THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

DECK - Q4 2014 Deckers Outdoor Corporation Earnings Conference Call (Transition Period)

EVENT DATE/TIME: APRIL 24, 2014 / 8:30PM GMT

CORPORATE PARTICIPANTS

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

Angel Martinez *Deckers Outdoor Corporation - CEO, President & Chairman*

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

Tom George *Deckers Outdoor Corporation - CFO*

Zohar Ziv *Deckers Outdoor Corporation - COO*

CONFERENCE CALL PARTICIPANTS

Scott Krasik *Buckingham Research - Analyst*

Courtney Wilson *RBC Capital Markets - Analyst*

Erinn Murphy *Piper Jaffray - Analyst*

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

Sam Poser *Sterne, Agee - Analyst*

Corinna Freedman *Wedbush Securities - Analyst*

Camilo Lyon *Canaccord Genuity - Analyst*

Chris Svezia *Susquehanna Financial Group - Analyst*

Bob Drbul *Nomura Securities - Analyst*

Omar Saad *ISI Group - Analyst*

PRESENTATION

Operator

Good afternoon, ladies and gentlemen and thank you for standing by. Welcome to the Deckers Outdoor Corporation's earnings conference call for the three-month transition period ending March 31, 2014. (Operator Instructions). I would like to remind everybody that this conference is being recorded. I would now like to turn the call over to Linda Pazin, Vice President of Investor Relations and Corporate Communications. Please go ahead, ma'am.

Linda Pazin - *Deckers Outdoor Corporation - VP, 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 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 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 10-K and its other documents filed with the SEC. Listeners are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to publicly release or update the results of any revisions to forward-looking (inaudible).

In addition, please note that this earnings call will cover the financial results for the three-month transition period ending March 31, 2014. The transition period was necessary to accommodate the change in the Company's fiscal year-end from December 31 to March 31, therefore starting the 2015 fiscal year on April 1, 2014. Transition period comparisons are made against the fiscal 2013 first quarter ended March 31, 2013.

Finally, if you didn't see the language in today's earnings release, I want to point out that we posted Tom's detailed review of the quarterly financials to the Investor Relations section of our corporate website at www.Deckers.com. We thought this approach would make it easier for you to digest the details and free up more time on the call for explanations of our performance and outlook, discussions of our strategic initiatives and Q&A. With that, I will now turn it over to the Chairman, Chief Executive Officer and President of Deckers, Angel Martinez.

Angel Martinez - *Deckers Outdoor Corporation - CEO, President & Chairman*

Well, thanks, Linda, and hello to everybody. With me on -- and Linda today on the call is Zohar Ziv, Chief Operating Officer; Dave Powers, President, Omni-Channel; and Tom George, Chief Financial Officer. As you saw from our release, we delivered a solid start to the new calendar year. Both sales and earnings came in ahead of expectations driven by the growing strength of the UGG brand, as well as the emergence of our HOKA running shoe brand.

Our performance for the transition period ended March 31, 2014 was highlighted by very strong gains in our direct-to-consumer channel, continuing the trend that we experienced throughout 2013. DTC comparable sales increased 16.9% over the same period a year ago, fueled by a 42% gain in comparable e-commerce sales. In addition, the compelling new product launches that we believe are resonating with a wide range of consumers. We continue to see increases in both traffic and conversion. We believe our performance reflects the favorable selling conditions for the UGG brand, as well as our enhanced digital marketing initiatives and our improved omni-channel capabilities.

DTC results are strongest in Japan and China as the additional senior leadership we've added to our Asia team over the past year has positively impacted both store and e-commerce results. Direct-to-consumer sales in the US were solid and on plan with strong e-commerce sales offsetting softness in store traffic, which is consistent with industry trends from the first quarter.

In terms of product, there were several highlights across our brand portfolio. Beginning with the UGG brand, January and February were strong months for our boots and slipper businesses. The combination of cold and snowy conditions in many areas of the country and our first dedicated winter marketing campaign drove strong sellthrough across our DTC and wholesale channels leading to out-of-stock positions in many core items. More recently, demand for spring styles, particularly casual slip-on shoes from our popular Kavar collection, as well as sandals from our new beach category, has picked up with the arrival of more seasonable weather.

We believe the Company is benefiting from the expansion of the UGG brand productline and improvements that we're making to our marketing approaches. Building on our success in the cold weather months, we expect these efforts will lead to more consistent revenue growth opportunities for the UGG brand across all seasons.

Turning to Teva, while sales were down compared to the prior period, early reads on our new Originals collection featuring updated styling of the brand's iconic sports sandal have been very encouraging. With consumers now buying much closer to need, sellthrough of our Originals line has accelerated over the past month and we expect our sales momentum to build as we move into summer.

