumers.

But again, we're going to control some of that market. We're not going to necessarily try to feed all the demand that's out there. To the prior question, that is what's helping feed some of these exceptionally high level gross margin levels.

So I think, again, Q4, as we indicated at the beginning of the year, there was going to be some flow of product that was going to impact growth rates within the quarters. That's what's played out. So, this is not necessarily a surprise to us.

We've increased our outlook on the year given the performance that we've had, and we'll continue to manage the business. We are not looking at the business any differently today than we were a couple of weeks ago or six months ago. These brands are incredible. And that's what we're going to continue to manage.

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

Q

Yeah. That's really helpful. And if I could just ask one follow-up on HOKA. Could you share what you're seeing out there in terms of the competitive dynamics, either now or over the next few quarters? And then just updated thoughts on how you're thinking about distribution going forward for HOKA? Thank you.

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

A

Yes. As I said in my prepared remarks, Jonathan, we are going to be very selective and thoughtful in our distribution of HOKA. Yes, we'll be opening a few more doors, especially internationally. But we continue to be very thoughtful.

In terms of competitive landscape, all brands are offering better products. What is fortunate for us is that we have a strong lineup of great innovation stories that we believe will do well in the marketplace. As I said, Bondi 9 early read is very positive. And some of the innovation stories that I mentioned booked very well in wholesale for the back – for Q4 and the first half of next year.

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

Q

That's great. Thanks again.

Operator: Your next question comes from the line of Paul Lejuez from Citi. Your line is open.

Paul Lejuez
Analyst, Citigroup Global Markets, Inc.

Q

Hey. Thanks guys. Within the HOKA wholesale channel, can you remind us what percent of your business you would consider specialty running, how that channel performed for you? And then also as you look out to F 2026, how many stores do you have – new stores on the HOKA front, do you have in the pipeline for F 2026 and on what base is that? And any color you can give on where those stores might be opening? Thanks.

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

A

Yeah, starting with the stores. Paul, we don't disclose number of stores. Our strategy is about building presence in key cities. And you've – where we've seen the highest concentration of the brand stores so far, London, Paris, New York, L.A., Tokyo, Shanghai, Beijing, we've opened stores there this year, and they're performing very well.

So that's where you'll see an expansion of door count – on an operated door count. We'll be opening a flagship in Shanghai on May 7 next year. And – but we don't disclose the number of stores we'll be opening. We also will be opening partner stores, especially in Asia and as our partners continue to develop the brand in those marketplaces. Your first question was on...

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

A

It was HOKA wholesale.

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

A

HOKA wholesale, run specialty, yeah, we don't disclose the percentage of business we do by channel. But the HOKA brand continues to perform well in that channel, and some of the exclusive we've given that channel like the Skyflow has performed super well.

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

A

Yeah. And I think also, just to recall because you are referencing kind of the wholesale growth. So, I think just recall that a year ago, in FY 2024, we really didn't grow wholesale. So, FY 2025 was the year that we were expanding wholesale doors, so more distribution points. That is what led into that Q4 last year higher wholesale number because we were selling in product that would sell through after April 1. This year, we don't have that dynamic. So, we're not increasing our wholesale door count going into FY 2026 like we were in FY 2025. So, continued expansion, not the extent this year that you saw last year.

Paul Lejuez
Analyst, Citigroup Global Markets, Inc.

Q

Yeah. Thanks. Good luck.

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

A

All right.

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

A

Thank you.

Operator: Your next question comes from the line of Samuel Poser from Williams Trading. Your line is open.

Sam Poser
Analyst, Williams Trading LLC

Q

Good afternoon. Thanks for taking my questions. I guess, Erinn, I only have two, the Teva and the other since he gave us everything else. And then I have other questions.

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

A

Sure, Sam. I believe you're probably referring to global wholesale and distributor for each brand for the third quarter. So, I can provide that. So, for the UGG brand, global wholesale and distributor was approximately $468 million. HOKA was approximately $305 million. Teva was approximately $19 million, and that leaves other of approximately $24 million.

Sam Poser
Analyst, Williams Trading LLC

Q

Thanks. Okay. And so Steve, you brought up the fact that – sort of more normalized markdowns happening in Q4, which you expected more normalized markdowns all year. Given that – and I doubt that's happening in HOKA, there's planned markdowns in HOKA as you convert to the Clifton 10. But what – why should we expect markdowns? I mean, unless it happens in March, when like – you won't have anything left anyway because all our checks are saying everything is selling at full price right now?

