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Deckers Outdoor Corp. (DECK)

Q2 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and thank you for standing by. Welcome to the Deckers Brands Second Quarter Fiscal 2021 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'll now turn the conference over to Erinn Kohler, VP of Investor Relations & Corporate Planning. Ms. Kohler, please go ahead.

Erinn Kohler

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

Hello, and thank you everyone for joining us today. On the call is Dave Powers, President and Chief Executive Officer and Steve Fasching, Chief Financial Officer. Before we begin, I would like to remind everyone of the company's Safe Harbor policy. Please note that certain statements made on this call are forward looking statements within the meaning of the federal securities laws, which are subject to considerable risks and uncertainties. These forward looking statements are intended to qualify for the Safe Harbor from liability established by the Private Securities Litigation Reform Act of 1995.

All statements made on this call today, other than statements of historical facts are forward-looking statements and include statements regarding the impact of COVID-19 on our business and operations, business partners and industry; changes in consumer behavior in the retail environment; strength of our brands and demand for our products; changes to our product allocation, distribution and inventory management strategies; change to our

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marketing plans and strategies; investments in our business; our anticipated revenues, brand performance, product mix, gross margins expenses and liquidity position, and our potential repurchase of shares.

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 and uncertainties and other factors that may cause our actual results to differ materially from any results predicted, assumed or implied by the forward-looking statements.

The company has explained some of these risks and uncertainties in its SEC filings including in the Risk Factors section of its Annual Report on Form 10-K and quarterly report 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.

With that, I'll now turn it over to Dave.

David Powers

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

Thanks Erinn. Good afternoon everyone and thank you for joining the call. On behalf of Decker's, I hope everyone is doing well and staying safe in this unprecedented time. Today, we will walk through an exceptional second quarter performance for the Decker's organization, and highlight continued considerations related to the uncertain environment, created by the COVID-19 pandemic. Amidst rapidly evolving marketplace conditions, Decker's delivered a record second quarter, as revenue increased by 15% versus last year to $624 million, gross margin increased by 80 basis points to 51.2%, and we delivered earnings per share of $3.58.

Success in the quarter was driven by compelling and innovative product launches, our powerful ecommerce and digital marketing engines that drove higher awareness and customer acquisition, optimization and redeployment of marketing spend that featured in our authentic approach to storytelling, a clean and well managed marketplace that allowed for strategic account partnerships to amplify special product releases, and the ability of our supply chain to pivot resources and navigate challenges. While the COVID-19 outbreak put a spotlight in our brands, due to their lifestyle resonance, these results more importantly highlight the strength of our brands and the positive impacts, we have experienced from the successful execution of our strategy over the past few years.

As a reminder, the key elements of our strategy include generating greater awareness in HOKA ONE ONE to accelerate customer adoption globally, which was demonstrated by a 60% increase in brand revenue during the first half; driving DTC customer acquisition across all five of our brands with product and marketing tailored to the 18 to 34-year-old demographic, highlighted by 182% increase in these customers' year-to-date in the US; continuing to build UGG brand key through diversification of product that resonates with target consumers, leading to low levels of promotional activity while selling more balanced product assortment and maintaining a disciplined approach to financial management, even as we continue to invest in this strategy.

The successful implementation of this strategy has led to the strong operating model and powerful brand portfolio we have today. With brands and products that are resonating with a larger and more diverse audience, we're experiencing high conversion rates and strong selling at full retail price, which will set the stage for future growth. Our in-demand brands, omnichannel capabilities and strategic expense management, combined with exceptional organizational execution, drove another successful quarter for Decker's. I like to share my appreciation to our employees for their dedication and consistency in delivering results in these challenging times.

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I'll now walk through the brand highlights from the quarter, starting with the Fashion Lifestyle group. The Fashion Lifestyle group consists of the UGG and Koolaburra brands. Global outperformance was driven by momentum behind a healthier and more balanced product assortment. Historically, the second quarter had been driven by selling in classic UGG product to wholesale accounts.

With the excitement the brand has built around Fluff men's and kids product, UGG is succeeding beyond core product with both selling, and high full price sell-through at wholesale and DTC. Fluff is the paramount example of the progress UGG is making to attract a diverse set of consumers with a broad array of product options.

The Fluff Yeah remained the brand's top selling style from both the total peers' perspective, as well as in terms of wholesale sell through. But the UGG team has also done a fantastic job building around the Fluff Yeah with complementary product that is providing incremental growth.

New introductions during the quarter included the Disco Slide and Fluffita, which were both among the top 10 styles purchased by customers, aged 18 to 34 years old. UGG is having tremendous success, attracting new younger consumers.

While Fluff product may have been the primary attraction to the brand for 18 to 34 year olds, we're excited by how many of these customers who bought Fluff, also purchased the recently launched Classic Clear Mini. Since its release, over 60% of the Classic Clear Mini purchases online have been made by 18 to 34 year olds. This multi category purchase activity from younger consumers speaks well to the brand's ability to capture share of closet with fashion-minded consumers.

Helping to amplify these new product introductions with their intended audience, the UGG DTC team has collaborated with key wholesale partners to develop strategic launch plans for special products. During the quarter, these included teaming up exclusively with the Victoria's Secret PINK ambassador program to release the Fluffita and launching the UGG brand's first ever ready-to-wear apparel collection in partnership with Nordstrom.

Ready-to-wear, which we sometimes refer to as RTW, is the UGG brands first apparel expansion beyond loungewear and into streetwear fashion. The RTW collection features Cozy Fleece, Sherpa, Faux Fur, and Shearling wardrobe items. Highlighting the strength of our brand, demand for our products and quality of our partnerships, Nordstrom featured the RTW collection on their websites landing page, which was the first time, UGG run their designation outside of the footwork category.

In addition, our ready-to-wear and retail teams have worked closely with Nordstrom to create a specialized shop-in-shop concept to feature their collection at both Nordstrom's New York City flagship in December, as well as their own New York City flagship, which opens on November 19.

While ready-to-wear is not expected to drive significant revenue volume this year, sell- through has been impressive, and we're encouraged to see cross category purchasing in ready-to-wear and footwear products. Given the positive response from primarily younger consumers, we feel this speaks well to the long-term lifestyle opportunity for UGG, and our teams are already working to expand ready-to-wear with additional products and partners.