Sanuk's performance this quarter was marked by robust sellthrough of our very popular Yoga Sling women's sandal and good reaction to several new canvas footwear introductions. We've made important progress infusing the productline with more fashion to better insulate the brand's performance from weather, particularly in women's, which is performing above plan despite less than ideal conditions for open-toed footwear.

Furthermore, we believe that Sanuk's pace of business has started to pick up with the establishment of new national accounts, including Urban Outfitters, as well as increased penetration with some national accounts such as Journeys, Dillard's, Zumiez and Tilly's. We believe this bodes well as we approach the warmer weather across the US for the rest of the summer.

On the Q4 call in February, I expressed my enthusiasm for what was happening at HOKA, particularly from a product perspective. HOKA's performance during the transition period played out better than projected as demand for the brand's newest running shoes, the Conquest, has been tremendous. The excitement generated by HOKA's unique product feature, a higher volume, softer density and greater rebounding form than standard running shoes, has led to a significant increase in new accounts within specialty running stores, as well as interest from larger athletic specialty and outdoor retailers.

To assist in HOKA's consumer outreach efforts and help capitalize on the current momentum, we recently signed Leo Manzano, Olympic silver medalist in the 1500 meters, as a brand ambassador. Leo is one of the top distance runners in the US and his addition to the team immediately heightened HOKA's visibility. And it's a great endorsement for the disruptive positioning that we believe the brand has established within the running industry.

So to summarize, we are pleased with our overall performance for this transition period and we are encouraged by retailer response to our fall collections. We believe that the steps we have taken to further diversify the UGG product offering and reduce the brand's dependency on weather is yielding positive results and strengthening our wholesale relationships.

At the same time, our other brands are bringing to market compelling new products that are generating excitement and fueling increased consumer demand. Based on our product, marketing and omni-channel strategies, we feel very good about our prospects for growth over the coming quarters and longer term. Now I'd like to turn the call over to Dave who will discuss our global DTC and international businesses. Dave.

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

Thanks, Angel and hello, everybody. Our direct-to-consumer business had a very strong quarter and we believe that this is demonstrating that our omni-channel approach across our stores and e-commerce presence is working well. We are using our stores to drive awareness of the UGG brand and our full product offering while providing a tremendous platform to increase our list of unique subscribers, which in turn is driving increased sales on our website.

At the same time, we are seeing that our customers are browsing our website before visiting our stores to try on and engage with the product prior to purchase. We see our integrated network of stores and e-commerce sites as a formula for improved performance. To that point, we believe that opening a store in a particular metro area is having and will continue to have a dramatic effect on site traffic from that same metro area and drives awareness for both our stores and key accounts. This is why we believe stores play such a strategic role in the growth of our brands. As such, we feel that a DTC view on comp performance and growth is the best measure of our evolving business, especially as we further develop our Internet UGG capability and leverage customer data.

For the transition period, global comparable DTC sales increased 16.9% compared to the three-month period ended March 31, 2013. By region, Asia-Pacific DTC comps are up 43% fueled by strong store trend in both Japan and China and robust year-over-year gains for our e-commerce site in Japan. North America comps rose 15% driven by strong e-commerce sales partially offset by weaker store comps. EMEA DTC comps decreased 5% as incredibly wet weather in the UK created a challenging retail store environment.

During the quarter, we continued to focus on our four primary DTC initiatives -- expanding our global footprint in a strategic and measured manner, elevating the in-store and online experience to drive conversion, further evolving our omni-channel capabilities in order to better serve the customer and continuing to accelerate growth in our e-commerce channels globally.

As we have discussed, we have taken a very holistic approach to growing our global DTC business with the consumer firmly at the center of everything we do. We expect to continue the great progress we have made in delivering a seamless brand experience to the consumer across our distribution channels with each channel fueling traffic and sales in the other.

With a 45% increase in sales, e-commerce was clearly the standout during the quarter. We believe that the investments we have made in strengthening our Web presence and improving the online experience for our consumers are paying off. This is evident by the meaningful improvement we saw in conversion on our sites, which was up 26% versus last year. We believe that our increased conversion rate was driven in part by the improved design elements and more responsive features we recently added, which has improved the user expense on tablets and smartphones.

We also believe that our omni-channel capabilities are having a very positive impact on driving traffic to our websites and helping capture incremental sales. This was particularly noticeable in cities where we have brick-and-mortar locations such as New York, Chicago, Boston, Atlanta, Minneapolis and Houston, each of which saw strong increases in e-commerce sales generated from those areas, particularly during periods of extreme cold weather they experienced earlier in the year.

