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EDITED TRANSCRIPT

DECK - Q3 2015 Deckers Outdoor Corp Earnings Call

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OVERVIEW:

Co. reported 3Q15 revenue of $784.7m and EPS of $4.50. Co. expects FY15 revenue to be $1.8b, FY15 diluted EPS to be $4.58, FY16 revenue (at current foreign currency exchange rates) to grow approx. high-single digits. 4Q15 YoverY revenue growth is expected to be approx. 10% and diluted EPS to be approx. breakeven.

CORPORATE PARTICIPANTS

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

Tom George *Deckers Outdoor Corporation - CFO*

Connie Rishwain *Deckers Outdoor Corporation - President, UGG Australia and Tsubo*

CONFERENCE CALL PARTICIPANTS

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Taposh Bari *Goldman Sachs - Analyst*

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and thank you for standing by. Welcome to the Deckers Brands' third-quarter 2015 earnings conference call. At this time all participants are in a listen-only mode. (Operator Instructions)

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

Linda Pazin - *Deckers Outdoor Corporation - VP, IR and Communications*

Welcome, everyone joining us today. Before we begin, I would like to remind everyone of the Company's Safe Harbor policy. Please note that certain statements made on this call are forward-looking statements within the meaning of the federal securities laws. These forward-looking statements are intended to qualify for the Safe Harbor from liability established by the Private Securities Litigation Reform Act of 1995.

All statements other than statements of historical fact are forward-looking statements. These forward-looking statements include statements relating 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. These statements may also relate to the Company's brand strategies, store expansion plans, inventory management systems, and customer retention policies, 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. The Company's business is subject to a number of risks and uncertainties, some of which may be beyond its control, and 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 disclaims any intent or obligation to update any forward-looking statements after the date hereof to conform such statements to actual results or to changes in our opinions or expectations, except as required by the applicable law of the rules of the New York Stock Exchange.

As a reminder, we have posted supplemental information about the 2015 third quarter in a document entitled third fiscal quarter 2015 commentary. The document is on our website at www.deckers.com. You can access this document by clicking on the investor information tab and then scrolling down to the featured reports heading. With that I'll now turn it over to President, Chief Executive Officer, and Chair of the Board of Directors, Angel Martinez.

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

Thanks, Linda, and hello, everyone. Tom George, our Chief Financial Officer; Dave Powers, President of Global Omni-Channel; and Connie Rishwain, President of the UGG brand, are also on the call.

Our third-quarter results indicate that a number of our key strategic initiatives are beginning to take hold. Our performance was highlighted by stronger than expected demand for the UGG brand's new collections and the successful execution of our Omni-Channel strategies.

As we've communicated over the past several years, our goal has been to diversify the UGG brand offering in an effort to extend the closet share of our loyal consumers, target a larger audience, extend the brand's selling season, and lessen our dependency on the brand's iconic core classic collection.

While we missed our top-line projection by approximately 3%, our results demonstrate that consumers are responding strongly to our diversification efforts. This is an important component of our strategy, and we are excited about what it means for our future.

Fall 2014 represented our broadest offering of casual, weather, and fashion boots, as well as specialty classics. The response to these collections has been very positive, with consumer demand surpassing our expectations. In the third quarter we saw high teen's growth in our non-classic business globally.

For instance, our women's casual boot business continued to sell through very well during the holiday season after a strong Q2. Total sales of women's casual boots were up approximately 65% over last year. Our strategy of improved styling and more competitive pricing in the casual boot category was very successful at retail.

As temperatures turned colder across the US, with the exception of the West Coast, which has remained unseasonably warm, demand for our weather collection spiked. We experienced strong gains in technical boots, fashion waterproof boots, and boots with rain application. In total, sales of our weather offerings grew over 70%.

In many instances, demand for casual and weather boots exceeded our inventory investments. As a result, we believe we missed nearly $7 million to $10 million in sales from domestic wholesale reorders, as we were unable to fulfill 100% of the demand for these collections. We also believe that we missed approximately $2 million in online sales due to sellout of weather and casual boot product.

This shift expanded categories has highlighted the need to further improve our ability to plan and manage our product and inventory strategy against these consumer purchasing trends. This also requires some adjustments in our product and marketing strategies at both wholesale and in our DTC channels, which we are currently implementing.

