THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

DECK - Q4 2013 Deckers Outdoor Corporation Earnings Conference Call

EVENT DATE/TIME: FEBRUARY 27, 2014 / 9:30PM GMT

OVERVIEW:

DECK reported 4Q13 net sales of $736m and diluted EPS of $4.04. Co. expects calendar 2014 revenues to increase approx. 10% over 2013. Expects 1Q14 revenues to increase 6% vs. 1Q13 and diluted loss per share to be approx. $0.16.

CORPORATE PARTICIPANTS

Linda Pazin *Deckers Outdoor Corporation - VP of IR & Corporate Communications*

Angel Martinez *Deckers Outdoor Corporation - CEO, President, and Chairman of the Board*

Dave Powers *Deckers Outdoor Corporation - President of Omni-Channel*

Tom George *Deckers Outdoor Corporation - CFO*

Zohar Ziv *Deckers Outdoor Corporation - COO*

CONFERENCE CALL PARTICIPANTS

Omar Saad *ISI Group - Analyst*

Erinn Murphy *Piper Jaffray & Co. - Analyst*

Taposh Bari *Goldman Sachs - Analyst*

Eric Tracy *Janney Capital Markets - Analyst*

Camilo Lyon *Canaccord Genuity - Analyst*

Scott Krasik *BB&T Capital Markets - Analyst*

Robert Drbul *Nomura Securities - Analyst*

Randy Konik *Jefferies & Company - Analyst*

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

Corinna Freedman *Wedbush Securities - Analyst*

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

Jim Duffy *Stifel Nicolaus - Analyst*

Jeff Van Sinderen *B. Riley & Company - Analyst*

Christian Buss *Credit Suisse - Analyst*

PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and thank you for standing by. Welcome to the Deckers Outdoor Corporation's fourth-quarter and fiscal 2013 year-end earnings conference call.

(Operator Instructions)

I would like to remind everyone that this conference call is being recorded. I will now turn over the call to Linda Pazin, Vice President of Investor Relations and Corporate Communications. Please go ahead ma'am.

Linda Pazin - *Deckers Outdoor Corporation - VP of IR & Corporate Communications*

Welcome everyone joining us today. Before we begin, I would also 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 financial performance, including its projected revenues, expenses, gross margin, operating margin, capital expenditures, earnings per share and effective tax rate. As well as to the Company's brand strategies, store expansions and cost structure, as well as the outlook for the Company's markets and the demand for its products.

The forward-looking statements made on this call are based on currently available information and because its business, the Company's business is subject to a number of risks and uncertainties, some of which may be beyond its control, actual results may differ materially from the results expected at the current time. The Company has explained some of these risks and uncertainties in its earnings press release and in its SEC filings, including the risk factors section of its annual report on Form 10K 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.

With that, I'll now turn it over to the President, Chief Executive Officer, and Chair of the Board of Directors, Angel Martinez.

Angel Martinez - *Deckers Outdoor Corporation - CEO, President, and Chairman of the Board*

Thanks, Linda. And hello, everyone. With me and Linda on the call are Zohar Ziv, Chief Operating Officer; Dave Powers, President Omni-Channel; and Tom George, Chief Financial Officer.

Our strong fourth-quarter performance capped off a very productive and transformative year for our organization, as we executed on our strategic plan and laid the groundwork for what we expect will be continued gains in the year ahead. We believe that our robust growth was driven by the enduring strength of our UGG brand and the strategic investments we are making in our brand portfolios, in our marketing efforts, distribution channels, and infrastructure, as well as improved selling conditions given the cold weather compared to a year ago.

As we've talked about before, the macro environment of the past few years really challenged our organization to adapt the significant obstacles facing the industry, including fluctuations in weather, significant increases in commodity costs, and more recently, the way consumers shop. I'm extremely pleased with how our teams have responded to these challenges by, among other things, embracing innovation.

We've developed more compelling spring and non-seasonal footwear that better exemplifies the UGG brand depots, highlighting our progress of core classics units, represented just one-third of our business in 2013 compared to approximately 50% five years ago. This is a very important shift as it shows the evolution of the UGG product line and the growth opportunities ahead for the brand.

We also created UGG Pure, allowing us to offer our consumers luxurious quality at appropriate price points, and extend into new categories. And our foresight into the changing retail landscape let us to be early adopters of an omni-channel strategy. And we are continuing to develop the critical capabilities to be able to connect with a wide range of consumers no matter which channel or device they choose to engage with us, where or when.

What has remained constant during this period of change is the strength of our brand portfolio. Building brands is extremely difficult. I know this as I've spent my whole career working on this. This is why we remain very cognizant of the advantageous position we are in with several great brands.

What I also know, is that brands need the right resources in order to continue to grow and evolve in this very dynamic environment that is driven by the consumer like never before. During the year, we made considerable progress evolving all of our product lines and expanding the reach and capabilities of our direct-to-consumer operations, while delivering record revenue of more than $1.5 billion.

Heading into the holiday season we felt good about our prospects based on what we believed was the UGG brand's strongest, most complete line ever. The consumer response to our product offering was very positive, with strong full-price selling across our wholesale accounts, in our own retail stores, and across our e-commerce websites.

The strong fourth quarter led to substantial gains across our UGG product lines for the full year. With UGG sales increasing nearly 10% to a record $1.3 billion in 2013. I want to congratulate Connie Rishwain and the UGG team on this tremendous achievement. Their hard work, creativity, and commitment to developing and expanding the UGG product line is leading to very positive results.

Our US business showed resiliency in the fourth quarter, driven by a more diverse and accessible product offering, enhanced marketing efforts, and improved selling conditions compared with a year ago. Sell-through of classics was stronger than expected, with specialty classics such as the Josette and the Bailey Bow, and the knits performing extremely well. The very attractive and appealing specialty classics collection provides a great complement to our core business that we plan to continually update each year to drive excitement and incremental brand demand.

Our slippers, which were very strong all year at retail, had another strong gift-giving season. While our cold-weather collection was up meaningfully, led by the Adirondack and the Butte collections.

We are particularly pleased with how well our casual and fashion boots sold during the holidays, led by the Boulevard and Coastal collections. Again, we believe that the success of these collections highlights that consumers are choosing the UGG brand for our great styling at sharp price points and not just for our classic or cold-weather collections.

I should note that we're also making good progress in introducing expanding our loungewear line, which represents a natural extension of our slipper business. We had a very successful season with loungewear at Nordstrom, at Neiman Marcus and Dillard's, as well as in our Company-owned store and online. We project that revenues for our 2014 loungewear collection will continue to increase, reaching approximately $15 million. And we remain excited about the growth opportunity this line represents for the UGG lifestyle franchise.

For the fourth quarter, total DTC comparable sales were up 19%, with comparable store sales up 6%, including gains in each of our regions. Our US direct-to-consumer division had a solid fourth quarter, outperforming the overall US retail sector, delivering a DTC comp gain of 14%, including a 1% same-store sales increase. We did experience similar trends as others in the industry, with digital being stronger than brick and mortar.

However, with the ongoing investments we've been making to develop our omni-channel strategy, the lines between store and site traffic and sales transactions have become increasingly blurred. We believe that total DTC comparable sales, including same-store sales and worldwide e-commerce sales, has become a more accurate measure of our retail performance.

Turning to Europe, UGG brand sales were up meaningfully in each of our three direct markets -- the UK, Benelux, and France. And up across all channels. During the fourth quarter, total DTC comparable sales in Europe were up 21%, with comparable store sales up 2%.

The selling environment in most of Europe for footwear and apparel was similar to the US, with many retailers citing weak traffic and a lack of newness during the holiday season. Despite this environment, we consistently heard from key accounts that the UGG brand was one of the standout exceptions, and that the uniqueness of our product in the market was a differentiating factor. We've made great strides changing consumers' perceptions through a refined distribution strategy, which has included the expansion of our Company-owned stores and e-commerce sites, improving our marketing efforts and enhancing merchandise offerings to be more tailor fit to the region.

Asia-Pacific posted strong fourth-quarter results fueled by our direct-to-consumer efforts in China and Japan. In China, our performance was highlighted by a 6% comparable store sales gain, the contribution from the 17 new stores that were open during 2013 and a better than expected sales in our UGG e-commerce website that was only launched in Q2.

Meanwhile, total DTC comparable sales in Japan rose 49%, including a gain of 27% in comp store sales. While not in the comp base, our Shibuya flagship store has performed in line with our expectations since opening last fall, which has us excited about the prospects of implementing the learnings from this game-changing store experience into future locations.

We believe that we've established a great foundation for long-term growth and we have a sound plan to build on our business success. It starts with product. And we're taking the comfort platform we've created with the UGG brand, through our many years of working with luxurious materials, and successfully extending it into new footwear collections and adjacent categories that reinforce the UGG brand's powerful lifestyle position.

For fall 2014, we have an expanded selection of new specialty classics and casual boots at sharper price points. Retailer response of fall 2014 has been positive and the pre-book process is going well, driven by the strength of the product line and the accelerated sell through of our customer's experience this past season.

