

# Deckers Outdoor Corporation

## First Fiscal Quarter 2015 Commentary

*Supplemental Information Relating to the First Quarter 2015 Ended June 30, 2014*

### **Net Sales**

Net sales for the period increased 24.3% to a record \$211.5 million from \$170.1 million for the same period last year. Domestic sales increased 20.1% to \$132.3 million and international sales increased 32.1% to \$79.2 million.

UGG® brand net sales for the period increased 22.8% to \$123.3 million compared to \$100.4 million for the same period last year. The increase in sales was driven by higher global wholesale and international distributor sales, the sales contribution from new worldwide retail store openings and an increase in global E-Commerce sales, partially offset by a decrease in same store sales.

Teva® brand net sales increased 25.7% to \$39.3 million compared to \$31.2 million for the same period last year. The increase in sales was driven by higher global wholesale and international distributor sales, an increase in global E-Commerce sales and higher US retail sales.

Sanuk® brand net sales increased 19.6% to \$36.0 million compared to \$30.1 million for the same period last year. The increase in sales was driven by higher global wholesale and international distributor sales, an increase in global E-Commerce sales and higher US retail sales.

Combined net sales of the Company's other brands increased 54.5% to \$12.9 million compared to \$8.4 million for the same period last year. The increase was primarily attributable to a \$4.5 million increase in sales for the HOKA ONE ONE® brand compared to the same period last year.

Total wholesale and distributor sales increased 21.3% to \$154.1 million. Domestic wholesale increased 19.0%, Asia-Pacific wholesale and distributor sales increased 94.9% and European wholesale and distributor sales decreased 8.9% due to the recognition of sales as a result of the conversion of the German distributor.

Global Direct-to-Consumer revenue increased 33.0% to \$57.4 million with a Direct-to-Consumer comparable sales increase of 10.0%. E-Commerce sales increased 43.7% to \$15.4 million. Retail sales increased 29.4% to \$42.0 million driven by 37 new stores, partially offset by a same store sales decrease of 2.8%. For all stores open at least 12 months as of June 30, 2014, the average sales per square foot was \$1,300 versus \$1,500 for the same period in 2013.

### **Gross Margin**

Gross margin was 41.0% compared to 41.1% in the same period last year. The margin was slightly below expectations due to higher international distributor sales which carry a lower margin.

### **SG&A**

Total SG&A expense was \$137.3 million or 64.9% of net sales compared to \$112.6 million or 66.2% of net sales a year ago. The 130 basis point decrease in SG&A as a percentage of net sales was primarily attributable to the timing of expenses and leverage on higher sales. The absolute increase in SG&A was primarily attributable to an increased spend on DTC, Omni-Channel infrastructure and marketing and variable expenses associated with the increased volume in sales.

### **Operating Loss**

Operating loss for the quarter was \$(50.5) million or (23.9)% of net sales compared to operating loss of \$(42.8) million or (25.1)% of net sales last year.

### **Taxes**

The Company recorded a tax benefit of \$(13.7) million compared to a tax benefit of \$(13.8) million a year ago.

### **Net Earnings (Loss)**

Net loss was \$(37.1) million or \$(1.07) per diluted share, compared to net loss of \$(29.3) million or \$(0.85) per diluted share a year ago.

## **Balance Sheet**

As of June 30, 2014, inventory decreased 1.7% to \$356.0 million from \$362.1 million at June 30, 2013. Compared to June 30, 2013, UGG brand inventory decreased 2.2% to \$304.4 million, Teva brand inventory decreased 24.6% to \$18.7 million, Sanuk brand inventory increased 11.2% to \$16.1 million, and our other brands' inventory increased 47.6% to \$16.8 million. The Company accelerated the delivery of approximately \$17 million of inventory to address a potential port strike.

At June 30, 2014, cash and cash equivalents increased \$109.1 million or 220.1% to \$158.2 million compared to \$49.1 million at June 30, 2013. The Company had \$3.2 million in outstanding borrowings.

## **Capital Expenditures and Store Counts**

For the quarter ended June 30, 2014, the Company spent approximately \$14.9 million on capital expenditures, most of which was for retail expansion and IT related expenses. The UGG brand opened six retail store locations, bringing the total Company store count to 126 stores. A breakdown of the store count by region as of June 30, 2014 is included below.

<b>Location</b>	<b>Concept</b>	<b>Outlet</b>	<b>Total</b>
US	23	21	44
China	32	6	38
Japan	15	6	21
EMEA	11	6	17
Canada	2	2	4
Hong Kong	2	0	2
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<b>Total</b>	<b>85</b>	<b>41</b>	<b>126</b>