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DECK - Q1 2013 Deckers Outdoor Corp. Earnings Conference Call

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OVERVIEW:

Co. reported 1Q13 diluted EPS of $0.03. Expects 2013 revenues to grow approx. 7% over 2012 and diluted EPS to grow approx. 5% over 2012. Expects 2Q13 revenue to be approx. flat with 2Q12 and diluted loss per share to be approx. $1.10.

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PRESENTATION

Operator

Good afternoon ladies and gentlemen and thank you for standing by. Welcome to Deckers Outdoor corporation first quarter fiscal 2013 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 call is being recorded.

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 regarding the Company's expectations, beliefs, and views about its future financial performance, brand strategies and cost structure are forward-looking statements within the meaning of the federal securities laws. These forward-looking statements are intended to qualify for the Safe Harbor from liability established by the Private Securities Litigation Reform Act of 1995.

These statements relate to the Company's anticipated revenues, expenses, earnings, gross margin, capital expenditures, brand strategies and cost structure as well as the outlook for the Company's markets and demand for its products. The forward-looking statements made on this call are based on currently available information and because its business is subject to a number of risks and uncertainties, some of which may be beyond its control, actual operating results in the future may differ materially from the future financial performance expected at the current time.

Deckers has explained some of the risks and uncertainties in its earnings press release and in its SEC filings including the risk factors section of its annual report on Form 10-K and its other documents filed with the SEC. Listeners are cautioned not to place undue reliance on forward-looking statements which speak only as of the date hereof.

The Company undertakes no obligation to publicly release or update the results of any revisions to forward-looking statements. I would now like to turn the conference over to the President, Chief Executive Officer and chairman of the board of directors, Mr. Angel Martinez. Please go ahead, sir.

Angel Martinez - *Deckers Outdoor Corp - Chairman, CEO, Pres.*

Good afternoon. And thank you to everyone for joining us today. With me on the call is Zohar Ziv, Chief Operating Officer and Tom George, Chief Financial Officer. As you saw from our press release, first quarter sales and earnings came in ahead of projections. The upside was driven primarily by better than expected consumer demand for the UGG brand in both our wholesale and direct to consumer channels.

This was partially offset by some temporary softness in the Sanuk brands international business due primarily to inventory buildup at some key distributors. Overall we are pleased with our start to the year and feel good about the strategic direction of our brands. For the UGG brand, sell-through Classics as well as casual slippers and spring fashion boots performed very well. In double digits on a weekly basis throughout the quarter at key accounts.

Buoyed in part by colder temperatures across much of the US versus the same period a year ago. In addition, several new spring casual styles have sold extremely well as consumers responded favorably to our new introductions carrying more attractive opening price points. The Mora, the Inda and the Liza Casuals are selling in double digits all in the $70 to $100 retail price point.

The brands continued momentum following the solid end to 2012 further validates our belief in the strength of the UGG brand and the desirability of our growing product collection. As expected, domestic wholesale was down compared to the prior year. But we saw improved sell in of the spring line as many of our key accounts expanded their spring business following solid performances the past few years.

Better than expected sell-through of boots did generate some reorders during the quarter. In Europe for long cold spells helped fuel sell through of Classic during Q1 further reducing retailer inventory levels and boosting confidence in the brand for next fall. From a selling perspective, wholesale sales were down in line with plan, however, we are selling the spring fashion sandals well and boots performed well in Q1 with colder than expected weather.

Now to Asia, where Japan wholesale sales were driven by the growing popularity of our spring line combined with increased demand for cooler weather fall product. Like the US, Japan had a longer winter this year which helped improve demand for Classic boots, particularly the shorter length styles early in Q1. As the quarter progressed and temperatures warmed we witnessed sell-through of casual shoes accelerate. Underscoring the progress we have made evolving the UGG brand into more of a year round brand in this region.

Turning to our retail division. Sales were ahead of expectations driven by the combination of a mid-single digit comp increase and improved productivity for many of the new stores opened over the past the 12 months. By region, accounts were strongest in North America with the US and Canada up mid-teens and low double digits respectively.

Building off a good holiday season and helped by cold spring weather the UK posted a mid-single digit comp gain while in Japan comps were up low single digits. While down double digits, China comps have continued to show steady improvement over the past few quarters thanks to new merchandising and marketing strategies as well as the inclusion of several new stores in the comp base. During the quarter we opened one store in the US and currently operate a total of 78 stores worldwide.

For 2013 we still expect to open in the neighborhood of 30 stores. Two thirds of which will be in Asia, primarily China and Japan, with the remainder in the US and Europe. Now to the Teva brand, which grew in the first quarter despite the cold weather conditions. As we documented for several seasons now, our focus has been on transforming the Teva brand into a more complete outdoor footwear brand in order to increase its growth prospects and lessen its dependences on weather.

Following some successful introductions over the past few years, I believe we developed the Teva brands most advanced and compelling spring line yet led by the new TevaSphere collection of trail runners and cross trainers. The technology inside these shoes, which took several years to develop, emphasizes a first of its kind spherical heel and pod arch system delivering a more natural point of impact, efficient transition and superior stability on varied terrain. The collection has helped us acquire additional shelf space, expand price points and elevate the brands position with a broader consumer audience.

The combination of performance and stability found in TevaSphere products is state of the art and speaks to the innovation our organization is capable of bringing to market. We haven't forgotten the brand's roots and continue to advance the sports sample category with new offerings for this year, that include the successful [Tera and Zera] sandals for women and our Terra-Fi light sandals for men. We did miss out on some replenishment business in Q1 as a result of the unseasonable cool temperatures which could also have an impact on some Q2 deliveries but overall we are pleased with the brand start to the year.

For the Sanuk brand, domestically it was a solid quarter with sales up double digits versus a year ago. Like the Teva brand the Sanuk brand lost out on some reorders as a result of colder weather but still managed to achieve a mid-single digit wholesale sales increase led by strong response to new styles such as the Yoga Sling sandals and Body Sidewalk Surfer for women and updated looks in our core Sidewalk Surfer for men. The brand's E commerce business continued to post impressive gains. Fueled by last springs convergence of the Deckers platform. Which allowed us to create a much more effective environment for engaging with consumers.

We recently developed another new environment with our first company operated Sanuk brand store in the US located on Third Street Promenade in Santa Barbara and Santa Monica. The store is in the heart of southern California home to the surf culture from which the Sanuk brand was born and one of the busiest tourist destinations in the country. It's the meeting of these two worlds that serves as the basis for our strategy with the Sanuk brand. First and foremost we must continue to connect with our core consumer who influences much of the US market and other markets inspired by surf culture.