Classics had a very good second quarter, both from a sell-in and sell-through perspective, which created some bullish expectations among our retailers and internally for the third quarter. This was the main driver behind our decision to raise guidance on our last earnings call.

Unfortunately, most of November -- with the exception of Black Friday and Cyber Monday weekend, was below plan, which we believe was a result of mild temperatures in certain markets and weak store traffic trends across the industry. Sales trends accelerated as the quarter progressed; however, it wasn't enough to offset the slow start, which eventually led to some cancellations, primarily in our domestic wholesale channel in December.

Despite the cancellations in December at wholesale, consumer demand for classics, which includes core and specialty, remained strong. For the fall holiday season, meaning Q2 and Q3 combined, total units of women's classics increased approximately 5%.

However, for Q3 alone, sales were down slightly compared with a year ago, which contributed to our overall revenue shortfall relative to our updated guidance. In analyzing our performance, the shortfall in classic sales relative to our forecast drove the total revenue miss, along with the impact of FX headwinds.

In addition to the success of diversifying our footwear offerings, the UGG brand also has two small but very exciting non-footwear initiatives in loungewear and home, both of which performed very well in Q3. Loungewear sales more than doubled on our wholesale channel, with sell-through equally as strong. Key classifications included robes, hoodies, and pants for both men and women. With UGG loungewear quickly becoming the number one brand in our domestic accounts such as Nordstrom's, we are now selectively adding new distribution with a focus on specialty and independent doors. We are launching kids and infants this fall.

Home grew at an even faster pace than loungewear, although from a smaller base, driven by successful launches at Nordstrom, at Dillard's, Neiman Marcus, and Von Maur's. We believe that the extremely positive response we've received from these launches, though small from a revenue perspective, is another strong indicator of brand strength. As we develop further our home and lounge business, we are seeing opportunities to cross merchandise at retail in these categories along with UGG slippers. We think these categories resonate with our consumer and tell a comprehensive UGG brand comfort story.

With respect to I HEART UGG, the biggest takeaway from the initial rollout was that there is a place in the market for these products. However, it isn't on a standalone basis. Without fully associating the line with the UGG brand, we struggled to communicate to consumers the strong value proposition of the product line. In fact, once we made I HEART UGG available on the uggaustralia.com website next to our kids traditional classic product, we did see a strong pickup in sales.

For fall 2015 the product line will become a tween collection within the UGG brand starting this July, and we are redesigning the logo. This will help diversify our kids business, which is currently very classic centric.

Moving to our Direct-to-Consumer channel, total DTC comparable sales increased 7.6%, led by a 26% increase in comparable E-Commerce sales. E-Commerce sales were driven by strong sell-through of our entire collection, including classics, as more consumers appear to be replenishing this staple item via the Web versus brick-and-mortar compared to years past, fueled in part by the acceleration of our omni-channel activities. In fact, we saw positive growth in the classics category in both our North America and global Direct-to-Consumer channel.

Our strong E-Commerce results were partially offset by a high single digit decline in store comps, which was below our expectation. We believe that there were a few specific factors behind our store performance, which included: one, a more significant shift than we anticipated in classic sales to online versus in-store; second, inventory management assortment and brand presentation issues in our company operated China stores; and third, the drop-off in traffic at several flagship stores, which we believe is partially attributable to the negative impact on tourism from the strong US dollar.

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Dave will address how we are responding to these issues in a moment. But we feel confident that we have our hands around the first two, which are under our control, and that they are temporary and fixable.

On a positive note, with only 138 stores globally, we still have a relatively small footprint compared to our peers. We are continuing to take a very strategic approach to our store openings while maintaining ample flexibility as we execute our broader Omni-Channel plan globally and evaluate ongoing strategies for adapting to the changing consumer environment.

It was by far our most diverse holiday quarter ever in terms of the collections that contributed to our results. In analyzing the breakdown of sales by line and channel, we believe it is evident that the consumer is responding favorably to our product strategies and global Omni-Channel initiatives. But we clearly have work to do in further adjusting our merchandise planning and inventory management to help our wholesale customers succeed in this rapidly changing retail environment.