Continuing the theme of UGG diversification and cross category purchasing, I'd highlight that men's and kids product contributed to the majority of the brand's incremental dollar growth in the quarter. Men just had a strong start to the fall season, Neumel sell-through is up over 150% versus last year, and Heritage slipper style such as

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the Ascot, Tasman and Scuff remain top sellers. With the success of the Fluff and the increase fashionability of the slipper category, UGG is releasing in men's specific version of Fluff very soon, so be on the lookout for that.

As mentioned on our first quarter call, the UGG kids business is benefiting from the successful takedown product in both women's and men's, the Neumel, Fluff Yeah Slide and Classic Clear Mini were all part of the top five kids styles in the quarter and we looked to further capitalizing this trend during holiday.

From a regional standpoint, we continue to see bifurcation between the US and International regions. Within the US, UGG brand heat is reaching new highs as the brand has increased customer acquisition by 187% and customer retention by 155% versus last year with the majority of the growth coming from younger customers.

In fact, 18 to 34 year olds represented 40% of online purchasers in the US during the quarter as compared to under 30% last year. Complementing the UGG brands Direct-to-Consumer success, our wholesale partners are also experiencing record levels of demand and product sell through rates, which may lead to some scarcity in the third quarter as reduced inventory levels are consumed.

Internationally, as we have mentioned in previous calls, UGG remained in the midst of a multi-year reset in EMEA and the brand is also in the early stages of localizing marketing content for the Asia Pacific region. In Europe, we're seeing positive signs where the brand is beginning to experience adoption of Fluff product in addition to some small growth within men's and kids footwear. We're also intentionally reducing the amount of core classic product in the region, which remains a strategic headwind.

These are important shifts as we work to rebuild brand heat and diversify the European region away from core product and build a healthier product mix akin to the successful transition we have made in the US. Beyond building a more balanced assortment, UGG is working to amplify the EMEA region's business online. To help drive digital conversion in EMEA, we've recently implemented our [ph] Global E (00:11:07) project, which improves customer access and ease of use by offering additional languages, currency and local payment types.

The launch of [ph] Global E (00:11:15) combined with the introduction of UGG rewards in Europe is already helping attract new customers, as UGG experienced 135% increase in customer acquisition during the second quarter. In Asia Pacific region, we've made strides by partnering with top tier local celebrity, Zhou Dongyu, who carries fashion credibility with the fan base, primarily aged 20 to 30 years old. We've also developed a market relevant product collaboration with designers Feng Chen Wang, famous for her deconstructive approach, has featured in Vogue and GQ.

These initiatives are aimed at improving brand perception with Chinese consumers and bringing attention to new products. We're encouraged by the region's positive reception to new products like the Classic Clear, Fluffita and Disco Slide but there is still plenty of work to be done to build [ph] brand T (00:12:01).

While optimistic about some early indicators in the UGG brand International Business, revenue declined as expected for the first half of fiscal 2021, primarily due to efforts to reduce core product in the marketplace.

While we don't anticipate meaningful improvement during this year of transition, UGG is making important progress in building a new foundation of diversified product acceptance, localized market relevance, and strategic partnerships, all designed to build a healthier brand, with the ability to deliver growth over the long-term.

The UGG brand's domestic success is built on its model of fashion credibility through authentic collaborations, social influencers, and PR seeding and we believe this approach will translate well to our international markets.

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First half performance gives us the confidence that we're on the right path of exporting the strategy and building towards next year and beyond.

Moving to Koolaburra, performance in the first quarter resulted from increased market share with top wholesale partners as well as improved category diversification through the expansion of men's and kids product. Last year, Koolaburra established itself as the top brand in the sub $100 category, which competes within the family value channel and we'll look to maintain a position by building incremental market share this holiday season.

Though footwear remains the primary focus, Koolaburra continues to expand its lifestyle appeal. This fall, the brand has partnered with Kohl's and QVC to develop a licensed loungewear collection, which comes on the heels of last year's successful collection of home licensed product.

Both UGG and Koolaburra are well positioned to drive demand with their respective customer bases during this holiday season. However, I would like to remind everyone that we adjusted certain inventory buys at the outset of this year to mitigate the effects of COVID-19 in our business, and this will limit the upside for both UGG and Koolaburra this holiday. However, if either brand fails to capture incremental upside due to these inventory constraints, we expect this will provide a clean marketplace for fiscal 2022.

Shifting to the Performance Lifestyle group, which is comprised of HOKA, Teva and Sanuk. Starting with HOKA, performance was driven by increased adoption of our products through greater brand and product awareness combined with compelling product refreshes and a fast replenishment cycle. Among Deckers' investments over the past few years, broadening the HOKA brands appeal beyond core runners has been a primary focus.

Through market leading innovation, the HOKA team has refined products and expanded categories to attract a larger audience, while also maintaining the brand's authentic performance DNA.

During the quarter, HOKA launched updates to several key franchises, each infused with both innovation and design upgrades, including the Clifton 7, Clifton Edge, Rincon 2 and the Bondi 7. Regarding the Clifton franchise, these styles have received considerable positive PR, which included features in Vogue, Gear Patrol, GQ, and SELF's 2020 Certified Sneakers award.

For the Rincon, originally introduced in July of 2019, the style has quickly become a top five seller for HOKA. The second edition of the Rincon has been so well received that it recently won Runner's World Best Value award in their Autumn/Winter 2020s shoe guide.

And lastly, in terms of notable product refreshes, the Bondi 7 hits shelves in September and features the brand's most inclusive size range, helping to expand the addressable consumer base for HOKA. Since its release online, the Bondi 7 has been the HOKA's brands top-selling style.

Propelled by these product updates and innovations, HOKA domestic wholesale returned to deliver meaningful second quarter growth after the first quarter was disrupted by pandemic induced store closures. As mentioned in our first quarter call, HOKA delayed certain product launches to allow wholesalers to move through existing product, which provided an extra benefit to the brand's second quarter wholesale revenue growth.

According to The NPD Group Retail Tracking Service, HOKA was able to both grow dollar volume and increase market share from 16.8% in August 2019 to 20.5% in August 2020. Even though, overall dollar sales of adult running shoes in the US run specialty channel declined in August 2020, as compared to last year.

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The premium service atmosphere of run specialty stores remains an important acquisition vehicle for the HOKA brand, especially when considering the higher conversion rates experienced, when customers try on our products.

Globally, HOKA customer acquisition and retention online increased 81% and 92% respectively, as compared to last year. Even though, most of the brands' wholesale doors were open during the quarter. Part of these increases were due to the HOKA marketing team's efforts to optimize digital media targeting to acquire 18 to 34-year-old consumers.