At the same time we need to expand the brand's conversion beyond the beach and evolve the product line to reach new audiences while still retaining and maximizing our current audience. Looking at the Sanuk brand performance overseas, first quarter sales were below last year mainly due to declines in Asia. I believe much of the decrease can be attributed to the normal growing pains many young brands experience as they make the transition from niche player into a larger market participant.

Until now the Sanuk brand relied solely on distributors to launch and grow the business in the international markets, namely Asia Pacific. With the formation of the Sanuk management team and Deckers' subsidiaries in Japan we now have the infrastructure to take a more direct involvement in the Sanuk brands operations throughout the region.

So we are currently working very closely with some of our largest distributors to improve their inventory management and distribution strategies. I will now turn the call over to Tom who will review the numbers in more detail and update our outlook. Tom?

Tom George - *Decker Outdoor Corp - CFO*

Thanks, Angel. Today's earnings release contains a good amount of detail about our first quarter sales and earnings including sales by brand channel and geography. Therefore I'm going to limit my discussion primarily to gross margins, operating expenses, the balance sheet and guidance.

Gross margins for the first quarter was 46.8%, compared to 46% in the first quarter of last year. The 80 basis point improvement was primarily attributable to a greater proportion of higher margin retail sales in Q1 2013 as compared to the same period last year which offset an increase in sheep skin costs. Total SG&A expense for the quarter was $120.9 million or 45.8% of net sales compared to $101.4 million or 41.2% of net sales a year ago.

The dollar increase versus a year are ago was primarily due to $10.4 million of additional expense related to our retail operations, most of which is for the 29 new retail stores that were not open during the first quarter last year as well as some additional marketing and international costs. Operating income for the first quarter was $2.7 million, or 1% of sales compared to operating income of $11.9 million or 4.8% of sales last year. The decline in operating margin was the result of the aforementioned increase in SG&A expenses.

Our effective income tax rate for the first quarter was 59.9% compared to 34.9% in the first quarter last year. The higher tax rate in 2013 was mainly due you to one-time tax items which had a higher percentage impact as a result of lower pretax income as compared to the prior year. First quarter diluted earnings per share was $0.03 versus $0.20 a year ago and compared favorably to our guidance for a loss of approximately $0.12.

The upside relative to our guidance was driven by the combination of higher sales, which was worth approximately $0.12, and approximately $0.03 was attributable to a delay in incurring marketing expenses during Q1 and will move into Q2 which will now be incurred in the second quarter. Turning to the balance sheet. At March 31, 2013 inventory increased 23.3% to $257.1 million from $208.5 million at March 31, 2012. And decreased 14.4% from $300.2 million at December 31, 2012.

The $48.6 million increase in inventory from the prior year is primarily due to UGG driven by carryover product which will be utilized to fulfill orders during 2013. In addition approximately $10 million is due to higher unit costs and $9 million is due to 29 more retail stores compared to a year ago. By brand, compared to March 31, 2012 UGG brand inventory increased $42.5 million to $201.5 million.

Teva brand inventory increased $0.5 million to $31.3 million. Sanuk brand inventory increased $3 million to $15.1 million and our other brands inventory increased $2.6 million to $9.2 million. I would like to provide more detail regarding our comfort with the quality of our UGG brand inventory.

At March 31, 2013 in line and carry over products represented approximately 90% of UGG brand inventory. The remaining 10% is inventory available for our outlets or the closeout channel and we believe has been valued appropriately and has been considered in our forward margin guidance. Regarding orders for inline and carryover product as of March 31, we have orders for a significant amount of the inventory with the balance available for our retail stores and E commerce business. Which combined has grown to over 25% of our business.

At March 31, 2013 our cash and cash equivalents were $64.6 million compared to $228.6 million at March 31, 2012. At March 31, 2013 we had $10 million in outstanding borrowings under our credit facility compared to zero a year ago and $33 million at December 31, 2012. The decrease in cash and cash equivalents and the increase in outstanding borrowings year-over-year are attributable to $200.7 million of stock repurchases over the past 12 months at an average price of $47.33 a share and $62.5 million of cash payments for capital assets which includes $34.1 million of retail expansion, $13.6 million for the new headquarters facility with the balance of $14.8 million for IT infrastructure and maintenance as well as other expenditures. Offset in part by cash provided by operations.

During the quarter we did not repurchase any shares of the Company's common stock. As of March 31, 2013 we had $79 million available under the $200 million stock repurchase program announced in July 2012. Regarding our retail operations for all stores open at least 12 months at March 31, 2013, the average sales per square foot was $1,500.

This figure compares to sales of approximately $1,600 per square foot for the trailing 12 months ending December 31, 2012. With the difference driven by addition of our Canadian locations as well as several China stores, countries where productivity levels are below the Company average. Total square footage at the end of March was approximately 215,000 square feet compared to roughly 134,000 square feet at the end of March 2012 representing an increase of about 60%.

Now, moving on to our outlook. Based on first quarter results and current visibility we still expect 2013 revenues to increase approximately 7% over 2012 levels. For the full year we still expect UGG brand sales to increase by approximately 4% and Teva brand sales to increase approximately 6%.

We now expect Sanuk brand sales to grow approximately 10% to 13% compared to our prior guidance of approximately 15%. While other brand sales are now expected to generate $41 million in 2013 compared to prior guidance of $40 million. With regard to earnings we still expect diluted earnings per share to increase approximately 5% over 2012.

While first quarter earnings did come in ahead of guidance, a portion was related to a shift in the timing of certain marketing expenses. We are also seeing some pressure on earnings from fluctuations in foreign currency primarily in the back half of the year. Finally with such a significant amount of our earnings concentrated in the fourth quarter, we believe it is prudent to maintain our original full year outlook until we get closer to our key selling season.

Our forecast is still based on a full year gross profit margin of 46.5% and SG&A as a percentage of sales of approximately 34%. For the year, capital expenditures are still projected to be approximately $85 million, with $40 million for retail stores, $30 million for the corporate facility and the balance of $15 million for IT and other maintenance. And we are still planning to refinance our corporate headquarters by securing long-term financing. For the second quarter of 2013 we expect revenues to be approximately flat with second quarter 2012 levels.