In addition, internet UGG, which allow store associates to search our entire inventory position to address out-of-stock positions and help consumers find the exact style and size they are looking for, is driving additional sales through our e-commerce platform. Global comp store sales increased 4% for the quarter, which we believe is attributable to our omni-channel focus and increased store productivity. This is especially true in Asia-Pacific where the combination of strong gains in both traffic and conversion drove robust double-digit comp growth. We're seeing great consumer response to initiatives, particularly as we tailor fit the assortment to a specific market, improving inventory levels on key items and elevating overall in-store experience through more focused and powerful storytelling and enhanced same-store presentations tied to our e-commerce site and above-the-line marketing campaigns. The positive impact on conversion from these initiatives can be seen across our global fleet of stores helping offset any traffic headwinds we experienced in North America and Europe.

Our cold weather and accessories products were the clear winners this quarter, especially for DTC, following the launch of our first successful winter campaign titled Let It Snow that launched in January. Weather footwear in particular was up 170% over last year in North America concept stores and online. The weather trends in the Northeast helped make this campaign a great success. It is also important to note that normally this time of year we would be registering sale in early spring. We made the strategic decision to focus on full-price weather-appropriate product and the consumer responded positively.

In concert with our omni-channel strategy, we expanded our physical footprint with the opening of three new stores during the quarter. Our new store plans continue to be concentrated in China and Japan, which we believe offer the most attractive investment opportunities due to lower buildout costs, shorter lease terms and an abundance of great locations that fit our new store criteria. At the same time, we are continuing to pursue opportunistic store openings in North America. We were recently able to secure some A locations for this year, which became available due to recent retail store closings by other brands and the attractive outlet opportunity we believe exists for our brands.

Planned locations for the region are primarily focused on large population and/or high tourist traffic markets, including Las Vegas, Seattle, Orlando, Vancouver, San Francisco and Philadelphia. As such, we are now targeting approximately 30 to 35 new store openings in 2014, up from our initial expectation of around 25 stores. This does not include the additional stores that we are planning to open as part of the new partner retail program in China later this year.

On the international side of the business, one of our objectives is to gain more direct control of our business. As such, we are excited to announce that we've entered into an agreement to acquire the distribution rights for the UGG brand in Germany and we're targeting a July 1, 2014 close. With the largest population in the EU, along with a stable economy and high consumer confidence levels, we believe regaining direct control of this market makes perfect sense at this stage of our global expansion.

While our distributor partner has made good progress over the last few years expanding the UGG brand's presence at retail and evolving the brand's lifestyle positioning, we believe there is substantial opportunity to further grow the business by increasing market awareness and penetration to levels similar to those in our subsidiary markets of the UK and Benelux. Our initial focus will be on launching e-commerce and opening key store locations to elevate the marketplace while strengthening the brand's relationships with key national retailers in an effort to increase shelf space and velocity.

So overall, we feel very good about our DTC and omni-channel strategies and the direction we're heading in growing our footprint globally, elevating and connecting the in-store and online experience and evolving our omni-channel capabilities in order to better serve our customers.

We've got terrific product and marketing support and we're doing everything we can to make sure we present our brands to the consumer in the most attractive and convenient way possible across all channels. Over time, we believe this consumer-centric approach will allow us to grow our organization globally and maximize returns from our business. With that, I will turn it over to Tom. Tom.

Tom George - *Deckers Outdoor Corporation - CFO*

Thanks, Dave. As Linda mentioned at the beginning of the call, we posted my review of the quarterly financials to our IR website, as well as the condensed consolidated statements of loss in income for the trailing 12 months ended March 31, 2014. My comments on the call are going to focus on wholesale and distributor backlog and guidance. Our fall pre-book process ended on a strong note as our global wholesale and distributor backlog for all brands was up 19% at April 21 over the same date a year ago. We are very pleased with both the quantity and quality of our wholesale and distributor backlog. However, there are a few factors that we believe contributed to the growth in wholesale and distributor backlog that should be explained in order to provide a better understanding of the year-over-year comparison and how the pre-book helped shape our outlook.

In addition to the strength of the product offering, we believe that the biggest factor influencing wholesale and distributor backlog is the change in retail buying patterns. A year ago, we were coming off a second consecutive mild winter, which caused retailers to become more cautious with their open-to-buy dollars. As we discussed this time last year, accounts were pre-booking at a lower percentage of their projected sales and relying more heavily on reorders to chase in-season demand. With 2013 being a cold winter, reorders did play a bigger part in the composition of our domestic UGG wholesale business, helping fuel our strong fourth-quarter performance. However, in 2014, we believe that retailers have reverted to pre-booking the vast majority of their projected UGG demand and in many cases are pre-booking it earlier than a year ago based on improved confidence levels.