By strategically prioritizing this audience, HOKA experienced a 124% increase of consumers, aged 18 to 34, led by recently released styles, such as the Clifton 7, Clifton Edge and Rincon 2. Importantly, HOKA is driving Direct-to-Consumer growth, across the globe, while still very small as compared to the US.

International HOKA DTC has increased more than 150% in the first half of this year. Growing the brand's global online business is especially important, as the inability to hold in-person events persist. We're dedicating marketing spend to build the HOKA audience online and stay relevant with existing consumers, through compelling product innovation.

As we said in our first quarter earnings call, the $500 million milestone for HOKA is much closer than we previously anticipated. And with the brand heat and demand we're experiencing right now, HOKA has potential to reach $500 million, by fiscal year end. The rapid acceleration of HOKA reaffirms our confidence in the brand's aspirations to eclipse the $1 billion mark, over the longer term.

Turning to Teva, growth in the brand was fueled by a 78% increase in acquired customers online. Teva is turning out to be the go-to-brand for the modern outdoor consumer, highlighted by the brand's founding roots, in the Grand Canyon.

Year-to-date through September, Teva maintained its position as the top outdoor water sandal brand in the US in terms of market share, increasing market share over the last year, in each of the past nine months according to the NPD Group's Retail Tracking Service.

Younger consumers have been the driving force behind this growth in Teva, as a brand has experienced a 76% year-over-year increase in purchasers aged 18 to 34 years old, which was already the brand's highest indexing age bracket. Looking to fall, Teva is focused on capturing continued wallet share from this demographic to the brand expanded hike and camping collections. Teva is already experiencing a surge in demand, for the brand's Ember franchise, both online and with key wholesale partners such as REI, where product will be featured across outdoors in their fleet.

For Sanuk, brand performance was hurt by a soft department store channel. However, we were encouraged by the recovery within surf specialty, as coastal towns saw increased outdoor participation. Importantly, Sanuk posted a second consecutive quarter of robust Direct-to-Consumer growth which was helped by a 40% increase in customer acquisition online.

We are excited to receive feedback from the brands online audience, as Sanuk will be introducing new product innovations in the coming months. With respect to channel performance in the second quarter, all five of our brands experienced exceptional growth online, driving a mix of DTC revenue to increase from 18% last year to 28% this year.

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This is despite the significant improvements in our wholesale business and inclusive of the recovery efforts within our own retail stores, as compared to the disruption experienced in the first quarter. From a comparable sales perspective, Direct-to-Consumer increased 86% versus last year. Approximately 95% of our own retail stores were open for the entire second quarter.

And as of this week, all stores are open. In total, global Direct-to-Consumer revenue increased 74% versus last year's second quarter. Performance was driven by continued customer acquisition online, and a sequential improvement in retail performance as compared to the first quarter. Global wholesale revenue in the second quarter increased 2%, as compared to last year. Growth in the quarter was primarily driven by HOKA but mostly offset by a decline in UGG.

The decline in UGG wholesale revenue differs from a regional standpoint. International wholesale revenue declined due to the ongoing marketplace initiatives previously mentioned, while domestic UGG wholesale revenue decreased, as both pre-recorders were conservatively adjusted at the height of the pandemic and UGG has successfully shifted open-to-buy with retailers towards lower priced products such as slippers, fluffs, and kid's footwear.

The UGG wholesale revenue decline in the second quarter was somewhat tempered by a global effort to shift Q3 shipments forward, allowing our distribution center teams to focus on DTC fulfillment. To summarize, we are extremely pleased with our brands performance and operational execution in the second quarter.

With the demand we're experiencing in our brands, we're anticipating operational challenges related to DC capacity, inventory, timing and availability, as well as third-party shipping logistics that will limit the upside of our brands, in the third quarter. Though less than ideal circumstances, I'm confident in our team's resilience and ability to manage the effects in our business, while protecting the sanctity of our strong brands.

I'll now hand the call over to Steve to provide more details on our second quarter financial performance, as well as some additional thoughts on managing the balance of fiscal 2021. Steve?

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

Thanks, Dave, and good afternoon, everyone. Looking back at the past six months, we are proud of how our businesses performed over the opening half of our fiscal year. In the midst of a global pandemic, while consumer behaviors are rapidly shifting with changing lifestyles, our brands and product offering have been placed in a unique position.

And as demonstrated by our results, our product proposition is resonating with consumers, helping to drive an exceptional quarter. In particular, UGG has benefited from consumers working and learning from home, as the brand has been known to provide consumers with a feeling of comfort and security.

And at the same time, HOKA benefited from its increasing awareness and positioning within the expanding active category. These trends help drive attention to the work our brands are doing, and created awareness of our innovative line of products. While much of the current environment remains uncertain, we continue to focus on delivering great products that amplify our brands and meet consumer demands.

Now, for more detail on our second quarter results, revenue in the second quarter was $623.5 million, up 15% versus the prior year. Performances compared to last year was primarily driven by global HOKA growth of 83%, which experienced balanced gains across all regions and channels, but also benefited from first quarter product

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launches that were delayed to the second quarter, and global UGG growth, which was up 3% versus the prior year to $415 million.

This increase for the quarter was driven by robust global Direct-to-Consumer growth of 69% as well as approximately $25 million to $30 million of earlier global shipment of product to wholesale and distributor accounts, as we work to decrease some of the logistical load on Q3.

Although, as expected, the overall wholesale UGG business experienced lower revenue for the quarter versus last year as many wholesale partners planned more cautiously this year, due to uncertainty at the onset of the pandemic, as well as the impact of our international reset.

Gross margins in the second quarter were up 80 basis points over last year to 51.2%. Gross margins increased due to favorable channel mix as DTC increased as a proportion to the total business, favorable brand mix with the sizeable increase in HOKA volume and benefits from favorable exchange rates.

SG&A dollar spend was $190.4 million, up 8% from last year's $175.9 million. The increase was primarily driven by higher marketing and warehouse costs that were partially offset by savings from travel and retail expenses. This all resulted in an earnings per share of $3.58, which compares to $2.71 in last year second quarter. The $0.87 improvement versus last year was primarily driven by a higher proportion of DTC and HOKA business, with offsets from lower UGG wholesale revenue and greater marketing spend and warehouse costs.