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

Yes. So, the way we're looking at it, Sam – and again, we'll see how it plays out in Q4. We are anticipating kind of with the product that's sold in Q3. So, again, we're looking at year-on-year comparisons, stronger products selling at full price in Q3 with some of the inventory that's remaining in Q4, an expectation that we might experience some more closeouts. We'll see how that plays out.

In addition, as you pointed out, we do have some model changeover. So, there's a bit of seasonal closeout this year that we anticipate will be higher than it was last year, plus with some of the model changeovers this year you're going to have some additional closeouts in Q4 of this year to move some of that inventory out.

Sam Poser
Analyst, Williams Trading LLC
Q

Okay. Also, is there a chance you could give us what the EBIT margin – I know, it comes out in the Q, but could you give us the EBIT margin for UGG wholesale, HOKA wholesale and the DTC? Or do we have to wait for the Q for that?

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

Yes. Why don't you wait for the Q? That will be out early next week, so you don't have to wait too long.

Sam Poser
Analyst, Williams Trading LLC
Q

And then last – I mean, I still don't understand it. The operating – I mean, every – you said the same thing, but you manage the business well. You hit like a record gross margin in the quarter even with the markdowns. So, now in Q4, you have – you're expecting normal – I hate to beat a dead horse here, but you're talking about normalized – more normalized promotional activity. We know about the Clifton, and then you have the headwind of – you have some FX headwind. But you also have a bigger international growth, which is, I think, is an offset. So, I mean – and more – probably more weighted to DTC because of the issue you brought up with HOKA and the big shipments in last year. So, why would – that's a benefit. I'm very confused, and FX should also be a benefit on SG&A, which you maintained like you called out.

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

Yeah, [ph] so it needed (00:51:58) to kind of move [ph] a point, (00:51:59) Sam. I think the – basically, the two issues on the gross margin because you're kind of now talking different margins, but let's stick with gross margin. So, the freight issue that we have this Q4, we did not have last year. So, we were continuing to benefit last year Q4 with unsustainably low freight rates, and we've called that out, right? Those came in during the year, about midpoint, a little bit earlier than midpoint this year. So, that is a headwind for us and fairly significant one, probably in the 150 basis point range for the freight hit that we anticipate for Q4.

So, the other – the FX on the gross margin, while you call it out correctly, there is a bit of a benefit in the SG&A. There is a hit related to Q4 as the dollar has strengthened. So, that will be another headwind. So, again, kind of, macro conditions that are impacting our gross margins that we really don't have much control over in that respect.

Sam Poser
Analyst, Williams Trading LLC
Q

Can you break out – you just gave us 150 basis points for freight. Can you give us sort of how you're foreseeing the gross margin to play in a range the same way you gave us freight. Can you just give us FX on the headwind side? And can you give us promotions on the headwind side? And then, I guess, tailwinds on some kind of mix perspective? As you've guided...

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

Yeah. Sure. I think on – kind of on the FX, call it, in the 50 basis point range. And then on the closeout promos could be up to 100 basis points.

Sam Poser
Analyst, Williams Trading LLC
Q

And then on the other side of it, like mix and geographic and channel mix, I assume those are positive?

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

Yes, they will be, but less – I would call it less than 50 basis points all-in.

Sam Poser
Analyst, Williams Trading LLC
Q

Okay. All right. Thanks very much. Continued success.

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

All right. Thanks, Sam.

Stefano Caroti
Chief Executive Officer, President & Director, Deckers Outdoor Corp.
A

Thanks, Sam.

Operator: And your final question comes from the line of Chris Nardone from Bank of America. Your line is open.

Christopher Nardone
Analyst, BofA Securities, Inc.
Q

Great. Thanks, guys. Good afternoon. Can you elaborate some more on the Clifton 10 launch? Just want to confirm if most of the initial sell-in will be recognized in the fourth quarter? And if there's any changes to your product segmentation strategy since you have an expanded door count? Then on the Clifton 9, is there any way we can think about the impact to sales and margins from sunsetting that product ahead of the Clifton 10 launch?

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

Yes. So, just on the margins, a little bit on the Clifton 10. We're going to be flowing that product. So, it won't necessarily all be a Q4 event. Some of that will trickle into Q1. We haven't disclosed kind of that. Some of that will be wholesale sell-in in Q4 that is included in our guidance and anticipated. Some of the flow will actually also happen in Q1.

In terms of the margin hits on the Clifton 9, that's embedded. And so, in that number I just gave Sam of the – around 100 basis points anticipated as a part of that among other product is part of that Clifton 9 closeout. So, that's embedded in some of that gross margin movement that we've guided to.

Christopher Nardone
Analyst, BofA Securities, Inc.

Q

Got it. That's very clear. Thank you.

Operator: And this concludes today's conference call. Thank you for your participation. You may now disconnect.