Therefore, while wholesale and distributor backlog is up approximately 19% from a year ago, and this is certainly a positive development, we do not view it as a true apples-to-apples comparison given the difference in the ratio between pre-book and reorders. I should also note that the composition of this year's fall orders for the UGG brand is more diverse than last year as retailer confidence in our collections of fashion boots, casual boots and shoes and slippers is higher following strong sellthrough this past winter.

Accounts have also responded favorably to our updated styling and sharper retail price points. Our multiple collections of casual boots all sold in very well as did our knit category and expanded line of specialty classics. We also experienced gains in loungewear, UGG Home and I Heart UGG selling to select retailers for fall 2014.

In addition, the HOKA brand is another reason that the wholesale and distributor backlog ended as strong as it did. As Angel mentioned earlier, demand for the HOKA brand during the transition period exceeded expectations. Sellthrough across all channels has been strong as consumers have responded very favorably to the unique attributes of this revolutionary new running brand. As in-season demand gained momentum, we experienced a noticeable lift in bookings as March came to a close and this trend has continued into April. As we continue to evolve our business towards more omni-channel focused backlog, while an important driver of our wholesale division, will become a less meaningful indicator of our total performance as we currently execute more than one-third of our sales through our DTC channel and we expect this figure to continue expanding.

Now moving to our guidance, given the change in fiscal year from December 31 to March 31, we thought it would be helpful to update the calendar year 2014 guidance we provided on our last call, as well as outline our expectations for the fiscal year ending March 31, 2015. I also will provide guidance for the first quarter of 2015 fiscal year for the three-month period ending June 30, 2014.

Starting with calendar year 2014, based on our results for the three-month transition period ending March 31, 2014, current wholesale distributed backlog and our updated plan to open a few more stores than originally planned, we are raising our initial guidance. We now expect 2014 calendar year revenue to increase approximately 12%, up from our previous expectation of 10% and diluted earnings per share to increase approximately 10%, up from our previous expectation of 8%.

In terms of our total global wholesale business, we now expect it to increase in the high single digit range compared to our previous forecast for a mid-single digit improvement. This is based on the fact that our pre-book ended up stronger than expected driven by the UGG and HOKA brands.

As I noted, we are seeing a shift back towards more pre-booking by our wholesale accounts following the cold winter and therefore, we don't expect to achieve the same level of reorders we experienced in 2013. Therefore, we aren't extrapolating a 19% increase in wholesale and distributor backlog into a similar increase for our wholesale business this calendar year.

On the new storefront, we now plan to open approximately 30 to 35 locations versus the 25 originally budgeted for calendar 2014 primarily due to opportunities that have become available in top markets. With respect to the brands, we have increased our outlook for the UGG brand and now expect sales to increase approximately 11%, up from our initial guidance of approximately 9%. We also increased the forecast for our other brands to approximately $72 million from $65 million on the strength of the HOKA brand. Other than that, our assumptions for calendar 2014 haven't changed since the 2013 year-end call in February.

Turning to fiscal 2015, for the 12-month period ending March 31, 2015, we currently expect revenues to increase approximately 13% over the $1.59 billion for the 12 months ended March 31, 2014. This guidance is based on the following expectations and assumptions -- UGG brand sales growth of approximately 11%, Teva brand sales growth of approximately 11%, Sanuk brand sales growth of approximately 15% and sales of our other brands, which include HOKA, Ahnu, MOZO and TSUBO, to be approximately $82 million.

Our guidance is predicated on opening 30 to 35 new stores, a low single digit store comp increase and a double-digit increase in comparable e-commerce sales. We project wholesale sales for all brands to be up low double digits in fiscal 2015, driven by our Germany conversion, a high single digit increase in UGG domestic sales and continued growth of the HOKA brand.

For the 12-month period ending March 31, 2015, we are currently projecting diluted earnings per share to increase approximately 13.5% over the $4.07 achieved in the 12 months ended March 31, 2014. This guidance is based on an expectation of gross margin of approximately 49.4% in SG&A as a percent of sales of approximately 36.4%. Our projected tax rate for fiscal 2015 is 29%. Included in SG&A for fiscal year 2015 are the following ongoing and one-time expenses we outlined for calendar 2014 on the last call, which are operating expenses associated with the 40 stores that were opened in 2013, as well as the addition of new stores opening in calendar 2014, increased marketing investments to better support the long-term growth of our brand portfolio, costs associated with the management reorganization, as well as investments for international expansion and supply chain and higher depreciation driven primarily by our new headquarters in the stores we added in 2013 and new stores in calendar 2014.