As Angel mentioned, the cold spring weather thus far is likely to have an impact on reorders for the Teva and Sanuk brands which is factored into our guidance. Though second quarter we expect a diluted loss per share of approximately $1.10, which when you take into account the $0.03 impact from the shift in marketing expenses is in line with the Q2 guidance we outlined on the year end call for a diluted loss per share of approximately double the $0.53 we lost in the same period a year ago.

Looking at the back half of the year it is important to know that based on the growing contribution from our own retail stores combined with the change in wholesale buy-in patterns following two consecutive mild winters we now expect roughly 85% to 90% of our projected second half earnings will come in the fourth quarter. I will now turn the call back over to Angel.

Angel Martinez - *Deckers Outdoor Corp - Chairman, CEO, Pres.*

Thanks, Tom. So we are close to completing our fall pre-book and orders have come in as expected which is down compared to 2012. We saw a good response to our new transitional product highlighted by driving mocks, slippers and ballerinas as well as specialty Classics, slippers, casual boots and fashion boots.

Retailers remain cautious on fall/winter deliveries following back-to-back mild winters. We have seen this in our more weather sensitive collections, namely cold weather specific products. On a positive note a cold first quarter helped further clear carry-over inventory in the channel improving the opportunity for reorders in Q4 should we experience a more normalized winter.

Before moving to questions I want to expand on our discussion about Pure. As we discussed in our last earnings call, our innovation team has delivered on a challenge that has been underway for some time. Namely to develop additional materials that would allow us to deliver the comfort for which the UGG brand is known while helping to mitigate the unpredictability of material costs.

The material is called UGG Pure, which is a wool pile textile, created by crafting wool fibers and weaving them into a durable backing that allows us to deliver a plush and consistent sensory experience. We are introducing Ugg Pure into the foot beds and linings of some of our products beginning in April in our own concept stores and in late May in our wholesale channels. With UGG Pure, we believe that we will be able to lower our product cost and pursue profitable new growth opportunities, some of which were previously not economically viable.

As I said on the last call, UGG Pure gives us another important key to further unlock the lifestyle nature of the UGG brand well beyond footwear. While we are excited about the flexibility we believe UGG Pure can potentially provide, I think it is important to keep this development in context. We will expand UGG Pure into other products in our line over time.

As a reminder, our Classic collection is currently constructed using mostly premium twin faced sheep skin, not tail grade sheep skin. So while UGG Pure will offer some near term cost savings, we will still be heavily dependent on sheepskin for the near term. We will be able to update you on our expected sheep skin cost basis for fiscal year 2014 when we report third quarter results in October. So thank you for your continued interest in Deckers and we will now be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). The first question comes from Omar Saad with ISI Group.

Omar Saad - *ISI Group - Analyst*

Thanks, good afternoon. Angel, I wanted to follow up on the comments you just made on the UGG Pure. It seems like this time table may be moved up a little bit. It sounds like you will have some of it in your own stores.

If I remember correctly I think on the last call it sounded like it was more a fall collection development. Has anything changed in terms of the supply chain around that or your comfort level through consumer testing? Any kind of thoughts around that would be helpful.

Angel Martinez - *Deckers Outdoor Corp - Chairman, CEO, Pres.*

Well, fundamentally nothing has changed. We are getting better at refining our supply chain. Everyone is now growing more familiar and more comfortable with the processes involved in producing the material.

We have said from the beginning that it would be infused into the product line slowly. Now some of this transitional product that you are going to see in stores beginning in this April was a good opportunity for it to be introduced in the foot beds and some lining materials so that is what we are doing. So no real change from what we originally said. You will still see it at wholesale as we had planned in May and June.

Omar Saad - *ISI Group - Analyst*

Got you. Understood. Then one quick question follow-up on your comments around the fall orders. Second consecutive warmer winter. As expected there is some softness there as retailers are being more cautious.

It sounded like it was mostly in the kind of colder weather lines. Are there any other areas in the product lines where you are getting a retailer response that you are a little bit disappointed by that you are going to focus on developing further in the coming years or perhaps some areas of the line where Pure could play a role?

Angel Martinez - *Deckers Outdoor Corp - Chairman, CEO, Pres.*

I don't think anything has come as a surprise. I think people have just been generally speaking cautious. I think that they have been a couple of things. It's not just the warm winters. It's the impact of all of the E commerce that is going on across all channels and really across all consumer industries.

We are seeing that across the board. That is why a couple of years ago we really started to diversify our Classic assortment so it was not so monolithic if you will. Some of the updated Classics, some of the classic derivative product that we have done has added a lot of new interest. It allows us to do more marketing driven around product that is only available for a short amount of time as we did last holiday season.

So no, I would say generally there is no surprise. The cautiousness is pretty consistent. Interestingly, I think you will see as a result of the cooler weather this spring it should, people may look at their order book and realize that perhaps if we start to trend toward a more normalized winter that they may be a little short on even core Classic product and core colors. But it is too early to tell that. We will find that out as the season progresses.

Omar Saad - *ISI Group - Analyst*

Have the retailers had any response to Pure? Is that reflected at all how they responded?

Angel Martinez - *Deckers Outdoor Corp - Chairman, CEO, Pres.*

We have had tremendous positive response to Pure. I think in the end the consumer is really being offered a product that is improved and better. So it actually enhances the UGG experience at retail so that the retailers we have had in and showed them the material and A, they, in a blind test they say well, I like this one it feels better to me and they find it is UGG Pure. So in many cases that we have is shown it to people that has been the response.

Omar Saad - *ISI Group - Analyst*

Thanks a lot for all of the information, guys. Good luck.

Angel Martinez - *Deckers Outdoor Corp - Chairman, CEO, Pres.*

Thank you.

Tom George - *Decker Outdoor Corp - CFO*

Thanks.

Operator

And next is Bob Drbul with Barclays.

Bob Drbul - *Barclays Capital - Analyst*

Good evening.

Angel Martinez - *Deckers Outdoor Corp - Chairman, CEO, Pres.*

Good evening.

Bob Drbul - *Barclays Capital - Analyst*

I guess the first question is on the order book, I'm sorry on the inventory levels, I think you said 90% of it is in line. How much of that number, can you give us a number in terms of how much of it has orders behind it right now as you head into the fall?

Angel Martinez - *Deckers Outdoor Corp - Chairman, CEO, Pres.*

Yes, Bob, I even commented that on the script. A significant amount of that already has orders and we also, that inventory also supports our direct to consumer business as well. We feel like we have made good progress in getting the inventory levels more in line and feel really comfortable looking at that inventory and the quality of that inventory on a very detailed basis relative to what we have prebooked.