This coming fall we'll also be launching I Heart UGG. By blending a youthful tween aesthetic with the iconic comfort of the UGG brand, we're creating a new premium sub-brand developed specifically for younger consumers. The product line includes footwear, loungewear, and bags. And features colors, prints, and patterns, and construction elements that are appealing to the 9- to 12-year-old tween customer.

Initially, distribution would be limited to our own retail stores, through a dedicated website, and some of our top wholesale accounts, as well. The collection will also be available in some of our Japan and China stores. We're excited about the potential to expand the reach of the UGG brand among tween consumers through this successful and relevant sub-brand.

Teva's 2014 product story can be summed up by one statement -- focus on our core. Our renewed focus on Teva's heritage has led to an entirely new collection of original sandals for women and men, that have significantly extended the brand's distribution footprint beyond outdoor to family footwear, specialty and department stores. Nordstrom and Dillard's both went all doors with Teva for this spring. And while we also had a DSW, Famous Footwear, and Journeys, to name a few.

In addition, core accounts headlined by REI have embraced the return to our roots and increased the brand's shelf space. Teva was featured in Vogue as one of the brands to watch in 2014. And we will also collaborate with Glamour this summer on our exclusive original sandal product that will be carried in Nordstrom.

Additionally, Teva was just named as the official sandal sponsor for the Bonnaroo Music and Arts Festival, which has over 80,000 attendees over four days. And that's in Tennessee. We're excited about this refocused effort and broader distribution strategy, as well as the renewed energy that is coming from the Teva team. And we're looking forward to capitalizing on the spring fever that's bound to come following this long and difficult winter.

We had a great response from our retail partners on Sanuk spring collection, which has evolved to tell a phenomenal merchandising story that are on trend and on color across men's and women's, across sandals, and casual canvas. Importantly, we think the spring line will resonate with more style-conscious consumers who are in the early stages of discovering the Sanuk brand.

The response to our men's casual canvas has been very strong and has led to increased shelf space with existing accounts, as well as new distribution in the action sports lifestyle channel. In women's, our yoga series continues to be the standout with the Yoga Joy and Yoga Sling looking exceptionally well.

We've strengthened Sanuk's management team with the hire of Ethan Anderson who joins us as Global Vice President of Marketing. Ethan comes to us from Volcom with over 20 years of expertise in active lifestyle brand management.

Overall we feel very good about the direction of Sanuk and the smart steps our design, marketing and merchandising teams are taking to carefully leverage the strength of the brand to expand distribution and build exposure to new consumer segments, while continuing to appeal to its core audience.

I'm excited about what's going on at each of our brands, but as a former competitive runner, I'm particularly excited about the future of HOKA. With a unique midsole that features a higher volume, softer ride, and better rebounding foam compound than standard running shoes, we believe that HOKA ONE ONE is positioned to shake up the specialty running category.

Leading this disruption is the brand's newest lightweight shoe, the Conquest, winner of the 2013 Outside Year of the Show at Outdoor Retailer, Best New Gear from Gear Institute, and Best Innovation from Competitor Magazine. The Conquest features a new proprietary midsole material, much improved styling, which is currently one of the hottest selling shoes in the specialty running category.

Other key product stories for 2014 include two new super lightweight trainers, the Clifton and the Huaka, as well as a broad range of price points. These moves are allowing us to open up new distribution within running specialty and select outdoor specialty stores, as well as leading to excellence sell-through on HOKA's recently launched e-commerce site.

Our brands deserve marketing that is as strong as our product. We have sharpened our marketing tactics, particularly with the UGG brand, which is now aligned around a single brand message -- Feels Like Nothing Else.

We are launching in the spring with the Color of Expression campaign that showcases our brightest spring line to date, with key styles being featured InStyle, Glamour, and Vogue magazines. This follows our first true winter campaign titled Let It Snow that launched in January. I guess they heard that, somebody got that message. And January is one of our best retail months, particularly for our cold-weather products. The strong momentum coming out of the holidays, coupled with snowy conditions in most of the US, combined to help make this campaign a big success.

However, for a brand with so much global opportunity, UGG is still under-invested when it comes to advertising, especially on the digital front. In addition to the great product design and quality, the growth of the brand's non-classic business as a percentage of total sales is a direct result of our marketing efforts, which have supported our ability to extend our product lines into new categories. We are proud of these results and we need to continue to invest in our marketing resources.

In 2014, we are increasing our total Company marketing spend as a percent of sales to approximately 6% from a little over 5% this past year. A significant portion of the marketing increase will go towards the UGG brand, with the incremental dollars going towards the combination of digital programs and tactics aimed at driving traffic to our direct-to-consumer channel.

Our efforts will include launch of This is UGG, the global brand campaign for 2014, and that will be in the fall; the launch of I Heart UGG; digital marketing to support monthly key categories and deliveries, including Heritage, casual and fashion boots, loungewear, holiday and home; continued success of UGG for men featuring star quarterback Tom Brady; more paid impressions on Google. We'll display retargeting ads with an emphasis on social media and mobile devices. And increased exposure on affiliate partner websites.

One of the keys to Deckers' success during its 40-year history has been its people. That's why we're continually investing in the great talent within our organization, as well as looking externally for additional expertise and leadership to help take Deckers to the next level.

We announced an organizational restructuring in January. And are in the process of identifying the right person to fill the role, a newly-created role, of President of Brands. Once appointed, he or she will be in charge of driving best practices and merchandising design and development across our brand portfolio.

Each of our brand teams possesses an incredible amount of knowledge and skill. And while we have established a very collaborative environment we believe the collective know-how of the entire organization can be even better harnessed to the benefit of the overall Company. The President of Brands will spearhead this important endeavor, while also ensuring we continue to strengthen the great relationships that we have with our US wholesale customers and directly with consumers.

As part of the restructuring we announced the promotion of Dave Powers to the newly-created position of President of Omni-Channel. Since joining Deckers a little over 18 months ago as President of Global direct-to-consumer, Dave has done a terrific job improving the sophistication of our retail and our e-commerce operations. In order to keep the consumer at the center of our decision-making process and ensure that we continue to advance our omni-channel capabilities across each of our regions as they have expanded, we decided to expand Dave's role to also include all wholesale, distributor, retail and e-commerce channels in our international regions.

Now I'd like to turn the call over to Dave who will discuss our global direct-to-consumer and international businesses. Dave?

Dave Powers - *Deckers Outdoor Corporation - President of Omni-Channel*

Thanks, Angel. Hello, everyone. As we continue to invest in building our brands, we're also hard at work at realigning our resources to optimize the advantages of an omni-channel approach to accelerate growth across our businesses globally. This requires us to better identify and understand our customers and their preferences, expand accessibility of our inventory across all channels, and directly connect with them to cultivate loyalty and growth.

Our approach to building these omni-channel capabilities is a program we call DTC 360. We branded this in such a way because we need to lead our omni-channel strategies with direct-to-consumer as our best expression of our brand and most intimate opportunity to engage with our customers. This is a transformation that will require time and resources, but we believe is critical to driving the long-term growth of Deckers.

To build in our progress and drive success, in 2014 we are focused on four primary initiatives for our direct-to-consumer channel -- expanding our global footprint in a strategic and measured manner, elevating the in-store and online experience to drive conversion, further revolving our omni-channel capabilities in order to better serve the customer, and continuing to accelerate growth in our e-commerce channels globally.

We currently have 117 Company-owned retail stores, 113 of which carry the UGG banner, with the remainder a mix of Sanuk and Teva. While not included in our direct-to-consumer results, there are also an additional 28 UGG brand shores and shops-in-shops operated by our partners worldwide. The plan is to open approximately 25 Company-owned stores this year, a mix of both concept stores and outlets, with concept stores weighted heavily towards China, and outlet stores spread across each region including several in the US.

We still feel confident on hitting the 200-store target that we established previously. However, given the dynamics of the market and our financial targets, a portion of these new stores will now be opened under our new partner retail program, which we will be launching this year, and will include approximately 10 new partner stores. But to be clear, these are on top of the 25 Company-owned stores that we will be opening globally in 2014.

We collaborate closely with our partners to ensure their stores look like our Company-owned stores, and offer the same great experience consumers have come to expect from the UGG brand. And we will continue to elevate this collaboration under our new program. For modeling purposes, partner stores won't be included in our DTC results. They will fall under our international wholesale division and carry margins similar to a traditional wholesale account.

While we continue to expand our store footprint, we are concurrently driving a number of efforts to optimize our store operating model. As we look to drive productivity from our doors, we are starting to open smaller stores, which have led to a reduction in the square footage of an average store by a range of approximately 200 square feet during the past year. This year we are testing a smaller concept in Tyson's Galleria located in Northern Virginia that will have a smaller footprint, an evolved store design, lower operating costs and an enhanced omni-channel experience.

Within the stores, our priority is to build upon the consumer experience through programs like Infinite UGG, which generated great success after launching in the fourth quarter. From a product standpoint, stores will feature much more focused assortments, supplemented by category extensions with a focus on men's, accessories and the loungewear. We will be resetting the floor sets more frequently to keep the merchandise fresh and more seasonally relevant. And we will also be extending our home and loungewear categories into our stores through an in-store digital catalogs and expedited free shipping.