Our balance sheet remains strong and as of September 30th, cash and equivalents worth $626 million, up from $178 million at September 30th of last year. Inventory was down 13% to $484 million from $559 million at the same time last year. And we had $9 million in short-term borrowing under our existing credit line as compared to $13 million last year. Our existing credit lines have an available balance of $463 million. And during the quarter, we did not repurchase any shares.

During this period, we, historically, provide an update on our sheepskin pricing. We continue to see stable pricing in the sheepskin market, and we expect no change in our sheepskin costs for fiscal 2022. Please note, this does not constitute gross margin guidance for next year, as our sheepskin costs are only one component of our gross margins.

As we've now completed the first half of fiscal 2021, we remain disciplined in our approach to planning the second half of the year as we are aware of the unique circumstances surrounding the upcoming holiday season. We are mindful of shipping constraints during the upcoming peak, including not only our own operations, but also the operations of third-party shipping and logistics services that we utilize.

The logistics infrastructure, both internal and external, will continue to be tested by current challenges paired with unknown pandemic developments, which could be significantly impacted by a second wave of the disease or any impacts from government orders or restrictions.

While remaining vigilant, we will tightly manage the business and drive opportunities where we see potential for success, all with our primary focus on the long-term health of our business and a continuation of driving success through our strong brands in innovative product offering.

Looking to the back half of fiscal 2021, we're conscious of the historical size and relevance that our third quarter represents to full-year revenue and earnings. In a typical year, the three months representing our third quarter equates to more revenue than we've recognized over the first six months. This dynamic combined with the

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extraordinary circumstances of the pandemic place additional pressure on our third quarter this year and may lead to reaching capacity thresholds that have yet to be experienced year-to-date. These capacity thresholds will be tested at our retail stores given that the October through December in-store purchase volume typically represents two to three times the volume of any other three-month period.

Additionally, while we are comfortable with current inventory levels in the year where we tempered inventory buys at the outset to reduce risk, we may see demand outpace supply with certain product. In these cases, we will be challenged with meeting the in-season demand, but at the same time, it will continue to drive brand heat, encourage full price selling, and result in a clean marketplace for the fourth quarter and beyond.

With all that said and given the continued uncertainty caused by the COVID-19 pandemic, we will once again not be providing specific guidance for fiscal year 2021 at this time. However, I will update some of the major themes of our business.

For context, we observed complex pandemic impacts in the first half of the year, including some tailwinds from the acceleration of e-commerce, brand heat and attention resulting from changing consumer trends, extended consumer adoption of categories providing the unique comfort of UGG and heightened consumer awareness of HOKA.

While we anticipate that some of these trends may continue to provide opportunities, they may be dampened by the headwinds yet to be experienced, that are particularly relevant during our peak season in the back half of the year. Specifically, pressure from shipping constraints with third-party providers, higher costs associated with our own warehouse operations in the current environment, product scarcity on key styles that are selling faster than anticipated, and increased marketing costs to capitalize on the momentum of our brands and stay top of mind with consumers.

With these considerations in mind, we're approaching the back half of fiscal 2021. With the possibility that UGG revenue may fall below last year levels as the brand is up against potential capacity constraints, some earlier shipments into Q2, retail traffic pressure and continued work with our international business reset.

And as Dave mentioned, we continue to see growth with HOKA, but at a lower rate than experienced in the first half, yet on the path to $500 million. And we anticipate higher expenses resulting from marketing spend to keep our brands top of mind, warehouse costs for safety measures and higher wages and increased IT expenses, as we build out appropriate support systems for our accelerating e-commerce platform.

Before I hand the call back to Dave, I would like to say how pleased we are with the results of our first half, as it gives us confidence that the organization can manage through the current near-term challenges, while remaining committed to our long-term vision. Our brands are in a great place. The company is well positioned, and we're excited about the opportunities that lie ahead. Thanks, everyone.

And now I'll turn the call back to Dave for his closing remarks.

David Powers

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

Thanks, Steve. As I reflect on a unique first half, I'm proud of our organizations, collaborative efforts to prioritize the consumer and deliver results. Our brand teams have done an excellent job delivering compelling and innovative product. Our omnichannel organization has been the engine driving product messaging, executing sales, and providing the analytics to inform future brand success.

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But paramount to the first half success this year has been our operations teams, with heavy lifting being done by our product development teams, distribution center employees, customer service specialists, and all other individuals working throughout our supply chain. A huge thank you to every one of our employees for their continued execution of our strategy during these very challenging times.

And along with performance, it is our organization's belief that we have a responsibility to continue to do business in the right way. And Deckers continues to drive forward on ESG initiatives.

I'm pleased to report that we've recently been recognized by Investor's Business Daily as the 15th ranked company in their top 50 best ESG companies list for 2020. This is an improvement from our number 20 ranking last year, and I note that we are the sole footwear or apparel company included in the top 50.

To that end, I'm excited to share that our creating change, FY 2020 annual corporate responsibility report will be released tomorrow, highlighting the tremendous progress made by our global organization in FY 2020. The report will be posted on our website and I encourage you to check it out.

On that note, and in the spirit of making a positive impact, earlier this month, Deckers held its first ever Art of Kindness week, which was an organized effort to encourage employees across the globe to give back through volunteerism. Collectively, I'm proud to report that our team's contributed more than 2,000 hours to assist over 200 organizations, ultimately reaching many individuals who need help in these trying times. To remain focused on these types of efforts in the midst of a pandemic, while driving business growth is a testament to Decker's values and approach. It is these values exemplified by our dedicated employees and top performing brands that just yesterday earned Deckers the honor of being named Footwear News Company of the Year for 2020. I'd like to thank and congratulate our employees on this well deserved achievement.

In closing, I have a high degree of confidence in our strategy, portfolio of brands and top tier operating model to navigate through these short-term challenges, while also investing in our digital transformation to support growth over the long term. Thank you to our shareholders for your continued support.

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

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QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question- and-answer session. [Operator Instructions] The first question today comes from Camilo Lyon with BTIG. Please go ahead.

Camilo Lyon
Analyst, BTIG, LLC

Q

Thanks. Good afternoon, guys and great job on the execution.

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

A

Good afternoon, Camilo.

Camilo Lyon
Analyst, BTIG, LLC

Q

I wanted to first ask about your relative inventory position. I think Steve, you said you feel comfortable with your inventory, but demand trends could exceed supply. And you're noting that as a cautionary point to watch out for. I am wondering, what categories specifically you are anticipating being under inventory then? And do you have the ability or have you tried shifting purchasing behavioral intent to comparable categories or SKUs that are in better stock and a better stock position?