Bob Drbul - *Barclays Capital - Analyst*

Okay. And then for the rest of the year I guess from the first quarter you talked about more attractive price points. Just a similar question but do you feel like you have the pricing piece of this in a good position for the rest of the year both on orders booked at retail?

Angel Martinez - *Deckers Outdoor Corp - Chairman, CEO, Pres.*

Yes, we do. We feel that we are in a good situation there. One of the things that helped us even get more and more comfortable is that with that colder winter that we experienced in the first quarter of the strong sell-through we saw of the Classic products in the first quarter with our major customers. That even reinforced further that we feel really good where we are at from a pricing point of.

Tom George - *Decker Outdoor Corp - CFO*

We experienced no price resistance with core product in the first quarter. We really feel that this sort of validates what we have been saying about the brand. The brand has tremendous power in the consumer environment and normalized winter creates significant demand increases as we have seen just in the example of this colder spring.

Bob Drbul - *Barclays Capital - Analyst*

Great. Thank you very much. Good luck.

Angel Martinez - *Deckers Outdoor Corp - Chairman, CEO, Pres.*

All right, thanks.

Operator

And moving on to Erinn Murphy with Piper Jaffray.

Erinn Murphy - *Piper Jaffray & Co. - Analyst*

Great. Thank you for taking my question. I just wanted to follow up. It was helpful to hear that comp detail by region. If you could just help us kind of put some of the key regions, North America, Europe and Japan in context of last year.

And then as we go forward throughout the year where do you see the biggest opportunity in terms of the regional performance. That is my first question and I have a quick follow-up. Thank you.

Tom George - *Decker Outdoor Corp - CFO*

Yes, we were pleased with how the comps performed during the first quarter. I think we talked about there is still some challenges in China. I think we made great progress in identifying what we need to do there in China from a store operation point of view and an inventory management within the stores. In addition to a merchant, from a merchandising and marketing point of view on the stores, we experienced good traffic increases in the stores during the first quarter.

One thing to keep in mind on the comps is we are still relatively new to retail and the comp base is still relatively small in the scheme of things. It is subject to some volatility. Especially in the regions that have a smaller number of stores, and that being Japan. So, I think net-net, because it is still very early and really the results for the year are really fourth quarter driven and they are very direct to consumer oriented kind of results, we are still assuming some caution in the comps until we get to the fourth quarter. And still then we are even looking at trying to be cautious at this early stage of the game.

Angel Martinez - *Deckers Outdoor Corp - Chairman, CEO, Pres.*

As far as your other, the other part of your question, we are very excited about opportunities in Asia with our brand. One of the things that we have learned is to me be much better merchants. So the merchandising approach that Dave Powers and his team have brought forward is going to make significant impact. Already has been making an impact.

UGG Pure is going to allow us to evolve and develop product that is a little more attainable for a broader percentage of the population in China. Because right now we are really looking at product that is only available to the top 2% or 3% of the population from a price point of view. It is leaving too big a gap below us that knock off brands are exploiting. So this is going to be an opportunity for us to really exploit that opportunity, that potential in our brand and we are pretty excited about that.

Erinn Murphy - *Piper Jaffray & Co. - Analyst*

Thank you, that is really helpful. Then, I guess, Tom just a quick last follow-up for you. On the Q2 revenue guidance and I can appreciate the dynamics given the deferred spring selling season, but how should we think of the revenue component for the UGG brand and help us maybe appreciate the channel dynamics between retail and wholesale in the second quarter? That would be really helpful. Thank you.

Tom George - *Decker Outdoor Corp - CFO*

Second quarter is sort of the most insignificant quarter really. It is most of the spring product is really sold into the first quarter so that remains that the second quarter is some close outs are involved in the second quarter and retail is very low in the second quarter as well. So we, I would give you a little bit more flavor not only with Teva and Sanuk. Teva and Sanuk are sort of flattish at best.

The UGG domestic wholesale is planned to be a little bit, a little bit down from a comp perspective. Any gains from a channel perspective we expect comps to be sort of flattish, maybe slightly up. We have seen some improved productivity on the new stores but the declines I described in the wholesale and distribution channel that is going to put some pressure so net, net, net, it all boils down to sort of a flattish quarter from a top line point of view and so that is that.

Erinn Murphy - *Piper Jaffray & Co. - Analyst*

Great. Thank you. Understood. Best of luck.

Tom George - *Decker Outdoor Corp - CFO*

Alright. Thanks.

Operator

And next will be Scott Krasik with BB&T Capital.

Scott Krasik - *BB&T Capital Markets - Analyst*

Hi everyone. Thanks. Tom, I just wanted to clarify your comments based on the $0.03 this quarter and minus $1.10 in the second quarter, that would imply about $4.70 or so in the back half of the year and then you said only 10% or 15% of that would be in Q3?

Tom George - *Decker Outdoor Corp - CFO*

Yes, that is right. I mean the, there is a lot of different dynamics going. More retail stores. We also talked about there is more and more of a shift with our major wholesalers to order more product for the fourth quarter versus the third quarter. I think another dynamic there is we are moving to try to get more of our retail stores opened in the third quarter. Not have them all piled into the fourth quarter.

And given the third quarter is not that strong of a retail quarter you get some more SG&A that you need to absorb in the third quarter. And one other thing, pretty important thing, is from a margin perspective there is really no benefit we are seeing in the third quarter relative to the sheepskin and the Pure savings we are going to experience this year. That is really a fourth quarter phenomenon. That puts, that really skews the back half earnings numbers.

Scott Krasik - *BB&T Capital Markets - Analyst*

Angel, I guess your order book closes I think the end of April I had heard. Do you see orders sort of move from Q3 to Q4? Do people just eliminate the orders from Q3 and keep the orders the same for Q4 and then expect that one's business how does the order book look as it is almost closed I think.

Angel Martinez - *Deckers Outdoor Corp - Chairman, CEO, Pres.*

I think we are seeing a slide more toward Q4. I think we are seeing, people are willing to roll the dice on inventory availability in Q3 if they haven't stepped up and ordered as aggressively as they have in the past. If the winter season kicks off aggressively they will be chasing inventory and we will be fulfilling a lot of orders on our E commerce and our own stores.

So we are just seeing a shift now with retailers wanting to be much closer to market. Which is a little ironic because it wasn't that long ago that you would see fall product in full bloom in July, lots of merchandise. I think you are going see that big shift away from that at retail.