Looking at our e-commerce channel, 2013 was a really strong year, driven by a 30% worldwide e-commerce sales gain, and the launch of new country-specific sites, most notably in China. The emphasis on more effective marketing programs aimed at driving traffic has been very impactful. While the response to new products in our omni-channel initiatives have helped increase conversion rates. We see continued opportunities to expand our e-commerce business by leveraging key technology partnerships, offering more e-commerce-only styles, relaunching our UGG website, and expanding UGG By You in the US and Japan.

In addition, we will launch new UGG websites in Italy and Germany, as well as drive growth in HOKA's first e-commerce site which went live earlier this year. We will continue to leverage technology to transform the shopping experience into one that is personalized and efficient for our customers, driving conversion and long-term growth trajectories. We need to continue to strengthen our understanding of who our customers are, and use that information to develop deeper relationships with them.

We are actively working on a unified system to connect and communicate to our customers as they move between our stores and e-commerce sites. This is a critical function for running CRM and loyalty programs around the world. And we will continue to build upon and enhance these capabilities in 2014 and beyond.

In an effort to refine our go-forward strategy we recently opened our first-ever multi-brand retail store, the Deckers Brand Showcase, at our headquarters here in Goleta. The store offers customers the best expression of all of our brands, featuring a robust assortment of current products across multiple genders and lifestyle categories. The store will serve as the showcase for our expression of omni-channel retail and a test lab for new concepts, utilizing the latest technology combined with compelling merchandising to elevate the customer experience. Our customers have the ability to shop in-store using digital touchscreens, customize their products, order online, ship direct to their home free of charge, or to pick up in store.

As I mentioned earlier, we are launching a partner retail program which will be headed up by Lauren Hovland. Lauren recently joined us from Coach where she was most recently the Senior Account Manager for Coach's global travel retail program for the Americas region. Lauren will lead the program aimed at introducing our brands, primarily UGG, to new markets where we do not currently possess the infrastructure or local market knowledge to operate directly.

We believe that partner retail is a significant growth opportunity for the Company. It will help manage our capital investment in SG&A expenses, while providing additional distribution opportunities into new markets. We're in the process of evaluating our current fleet and new distribution earners as we develop our launch planned for later this year.

I'll now turn it over to Tom who will review the financials.

Tom George - *Deckers Outdoor Corporation - CFO*

Thanks, Dave. I'll get right into it. For the fourth quarter, net sales increased 19.2% to $736 million, compared with $617.3 million a year ago. This year's results include domestic sales of $510.7 million, an increase of 14.3% compared with last year. And international sales of $225.3 million, an increase of 32.1% over last year.

Looking at the full year on a constant currency basis, total net sales increased 11.1% versus 10.1%, as reported. And international sales increased 20% versus 16.5% as reported.

Looking at sales by brand, UGG brand sales increased 18.1% to $690.9 million. Teva brand sales increased 13.6% to $15.5 million. And Sanuk brand sales for the quarter increased 45.2% to $22.2 million. Sales of our other brands increased $3.9 million to $7.4 million.

By channel, total whole and distributor sales for the quarter increased 11.8% to $440.7 million. In terms of UGG wholesale, domestic UGG wholesale increased 8.5%, European UGG wholesale and distributor sales increased 5.5%, and Asia-Pacific increased 52.2%.

Turning to our direct-to-consumer business, retail sales increased 31.4% to $178 million. And e-commerce sales increased 33.9% to $117.3 million. Global direct-to-consumer comparable sales rose 19% in Q4, with same-store sales increasing 6.1% for the 13 weeks ending December 29, 2013 compared to the same period a year ago. The increase in retail comparable sales was driven by a strong double-digit increase in Japan, a mid-single-digit increase in China, and low single-digit increases in the US and Europe.

For all stores open at least 12 months at the end of December 31, 2013, the average sales per square foot was approximately $1,300 versus $1,600 for the same period in 2012. In 2013, we expanded several of our most productive locations, which included Woodbury, and Honolulu. Therefore, these stores were excluded from the 2013 comp base. So, same-store sales were flat at about $1,300 per square foot if you exclude these locations from the calculation in both years.

Our new stores are generating sales per square foot of about $1,000 with healthy returns -- IE, one year paybacks -- as a result of lower rent and buildout economics. Total square footage at the end of 2013 was approximately 313,000 square feet compared to roughly 211,000 square feet at the end of 2012, representing an increase of about 48%.

With regard to costs, we reduced our CapEx spend on a per square foot basis by approximately 20% in 2013. We also decreased operating expenses on a per store basis in the mid-single-digit range through tighter controls during the pre-opening period, as well as tighter expense management of controllable items in existing stores. Going forward we are targeting slightly smaller, less capital intensive locations, as well as partner stores, as we continue to fine-tune our model to maximize performance.

Gross margin for the fourth quarter was 51.1% compared to 46.3% in the fourth quarter last year. The 480 basis point increase was primarily attributable to a decrease in product costs due to lower sheepskin prices and a greater contribution coming from our direct-to-consumer division this year compared with last year.

Total SG&A expense for the quarter was $174.7 million or 23.7% of net sales compared to $141.9 million or 23% of net sales a year ago. The dollar increase versus the year ago is mainly due to the increase in retail and e-commerce expenses.

Operating income for the fourth quarter increased 39.8% to $201.5 million or 27.4% of sales, compared to $144.1 million or 23.3% of sales last year. We recorded income tax expense of $59.5 million in the fourth quarter for an effective tax rate of 29.7%, compared to a 30.6% tax rate in last year's fourth quarter.

Fourth-quarter diluted earnings per share increased 45.8% to $4.04 compared to $2.77 a year ago. This was ahead of our guidance for earnings per share which was approximately $3.66, with the upside driven primarily by stronger than expected sales.

Turning to the balance sheet, at December 31, 2013, inventory decreased 13.1% to $260.8 million from $300.2 million at December 31, 2012. The decrease was mainly due to an 18% decrease in UGG brand inventory.

At December 31, 2013 our cash and cash equivalents increased $126.9 million or 115% to $237.1 million compared to $110.2 million at December 31, 2012. At December 31, 2013 we had $9.7 million in outstanding borrowings under our credit facility, compared to $33 million at December 31, 2012.

Now, before moving to our 2014 outlook, I want to share that based on the seasonality of our business and timing of the fall pre-book process, the Board has approved a change to the Company's fiscal year from December 31 to March 31. The change will also allow us to incorporate the learnings from holiday in terms of what did and didn't work from a product, marketing and a channel perspective, as well as incorporating more current fall pre-book information into the following year's plans.

The following guidance is for calendar year 2014. We will provide fiscal 2015 guidance, which will be the 12 months ending March 31, 2015, when we report Q1 results in April.

So, based on current visibility, we expect revenue to increase approximately 10% over 2013 levels. And this guidance is based on the following assumptions -- UGG brand sales growth of approximately 9%, Teva brand sales growth of a approximately 5%, Sanuk brand sales growth of approximately 10%, and sales of our other brands which include HOKA, Ahnu, and Tsubo to be approximately $65 million.

And our fiscal 2014 guidance also assumes that the Company's effective tax rate will be approximately 29%. We expect that our DTC channel will grow at a faster pace than the overall Company, driven by full-year contributions from the 40 stores we opened in 2013, combined with approximately 25 planned store openings this year. A projected low single digit comp increase, and another year of projected double-digit gains from e-commerce.

Backlog at December 31, 2013 was approximately $401 million compared to $323 million at December 31, 2012. This represents a 24% increase. The year-over-year improvement in the backlog was driven by the increase of fall bookings, which were up against some easier comparison due to a more challenging fourth quarter a year ago. In addition, we estimate some followers came in earlier versus last year as a result of strong sell through in the fourth quarter of 2013. While all orders in backlog are subject to cancellation by customers, we expect the majority of such orders will be filled in 2014.

With respect to the bottom line, we are currently projecting diluted earnings per share increase approximately 8% over 2013 levels. This guidance is based on gross margin expansion of approximately 200 basis points over 2013 levels, driven primarily by lower input costs and an increased contribution from our DTC businesses.

SG&A as a percent of sales is forecasted to be approximately 36% in 2014. We must make investments to continue to drive double-digit top-line growth for the Company in our continued efforts to improve gross margin to afford us the opportunity to drive this growth. That said, while we are a way out, and a lot will depend on how 2014 unfolds, at this point we fully expect to leverage SG&A beginning in 2015.

Now back to the 2014 increase. Let me outline the key drivers which are, first, we'll have a full year of operating expenses associated with the 40 stores that were opened in 2013, as well as the addition of new stores opening in 2014. From a dollar standpoint, this is the largest bucket.

As Angel mentioned earlier, we are stepping up our marketing investments to better support the long-term growth of our brand portfolio. Marketing is forecasted to be up approximately $17 million in 2014.

Costs associated with the recently announced management reorganization, as well as investments for international expansion and supply chain, are projected to run approximately $10 million. These investments include compensation for new senior hires, such as the President of Brands, higher salaries tied to recent promotions, IT system improvements. Of the $10 million, we estimate approximately one-half are one-time nonrecurring costs, while the rest will be part of our ongoing budget. And depreciation, 2014 is projected to increase approximately $6 million driven primarily by our new headquarters and the stores we added in 2013, and new stores in 2014.