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

A

Sure Camilo. I'll go first and then maybe Dave can jump in. Absolutely kind of what you said, we are taking a look at. So with inventory down 13%, we're comfortable with where we have inventory. As I said, at the onset of the pandemic, we did make some strategic reductions in styles. What we've seen really over the course of the last six months is an acceleration on certain styles. Specifically, kind of slipper sandal categories, we've done very well and as a result of that we have run short.

Now, in the time since then, we have looked to bring more inventory in and we're in the process of doing that. So, we intend to bring more inventory in this quarter, as well as Q4 that will help kind of fill out some of those shortages on styles, colors, sizes. But you know if there's disruption that will create some challenges logistically.

So we're doing a lot to overcome that. We're bringing things in kind of as quickly as we can, with those identified styles and where we may be short, we are steering customers to styles that we have more in stock on, so, all of the above, right. We want to take advantage of the brand heat that we have going, the consumer demand that's out there for these styles. We want to use that then as an opportunity where we have scarcity to push them into other products that we do have in style.

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

A

Yeah, that's exactly right. And we're seeing the consumer shift to other products and other categories, but generally speaking, whether its slippers, classics, fashion boots, winter boots, we're seeing strong sell through particularly in DTC, but also at wholesale of all the categories, including ready-to-wear. So the demand for the brand, at a high level remains very strong, as you see in the accelerated interest over the quarter.

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Younger consumers are adopting the brand at new levels. We've increased our rate of 18 to 34 year olds, way over 180% for the quarter. And we're chasing the inventory where we can. So we feel confident that, if there's no logistic disruptions, we'll be in good place. I think it's at a healthy place for our brand to be in this chase mode. And while we're focused on delivering Q3, we're really focused on the long-term health of the brand, and the setup that this demand and healthy marketplace means for us over the long term. We're just seeing a lot of potential right now.

Camilo Lyon
Analyst, BTIG, LLC

Q

That's great. Just two follow -ups, please. Steve, you mentioned last quarter that you were anticipating cancellation to outpace pre-orders. Is that still the case? And then, on a longer term basis, Dave, maybe would love your insights into this. You're looking to reach at least mid teens probably 15%, maybe a little bit above 15% EBIT margin this year, very strong operating metrics there. Clearly, you've taken the brand to the next level with a new demographic coming in. Where do you see the long-term margin opportunity? Can this be a high teens or low 20s business over time?

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

A

So this is Steve. I'll go first. Really kind of as we think about where we're at on the inventory and cancellations, it's why we're not giving guidance, right? We don't know what's going to happen, kind of, at wholesale. If everything holds up, we won't have the cancellation issue. If things get more challenging, from a logistics standpoint, some retail is closed, there may be cancellation. So that's really what we want to see, kind of, over the course of the next couple of weeks. I think it's too early to tell and kind of why we're holding off on guidance.

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

A

Yeah. Yeah, exactly. To your question on kind of longer term, we're looking at this right now. We just had a conversation with the board few weeks ago. I guess the best way to think about it is, we're committed and we've proven that over the last three-plus-years to this mid-teens operating margin. But there is going to have to be some investment in the next coming, one to two years to be able to take advantage of the opportunities that we're now seeing.

Our long-term strategy through COVID has actually probably been accelerated with the shift to ecommerce, younger consumers coming in, the increase marketing spend. But we're going to need to invest in further capabilities to optimize that ecommerce engine even more than we already have, to provide better data and analytics capabilities, systems improvements, and just continuing to fuel the growth of these brands through marketing.

Our marketing is paying off tremendously right now. And we increased our marketing spend over the past quarter by 30%. So this is one of those situations where the engine is firing on all cylinders, but we need to keep it going. So I would say you can count on us to deliver on mid-tier operating margins, what do we get up? Above 16%, 17%, 18%.

The opportunity is there, but it all depends on how fast we're going to have to invest in the short-to-mid-term to be able to keep the top line going at, what we're shooting for is, high single digits, double-digit percent growth over the next few years.

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Camilo Lyon
Analyst, BTIG, LLC

Q

Got it? Sounds good. Good luck in the holiday. Take care.

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

A

Thanks, Camilo.

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

A

Thanks, Camilo.

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

Paul Lejuez
Analyst, Citigroup Global Markets, Inc.

Q

Hey. Thanks, guys. I'm curious if you're already seeing some of these constraints happening in your business or have you been able to manage through them this quarter thus far. And then, I guess, I'm kind of also curious on the marketing side, doesn't make sense to spend as much marketing as you are given, your concerns about potentially not being able to meet demand the risk perhaps disappointing some customers, if you can, in fact, meet that demand? Thanks.

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

A

Yeah, I would say so far, the teams have done an incredible job, which I referenced in the script on managing our distribution, our logistics to-date. We've had to put in place social distancing measures. We've had to pay more to employees for hazard pay et cetera, and recruiting has been a challenge. So they've done an incredible job working through this and working with the order book and the sales team to balance deliveries. So far, we haven't seen major disruptions.

But the level of put through that we're going through right now is nothing compared to what's coming in the next couple months. And so that's really when the capacity of taking inbound deliveries that are in some cases delayed because of logistics from Asia Pacific into the DC, and at the same time turning around and putting product into the marketplace, that's where the pinch could come in the next couple of months. And that's what we're really mindful of and planning for. So haven't seen major disruptions yet, within our control. We have seen them in logistics, but we're feeling confident in our ability to manage through it. But as Steve said, there's still so much uncertainty coming up ahead of us.

With regards to kind of marketing, we are very surgical on our marketing now. We have a Center of Excellence on digital marketing and spend around the world. And we navigate based off return on spend by brand, channel and region. And so we're cautious of the fact that where there may be constraints on upside during the marketing and we're putting our marketing dollars in places where we know we'll get the payoff such as HOKA. To continue to that, grow that brand, you saw the 80-plus percent growth in Q2.

Different markets, we're releasing some money to continue to assist international and the transition of the UGG brand. And just – we're testing at the same time. So the marketing is paying off, we're adopting a younger

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consumer, we're getting multiple purchases from a younger consumer within the quarter. Normally, we wouldn't see purchases for UGG product more than once a year, traditionally classic style.

But now we're getting people – many consumers that bought the Fluff earlier in Q2 came back and purchase the UGG clear. So the marketing is paying off, it's driving overall brand and awareness and buzz about the brand. I don't have a lot of concerns about missing sales and wasting marketing spend. I think we're very efficient on that and very targeted and so far, it seems to be working really well.