To support our efforts we also plan to shift our marketing to focus more on the specific product attributes that make the UGG brand so attractive and less lifestyle marketing. We are now seeing that our marketing is most effective when we better highlight the luxury and comfort of UGG products.

Further, we now realize that we have not been placing enough emphasis on our classic line in our marketing creative, almost taking our largest business for granted. However, our research tells us that our classic UGG line is often the first step for consumers who fall in love with the unique feel and comfort of UGG and ultimately go on to purchase other UGG products. This has been borne out in our more established markets.

And so it's very important that we give a core offering ample treatment in our marketing campaigns. We believe this adjustment, combined with a greater emphasis on the luxury and comfort components of the brand, will allow us to better drive growth across all of our channels.

In 2015 we are increasing our penetration of our non-core collections in the fall line better to reflect consumer demand. This means ramping up casual boots faster than before, with more meaningful assortments and increased SKU's. We have the broadest assortment of casual boots to ever support this strategy for 2015.

We are also increasing the penetration of weather product through deeper and better assortments and deliveries all the way through January. This includes weather styles that double as casual boots.

We are in the middle of the fall pre-book process, but I'll share that feedback from our major accounts on these changes have been extremely positive. They are very excited about the direction of the brand and amount of newness that we are introducing for fall 2015.

Based on where we are today, we project that once the pre-book is complete, we'll have shifted approximately 10% of our core classic order book to casual boots and weather, bringing those categories up to 15% and 10% of our EMEA and domestic wholesale women's business, respectively. This is a great indication that our major wholesale accounts are on board with our product strategies.

Now, with that, I'll turn the call over to Dave.

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

Thanks, Angel. It was another quarter of solid growth for our Direct-to-Consumer division. Total sales increased 15% to $339.6 million, driven by new store openings and a 7.6% total DTC comparable sales gain.

By region total DTC comps were up in the high teens in Japan, up high single digits in the US, up mid singles in China, and up low singles in Europe. The 7.6% overall comp gain was fueled by a 26% increase in comparable E-Commerce sales, marking the 11th straight quarter of double digit improvement in E-Commerce, a strong indication of the success we are having driving traffic and higher conversion utilizing our advanced global Omni-Channel capabilities.

Our E-Commerce performance gives us confidence that when we showcase the full breadth of the line, the consumer reacts positively. We are also seeing the benefits of the improved site experience, our Infinite UGG program, and more efficient marketing spend, led by the consumer insights team in analytics.

Growth in E-Commerce was partially offset by a high single-digit comp store decline. While this was below our expectation, many of the headwinds are within our control and addressable for next fall and holiday. These factors are primarily driven by the fact that our consumer migrated faster than expected to non-classic categories and the online channel for classics replenishment. They include product mix shifts and inventory levels, AURs, in-store presentation, and seasonal inventory flow.

I'd also point out that while many retailers ran aggressive promotions over the holidays, we made the conscious decision to maintain our conservative promotional cadence in an effort to protect our brand value and margin. This impacted comps but helped improve our Q3 four-wall store operating margins by 40 basis points over last year, which is a primary focus as we aim to drive profit and leverage out of our store base.

Digging deeper into our results, like most of retail, store traffic continues to be challenging. It improved as the third quarter progressed, with December down low single digits. However, it closed down high single digits for the three month period, and much of this was driven by our tourist and flagship locations.

Our store teams continue to do a good job converting traffic into sales, as conversions were up in mid-single digits. Given that many of the casual and weather boots carried sharper opening price points than a year ago, as we talked about on our last call, the increased conversion was partially offset by lower AURs.

From a store level perspective, outlets performed better than concepts, driven by channel specific initiatives, such as our SMU (special makeup strategy). In addition, outlets have become a strong entry point into the UGG brand, with a diverse product line.

The biggest drag on store comps came primarily from older domestic flagship shops that are heavily tied to tourist traffic, followed by Europe and China. In China, while there are some macro level challenges in this complex market, many of our challenges were self-inflicted and had to do with the evolution of our business there. We suffered from not having the right inventory management expertise and missteps in store allocations and presentation.