Our ability to generate strong cash flow enables us to finance our growth opportunities. To support our growth and expansion, we are in the process of implementing a full-scale business transformation initiative that includes the upgrading of our enterprise resource planning system across our operations. Our capital expenditures in 2014 are expected to total approximately $90 million, which up includes $31 million for the new distribution center we announced in December; $25 million in direct-to-consumer, which are mostly new store openings; and $37 million for IT and related infrastructure improvement to support our omni-channel transformation, as well as international expansion.

Totalling close to 800,000 square feet of space, our new distribution center in Reno Valley will effectively service six of our brands and replace two of our existing distribution centers in Ventura and Irvine. These resources will strengthen both our DTC and omni-channel efforts by allowing us to better serve the consumer by giving them access to the product they want in the most convenient manner.

Capital expenditures for 2013 ended up at $83.5 million, which included $35 million each for both the new headquarters and investment in our direct-to-consumer operations. We are planning to complete in the first quarter of 2014 the refinancing of our new corporate headquarters by securing long-term financing of approximately $38.5 million. Therefore, interest expense for 2014 is expected to increase to approximately $1.5 million -- so, $1.5 million.

For the first quarter of 2014, we currently expect revenues to increase 6% compared to the first quarter of 2013, and a diluted loss per share of approximately $0.16 per share. As a reminder, a significant amount of our operating expenses are fixed and spread evenly on an absolute dollar basis throughout each quarter. This includes the costs associated with the 28 new stores that were not open until the second half of 2013. Therefore, consistent with last year, we expect our earnings to decline in the first half of 2014 as compared to the first half of 2013, which are typically our lowest volume sales quarters.

And we expect our earnings to increase over 2013 in the back half of the year. We are continuing to successfully make the transition from a domestic organization focused primarily on serving the wholesale market into a global consumer-centric organization driven by an expanding direct-to-consumer network and a compelling omni-channel offering.

So, in summary, we delivered a great year. We are beginning to reap the benefits of our earlier decisions to pursue an international and direct-to-consumer strategy.

For the year, almost two-thirds of our operating income was generated by our direct-to-consumer business at an impressive operating margin of 27%. For the recently completed quarter, our direct-to-consumer operating margin was a strong 41%.

To build on this success we must continue to make investments in this strategy. Therefore most of our 2014 SG&A increase and approximately half of our CapEx investments for 2014 are attributable to this strategy.

I'll now turn it back to Angel for his closing comments.

Angel Martinez - *Deckers Outdoor Corporation - CEO, President, and Chairman of the Board*

Thanks, Tom. We are very pleased with the strategic progress that we're making, and our 2013 performance is a testament to our brands, a testament to our people, and our strategy.

Looking ahead, we believe there are meaningful opportunities for each of our brands. And we are committed to investing in growth and executing a concerted omni-channel strategy that puts the consumer at the center of everything we do. These investments are critical for us in order to solidify our competitive position and maximize the opportunities that are in front of us.

We're in the process of completing our latest five-year plan and we look forward to sharing those details with you later this year. But I will say today that based on our current position and the growth prospects we've identified, we see no reason we cannot expand our top line by at least low double digits annually over the next several years.

We have talked previously about a 15% operating margin goal. That continues to be the target and we anticipate achieving this primarily through gross margin expansion that will come from lower input costs and increased penetration of our direct-to-consumer channel.

We're doing everything we can to operate smarter and better, and also to better target and measure our strategic and operational spending. Once we hit a 15% operating margin, we'll assess where the business is at that point and reset a longer-term goal.

I want to thank everyone that was involved in making 2013 a successful year for the Company, beginning with our great group of employees. Your enthusiasm, culture of collaboration, and commitment to execution is the backbone of this organization. Personally I'm more energized and excited about the future of Deckers than ever before and I know our teams share in my optimism. We look forward to updating you on our progress as the year unfolds.

Operator, we are now ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Omar Saad, ISI Group.

Omar Saad - *ISI Group - Analyst*

Thanks. Good afternoon, guys. A couple questions. Number one, I hate to use the W word but I thought it was interesting that, given how cold it was in North America this holiday and winter, but it was relatively seasonably warm in Europe, but you saw a great trends in both. What are you learning about weather and how important it is to the business or how it affects your business? And then I have one follow-up.

Angel Martinez - *Deckers Outdoor Corporation - CEO, President, and Chairman of the Board*

Weather, the changeability of weather seems to now be a constant. So, I think the important thing is the diversification of the product line, the innovation around all of the assortments. And really importantly, the merchandising on a regional basis so that we can offer as much assortment as possible and be ready for weather in whatever direction it happens to go.

For a long time we've been talking, OMar, about the brand really being about luxury and comfort. And that's proving to be true. We've never been a cold weather brand. But we don't need really cold weather. We need cool weather. And so it just seems that we've learned so much about how to build around that idea and offer up the products that balance out the vagaries of weather for us.

Omar Saad - *ISI Group - Analyst*

Thanks. And then you talked about obviously SG&A, at least according to your guidance is going to be up a little bit this year. It was great to see you investing in the brand. It sounds like 2015 could be a year where you start to leverage SG&A. What are the key differences between what you are spending on this year and how that changes in 2015 and maybe going forward? Just your thought process around that, investing in the brand. Thanks.

Tom George - *Deckers Outdoor Corporation - CFO*

Yes. What really drives the ability to generate leverage in 2015 is the look at 2014. And we did outline some of these items related to investments we are making, some of which are one-time. I think if you were to adjust for the one-time costs we highlighted, about $5 million of the $10 million, you get operating margin expansion for sure relative to the prior year, and you get closer to even in 2014, getting leverage on the expenses.

I think one more thing to add, of the $10 million, $5 million are one-time but the other $5 million really are changes in investments being made in advance of the future profitability curve. So, IE, investing and putting in and making some changes in the organization to put a new President of Brands in place. That person really won't be able to influence 2014's revenues but they'll certainly have a good impact on 2015 and beyond. So that helps us get confidence, as well, that we'll get leverage in 2015.

And one more point is the infrastructure to scale a much larger direct-to-consumer operation, we are seeing that we've got most of those investments in place now. And therefore there's opportunity big time in 2015 to be able to get some leverage on our direct-to-consumer business.

Omar Saad - *ISI Group - Analyst*

One more quick one. 19% topline in 4Q and you're guiding to 6% in 1Q. What's the big change in trend there? Is it not enough inventory or is there something you are seeing in the marketplace? And that's my last one, I promise. Thanks.

Tom George - *Deckers Outdoor Corporation - CFO*

A couple things there. The first quarter is a slower quarter relative to the fourth. Another thing, last year's first quarter, people remember that there was some weather issues last year but the winter did come. It did come late. And we did have a pretty robust January last year. So, we think it's just appropriate to be a little bit more cautious on the first quarter.

And, back to the W word, with a longer winter, the visibility we have for reorders around our sandal business is we are a little bit more cautious around that, as well.

Omar Saad - *ISI Group - Analyst*

Thanks, guys. Congrats again on a nice year.

Operator

Erinn Murphy, Piper Jaffray.

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

Great. Thank you for taking my question. I was hoping you could provide a little bit more color on the backlog for 2014. Can you help us think about the composition of growth between some of the newer refined fashion weatherproof products versus your core fillers like the classics and the slippers. How are retailers positioning that to that order book?

Angel Martinez - *Deckers Outdoor Corporation - CEO, President, and Chairman of the Board*

We've had great reception and the pre-books been very solid for the specialty classics, which are not part of core classics, and the fashion product. As I mentioned on the call, it's only now about one-third, a little less than one-third of our business is core classics. So, we continue to make significant progress on that front and that's reflected in what we are seeing in the pre-book going forward.

Linda Pazin - *Deckers Outdoor Corporation - VP of IR & Corporate Communications*

Yes. And then, Erinn. I'll just comment, in the casual boot category, given the improved styling and sharper price points, we do have a significant portion of our fall pre-book completed. And we have seen an increase in that category this year. Which really speaks to the improved price point as well as the styling.

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

Okay. That's helpful. And then on the international comments you made, it sounds like you've seen a nice turn in Europe and then clearly building some good momentum in Asia. Can you just help us think about how we should pencil out some of the regions this year in terms of incremental growth? It seems like there's still a tremendous amount of whitespace that you're expanding into. It would be really helpful to hear a little bit more detail, particularly in Asia at this point.

Angel Martinez - *Deckers Outdoor Corporation - CEO, President, and Chairman of the Board*

We remain very bullish on what's happening in Japan. We think that we are just really getting going there. The energy around the Shibuya store, the energy around the brand, the new products, all the categories that we've introduced recently getting great traction in Japan.

In China we continue to make significant progress. I think most of the heavy lifting from an operations and an operating perspective seem to be behind us. We are now focused on brand building, now focused on continuing to evolve our e-commerce business there. You saw that we're getting good traction there.