As we stated last quarter, we expect to achieve SG&A leverage in the back half of calendar 2015, which will be our fiscal 2016. Our capital expenditures for the new fiscal year 2015 are expected to total approximately $100 million, which includes $37 million for IT and related infrastructure improvement to support our omni-channel transformation, as well as international expansion, $30 million in new store openings and $26 million for the new distribution center.

For the first quarter of fiscal 2015, or three months ending June 30, 2014, we currently expect revenues to increase approximately 12% compared to the three-month period ending June 30, 2013 and a diluted loss per share of approximately $1.33 per share. Included in the guidance are one-time costs of approximately $2 million related to the relocation of our European and China international offices and approximately $5 million associated with our reorganization and business transformation costs announced earlier this year.

As a reminder, the quarter ending June 30 is our lowest volume period of the year, so we deleveraged operating expenses pretty significantly, especially with the 28 new stores that were not open until the second half of calendar 2013. We expect the majority of our earnings increase in fiscal 2015 to come in the second and third quarters. For example, the three-month periods ending September 30, 2014 and December 31, 2014 with the breakdown between those two periods to be similar to last year. I will now turn it back over to Angel for his closing comments.

Angel Martinez - *Deckers Outdoor Corporation - CEO, President & Chairman*

Well, thanks, Tom. We are very excited about our long-term strategies to support our transition from a domestic footwear wholesaler into a leading multichannel consumer-centered lifestyle brand company. During this multiyear transformation, we've significantly expanded the size of our business, including growing through the Great Recession. We battled back following a historic spell of mild winter weather and a dramatic surge in sheepskin prices and we have adapted quickly to the changing dynamics of the retail environment.

We believe that a big part of our recent success has been the evolution of the UGG productline beyond the core business. The infusion of innovation led by UGG Pure and the development of a broader offering of casual nonseasonal footwear featuring sharper price points for men, women and kids has significantly expanded our market opportunities both domestically and overseas. It has been a true team effort.

Looking ahead, we are intensely focused on executing our plan to grow our brands and build the industry's most innovative and customer-friendly omni-channel experience. On this score, I should note that the recent opening of our Deckers brand showcase at our headquarters here in Goleta has been a great success. Serving as an innovation testing lab, the facility features an extensive breadth of product across all of our brands presented in a compelling and interactive manner with a full range of delivery options for our consumers. We invite you all to visit and witness the many innovative approaches we are taking at this flagship store.

And finally, it is difficult for me to announce that an integral part of our team is retiring. Today, we announced that Zohar will retire as COO of Deckers. Zohar has been a big part of the Company's recent success. His work developing our international infrastructure and enhancing our supply chain has put us in a great position to further succeed. I want to thank Zohar for his many contributions and guidance over the past eight years. We will be initiating a search for a new COO but in the meantime we expect Zohar to stay on until his successor is named and we will continue to listen to his bad jokes for the foreseeable future. And now I would like to turn the call over to the operator for Q&A. Operator.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Scott Krasik, Buckingham Research.

Scott Krasik - *Buckingham Research - Analyst*

Just a couple questions. First, I think you said last fall a third of your sales came from classics. I was just wondering now that you have the bookings set will that continue to decrease as a percentage of UGG sales. And then also are there any regional differences, for example, in Japan or China? Are you selling more fashion product than here and Europe?

Angel Martinez - *Deckers Outdoor Corporation - CEO, President & Chairman*

Yes, hi, Scott. Yes, I think that ratio will hold. Actually we will continue to see that as a percentage of total reduce I think over the next few seasons. It will stabilize at a certain point because classic is such an important component of how people come to know the brand. So as we evolve markets around the world, particularly in Japan, particularly markets like Asia, new markets and markets that are undeveloped like Germany, for example, historically, we have seen that the first few years of us thrusting into the market as a subsidiary, it is driven more by classic than it is some of the other products. That is normal, that is natural, as long as the shelf space that we get is the foundation point for the evolution of other products. In Japan, for example, we also have some things going on like the classic Mini in men's is a big item and that is a fashion trend in Japan that we don't see here yet, although there are some avant-garde people, like Zohar, for example, who continue to prefer that stuff.

Operator

Howard Tubin, RBC.

Courtney Wilson - *RBC Capital Markets - Analyst*

This is Courtney Wilson in for Howard. Could you just give a couple more details on maybe some of your marketing plans going forward for fall and winter this year? Thanks.

Angel Martinez - *Deckers Outdoor Corporation - CEO, President & Chairman*

Sure. I think one of the evolutions that we have seen, as I mentioned in my comments, we have evolved from a wholesale vendor to an omni-channel sort of provider of great brand and an omni-channel experience. That has brought with it a very sophisticated and accelerated marketing approach. Everything is now interrelated. So our marketing approach in the past was primarily driven by conventional media, advertising. For example, in the UGG brand, advertising in Vogue and various other fashion magazines.