Scott Krasik - *BB&T Capital Markets - Analyst*

So if I could just sneak one last one in. You talked about transitional product last quarter. I guess 2013 you just didn't have enough time. But what type of product can you create to get some of that Q3 business back in wholesale?

Angel Martinez - *Deckers Outdoor Corp - Chairman, CEO, Pres.*

Well, we do have some transitional product shipping this year and we really began that last year. It is really about the weight of the material, the components of the material that make it more winter appropriate versus fall appropriate. Driving mocs are important as transitional product, the ballerinas are important as transitional product.

Sandals still obviously important in the first half of Q2. So we have got more diversity of product, more colors, more materials. Wedges are important. All of that stuff is something we have been building and it has been well received and selling through quite well. So we will be doing more of that.

Scott Krasik - *BB&T Capital Markets - Analyst*

Okay. Good luck. Thanks.

Angel Martinez - *Deckers Outdoor Corp - Chairman, CEO, Pres.*

Thank you.

Tom George - *Decker Outdoor Corp - CFO*

Thanks.

Operator

Next will be Randy Konik with Jefferies.

Randy Konik - *Jefferies & Company - Analyst*

Hi, can you hear me?

Angel Martinez - *Deckers Outdoor Corp - Chairman, CEO, Pres.*

Yes, we can.

Randy Konik - *Jefferies & Company - Analyst*

Alright. Great, guys. I guess Angel, can you give us some perspective on when you look and think about the inventory and the wholesale channel distribution, where do you feel like it is cleanest from a geographic perspective? That is my first question?

Angel Martinez - *Deckers Outdoor Corp - Chairman, CEO, Pres.*

I think anywhere we have had cold weather this spring which is Europe, UK particularly, the US, and Asia as well. Japan had cold weather in the first part of spring. So in all of those markets where we had carryover product from Q4 my, that will have a positive impact. Certainly it was inventory that a lot of retailers already owned but it bodes well for what we have in terms of their needs for Q4. So they are much less concerned about that aspect of their UGG business given what happened in the, with the weather in the first quarter in those key regions.

Randy Konik - *Jefferies & Company - Analyst*

Got it. And then, second question is, in terms of the product that we are going to be looking at from a fall/winter perspective 2013, what would the consumer or what should we from a sell side perspective be, what kind of products should we be noticing the most in terms of incrementally impacting demand, i.e. profits, consumer, etc cetera. What are the wholesale customers getting most excited about right now?

Angel Martinez - *Deckers Outdoor Corp - Chairman, CEO, Pres.*

Well, what we think we have done around Classic I think are very exciting. And Classic is almost, you sort of have to think of it as a design theme versus specific product assortment. It is Classic inspired products. So it really kind of takes what people love so much about Classic and evolves it with material upgrades and color waves and treatments.

A whole variety of things that make it very unique and unusual compared to what people have seen in the past. That is pretty important. The casual boots are very important. There is a lot of excitement about that. We have had good price points on those products. I think we have done a good job with the right style and assortment.

Our men's product for fall is quite strong, especially the boots. So it is, by the way, in the fall we sell a lot of sneakers. The beginning of the fall that continues to be pretty strong. It is a much more diversified product line.

Given the last two years of mild weather we really haven't been doing a lot of aggressive development of more cold weather product. What we would call cold weather product because obviously you have a one-shot deal there and our core styles in cold weather have performed well. It's just that there hasn't been enough cold weather to go around. We have just evolved those appropriately but you haven't evolved the amount of SKUs in those assortments.

Randy Konik - *Jefferies & Company - Analyst*

Got you. I guess the last question would be more for Tom. Tom as you go back a little while ago when you guys leveraged the balance sheet and used it to aggressively repurchase $200 million or so of your stock over the last 12 months. You have $79 million left to buy back.

You are going to have to generate a ton of cash in the back half of the year and the business seems to be stabilizing. Could we expect you to get more aggressive once again from a share repurchase perspective? How should we be thinking about that?

Tom George - *Decker Outdoor Corp - CFO*

The best way we can comment on that right now is just refer to the current authorization. We do have $79 million remaining on that authorization and we will look to continue to be opportunistic. And you're right, the Company, the business model does generate a significant amount of free cash flow. And that being said, we have got a significant amount of opportunities that we want to reinvest in the business. So can't comment on any, that is about all I can comment on relative to share repurchases.

Randy Konik - *Jefferies & Company - Analyst*

All right. Fair enough you. Thanks, guys.

Tom George - *Decker Outdoor Corp - CFO*

Thank you.

Angel Martinez - *Deckers Outdoor Corp - Chairman, CEO, Pres.*

Thank you.

Operator

Moving on to Sam Poser with Sterne, Agee.

Sam Poser - *Sterne, Agee & Leach, Inc. - Analyst*

Good afternoon. Thanks for taking my call. A couple questions. Number one, you mentioned that the backlog was down. Can you give us some indication of, you gave it in the first quarter, you said backlog was down 17%. Can you let us know what is going on this quarter?

Tom George - *Decker Outdoor Corp - CFO*

Yes, Sam, we feel good where the prebook came in and it is down really in line with our expectations and gives us a lot of comfort in terms of how we are guiding for the back half of the year.

Sam Poser - *Sterne, Agee & Leach, Inc. - Analyst*

What I am trying to get to is, last year a lot of the retailers were sitting on a good deal of inventory and this year I believe the inventories are cleaner at retail, so I was wondering sort of what percentage of the backlog that you had at this point last year did you actually ship?Trying to get a read on basically if the backlog you had now is stickier and you could end up in a better position?

Tom George - *Decker Outdoor Corp - CFO*

You know, good question. A year ago what eventually happened in the back half of the year especially the fourth quarter we did experience some significant cancellations and we also commented on the call we have seen that the inventory in the channel is a lot cleaner. All that being said this early in the year before the key selling season, we still think it is prudent to maintain a similar percentage level of cancellations to last year in our guidance.

Sam Poser - *Sterne, Agee & Leach, Inc. - Analyst*

All right. Okay. Thank you. And then secondly, you mentioned on the prior call that you expected inventory at the end of the second quarter to be around $300 million and be down on a year-over-year basis. Is that still what we should be looking for?

Tom George - *Decker Outdoor Corp - CFO*

I think one thing to point out on inventory is there has been a lot of moving dynamics. The business is changing. A lot more direct to consumer business it needs to support. There is more transitional product, more stores.