And we really just got started. That just started very recently that we started selling in the e-commerce platform there. Dave, do you have anything else to add?

Dave Powers - *Deckers Outdoor Corporation - President of Omni-Channel*

Erinn, I think it's a great example. Japan is a great example of the power of a direct-to-consumer model leading the market elevation in that country. The impact that the stores have had, our marketing efforts and localized merchandising have had, not just on our retail business but the total market, have been pretty significant. To the point, now, we have people coming to us looking for us to invest in different hotel locations, as well as different retail locations. And we're going to continue to invest in that market as well as the e-commerce there for the long term.

We're taking a lot of those learnings actually from Japan. And going forward we're going to apply those to other markets, such as China. As Angel said, we're getting the infrastructure and the team in place this year to really go after that business in a more aggressive way at the end of 2014 and into 2015.

And then we have a little bit of work to catch up in Europe, to be honest. The e-com and retail business there have some things they still need to work out. But we are going to apply the same methodology of using our stores and our sites to elevate the brands, expand categories and then lead wholesale in that manner.

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

Great. Thank you guys and best of luck.

Operator

Taposh Bari with Goldman Sachs.

Taposh Bari - *Goldman Sachs - Analyst*

Good afternoon. Nice year. Nice to see UGG make a comeback. The first question I had was just on the UGG wholesale business in the fourth quarter. I think, it looks like according to my math, it was up about 10%. Is that number right, Tom? And how are you thinking about that business and how are you planning that business for 2014?

Tom George - *Deckers Outdoor Corporation - CFO*

Yes. It was up about 10% in the fourth quarter. So, we're really pleased with how that finished. For 2014, at this early stage we're at in the pre-book process and coming on the heels of a really strong year, we are planning more of a mid single-digit growth number year.

Taposh Bari - *Goldman Sachs - Analyst*

Okay. And then my second question was just related to the recent spike in cattle prices. Just curious to see if that has any kind of effect from where you're sitting on sheepskin prices.

Zohar Ziv - *Deckers Outdoor Corporation - COO*

The cattle prices, they don't move in the same direction as the sheepskin prices. I know we have seen that prices go up too. But, as you know, our 2014 prices are all locked. So all our costs is locked for the remainder of the year. And we haven't had a significant impact. We have managed through efficient purchasing and consolidating resources to maintain our prices at the same level as last year.

Taposh Bari - *Goldman Sachs - Analyst*

Thank you guys. Good luck.

Operator

Eric Tracy, Janney Capital Markets.

Eric Tracy - *Janney Capital Markets - Analyst*

Hello, guys. Good afternoon. Congratulations on a great quarter. If I could, first for either Angel or Dave, just as we think about the DTC strategy, a little bit surprised on the comp within the US retail stores given the strong weather backdrop. But clearly an indication of where the consumer is migrating. And you are on top of that. But as we think about the evolution of the DTC and in particular the stores, is there any change to the ultimate saturation point of that door base? I know you guys are doing some things to help productivity and less capital intensive moves. But as we think about the ultimate door base relative to just building online or digital, how should we be thinking about that?

Angel Martinez - *Deckers Outdoor Corporation - CEO, President, and Chairman of the Board*

Let me just say a general comment and I am going to hand it over to Dave. The goal really now is to understand what is the optimum mix between -- in the omni-channel strategy -- between your brick-and-mortar stores and your e-commerce platform. As well as that interaction with your wholesale account base.

And we feel very good that we've always taken a bit of a cautious approach, and not overly aggressively open brick-and-mortar stores, sensing that this whole omni-channel environment was emerging, and emerging rather quickly. So that impacts store size because it could be that in the not too distant future that the footprint of the store doesn't need to be as big as it needs to be. The store we're doing here at the corporate headquarters actually has a small warehouse back room.

In other words, our bet in the test that we're doing here is to see if the customer is willing to access our entire catalog through an iPad. Then are they willing to then just receive product in 24 hours, or even sooner than that if Amazon has their way. That has an impact on how much real estate you need. It has an impact on the square footage requirements, the staffing requirement, et cetera.

We see that as emerging. It's still in the early phases but we're taking a very aggressive approach of studying the situation because it could mean that we need fewer stores than we thought we did. Or it could mean that we can have more stores that are more omni-channel focused that are on a smaller footprint. I'm pretty comfortable with saying that the idea of the large format stores with one-third of the footprint being back room space for inventory is pretty much over.

Dave, do you have anything you want to add?

Dave Powers - *Deckers Outdoor Corporation - President of Omni-Channel*

Yes. I think it's a great question. It's one that I think every retailer right now is grappling with. And I feel like we've been fiscally responsible and somewhat cautious. And we have a really solid pipeline where we want to put stores over the next couple of years. And we vet that through a pretty serious process here. As we are continuing to learn about the migration of the consumer from stores to online we're taking that into consideration.

We're being very strategic on a few things. One is where we put stores based off the demographics, the opportunity in the market and our wholesale partners. We are looking at the size of the store, as Angel said, to see if we can maximize productivity in those smaller footprints. We've actually learned a lot from the launch of our Infinite UGG program in Q4, where we serviced quite a few consumers in-store but we shipped it out of our e-commerce site with great returns on that.

And so I think we're looking at it holistically. I think we're a little bit different than some of the other retailers such as an electronics store where you have to come in and touch and feel and try on the products. So, there's always going to be a role for our stores in the market place. But what we're going to do is try to figure out what the right model is, what the right experience is, how we leverage technology, and how do we service the consumer across stores and online.

The other point I would make is that we are going to launch that partner retail program this year. That will help us test new waters and new markets. And the other thing is that the migration from the consumer to stores to online is being led by North America. And it's helping a little bit more in Europe. In places like China that hasn't really happened yet so there's still opportunity for store growth in some of these emerging markets.

Eric Tracy - *Janney Capital Markets - Analyst*

Okay. I really appreciate that color. And then maybe switching gears, as we think about coming out of some of the selling season the I Heart UGG line, I know it's going to be test here domestically, and maybe a little bit broader within Asia. Maybe just talk to us again about the rollout, the plans, the early learnings and the feedback that you're getting from accounts.

Angel Martinez - *Deckers Outdoor Corporation - CEO, President, and Chairman of the Board*

We're getting great feedback from all the accounts that we felt it was appropriate for. As I mentioned, it's a tween line so the idea of the I Heart UGG, A, is to give us a little faster fashion, different profiles, using different midsoles, different colors, different materials. It's much younger. It looks very different than anything UGG has done in the past.

And it's for those customers who have a tween consumer. What we found -- and by the way, it is a premium-priced product. So it really goes up against competition that was either doing knockoff product of our UGG brand or coming at us with colorways and various treatments that we didn't feel were appropriate to UGG. They were maybe a little too young. We now have a very strong competitive weapon in that regard.

We are happy with the tests so far in terms of the pre-book. It's early obviously. It's a fall 2014 product line. We don't know what the pull through is going to be. But we are quite optimistic about it. We're feeling pretty good about the results so far.

Eric Tracy - *Janney Capital Markets - Analyst*

Okay. I really appreciate it, guys. Thanks. Best of luck.

Operator

Camilo Lyon, and Canaccord Genuity.

Camilo Lyon - *Canaccord Genuity - Analyst*

Thanks. Good afternoon, everyone. I was hoping to just focus on the backlog comment, if you could help me connect the dots. You talked about the backlog being up 24%, yet your overall revenue growth per year is looking to be 10%. Can you just help me bridge that?

Tom George - *Deckers Outdoor Corporation - CFO*

Yes. One of the things we talked about, Camilo, was the fact that, again, the year is not only -- let me step back a little bit. The total year, the 10% includes not only wholesale business, which is reflected in backlog at various times over the course of the year but also includes the direct-to-consumer business which is not reflected in backlog. So there's one thing there.

Another thing is the backlog increase year over year is primarily the fall business. And what we've got there is an easier comparison. A year ago, by the end of the year, some of the retailers were being a little bit more cautious in terms of what they were going to book for the following year. Rather this year, they had such strong sell through in the fourth quarter, and in some cases they ran out of some product, they hustled to get some of their fall 2014 orders in before the end of the year. So, IE, that's some timing involved in the backlog growth year over year. Does that help?

Camilo Lyon - *Canaccord Genuity - Analyst*

A little bit but it still seems like there's a pretty wide gap between that number and the revenue number. And I understand -- I get the fact that DTC is also going to grow, but you said that that was going to grow at a rate faster than the overall Company growth rate. So, it just seems that there is an incremental amount of conservatism baked into that number relative to the backlog number that you discussed.

Tom George - *Deckers Outdoor Corporation - CFO*

To your point on the DTC, it is growing at a faster rate and therefore it's becoming a bigger percentage of our overall business. And I think another thing to point out is that backlog includes spring orders, as well. There is some increase in spring orders, as well, and there's also some increase in the other brands for spring, as well.

And I think another thing to keep in mind is that backlog is still early in the scheme of things. The fall pre-booking process really doesn't conclude until mid April. So a lot more business to come in from a pre-booking point of view.