In addition, while China saw some of the same challenges as our other stores, we also had some product and marketing that did not resonate with the Chinese consumer. We believe we've identified the issues and are making the necessary operational changes intended to improve results going forward. That being said, we did make some adjustments mid-season that led to a positive 3% store comp in the month of December, but it was not enough to offset the declines experienced in October and November.

In Europe, store traffic continues to be the issue, particularly for concept stores. We attribute the softness to the combination of weak macroeconomic conditions, mild weather, and the same shift to more online purchases that we saw elsewhere.

With respect to the older flagship locations in our US fleet, they were hurt by the strengthening of the dollar versus the euro and the yen, which has impacted foreign tourism, particularly to popular destinations like New York, Las Vegas, and San Francisco.

Partially offsetting these headwinds was the performance of our new store fleet, which included positive comps for stores opened in the last 18 months. With the exception of some of our new store openings in China, total stores opened in the last 12 months are performing at or above our original performance. This is a good sign that our strategy of targeting smaller formats and more strategic locations, based on top and underpenetrated markets that will provide solid returns and positively impact our E-Commerce channel, are delivering positive results.

Looking ahead, we have a number of initiatives already in place aimed at improving our store performance that take into account the shift we are seeing in consumer shopping behavior from both a category and channel standpoint. These include: shifting the mix of inventory in our concept stores and online by placing a bigger emphasis on casual boots, winter and weather boots, and casual shoes; reinvigorating our classics business through innovation and more elevated styling; and increasing the penetration of our non-footwear categories; increasing opening price points to bring AURs closer to 2013 levels; refreshing the look and feel of our concept store through re-merchandising and improved product presentation that reflects the new face of the UGG brand, which is much more diversified and less reliant on classics. This will include an enhanced visual presentation and service model.

We are also in the process of updating our UGG concept store design to better reflect the lifestyle offering of the brand. Developing new marketing programs that are more product centric, aimed at driving traffic and sell-through of big ideas and key items and better optimize our digital spend globally. And lastly, selectively expanding our footprint in North America and Japan and looking to shift more of our China store openings to partner doors.

While we implement these store operating model adjustments and gauge their effectiveness, we have decided to moderate and assess the pace of new store openings. As Angel noted, we have a very manageable store count, and we have continued to validate areas to increase efficiencies across our model, in line with our global Omni-Channel plan. Consistent with our long-term strategy, our new store openings will be influenced by the consumer shopping behaviors and total Omni-Channel impact to maintain flexibility in our model. Our new store expansion strategy will be heavily weighted towards outlets, as this channel, while it is still small to the total, is outperforming concept. We'll also continue to invest opportunistically in pop-up stores, a format that we've recently enjoyed good success with around the globe.

Improving our store performance is a priority, but our overarching focus continues to be on executing our global Omni-Channel strategy and elevating the consumer experience across all channels. We are seeing strong results from this approach.

In fiscal 2016 we will start to benefit from initial investments in CRM software and database and the build out of our new loyalty program to drive increased traffic to the UGG brand. We know from market research that UGG brand owners are incredibly loyal, and with a more powerful suite of tools, we are confident that we can strengthen our consumer connection and increase the frequency of their buying cycle.

Our stores, E-Commerce and mobile sites are now intertwined as a result of the successful Omni-Channel initiatives such as Infinite UGG, buy online/return in-store, click and collect, and retail inventory online. As a reminder, we are moving ahead with our previously stated plan of reporting just the combined DTC comp beginning in fiscal 2016. We believe this is the best way to measure the performance of our DTC business going forward.

Turning to our European wholesale channel, we are pleased with the overall growth in this market, despite some economic headwinds, led by the strength of our Germany transition. UK sales got off to a good start in the third quarter, which translated into minimal cancellations. However, following consecutive warm winters, retailers were cautious about coming out of the season with excess inventory, which limited our reorder opportunities.

In Germany we've been ramping up our subsidiary operation, assuming distribution in the middle of last year. We are excited by the progress we are making through our first fall pre-book with retailers to evolve the product offering in this large and important market.

We are also pleased with the strong reaction we are seeing to the UGG brand casual boots, weather, and fashion product, as well as the HOKA ONE ONE and Teva lines in this market. Looking ahead, we believe the evolution of product lines, highlighted by the growth of casual, weather, and specialty classics, along with the global popularity of our iconic classics collection, provides exciting opportunities for the brand in our global direct-to-consumer and wholesale channels.