Now the shift is much more focused around product in store, product online, imagery at retail, imagery in media, digital marketing approaches, social media, whether it be on an iPhone or an iPad and we have been making a significant investment in that witnessed by some of the activity that you saw in the fourth quarter and even this quarter with the Mother's Day product and promotion that we are doing digitally. So that is going to continue to be our approach to the marketing. It has become a much more sophisticated and integrated approach and it is driving consumers to retail and it is driving them to our websites, so it is working.

Operator

Erinn Murphy, Piper Jaffray.

Erinn Murphy - *Piper Jaffray - Analyst*

Great, thank you. Congrats on a great quarter and, Zohar, congratulations on your retirement. You will be missed.

Zohar Ziv - *Deckers Outdoor Corporation - COO*

Thank you.

Erinn Murphy - *Piper Jaffray - Analyst*

I guess just internationally just curious if you could speak a little bit more about the decisions to take Germany back in-house. Maybe just help us appreciate kind of how big that market is today, how comfortable are you with how the inventory is being managed by your partner there currently? And then just taking a step back, should we think about this as a potential -- or excuse me -- more of a prioritization for those other international markets that could be taken back in-house over time?

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

Yes, Erinn, this is Dave. Germany is a very strong market for us. The current distributor there, [Wave in Motion], has done a very solid job of positioning our brand in a premium manner. We have quality distribution in that market and we feel this is a great opportunity now that we have a good omni-channel business established in Europe to take over that market and elevate it and expand it through the introduction of UGG-owned stores, an UGG Germany e-commerce website and then stronger strategic partnerships and a marketing strategy to grow that market. So it represents a sizable opportunity for us based on population alone and density of the consumer there in key cities. We feel it will definitely be one of our top markets, if not potentially our largest market in EMEA over time. And I think this is a great opportunity for the team there to start transitioning that business. We wanted to take this one carefully. It is super important for us and we are hoping that we developed a playbook and a model coming out of this transition that we can apply to other countries in the European market down the road for sure.

Operator

Jeff Van Sinderen, B Riley.

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

Let me add my congratulations as well. Basically a two-part question, but with this shift to pre-booking more, how are you planning out once inventory for calendar second half? Just wondering if you are planning that so that you can respond to reorders, how much you will be constrained or if you will have plenty on hand to ship, how we should think about that? And then the second part is really relating to Teva. Just wondering if there was a substantial difference in your business in the warmer markets versus the colder markets in terms of what you've seen recently and then given the later onset of warmer weather, wondering what your thoughts are in the overall state of inventory in the channel and then what you expect in terms of discounting in the current quarter? Thanks.

Angel Martinez - *Deckers Outdoor Corporation - CEO, President & Chairman*

I will take the Teva part and Tom I think can answer the first part. One of the great things about Teva, it is a core brand in outdoor. And the important thing about the originals, which is the original franchise around universal strap and several of the other sandal styles, is that it is making a resurgence, it is becoming -- I have always said I liked being smart, but I'd also like being lucky. One of the advantages that we found is that recently at the Coachella Music Festival, you saw the emergence of the Teva brand, the original sandals as a fashion item. A lot of celebrities in Teva and socks, which is -- we used to joke about that a while ago and now we are going to see a lot more Teva and socks around here. As long as they are not white socks, I think we are good.

The opportunity with Teva over the last few years has been the development of the brand as a total brand, not just a sandal brand. So we have been conservative in our inventory over the last few years given the way in which the brand had been evolving outside of sandals, beyond sandals. We have offered other products, which you will sort of find our way and as a result, our inventory in Teva is pretty clean because we are able to really flush out all the product that we tried and tried to find new directions with, it succeeded to an extent in some cases, a little better than others, but it did allow us to focus our inventory, did allow us to bring the priorities productwise forward.

So Teva is going into this market right now in a resurgent mode with a much cleaner inventory than it has had in many, many years and with a much broader assortment of different kinds of product that can help us offset the vagaries of weather and the purchasing cycles. And I am very excited about that because I think it is the -- it really represents the emergence of the brand as a much more modern, more contemporary, more relevant brand to the retailer and in addition to that, we have honed in on the marketing story around Teva and it is having tremendous impact.

Tom George - *Deckers Outdoor Corporation - CFO*

Regarding inventory and the channel, we believe it is very clean and I think relative to having inventory available for reorders, we will have inventory available for reorders of the key styles, both classics, slippers and some of the non-classic product that has become a key style over time, but not at the same level -- but we don't expect the same level of reorders this year we did a year ago.