Camilo Lyon - *Canaccord Genuity - Analyst*

So, what would you say the pre-booking -- what would you say that represents as the total book that you expect to have? That 24%, is that 75% of the pre-book? Is it 80%? Is it 50%? How do we think about how far along the booking process has gone so far?

Tom George - *Deckers Outdoor Corporation - CFO*

Maybe just before I answer that, just to help put that year-end backlog of $400 million in perspective. $400 million is relative to total year guidance of $1.7 billion, I think. Let's understand that. So percentage changes in the year and backlog, although somewhat indicative and directional aren't necessarily reflective of what your final pre-book will be for your fall wholesale business.

And then to come back to the question I think we commented on earlier, we've been pretty pleased with how the fall 2014 business has booked to date. But more to go.

Camilo Lyon - *Canaccord Genuity - Analyst*

Is it substantially more? If you could just help us narrow what more to go means, I think it would be helpful. Because I think everyone -- we've been getting a lot of questions over the last half hour or hour, about the differences between those two numbers, the backlog and the growth. Just trying to reconcile the gap.

Tom George - *Deckers Outdoor Corporation - CFO*

We've been working on it almost 2 months.

Angel Martinez - *Deckers Outdoor Corporation - CEO, President, and Chairman of the Board*

Yes, we still have about two more months to go. Our sales organization globally is out there selling. And, as is mentioned, this is a wholesale environment. That's when pre-book happens.

I'll put it this way. We are significantly ahead of the pace we were on last year in terms of pre-book. At the shows, and I think many of you have been to our shows, the UGG boots have been busy and every appointment is booked all day at the shows. So, we've been quite busy rolling it all in and we are very happy with the outcome so far.

Camilo Lyon - *Canaccord Genuity - Analyst*

Great. And just one final question, different topic. With regards to inventory you had great inventory control. Obviously you sold through a lot of the product. Did you feel that you left some sales on the table by being under inventoried in the fourth quarter? And if so, any way to quantify that?

Tom George - *Deckers Outdoor Corporation - CFO*

Not really. There were a few small pockets of certain product, certain slippers, maybe a couple other items. But not that much.

Angel Martinez - *Deckers Outdoor Corporation - CEO, President, and Chairman of the Board*

I think it's important -- what we're comfortable rolling over into another year is core classic and some classic derivative product. What we're not comfortable rolling over another year is very specialized, very cold weather product, for example. So, we were able to liquidate a lot of that product with the snowy conditions that we had carried over from 2012. All that product is gone.

So I think we actually ended up in just about the right place. And we were able to fill do some fill-in business in the first part of the year, obviously, as the weather continued to be very cold so that's been helpful. But the mix -- we're very happy with the mix we ended up with.

Camilo Lyon - *Canaccord Genuity - Analyst*

Great. All the best in 2014. Good luck.

Operator

Scott Krasik, BB&T Capital Markets.

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

Hi. Thanks. And great job in Q4. Just another angle on the backlog. From Q3 last year obviously retailers pushed things out to Q4 given the warm winter they had prior. Are you seeing an acceleration in Q3 deliveries? And if so, I think Q3 this year in 2013 was like low 20% of EPS. If you are seeing that shift, could Q3 this year represent a bigger percentage of your yearly earnings?

Tom George - *Deckers Outdoor Corporation - CFO*

We are not really seeing that shift, Scott. We are not really seeing that.

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

Okay. So assume that Q3 is a similar percentage of your annual earnings as 2013?

Tom George - *Deckers Outdoor Corporation - CFO*

Similar. I think just keep in mind that as we continue to evolve the more direct-to-consumer business there will be more and more emphasis on fourth quarter versus third quarter. Black Friday is still in Q4, as well.

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

Okay. I just wanted the numbers to be accurate. So, maybe Q3 earnings could actually be a smaller percentage of the annual earnings than last year?

Tom George - *Deckers Outdoor Corporation - CFO*

Yes. Small -- slight bit.

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

Okay. That's helpful. And then you just alluded to the fact that you are still selling some 2012 carryover product this year. You had some huge improvements in gross margin in Q4. But since you'll be selling all of the inventory that was made with Pure with the lower sheepskin cost, could the improvement in gross margin in Q4 2014 be even greater than it was in Q4 2013?

Angel Martinez - *Deckers Outdoor Corporation - CEO, President, and Chairman of the Board*

The product I was referring to is specifically cold weather product. That when we don't have all of the cold, snowy weather you don't have the need for waterproof boot and traction and all of that stuff. And, by the way, that product did not change from year to year. That product is all gone now.

And we can expect to continue to see gross margin improvement as we implement more of Pure into the product line. That's just an ongoing initiative that we've got over the next few years.

Tom George - *Deckers Outdoor Corporation - CFO*

But keep in mind this year's fourth quarter got a lot of benefit from the reduction in sheepskin costs. We'll get some more reduction next year but not to the same order of magnitude as we did in the fourth quarter of this year. But we clearly do with the expansion of DTC and some reduction in sheepskin costs expect the fourth quarter -- expect some expansion in the fourth quarter gross margin, as well as the third quarter.

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

Thanks. And then in terms of replacing the table grade sheepskin is your expectation that UGG Pure will replace 100% in 2014?

Zohar Ziv - *Deckers Outdoor Corporation - COO*

No. We won't get there by 2014. As you know, this year we are going to use about 25% of our total sheepskin as our Pure. The maximum we can do is 40%. We are ahead of our plans we said before. But I don't think we're going to use UGGpure for 100% of our table grade next year.

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

Okay. So it just means additional savings beyond next year.

Zohar Ziv - *Deckers Outdoor Corporation - COO*

Yes.

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

Okay. Great. Thanks. Good luck.

Operator

Robert Drbul, Nomura Securities.

Robert Drbul - *Nomura Securities - Analyst*

Hi. Good afternoon. I just have two questions. The first one is, Angel, where do you think we are in Europe with the UGG brand right now in terms of the growth trajectory and distribution and the logistics pieces of it there?

Angel Martinez - *Deckers Outdoor Corporation - CEO, President, and Chairman of the Board*

If you think back to where we were two years ago we were primarily distributor-driven. Our e-commerce platform had not really launched. And we were from a product mix point of view very heavily dependent on core classics. We were selling very few slippers. Our men's business had not evolved or developed. And we had a long way to go there.

Plus we had distribution issues that we felt we had to manage through. We were in places we didn't feel were appropriate for the UGG brand.

So the last two years have been about consolidating the e-commerce business component of the business, expanding the retail footprint, closing some distribution that we felt was inappropriate for the brand, developing the product line with the assortments necessary to appeal to the European consumer. So, I'd say that we are in the second inning, if you will, of what this game in Europe looks like.

We have large countries that are only now becoming a more significant part of the mix. France -- we are just scratching the surface in France. We are primarily in Paris. Still have opportunity for our own stores as well as e-commerce.

Germany is a distributor business that, as all distributor businesses go, we don't have stores in Germany, for example. There's opportunity for us to have our own stores in Germany. There are wholesale parts of Europe where we have no presentation at all -- Poland, Hungary, the Czech Republic. Turkey, I was in Turkey not long ago. There is an amazing amount of UGG on the street but we don't have any distribution in Turkey. So people are buying it in other parts -- primary the UK.

So I think we've got quite a long way to go in Europe.

Robert Drbul - *Nomura Securities - Analyst*

Okay. And then can you talk a little bit about the men's business, the men's store and what the product is, and any current thinking of a new men's spokesperson given the performance of the Patriots this year and last year?

Angel Martinez - *Deckers Outdoor Corporation - CEO, President, and Chairman of the Board*

You like to rub it in. Actually Tom Brady is Tom Brady. He is independent of how the Patriots do. He is an aspirational character. He is a wonderful spokesperson for the brand. He does represent what the brand stands for. So we'll stick with Tom Brady independent of what the Patriots do. I will just say that.

The men's business has been very successful for us. We really like the direction it's going. Every year we get more real estate. Every year we're getting a more refined product assortment. We know where we have opportunity in men's,

Our men's slipper business has really come alive and now evolved past its original core, which is, let's say, the Ascot type of product to slippers that are now more like moccasins. There worn outside. They're worn year-round. There a little thinner. And that business is really very exciting.

Our men's boot business, meaning casual boots, for fall 2014 is, I think, one of the highlights of our product line. So we're very happy with the men's business and the direction it's been going. Performance of the men's business in e-com and our own stores is quite good. Dave?

Dave Powers - *Deckers Outdoor Corporation - President of Omni-Channel*

Yes. I was going to say, I think one of the really encouraging signs of the men's business is in our Asia-Pacific market in Japan and China. It's one of our highest penetrations of the total business coming from men's. And, again, once we get more locally relevant and merchandising and styling, that's going to increase. So, we're spending a lot of energy on men's right now. We do think, within our stores that we have today, a significant opportunity to continue to drive top line in specific men's category growth.

Angel Martinez - *Deckers Outdoor Corporation - CEO, President, and Chairman of the Board*

And one thing I'll add to understand, something important to understand about men's, men's is a slower build but it's a longer run. Meaning that -- I said this for many years. All guys seem to have the five same footwear patterns in their closet. All guys buy the same five shoes over and over again.