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

A

Yeah. And I think, Paul, just to add on that. I think the other thing on the constraints is really third-party logistics. So we are hearing from third-party freight companies, logistics constraints. And that's going to be really universal. So that is one thing we're keeping a close eye on. So one is kind of constraints within really what we control, but also what's outside of our control. And we are seeing signals around that. So that's something that we're going to watch carefully, and look to find alternatives to work around some of those situations.

Kind of on the marketing, just to add to what Dave said, where we are marketing to certain styles that may be low on inventory, there is an opportunity to shift some of that marketing. So to the first question to Camilo said, we can start to shift some of that marketing to product that we have in stock. So we have an opportunity to kind of move that in stock.

And then I think the other important component is really our international reset, we can use money. So this is not just about domestic, it's about how we can accelerate some of our international reset and deploying some of that marketing money around to kind of repositioning our brands and products and awareness in the international market.

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

A

Yeah. And as we said in Q1 call and we'll continue to stay focused on, we want to take this opportunity to steal market share wherever we can. So we want to stay aggressive on marketing, continue to drop innovative, exciting products in the marketplace, bring in younger consumers, and we're going to have to continue to spend marketing dollars to do that but it's really now about scaling the global opportunity based on the success that we're seeing in the domestic market.

Paul Lejuez
Analyst, Citigroup Global Markets, Inc.

Q

Got you. I'm just – like I just got 4% of the ready-to – what percent of the UGG business is ready-to-wear and same question for HOKA, what percent of the apparel?

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

A

Yeah, so ready-to-wear for UGG is less than 10%. It's probably high single-digits right now. It's a small business right now. But you know, this ready-to-wear launch for us was really a test, a proof-of-concept test. And the results have been phenomenal. The price points are perfect. They're styling and the detailing is resonating with a younger consumer. And we launched it primarily as you know, in DTC and with Nordstroms.

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And it was the first time Nordstrom has ever put us on their landing page for apparel. They're incredibly pleased with the sell-through. We've had a lot of account calling, trying to get their hands on the product. So for us, what this means is there's just a lot of opportunity on this category, the next three to five years. So now we've just another opportunity for us to invest in design and creative talent and go-to-market talent for that category. So small, but very exciting from a launch perspective.

HOKA apparel is even smaller, that's really early stages of development there. We are working with some folks externally to bring in some more talent to ramp that up. But the $500 million, the billion dollars numbers that we've put out there, we don't believe those need an apparel business to hit those targets. So it would be incremental to that, those kinds of numbers at this point. But early days of HOKA, it's less than probably 3% of total sales.

Paul Lejuez
Analyst, Citigroup Global Markets, Inc.

Q

Got it. Thank you. Good luck, guys.

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

A

Thank you.

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

A

Thanks Paul.

Operator: Next question comes from Jonathan Komp with Baird. Please go ahead.

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

Q

Yeah, thank you. Just a follow-up on the all the commentary you've given on UGG, which is really helpful thinking about the third quarter and really the second half year. Are you saying, Steve, when you look at the scenarios and some of the planning, are you saying there's no scenarios where UGG could be latter up for the period or just trying to gauge the degree of the constraints that are out there relative to potential scenarios? And did you call out any explicit costs that we should be thinking about for some of the logistic impacts?

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

A

Yeah. So Jon, again, we're not giving guidance. What I wanted to call really to attention is, we're dealing – we're kind of in the middle of a pandemic. We're dealing with constraints. And so we have seen growth in the first half, as I mentioned and mentioned on last call, we're looking and did successfully move some product in Q2 that would traditionally go in Q3.

And so it really depends. And again, it kind of – this is, again, why we're not giving guidance is, it depends on what happens. If it's a clean Q3, but given everything we're seeing, it's hard to see no disruption in Q3. That's what, how we're kind of looking at UGG and planning for it.

So that's – I just want to provide a little bit of caution as we think about it, there's been some shifting in product we have, because of the onset conservative cuts that we made in terms of inventory. We're up against some

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constraints on inventory. So we're going to do the best that we can. But it's going to be work and we're working against some external factors that we're going to have little control over.

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

Yeah. And the setup for Q4 and spring product looks promising as well. But it all depends on how we're able to get through Q3, before we get to that point.

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

Okay. That's really helpful. And that's maybe a broader question on HOKA. I know you've talked about this billion dollar plus aspiration for a while, just thinking about, at least that incremental $500 million compared to this year, is it nearly a quarter of your total company sales today. Could you just talk through, what are the margin implications of that given the mix shift that will drive toward HOKA even further overtime?

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

Yeah. I'll go for the – what we've said historically, in its channel, compared to UGG, it is a little bit better. And so as the proportion of HOKA, the gross margin implications are that, if we don't get into situations where we're having to discount again, we're dealing with a brand that is on fire, growing 80% a quarter, which is crazy. We can hold full price selling. So as long as we can do that margins are by equivalent channel compared to UGG slightly better.

But at the same time, then we're also spending more on marketing. So as a brand that is still being discovered by many, we spend considerably more on developing HOKA and brand awareness and consumer awareness with that brand. So from a gross margin standpoint, as long as the brand is hot and continues to grow like it is, and there's little promotion around that brand, it is incrementally positive. But at the same time, we're also investing considerably more in developing that brand and building that brand.

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

Okay. That's really helpful. Thank you. Good luck for holidays.

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

All right.

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

Thanks, Jon.

Operator: Next question comes from Tom Nikic with Wells Fargo. Please go ahead.

Tom Nikic
Analyst, Wells Fargo Securities LLC
Q

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Hey, guys. Thanks for taking my question. You spoke a lot about capacity constraints, both internal and external. And it kind of seemed like for the most part you were speaking in reference to UGG, do these same constraints or anything like that apply to HOKA? And it would seem to – to get to 500 million this year, you don't need – the growth in the back half of the year for HOKA would be much slower than it was in the first half. So is there anything preventing you from far exceeding up? I know, $500 million is a big number. It's a big gross number. But, I mean, it kind of seems like with the momentum in the brand and the growth rates that you've been seeing, even in the midst of the pandemic, that it could even be better than that.