Operator

Sam Poser, Sterne Agee.

Sam Poser - *Sterne, Agee - Analyst*

Thanks for taking my questions. I have got a few -- I have got three. Number one, I just want to clarify on the UGG business for the full year. Are you saying you are accepting high single digit increases in the wholesale there?

Tom George - *Deckers Outdoor Corporation - CFO*

Sam, for the entire brand now, we have elevated the UGG guidance to 11%, up from 9% for the calendar and 11% for the fiscal year.

Sam Poser - *Sterne, Agee - Analyst*

No, but I thought you said something to the effect of you expected high single digit increases in wholesale across all the brands. I may have misheard you.

Angel Martinez - *Deckers Outdoor Corporation - CEO, President & Chairman*

Just UGG.

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

Just UGG.

Tom George - *Deckers Outdoor Corporation - CFO*

We talked about all our wholesale and distributor business for the fiscal year-end, March 31, 2015 all brand, all wholesale and distributor up low double digits, that is what we talked about.

Sam Poser - *Sterne, Agee - Analyst*

Low doubles. So then the question I have is with the existing stores -- like when you are opening these new stores and the growth of e-commerce, I mean doesn't that almost put you over that -- I mean if you add that in, doesn't that almost put you over the 13% almost right out of the gate?

Tom George - *Deckers Outdoor Corporation - CFO*

At this point in time, Sam, first guidance for the new fiscal year-end 3-31-15 and we also talked about assuming a lower single digit comp at this point in time. We think that our guidance is appropriate at this point in time.

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

The additional stores are at the back end of the --.

Tom George - *Deckers Outdoor Corporation - CFO*

And the additional stores are at the back end.

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

A huge hiccup in sales.

Tom George - *Deckers Outdoor Corporation - CFO*

All right, so we have to move onto the next question.

Operator

Corinna Freedman, Wedbush Securities.

Corinna Freedman - *Wedbush Securities - Analyst*

Just wanted to clarify from Sam's last comment. Did you say we should model a low single digit comp for retail or that is embedded in your assumptions for this year?

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

Yes.

Tom George - *Deckers Outdoor Corporation - CFO*

Correct.

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

That is right.

Corinna Freedman - *Wedbush Securities - Analyst*

And then I just wanted to ask about I Heart UGGs and anything you can tell us there about the distribution. I think originally it was exclusively international and now I think you have it opened it up to some domestic accounts. So just wanted to get an update there. And best of luck to you, Zohar. Thanks.

Angel Martinez - *Deckers Outdoor Corporation - CEO, President & Chairman*

So I Heart UGG, as we've said in the past, is a test and it was -- it is limited distribution. Has been focused on our own stores, our e-commerce sites, Asia and some selected retailers in the US. And that is where we are beginning. This fall, it will be shipping at the end of July and we will wait and see how the consumer reacts to the collection. We are feeling quite optimistic about it and think that it is going to be a success, but let's let the consumer decide.

Operator

(Operator Instructions). Camilo Lyon, Canaccord Genuity.

Camilo Lyon - *Canaccord Genuity - Analyst*

Nice quarter, very nice job and congrats, Zohar. My question is on the backlog, but more on the portion of what your expectation is for cancellations are given that it seems that the at-once piece, the reorders piece is -- you are looking at that reorder piece being virtually nil. Just curious to understand what you think the cancellation part will be of that equation so that we get a complete understanding of what the backlog could translate into at the end of the fiscal year.

Tom George - *Deckers Outdoor Corporation - CFO*

Yes, at this point in time, Camilo, we feel that really the reorders expectation and the cancellation expectation are more in line with sort of calendar 2011 kind of timeframe, which is more of a mid-single digit kind of number and they somewhat cancel out.

Camilo Lyon - *Canaccord Genuity - Analyst*

Some mid-single digit cancellations? Did I hear that correctly?

Tom George - *Deckers Outdoor Corporation - CFO*

That is right.

Camilo Lyon - *Canaccord Genuity - Analyst*

Okay, thanks very much. Good luck.

Operator

Chris Svezia, Susquehanna Financial Group.

Chris Svezia - *Susquehanna Financial Group - Analyst*

Number one, thanks for taking my question. Zohar, all the best. My one question is just to clarify on a comment about leverage, Tom, that you had mentioned. In the second half of calendar 2015, given that those are the biggest quarters in a fiscal year, am I thinking about this correctly to still think that, and I know you are not giving fiscal year 2016 guidance, that that year could still show SG&A leverage, something you referenced on the last call?

Tom George - *Deckers Outdoor Corporation - CFO*

Correct, yes, that is the way to look at it.