Not true of the women's business, thankfully. Women buy fashion, they buy color, they buy merchandise that matches the trends in fashion. Men on the other hand don't. And so men, once they find product they like, they tend to stay with it and stay with it for a long time. So it's a slower build. But once you get there with men, you have customers for a very long term.

Robert Drbul - *Nomura Securities - Analyst*

Thank you.

Operator

Randy Konik, Jefferies.

Randy Konik - *Jefferies & Company - Analyst*

I guess for Tom, the stock is getting hurt in after-hours. I would think it's mostly related to the SG&A guidance. When you think about -- this is yet another year of SG&A guided as a percent of sales pretty up substantially. If you break out, what is the contribution of SG&A deleverage in 2014 from just opening new stores and how many new stores are you opening again? Just the first part of my question.

Tom George - *Deckers Outdoor Corporation - CFO*

Opening 25 Company-owned stores this year.

Randy Konik - *Jefferies & Company - Analyst*

So, you're opening up 25 stores versus 40 new stores in 2013. But how much deleverage are you getting from opening up more stores is what I am trying to get at. Out of 200 basis points of SG&A rate going up, what is the percent -- what are the basis points coming from the store openings?

Tom George - *Deckers Outdoor Corporation - CFO*

I think if you look at it from a store openings, it's probably close to 40% of the total absolute dollars that SG&A is increasing. And that's a function of a full year's SG&A related to stores we opened in 2013, plus SG&A for the new stores. I think another thing this year in terms of additional SG&A expenses is the $17 million of additional marketing that we talked about. And then some of the other one-offs we talked about.

Randy Konik - *Jefferies & Company - Analyst*

I get that. I understand that. What I'm trying to get it is the market is trying to figure out -- when does the Company get that real inflection point where opening up stores -- this retail business doesn't cause further deleverage on the SG&A line in the Company? You know what I mean? Where you reach a point where you're inflicting, you get scale and you are getting the SG&A as a percent of sales to move back down. Because that's the concern here, is that each year the stores, you keep opening stores and the SG&A rate keeps going up. When is that going to stop?

Tom George - *Deckers Outdoor Corporation - CFO*

As we discussed earlier, Randy, we feel really good and strong it's going to be 2015. And we talked about all the drivers that will get us comfortable with 2015. SG&A not only operating margin expansion but SG&A as a percentage of sales goes down in 2015.

Randy Konik - *Jefferies & Company - Analyst*

But as it relates to the stores opening? Is that you're convicted that there's not going to be a deleveraging impact from opening stores yet again in 2015?

Tom George - *Deckers Outdoor Corporation - CFO*

Correct.

Randy Konik - *Jefferies & Company - Analyst*

And why is that? Why is that? Is it critical mass? That's what we're trying to figure out. Why is all of a sudden next year the year that you start to get leverage on the base after years of not getting leverage on the base? You know what I mean? Why is next year the magic year?

Tom George - *Deckers Outdoor Corporation - CFO*

I think as we talked about earlier, Randy, is that in addition to store profitability, we've been establishing the infrastructure to be able to scale a much larger base. Consistent with earlier discussions on the call, we believe strongly 2015 is the year that those additional infrastructure to scale investments start tailing off and we can start getting leverage on that, as well.

Dave Powers - *Deckers Outdoor Corporation - President of Omni-Channel*

Yes. We've had investments in infrastructure, Randy, and talent globally. You think about getting a business up and running in a place like China, building the expertise from a global perspective. That takes time. I think we've turned a corner in 2014 around getting the talent and people in place.

The other piece of this is we grew our store count by almost 50% this year. So as we get into our larger store base, the new openings aren't going to have such a dramatic impact on the overall SG&A growth. And fewer stores going forward as we --.

Randy Konik - *Jefferies & Company - Analyst*

No. I understand that. I just think -- again, it's just hard to digest when -- it just keeps -- you keep opening and the numbers keep -- SG&A as a percentage of sales keeps going up. And I am just trying to get as much data as possible to get the true conviction that that SG&A number is going down in 2015, and these operating margins move back up. And if they really do is there some sort of guidepost that you can give us today on how much you can see leverage in the model in a 2015 environment when you are in fact guiding the market -- guiding the street to getting leverage in 2015? How much?

Tom George - *Deckers Outdoor Corporation - CFO*

We've got that capability. I think as you'll see, it's going to be significant. I think it's probably best to wait until 2014 unfolds before we really give that level of detail. I think you and the market should feel comfortable with the level of learnings that we've generated over 2013 and 2014. And our anticipation of getting more and more leverage on these people investments we've been made to be able to drive the business.

Dave Powers - *Deckers Outdoor Corporation - President of Omni-Channel*

And at the same time we are continuing lower CapEx investments, we're lowing SG&A investments per store. We've done that significantly this year. We are going to continue to do that throughout 2014 and beyond.

Tom George - *Deckers Outdoor Corporation - CFO*

I think another key point is, although we see how important it is, we are going public with getting leverage on SG&A expenses in 2015, but we're also continuing to be sensitive to returns on capital. And the stores have, and the stores going forward will pay back in one year. And those are great returns on capital relative to our cost of capital.

Operator

Sam Poser, Sterne Agee.

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

Thank you for taking my question. I've got a few more, I'm sorry to say. When you said in the prepared remarks, I think Tom said that you would leverage in fiscal 2015. Fiscal 2015 starts in less than three months right now. Are you talking about calendar 2015 or are you talking about the fiscal 2015 that's going to change in less than three months?

Tom George - *Deckers Outdoor Corporation - CFO*

Calendar 2015. That was a calendar 2015,.

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

Just want to make sure because things could change very quickly.

Tom George - *Deckers Outdoor Corporation - CFO*

No. Good question.

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

The backlog that's running ahead of last year with the $400 million, that's of December 31. If we look at the backlog activity, without giving us numbers -- or you can give us whatever you want -- but the backlog activity, let's say, through last week in the shoe shows, where are you currently compared to last year? And how much more sense of urgency do the retailers have right now?

Tom George - *Deckers Outdoor Corporation - CFO*

We did comment, we historically just report backlog every year, number one. But, number two, I think you can sense from the comments on the call and you've seen the activity at the shows, that we feel, and some of the new initiatives we have with some of the newer products we feel good how we are progressing with the fall pre-book.

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

I understand that. But let's just say this. If you sold 100 pairs last year at the end of the day, or backlog of 100 pairs last year by April 15, and let's say you are going to do the same this year -- it'll be higher because you're ahead -- but how many more pairs do you have now Let's say you had 20 in by this time last year? Do you have 40 in at this point? Are you ahead? Are you significantly ahead of last year as we've moved through the first quarter so far?

Angel Martinez - *Deckers Outdoor Corporation - CEO, President, and Chairman of the Board*

Sam, we've never broken down in that kind of detail our backlog or rather our pre-book process. I will say this. We are ahead. And we are comfortable with where we are. We are very comfortable with where you are. And that's as much detail as I'm prepared to give right now.

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

Two more questions. Number one. Thank you. The inventory at the end of the year. Was there inventory impacted by the Chinese New Year and goods that probably had to roll a little earlier than you might have liked to otherwise? Because we heard that from some other people where there was a lot of in transit product that left early because of the Chinese New Year.

Zohar Ziv - *Deckers Outdoor Corporation - COO*

We don't believe there was any impact on us.

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

Okay. And then the increase of $17 million in the marketing expense for this year, is any of that one-time in nature or is that something that will just get thrown into the base?

Tom George - *Deckers Outdoor Corporation - CFO*

I think that's for the most part going to get thrown into the base.

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

And then lastly, at ICR and at Outdoor Retailer, we asked point blank about levering SG&A and spending it to get a delivery, getting a delivery of sales. And you weren't going to spend the money without getting the payoff. You said at ICR that the gross margin, you implied it would be up more than 100 basis points and you've guided that way.

But now you're talking about delevering SG&A by 200 basis points. Did anything change there? Or do you feel like there may be more meat on the bone as far as revenue goes for the year? Because it was really surprising-- because we asked the question twice, once with you Angel and once it was asked at the ICR conference, as well. And definitely with the implication that you didn't spend money without expecting a return. And it certainly implied that that was a 2014 comment. Not a -- we are investing this year to lever SG&A a year later.

Tom George - *Deckers Outdoor Corporation - CFO*

When we were at ICR we were clear that we talked about SG&A leverage in terms of more of a longer-term goal. And we were clear we weren't giving 2014 guidance. And we also spoke about additional marketing and additional infrastructure expenses. And so I don't know how you had --.

Angel Martinez - *Deckers Outdoor Corporation - CEO, President, and Chairman of the Board*

My comments were not 2014 specifically. My comments were directionally where we are going with our strategic plan. We're going to be giving a lot more color on this as the year progresses, as we learn more about what's happening in 2014. We'll certainly have an investor day later in the year.

But our goal is to continue investing in those areas where we are getting a great return. And as you can see from our results, that's exactly what we've been doing. So at one point would you say that we stop investing if were getting tremendous returns on that investment? We need to complete what we started so that we can actually fully leverage and actually grow, continue to grow the top line which we think these investments do. But we'll reap the rewards in later years, there is no question in my mind about that.