There is higher sheepskin costs. The factories are after us to take more product earlier. That said, at the second quarter we still expect inventory to be down compared to the prior year and flattish to that year end $300 million number.

Sam Poser - *Sterne, Agee & Leach, Inc. - Analyst*

Okay so nothing has changed with that at all.

Tom George - *Decker Outdoor Corp - CFO*

That's right.

Sam Poser - *Sterne, Agee & Leach, Inc. - Analyst*

And just one last thing. Because a lot of people are asking me this question. It was, basically you had $208 million at the end of last year at the end of the first quarter. If you were to aim even close to that number and be down you wouldn't have brought in any new product because it would have been logistically impossible. Am I just thinking about that correctly?

Tom George - *Decker Outdoor Corp - CFO*

I think related to the first quarter we were pleased with the progress we made.

Sam Poser - *Sterne, Agee & Leach, Inc. - Analyst*

No, no I understand that. What I'm saying is that people are saying wow your inventory is still up, is up more than it was at the end of Q4, and my point is that just in pure dollars you couldn't have gotten it even close to that number or wouldn't have had any new product to sale. Am I thinking about that correctly?

Tom George - *Decker Outdoor Corp - CFO*

Right, you are thinking about that correctly.

Sam Poser - *Sterne, Agee & Leach, Inc. - Analyst*

Thank you and good luck.

Tom George - *Decker Outdoor Corp - CFO*

All right, thanks.

Operator

And moving on to Eric Tracy with Janey Capital Markets.

Eric Tracy - *Janey Capital Markets - Analyst*

Hi guys. Good afternoon. I guess if I could follow on the UGG Pure conversation. One, just were you able to get a sort of percentage of potential penetration by, say holiday this year what is expected?

Omar Saad - *ISI Group - Analyst*

As we have said, we are, because of the evolution of the supply chain we are going to be introducing it in foot beds and some lining materials in 2013. We have sheepskin lining material that we own from prior years so I wouldn't expect it to be much more than 10% of what we are using, what will formally be conventional lining material. Now, over time I would say that our near term goal is 25% of the lining material to be replaced by UGG Pure. I mean 25%of our sheepskin use to be replaced by UGG Pure. Which would represent about most of the lining material that we are using.

Eric Tracy - *Janey Capital Markets - Analyst*

Okay. And then just to clarify again how you are thinking about layering in the UGG Pure. On the core Classic obviously it will just be the foot bed. Is it my assumption that you try to maintain the pricing level within the Classic and obviously just layer in the lower product cost so that the margin beneficial very helpful but then on some of the more fashion oriented newer lines it could actually be the full silhouette in the lining of the product and that gives you an opportunity to adjust pricing down? And then I guess with all of that then, can you give any sense of just like for like what sort of the lower product cost might mean to margin?

Tom George - *Decker Outdoor Corp - CFO*

Well, first of all over time, yes, the new product where we have an opportunity to utilize more of Pure in the design of the product and what it delivers to the consumer you will see a higher percentage of the new product in the UGG Pure material. As I said before, it is superior. So that is important to understand. Classic will remain for the near term prime twin face.

It is still I think a little bit early to sort of discuss what the ultimate impact is on margin but we are going to be driving as aggressively as we feel appropriate to use UGG Pure as an essential part of what makes UGG feel like UGG, feel like nothing else and that in and of itself the consumer is going to vote. The consumer is going to vote. Do they like it better as we think they do, they will. They will demand more of this feeling and more consistency of product and it is going to give us opportunity to introduce new product at better margin and even at lower introductory price points so that we can go get back some of the core customer that we lost due to price increases over the last few years on the raw material.

Eric Tracy - *Janey Capital Markets - Analyst*

And then just lastly on the UGG Pure, I mean, fair to say, even if you get to that 25% near term penetration level, that the by products should actually cause some downward pressure on the twin face sheepskin market, correct in facing?

Angel Martinez - *Deckers Outdoor Corp - Chairman, CEO, Pres.*

I think theoretically that you could see that happening. Yes, I think so. We are always going to be in the market for a prime twin face. It is important, we feel that there is some products that consumers just want them the way they are and we are not the going to go changing them. But this is really about product evolution and the new opportunities it creates. And as we evolve some of the new categories that we haven't been in, such as home products and apparel, et cetera, you will see more use of this material and over time it should have a positive impact on price of the conventional table grade material for sure.

Eric Tracy - *Janey Capital Markets - Analyst*

Okay. And then if I could just squeeze one last in just switching gears here towards the retail growth. I think there is probably half of the stores, 15 of the stores of the 30 this year are going to be in China. Maybe just talk through again the weaker comps now. I know there was an issue just around fit and sizing and also some operational issues.

Talk us through the comfort level that you have in improving productivity levels and then as far as relative to the rest of the fleet, China does have the best profitability. Trying to get a comfort given how aggressive you are ramping those relative to some of the weaknesses you have seen in the past.

Tom George - *Decker Outdoor Corp - CFO*

Yes Eric, you hit on some of the other things we talked about, improve productivity and what is going to drive that is some better merchandising, better flow of products, some more marketing, getting the consumer more and more aware of the value of a real UGG versus a down market product and some changes from a store management point of view in sort of a more senior retail management point of view in China. And I think those are going to really, those give us more and more comfort in the continued learnings we have there that we are going to be able to turn that around and continue to gain some improvement.

We did mention we have been seeing some steady improvement on our retail store operations in China and we are still just scratching the surface of the total opportunity there when you look at second and third tier cities and you look at outlet concept opportunities. That is still a great opportunity. In terms of productivity there are smaller stores. They still generate one year kind of paybacks which is very strong returns on invested capital but they are strong smaller stores compared to some of the US and European stores.

Eric Tracy - *Janey Capital Markets - Analyst*

Okay, fair enough. I appreciate it guys. Best of luck.

Operator

Moving on to Howard Tubin with RBC Capital Markets.

Howard Tubin - *RBC Capital Markets - Analyst*

Thanks, guys. As you continue to develop UGG Pure and you introduce some more maybe lower price point or entry level price point items into the UGG brand would you, should we expect to see any new or different distribution or are you keep kind of distribution channels in terms of department stores where it is today?

Tom George - *Decker Outdoor Corp - CFO*

I think you will see us remain pretty consistent with where we are today. Actually perhaps even slightly down in terms of our distribution. Outside the US, obviously China is a retail only market so you will see us be able to talk to more consumers. As I said earlier, 2% to 3% of consumers in China have access to the UGG brand because of the price points. It would be great to get another 3% or 4% of the population able to buy UGG. So that is important.