Chris Svezia - *Susquehanna Financial Group - Analyst*

Okay, that was an easy one. All right, thank you. All the best.

Operator

Bob Drbul, Nomura.

Bob Drbul - *Nomura Securities - Analyst*

I have a question on the retail stores. Within the 4% comp, can you give us some sort of breakdown either geographically within the US or internationally, China, Japan, how the stores are doing in the different countries?

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

Yes, I would say generally speaking Asia-Pacific we had very strong comp store performance. As Angel mentioned, the leadership there and our go-to-market process is paying off big time. We had some challenges in North America primarily in the West Coast. The weather in the Northeast and Central part of the Company certainly helped our stores located there. But on the West Coast, it was very dry and warm, so we had some challenges in that part of the country, which drove the total down slightly.

And then Europe, it was very wet and cold, which is not a good formula for success for our brand at that time, so that was our biggest challenged market, but it's also our smallest market. So the makeup of the total is positive up 4%, but we had pockets of challenges that we are addressing through product and go-to-market plans for next year at this time.

Angel Martinez - *Deckers Outdoor Corporation - CEO, President & Chairman*

And what we are really seeing, unlike in past years, the impact that we see regionally is more with general traffic trends. In other words, the wet weather, the wet, cold weather in the UK, it really kept consumers at home. They were not out on the street shopping. It was pretty much a dismal environment for traffic. So we are starting to see, because of the diversification of the productline specifically about UGG, that -- whereas at one time issues were about the right product assortment. In other words, if it was warm, we didn't do well with sheepskin boots. Now that we have got product that cuts across a variety of different weather situations, we seem to be -- we struggle with the same traffic issues that everyone else struggles with. And that is actually a good thing I suppose because we can make up for it on the e-commerce platform.

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

And to that point, we saw dramatic increases in our e-commerce traffic in locations where we opened new stores last year. So those stores are having a knock-on effect to the total ecosystem beyond just the four walls. So we are creating awareness in those markets with new stores and that is driving traffic to the website and fueling our e-commerce business and vice versa.

Operator

Omar Saad, ISI Group.

Omar Saad - *ISI Group - Analyst*

Nice quarter, congrats. I wanted to ask you about HOKA. I know it is a small piece, it is in a lot of ways very different from all the rest of the brands in the portfolio. What is your vision for how this brand could evolve, gives you access to what is a very big market, existing market as opposed to maybe you could argue that UGG had to kind of create its own new market. How do you think it is differentiated, where do you think it can go, big picture long term? I'm not talking about this quarter or even this year. Thanks.

Angel Martinez - *Deckers Outdoor Corporation - CEO, President & Chairman*

Thanks, Omar. Well, I think one of the things to understand about HOKA is that for this Company it represents our initial thrust into the athletic realm, if you will, which is, as you all know, the biggest component -- the biggest market for footwear. Athletic brands dwarf all other brands, athletic distribution dwarfs other footwear distribution. The innovation cycle in athletic is much accelerated, so it pushes everything along in a very good way. And it allows us I think to showcase some of the things we do well as a company, supply chain management, which I think we have been very successful at given the diversity of product we make. It also allows us to extend our omni-channel strategy into the athletic realm.

So this is an area I've wanted to play in for a long time given that is where I sort of began my career and grew up in that part of the business. I know it well and especially running. And when you look at running among all of the athletic products, running is the most important. Running drives -- is the entry and most powerful component of athletic. So if you are going to be successful in athletic, you really do have to be successful in running. It is year-round product, it is global product, it is premium product, it is performance product.

All of those reasons make HOKA a very important thing for our Company. And given our experience collectively, Jim Van Dine, former very high level runner. Mark Mastalir, who we just hired as the Marketing VP at HOKA, is a sub four-minute miler. We have a tremendous number of assets there that provide great insight into the development of this brand. So we are very excited about it, we know what to do, we know how to make the product, we have unique product and let's see where it goes. But I think this is one of those opportunities -- as we used to say when I was running races, you've got to know when to put the hammer down. And we are starting to put the hammer down on HOKA and it is responding very well.

Operator

Thank you very much for all your questions today. At this time, I would like to turn the call back over to Angel Martinez. Thank you.

Angel Martinez - *Deckers Outdoor Corporation - CEO, President & Chairman*

Well, thank you all. Really appreciate you joining us today. We are feeling very good about where we are as a company, most importantly the success of our omni-channel strategy. You are starting to see it play out and I look forward to updating you in future quarters. But it is a very exciting time here at Deckers and I really appreciate your support. Thank you.

Operator

Ladies and gentlemen, that does conclude our conference for today. We do appreciate your participation and please have a great day.