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

All right. And then, lastly, can you give us the date or the month when this investor day is going to happen?

Linda Pazin - *Deckers Outdoor Corporation - VP of IR & Corporate Communications*

Right now we haven't finalized the exact date but we're looking towards the end of September. And we'll be sending out a save the date to all the analysts and investors probably within the next short period of time once it gets finalized with our management team and travel schedules and so forth. But we are targeting for late September at this moment.

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

All right. Thanks very much. Good luck.

Operator

Corinna Freedman with Wedbush Securities.

Corinna Freedman - *Wedbush Securities - Analyst*

Hi. Thanks for taking my question. I'll make it pretty quick. Just wondering if you could quantify the productivity gains that you are seeing from opening smaller stores. And if you can give us an idea of your long-term goals there. Thank you very much.

Dave Powers - *Deckers Outdoor Corporation - President of Omni-Channel*

Yes. We don't have enough of those new stores in the pipeline yet or in our portfolio to really speak to the improvements. What I will say is we're looking at the total picture, what the topline sales per square foot are, aligned with the financial model, the lease deal, and measuring that against the SG&A expense. So, it's too early to tell exactly but I think we're more focused, to be honest with you, on the operating margin of those stores, return on sales, than on sales per square foot as a better measure of how those stores perform.

Operator

Mitch Kummetz, Robert W. Baird.

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

Yes. Thanks. I'll just ask one question since we are running long. I just want to drill down a little bit on reorders/cancellations. I know, Tom, your assumption going into this past fourth quarter was that cancellations would be in line with a year ago and that reorders would be few. I assume that on both those items you guys did better than that assumption.

Tom George - *Deckers Outdoor Corporation - CFO*

That's right. We ended up having virtually no cancellations and we had a fair amount of reorders in the fourth quarter.

Operator

Jim Duffy, Stifel.

Jim Duffy - *Stifel Nicolaus - Analyst*

Thank you. Nice quarter, everyone. It's been a long call. One area, however, where I am searching for clarification, the number you implied that the sell-through in your North American wholesale channel was seemingly stronger than that implied by the comps in your own North America stores, is that accurate? And if so, is there some operational explanation for why performance in the North American stores lagged?

Tom George - *Deckers Outdoor Corporation - CFO*

Because the fourth-quarter domestic wholesale business was at a higher growth rate than the comp. I think that gets back to inventory levels that may have been in the wholesale channel. And there's a lot of other factors that go into that versus our own domestic business.

Dave Powers - *Deckers Outdoor Corporation - President of Omni-Channel*

Yes. And we haven't spoken to sell through in the stores, total topline and comp over the previous years. So I think it's tough to do an apples-to-apples comparison on those two things.

Operator

Howard Tubin, RBC.

Unidentified Participant - - *Analyst*

Hello. It's Courtney in for Howard. We were just wondering if you could give any details on the UGG outerwear and home fashion line coming for I believe this fall? Thanks.

Angel Martinez - *Deckers Outdoor Corporation - CEO, President, and Chairman of the Board*

I think you are referring to the loungewear because that's really the focus area in terms of apparel that we have. The loungewear will continue to evolve. As you know, we began with a Nordstrom test. That is now rolling out to multiple retailers, as well as our own stores. A variety of color and pattern now. Different weights in the fabrications.

Men's, women's, there is loungewear in the form of separates and tops and bottoms. It merchandises along with the slippers which is very exciting to see.

The home products, that is something that we began a test of just recently actually, this past quarter. Performed very well in the limited environment in which it was in. Part of what we are figuring out with home is the merchandising and how to display.

We think there's a great opportunity as we evolve the omni-channel strategy with home products being available for touching and feeling at the retail brick and mortar location, and then ordered to be delivered in 24 hours. These pillows we make take up a lot of room. Many retailers do not have that kind of space in the back room but they still want to carry the product. So, we're in the process of sorting all that out. And that's just a big part of the opportunity that we see with our home products.

Dave Powers - *Deckers Outdoor Corporation - President of Omni-Channel*

And I would add to that -- this is David -- I think the real win here is the combination of loungewear and slippers and home together as a full lifestyle expression. And I think we are learning what the best way to showcase that in our stores is. And this fall we're going to have a digital catalog that we can use in-store along with samples for people to see the product in its best expression, but then fulfill it online, as well.

Operator

Jeff Van Sinderen, B. Riley.

Jeff Van Sinderen - *B. Riley & Company - Analyst*

This is really related to product innovation. I know orders are usually driven by sell-throughs. But to what degree do you think your backlog is driven by weather and what degree do you think it's just plain driven by great product as you continue to innovate product? In other words, do you think there's a product innovation element, a content element that is maybe driving your bookings more so than just sell-throughs were good in Q4? Just wondering how you think about that. And also if you feel like perhaps the newness of product, product innovation maybe mitigates the risk of weather-related cancellations to some degree for the second half of this year.

Angel Martinez - *Deckers Outdoor Corporation - CEO, President, and Chairman of the Board*

As I said earlier, I think it's really very much about product innovation. I think our better merchandising, the better assortments that we've managed to create for consumers in every region of the world has significantly helped our presentation at retail., giving the consumer that many more options. Obviously improved sell through. And the sell-through improvement is what's helped to drive backlog.

It really all starts with innovative, new, fresh product. I don't think there's many retailers out there who are betting on weather as a determinant as to whether or not they buy X or X plus 10. But when they have exciting product that they feel like they can merchandise and get consumers excited about, independent of weather, that's the optimum situation.

That's why it always does have to start with great product and everything else does flow from the great product. In the end the best merchants are the ones who have the best businesses. And they are proactive in putting a retail environment out to their customers that their customers get excited about. And that's what we've been focusing on. That's really the nature of the business that we are in.

Dave Powers - *Deckers Outdoor Corporation - President of Omni-Channel*

I also think it speaks to the power of the UGG brand. I think these retailers realize they can count on the UGG brand in Q4 to be one of their top brands going forward, and they're continuing to invest in it.

Tom George - *Deckers Outdoor Corporation - CFO*

One other thing that probably would be good for me to point out relative to even an earlier question, I think when you look at sell through in the fourth quarter of our wholesale channel versus our own direct-to-consumer channel, our direct-to-consumer channel on a combined basis for the US was up 14%. Our UGG wholesale business in the fourth quarter was up 9%. That not only is a wholesale number but it's also whatever those wholesale customers did on their own websites as well. So we actually outperformed our wholesale business on a total DTC basis.

Operator

Christian Buss with Credit Suisse.

Christian Buss - *Credit Suisse - Analyst*

Yes. Thank you for the last question. I'm wondering if you could talk a little bit about the performance of your retail stores by region, where you saw the most strength, where you are most encouraged by the momentum there.

Dave Powers - *Deckers Outdoor Corporation - President of Omni-Channel*

I think we talked about that a little bit already, Christian. But I think the real strength that we saw this year is coming out of our Japan market. And as I said we're really been investing in a holistic strategy there to elevate that business.

So that, as well as China were the real leaders from a comp store perspective. Followed by, like we said, US and EMEA in single-digit growth from a comp store perspective.

But we're really encouraged by the evolution of the brand in that market, particularly Japan. And see great upside continuing for the Asia-Pacific market where the brand is less mature and there's a lot of more white space for opportunity.

Christian Buss - *Credit Suisse - Analyst*

Can you talk a little bit about the store model that you are developing with lower capital expenditures? Could you walk us through what targets you are hitting there in terms of buildout costs and returns?

Dave Powers - *Deckers Outdoor Corporation - President of Omni-Channel*

Yes. I do not have specific numbers. I can tell you we are looking for a meaningful reduction in the average cost per square foot. Part of the driving factor there is we've seen opportunity for secondary city and secondary B locations in the real estate, now that we have a flagship assortment around the world. And in order to do that you need new economics for the store. You can't spend the same amount per square foot in a B location in a mall as you would on a street location.

And we've got to figure that out so we're in the process of developing new fixture package and a buildout cost that is lower. We're looking at store staffing models. We're looking at inventory management with back of house and also leveraging online. And using more of a digital showcase in the stores so we can potentially showcase less SKUs on the floor but still service the full breadth of the opportunity for the customer.

Operator

That concludes today's question-and-answer session. I would now like to turn the conference back over to Angel Martinez for closing remarks.

Angel Martinez - *Deckers Outdoor Corporation - CEO, President, and Chairman of the Board*

Thank you all for joining us on this call. Again, I'd just like to reiterate my congratulations to our employees and to our team globally. I think we stepped up to the challenge and certainly delivered excellent results in 2013.

Our strategy remains to build powerful brands for the long term, to invest in those brands as the market conditions require us to do. And to not think that any of these solutions are simple and near term in nature. These things require patience. They require aggressive commitment.

And as I said earlier, we are doing everything we can to operate smarter and better. And certainly to improve our results across the board, including reducing SG&A expense, improving operating margins. That's all top of mind for this entire management team. And we will continue to work very aggressively to deliver those results.

Thank you all very much. Appreciate it.

Operator

Thank you for your participation. This does conclude today's call.