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

A

Yeah, I think, I'll jump in on that, so keep in mind that, some of the deliveries in the business that we were tended to do in Q1 for HOKA ended up happening in Q2, because the wholesale being closed for most of the Q1 so hence, the 80%-plus growth. But from an internal perspective, we don't have a lot of constraints on HOKA, the inventory, we're chasing the inventory as fast as we can, we're in pretty good shape heading into the back half of the year in inventory in HOKA. And the demand is still there, it's really relying more on kind of the macro environment, and an external factors for us.

Tom Nikic
Analyst, Wells Fargo Securities LLC

Q

Got it. And...

[Multiple Speaker] (00:51:45)

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

A

Sorry, the biggest challenge that we're facing is just the – it's really the last seven to eight weeks of the quarter on UGG where DTC ramps up dramatically. And at the same time, we're inbounding product and shipping out to wholesalers. It's that period of time where that's we're exercising caution here, because there's so many different factors that could get in the way of that being successful. But that's an UGG dynamic, less so on HOKA.

Tom Nikic
Analyst, Wells Fargo Securities LLC

Q

Understood, that's helpful. And on UGG, yeah, I know maybe this is a tough question to answer at the moment. But obviously, there's been a lot of noise lately, even pre-COVID, with the brand reset in Europe and stuff like that, when sort of everything's normal, when we're past COVID, when the international reset is done, right. What kind of growth should UGG be generating? I mean, is this a mid-single-digit grower? Is it something better than that, worse than that, I mean, I'm just kind of wondering, like, in a normal environment, like, how should we think about UGG over long-term?

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

A

Yeah, it's a good question. I, would say, it's probably low-single-digits under 5%, but healthy, sustainable, full price sales growth. And what's encouraging for me right now is to see again, how many new young consumers have now adopted UGG into their consideration set. And they're choosing to come to our website. They're looking for new product. They're buying from our websites more than once in a quarter across categories.

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We've even see a healthy mix of consumers who bought footwear and ready-to-wear. We haven't seen that before. And so I think, if you look at the success of the Fluff franchise, in the slipper/sandal, hybrid phenomenon that we've created, there's still a lot of longevity in that trend. It's less about being inside in slippers than it's more about fashion. The amount of new consumers we have in our database and our ecosystem that we can now manage for an optimized lifetime value of those consumers.

The excitement that's happening in men's, we're launching Fluff product for men's in the next couple of weeks with an exciting Ambassador that you'll see shortly the ready-to-wear opportunity. And if we can get international through their transformation and heading to positive territory, again, you could see this as pretty healthy, sustainable, long-term growth. And we're optimistic where the brand is. It's the healthiest and most exciting. I've seen it since I've been here over eight years. And so we feel good about the potential going forward.

Tom Nikic
Analyst, Wells Fargo Securities LLC
Q

Great to hear. Thanks very much. And best of luck this holiday season.

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

Thank you.

Operator: The next question comes from John Kernan with Cowen. Please go ahead.

John Kernan
Analyst, Cowen & Co. LLC
Q

Yeah. Thanks. Thanks for taking my question and congrats on all the momentum.

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

Thanks.

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

Thanks, John.

John Kernan
Analyst, Cowen & Co. LLC
Q

I wanted to ask you on the mix shift to DTC and HOKA, obviously drove tremendous gross margin expansion in the first half of the year and also drove a lot of SG&A leverage. The DTC and HOKA shift seemingly should continue into the back half of the year? How should we think about your margin structure in the back half relative to the performance you had in the first half, both on the gross margin and SG&A line?

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

Yeah. I'll take that one. Again, we haven't given guidance. But I think the way to think about really kind of the back half is you start getting up against the kind of bigger numbers. So, Q1, Q2 are huge, on a percentage basis, because those tend to be kind of smaller, smaller quarters.

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And now, as you get into really the back half, you're up against kind of bigger numbers. So, the expansion that you saw in the first half is not necessarily indicative of what you'll see in the second half. Clearly, we're going to have similar impacts from the changing dynamic. The impact will not be as much as what you saw really in the first half.

John Kernan
Analyst, Cowen & Co. LLC

Q

Yeah, makes sense.

[indiscernible] (00:56:19)

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

A

The strength of DTC upside from a percent growth perspective is more dramatic in UGG, HOKA is more just kind of holding steady as a trend that they've been on. But the UGG business from a DTC perspective is super, super strong.

John Kernan
Analyst, Cowen & Co. LLC

Q

Got it. Certainly, a lot of momentum. Maybe just one more follow-up would be, when you think about that $1 billion run rate of sales for HOKA. What are you most excited about from a category level and geographic level to give you that confidence and in doubling that business?

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

A

Well, I think, it's obviously still founded in core authentic running and continuing to be a leader in that category. In some cases, we're seeing – we're number two in some cases, number one market share already, but the difference between us and the number one market shareholder, which tends to be Brooks, generally speaking. We could almost double our market share and still be neck and neck with Brooks. So there's still a lot of opportunity in the core Run Specialty channel.

The two things that get me most excited are just the expansion to a broader set of consumers. So it's more consumers that aren't just buying it just for running, it's everyday athletics or lifestyle. And we're starting to see that broad base of consumers being attracted to the brand for the performance attributes that it provides. We still want to keep our distribution tight. We're focusing on our tight ecosystem of very selected wholesale partners key accounts, and then driving e-commerce. So we can optimize that business for the long-term.

But I think the real unlock to the billion is continued acceleration of our EMEA business, particularly online, we've made quite a few investments over the last year to allow the e-commerce business there to flourish. And we're seeing positive results on that, but it's still small compared to the US.

And then I think when you think beyond the billion, it's really Asia Pacific, and we're just getting started in China. Obviously, that's a massive opportunity for us. But we think we can get to that $1 billion with real strong growth continuing in the US and accelerated growth in EMEA and then beyond that is just even more upside once we get into those territories in Asia Pacific and newer categories.

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John Kernan
Analyst, Cowen & Co. LLC

Q

That's excellent. Congrats on all success.

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

A

All right. Thanks, John.

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

A

Thanks, John.

Operator: The last question today will come from Sam Poser with Susquehanna. Please go ahead.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Thank you. I'm honored to be last. Guys, can you – just some housekeeping then I have some more detailed questions. Could you give us either the revenue or the revenue growth for wholesale by brand, for DTC by brand, for each brand, you gave UGG, whatever it was and can you give the rest of them for modeling purposes, please for the quarter?