The other thing about China is that there is much known about 170 cities with population over a million people and we haven't even begun to penetrate those markets. So there is opportunity there. I think what we are really looking at is the revolution going on called Omni channel which really begins to create a different mindset if you will for consumers.

They want to access brands how they want when they want and many of them do their initial shopping online and go buy in a store or they just only buy online. Yes, in footwear we are all very fortunate it is an experiential kind of purchase so you got to go try something on which brings people out into stores which is very important. The impact of Omni channel over the next few years is going to continue to be a factor in distribution decisions.

So my guess is that when the consumer realizes they can buy a product online 24/7, a product they know and are comfortable with and they prefer to shop that way it, probably means you don't need that many more points of physical distribution than you currently have. That is sort of my theory and I think so far it has been validated by what we are seeing.

Howard Tubin - *RBC Capital Markets - Analyst*

Got it. Thank you very much.

Operator

Moving on to Mitch Kummetz with Robert Baird.

Mitch Kummetz - *Robert W. Baird & Company - Analyst*

Thanks for taking my questions. So Angel, you talked about how the cold weather has led to a reduction of carryover inventory at retail. I'm just trying to understand as that sort of process has transpired over the last few months, as you look at your order book do you think that that has prompted retailers to be a little more aggressive with their orders than maybe what you thought they would have been two or three months ago before we saw that cold weather or are retailers kind of just sitting on what orders they thought they were going to write and that just better positions you for the opportunity for kind of that once business later in the year?

Angel Martinez - *Deckers Outdoor Corp - Chairman, CEO, Pres.*

I think the latter is true. I think what people are doing is just feeling, breathing a little easier with the amount of inventory they it have on hand. Rolling the dice and saying you know, if I need more inventory than I planned I'm just going to hope UGG has it and I'm going to hope to get that from UGG when I need it.

That may or may not be true. If we see a cold snap early that may not be the case and they may be chasing inventory. I think it is, this cautiousness, yes, it is weather dependent to a large extent but also, as I mentioned, dependent on omni channel. I think people are just very cautious as to what is happening with all this stuff.

How much inventory do we really need. Do we, and they are saying to themselves, do we have to it carry all of this inventory, can't the brands carry this inventory for us. And obviously that is not my preference. We are not a warehouse for people. So our priorities will be to service those customers that step up in the prebook, certainly service our own stores and our E commerce business, and if there is any product left over we can ship it to other people.

Mitch Kummetz - *Robert W. Baird & Company - Analyst*

You guys have been pretty consistent the last the couple of quarters saying that the guidance assumes a similar level of cancellations as a year ago. To me that would seem to be a more conservative assumption today than maybe two or three months ago before we had this cold weather and this reduction of carryover inventory. Is that a fair assessment of that assumption?

Angel Martinez - *Deckers Outdoor Corp - Chairman, CEO, Pres.*

I think that is a fair assessment. I mean I'm comfortable being conservative when it comes to the weather. No one has a very good crystal ball on this stuff yet. We don't know if there is a pattern. No one does.

Mitch Kummetz - *Robert W. Baird & Company - Analyst*

And then to Tom, just I don't want to take up too much more of yew you guys time. I think coming off the last earnings call you had talked about just sort of a flat comp on the year and then you know US UGG wholesale sales down mid to high single digits. It doesn't look like your sales earning guidance has changed for the year. So do those assumptions still apply as they did coming off the last quarter?

Tom George - *Decker Outdoor Corp - CFO*

Yes. They do. I think that is a good way to look at it. I mean we have really no change to the outlook in the back half of the year for the UGG brands.

Mitch Kummetz - *Robert W. Baird & Company - Analyst*

Great. Thanks, guys. Good luck.

Tom George - *Decker Outdoor Corp - CFO*

Thanks.

Operator

Moving on to Christian Buss with Credit Suisse.

Christian Buss - *Credit Suisse - Analyst*

If you could provide perspective on some of the moves you have been making to reposition the UGG brand in continental Europe and what kind of success you have seen there and how much is left to do?

Angel Martinez - *Deckers Outdoor Corp - Chairman, CEO, Pres.*

Yes, it is I don't know that I would use the word reposition. I think what we have really done is a couple of things. Number one, we cleaned up the distribution which allowed us to more effectively control the assortment and the mix available at retail.

We broadened the product assortment so that with the distribution partners that we have now we are able to make a much better statement of what the brand is and what it is on a year round basis. What it is for men and women and kids. So I think we were pretty one dimensional before.

It was pretty much driven by Classic a couple of years ago and I think we he have been making wonderful progress along these other dimensions. So it has created for the consumer much better understanding of what UGG is and a much more sense of the appropriateness of the brand for a much broader much bigger part of year. So I really think that that has been the fundamental strategy and it is working quite well.

Christian Buss - *Credit Suisse - Analyst*

Great. Thank you very much and good luck.

Angel Martinez - *Deckers Outdoor Corp - Chairman, CEO, Pres.*

Thanks.

Operator

Moving on to Camilo Lyon with Canaccord Genuity.

Camilo Lyon - *Canaccord Genuity - Analyst*

Thanks for taking my question. I just wanted to ask a question on Pure. How you do you guys think about the risk of cannibalization since it sounds like you are keeping the distribution channels the same and it seems like this will be a lower priced product, how do you manage that potential risk?

Angel Martinez - *Deckers Outdoor Corp - Chairman, CEO, Pres.*

We really don't see a significant cannibalization risk. We feel that the product that we are currently selling, what people know as UGG Classic and what people know as extensions of the Classic line and those price points that is all very stable, very solid. The new product that we are talking about allows to us compete where we got pushed out of those segments of the market. In some cases we really were never effectively able to go into the market with any consistency because of the last few years, the increases in sheepskin prices. Young consumers, and I'm talking about teen consumers for whom $200 is a lot of money.

You know, just a few years ago Classic was available at $120. So really what this does it allows us to gain traction once again in that target core customer that just had to move past UGG and move to maybe a knock off brand or just out of the category, or put off the purchase for a year or two just because the product got pretty expensive. The other thing I would add is there is a lot of consumers out there, we call them prospect consumers that represents about 23% or 24% of consumers, who among the reasons they didn't purchase UGG was it was just a little bit, it was just too expensive. So our goal is to bring new consumers into the mix with new categories, new products. To really broaden the opportunity for the brand.

Camilo Lyon - *Canaccord Genuity - Analyst*

Got it. Maybe if you could just amplify a little bit more what will be different from a consumers perspective other than price point between the pure product and the Classic UGG boots?

Angel Martinez - *Deckers Outdoor Corp - Chairman, CEO, Pres.*

The differences are pretty significant because they are, we are able to engineer the product to precisely the spec we want. To give you an example, at the current level of Classic product we are known for the density of the material, the wool inside is quite dense, it lasts a long time, it is very thick and plush and that will continue. One of the problems with making product that is thinner in the sense that it is a lighter weight for, say, warmer weather, is that when you shave the wool down it looses its durability, it compacts over time and this new technology allows us to engineer density and not have to have the thickness which allows to us make, diversify the number of styles we can make. We can make styles that are closer to the foot.

We can also engineer different densities of material for different seasons. Different weights. Et cetera. So all of this was a very big limitation when you are just dealing with conventional sheepskin which comes only one way and you are very limited in what you can do to create differentiation. We are going to be able to now differentiate the product line much more completely than we ever had in the past.

Camilo Lyon - *Canaccord Genuity - Analyst*

Have is you tested this product in store to see the receptivity or the differences between purchase behavior around the Classics versus the Pure?

Angel Martinez - *Deckers Outdoor Corp - Chairman, CEO, Pres.*

We have tested it extensively with consumers and as I said, it is preferred actually when it is a blind test. We think that the consistency of the material, by the way, one face sheepskin is not a very consistent material. There is a tremendous amount of variation from both regions of the world where the hides come from and the seasons in which, the winter that the animal has lived through. So that has been an issue and it is a natural product. It has created a lot of this type of a challenge for the product development teams that I think we may be now to overcome a lot of that.

Camilo Lyon - *Canaccord Genuity - Analyst*

Got it. Looking forward to seeing it. Good luck with the rest of the year. Thank you.

Angel Martinez - *Deckers Outdoor Corp - Chairman, CEO, Pres.*

Thanks.

Operator

And our final question comes from Chris Svezia from Susquehanna Financial Group.

Chris Svezia - *Susquehanna Financial Group - Analyst*

Good afternoon everyone. Congrats. I guess my first question, just going back on the inventory piece. Tom for you, if you are down slightly or flattish in the second quarter how do we think about the inventory growth progression in the back half of the year? Does it run roughly in line with sales or how do we he think about that?

Tom George - *Decker Outdoor Corp - CFO*

I think what I would like to comment on there is I think by the third quarter it is a big quarter. We will need the inventory to support that. And I think I would like to push it to the fourth quarter. I think we are comfortable that by the end of the year we expect the inventory levels to be down relative to where they were a year ago. So at the end of December 2013 that inventory you will be looking at will be down relative to what the inventory was at the end of December 2012.

Chris Svezia - *Susquehanna Financial Group - Analyst*

Okay. All right. And then Angel for you, when you talk about UGG Pure, 10% I guess of the lining and then ultimately getting to 25%. Any time frames around that this year? Next year? Just kind of curious when you hit those targets.

Angel Martinez - *Deckers Outdoor Corp - Chairman, CEO, Pres.*

We are moving aggressively as we can. Again, we are building a supply chain around this material from scratch. I don't want to over stress the supply chain and create serious problems on our end. We are moving very aggressively. I would say two to three years would be a reasonable window in which to expect that 25% number but if we can move faster we will.

Chris Svezia - *Susquehanna Financial Group - Analyst*

Okay. All right. And then Angel in the past, I think on the last call you made comment about how you are looking at distribution in the US and those retailers that either are not showing the brand in its entirety, et cetera, or just focusing too much on the Classics. Where do we stand right now on that thought in terms of maybe some consolidation at US wholesale for the UGG brand?

Angel Martinez - *Deckers Outdoor Corp - Chairman, CEO, Pres.*

You know, that is an ongoing conversation. It is a season to season conversation. We are pretty happy with our stable of retailers I would say and the vast majority value the UGG brand for them. It is sort of an irreplaceable part of their revenue and profit picture on a year round basis so it is a very, very important brand for them. We don't see that many violators out there of our map policy and when we do we take appropriate action. Retailers have been very cooperative in offering the spread and assortment of product that we have asked them to. Given that in fact some retailers just don't have the room, they don't have the type of store that is appropriate for all of our products, we understand that.

So we are very flexible in working with people and I would say that so far the response has been extremely positive. Yet there are still fringe players out there who are opportunistic and just want to use a brand as a loss leader or in some cases as a way of messing up a market I suppose. Some people will constantly try to get the brand so that they can just claim they have UGG and they will not be undersold and violate every ones, sort of the integrity of our distribution. We are a lot more aggressive and we come down on that behavior quite hard. So we will continue to do that. It is an ongoing management year-round and it is also a distribution management globally now as well. It is not just the US. It is all over the world.

Chris Svezia - *Susquehanna Financial Group - Analyst*

Right. Okay. And then last question I have is just on this, I just want to understand something on the cancellation rate. If this time last year I don't think you anticipated what would happen in Q3 and I'm sure that is where you saw the majority of your cancellations occur. If we come to the third quarter and you obviously don't see that level of cancellations, how do we think about the revenue thought process there if that doesn't materialize? Just trying to understand that for a second in terms of how you think about cancellation rate being the same year-over-year.

Tom George - *Decker Outdoor Corp - CFO*

I think another thing to point out, Chris, last year, not only do we have a fair amount of cancellations in the third quarter, we had a fair amount in the fourth quarter, too, when the weather got sort of inconsistent. Keep that in mind from your thinking perspective. And everything else being equal, if we have less cancellations than we have assumed in our guidance, everything else being equal, we should have some upside to our wholesale number.

Chris Svezia - *Susquehanna Financial Group - Analyst*

Okay. All right. Fair enough. Thanks and all the best.

Tom George - *Decker Outdoor Corp - CFO*

Thank you.

Angel Martinez - *Deckers Outdoor Corp - Chairman, CEO, Pres.*

All rights, thanks.

Operator

And that does conclude the question and answer session. I will now you turn the conference back over to you for any additional or closing remarks.

Angel Martinez - *Deckers Outdoor Corp - Chairman, CEO, Pres.*

Thank you all for joining us on the call and I think we have made significant progress this year. We will continue to drive the opportunities that we feel we have for this Company across all of our brands. And we look forward to the next call.

Operator

Thank you. And that does conclude today's conference. We do thank you for your participation today.