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

A

Yep, sure, Sam. So UGG wholesale for the quarter was $292 million, so $292 million. HOKA was $108 million, Teva was, call it, $18 million, Sanuk was $6 million, all else was call it $28 million and then our DTC was $172 million.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Okay, great. So I got a couple questions other than that. I guess you've talked a lot about the transformation going on in EMEA, and APAC. What – I mean, as you see it today, what's the timetable for being sort of – for being at a, let's say, the beginning stage regard to US turn – when the US turn really kicked in, which would be a few year – a couple years ago?

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

A

Yeah. My sense, it's been obviously challenged because of the COVID situation, both in Europe and Asia Pacific, particularly China. That being said we have seen some signs of promise with category adoption. So the phenomenon of the Fluff franchise in the US hasn't really hit Europe or China yet. But in the last weeks of the quarter, we're starting to see some excitement around those categories, younger consumers, positive strong sell-through of those categories, but also the brand. So the increased marketing, the focus on PR, and collaborations, the new ambassador that we signed in China, those are all so far showing positive results, not big enough to move the total country needle because we still have some scarcity work to do as far as resetting the Classics business. But people are starting to see the UGG brand as more fashion relevant brand than have in the past.

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So I would say you'll start to see return to growth probably next fall in those markets, and gives us an indication of where we can go from there. But I think the work that the teams are doing right now, and the way we're shifting investments in our approach to be tailored to each of those markets, is working well. The teams are doing a great job. And I think you'll start to see like, I guess, that return to growth probably next fall into FY 2022 and beyond.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Thanks. And then you had talked earlier on previous calls about the test with HOKA, you were doing with Dick's? Could you give us an update there and how they're managing it and what the plans may be. And then lastly, and I've got others, but lastly you talked about the New York flagship, I saw 58th Street closed. Where is the store going to be?

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

A

Yeah. Yes, I'm trying to remember your first question was?

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Dick's.

[indiscernible] (01:02:23)

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

A

All right. Yeah, Dick's. Yeah. So yeah, the 11th store test has been going very well. They're very pleased, the sell through has been strong. We tested with them, maybe like three or four years ago, a small test and the results were not good. It's a whole different ballgame now. So again, we're managing that relationship, closely pleased with the results and what they're selling. We're not looking to expand dramatically with that account just yet. Again it's very strategical and methodical approach as to how and if we go much bigger in Dick, but so far, the results are very promising. And down the road, we're also exploring opportunities with the footlocker banner as well, early and ongoing conversations there yet. But still really cautious about the timing of when we go into those new accounts.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

And then the New York store?

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

A

Yeah, so it's on Fifth Avenue.

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

A

I don't have – yeah, we don't have the exact...

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

Its right across from the NBA store on Fifth Avenue. Tremendous location, highly visible two floors, lots of windows, great foot traffic, both local and tourists going by there. It's our largest store ever. Two floors. And it's kind of showcase all the ready-to-wear, a new store design, be much more fashion focused than we have been in the past, lots of color and excitement, and then some great storytelling and experience for the brand with an elevated service model for omnichannel capabilities, testing a lot there. And then a new mobile POS system to go along with that.

So there's a lot to be excited about. Obviously, the timing, we wish was better. But this will be a catalyst for the brand globally. And we'll be looking to roll out the new store concept to key partners and other flagship locations, as time permits over for the time is right over the next coming years.

But there's great storytelling that we're going to be able to do and I'm excited for everybody listening and the consumer to go in and experience the ready-to-wear collection and a new look for the face of UGG.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

Nice. Could I have one more?

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

Yeah, the opening date on that is November 19th. Sam.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

Yeah. Thank you. Just to confirm, So, your UGG DTC business in Q4 is going to be hampered by – is it hampered by store traffic, or is it going to be hampered by product availability and the amount you can ship, because it will be capacity constraints in stores? That can't be overcome by e-commerce? Or is it or is it, what's going on in the distribution center, or both?

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

So, yeah, just so I'm clear on that, Sam, when you said Q4, you mean, our Q3?

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

Q3, I'm sorry, Q3, Q3...

[Multiple Speaker] (01:05:24)

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

Yeah, it is really more just about constraints. So, one, will be from our retail, how much traffic is allowed in stores, some of them mall based stores, what does the malls look, like can people get in. So that's going to be the one constraint.

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And then I would say, as I mentioned before, just externally it will be – what shipping capacity looks like. So the more we can direct e-commerce and the more we can capture early is beneficial, right. It helps us navigate, I think some of the – what I'll say, our macro level constraints that are more out of our control. We're doing the best that we can kind of that's under our control, which is really about inventory management, bringing more product in this year than we did a year ago, in a quarter where we have constraints as we have lower inventory going into Q3.

So those are all the things that we're working with, and trying to get to the consumer, the demands there. They're showing up online, we're confident in our ability to kind of fulfill that if there are not constraints in place, but we know there's going to be some so.

[Multiple Speaker] (01:06:40)

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

Okay. So go ahead, Tim.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

Do you think you can be – I mean, when you said UGG, overall, is unlikely to be up in the quarter? Is that more of a wholesale issue? Or more of a Direct-to-Consumer issue? Or do you expect direct to be up just it can't be up as much as Q2, nearly as much as Q2 because of the [indiscernible] (01:07:00) numbers.

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

Yeah, so it's more wholesale focus, just be able to get inventory through the pipeline and chasing inventory. DTC, we still think we'll be able to show some growth there. We're up against the big numbers last year. Remember last year was a very strong quarter for us, particularly in DTC in stores. So that velocity is going to be hard to comp, but we're confident that DTC can continue to be strong. And the last thing I'll say before we end the call and all this is, 15% growth in this environment is exceptional, but I can't stress enough how hard it is and how hard people are working to ship to be able to cover this kind of increased demand in our distribution centers and our online businesses and chase this inventory is really hard to do. And I give our teams a ton of credit to be able to do that.

And we're heading into the biggest, in some ways the demand for our brands has never been stronger, but we're heading into the most uncertainty we've ever faced. And we have more demand on our website and are straining our systems than we've ever seen before. We're handling it extremely well so far.

But like I said, when we get into these last few weeks of November into December and that pinch point for getting product to consumers, that's the area that we're really cautious about because this is hard work and being able to ship this quickly with those kinds of shifts in consumer demand is a strain and we're handling it well, but that's where we're focusing on providing some caution.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

Thanks so much and continue success.

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

A

Thank you, Sam.

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

A

Thank you, Sam.

Operator: This concludes our question-and-answer session and also concludes our conference. Thank you for attending today's presentation. You may now disconnect.

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