Our focus is on exciting consumers through compelling, innovative products and a superior shopping experience that allows them to engage with our brand in a seamless fashion. We believe our merchandise and Omni-Channel strategies allow us to expand and maximize our relationships with our consumer base.

I'll now turn the call over to Tom.

Tom George - *Deckers Outdoor Corporation - CFO*

All right. Thanks, Dave. As Linda mentioned, as Linda reminded everyone at the beginning of the call, we have posted the quarterly financials on our website under the investor information tab. So my comments on the call are going to be brief and focus primarily on guidance.

For the third fiscal quarter, revenue increased 6.6% to a record $784.7 million. On a constant dollar basis sales increased 8.2%.

We missed our revenue guidance by approximately $22 million, $7 million of which was due to the strengthening of the US dollar versus the yen and the euro during the quarter. The remaining shortfall was from a combination of higher wholesale order cancellations and negative same-store sales, which Angel and Dave discussed earlier.

EPS for the third quarter was $4.50 compared to $4.04 last year and our guidance of approximately $4.46. We exceeded EPS guidance despite the shortfall in revenue and FX pressures due to lower incentive compensation expense accruals and a lower than expected effective tax rate.

Based on our third-quarter -- third fiscal quarter performance, we are revising our full-year outlook. For the fiscal year ending March 31, 2015, we now anticipate revenue to increase approximately 13.5% to $1.8 billion versus our previous projection of approximately $1.825 billion. UGG brand revenue is now projected to increase approximately 11% versus our prior expectation of approximately 14%.

As a result of our lower revenue projection, diluted earnings per share is now expected to increase approximately 12.6% to $4.58 compared to our previous guidance of approximately $4.71, and we are expecting operating margins of approximately 12.5% versus our earlier guidance of approximately 13%.

We are still assuming gross profit margins for the year of close to 49%. Our fiscal year 2015 guidance now assumes that the Company's effective tax rate will be approximately 27%. Wholesale and distributor sales for all brands are now projected to be up low double digits in fiscal 2015, driven by our Germany conversion, a low single-digit increase in UGG domestic sales, and continued growth of the HOKA brand.

For our DTC channel, our overall sales projection has not changed, as stronger E-Commerce trends for the UGG brand are offsetting lower store comp sales, which are now expected to be down in the high single-digits range for the year.

We will end fiscal 2015 with approximately 30 new stores as we shifted some of our planned concept stores in China to partner stores. For the fourth quarter of fiscal 2015, or three months ending March 31, 2015, we still expect revenues to increase approximately 10% compared to the same period in the prior year. However, due to FX headwinds putting pressure on gross margins, we now expect diluted earnings per share to be approximately breakeven compared to our previous expectation of approximately $0.15 per share.

Now that we have completed our largest quarter, we'd like to share some preliminary thoughts about our fiscal year 2016 outlook. Keep in mind that we are in the early stages of reassessing our store opening strategy, and in light of the recent FX trends, we are also evaluating our hedging and international pricing strategy. And as we have discussed today, we are incorporating our learnings from our holiday performance into our product marketing and merchandising strategies.

With this background, at current foreign currency exchange rates, we expect revenues to grow approximately high single digits and gross margins in total to be down approximately 30 basis points due to FX pressures, which will more than offset sheepskin and UGG Pure cost improvements. With respect to operating expenses, as we've said previously, we do expect to begin achieving leverage next year.

This is still the case, and we believe it will initially be in the neighborhood of approximately 40 basis points. With respect to profitability, we expect earnings per share to grow at a slightly faster rate than revenue, at or near 10% based on our current thinking.

Finally, we are pleased to announce that the Board of Directors has authorized a new $200 million stock repurchase program, which is in addition to the $66 million we still have left under the previous $200 million authorization that was approved in July 2012.

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

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

Thanks, Tom. Before we open the call of up to questions, I want to provide some color on the progress of our other brands.

Teva is coming off a solid third quarter, the brand's smallest quarter of the year, driven by exceptional growth of women's boots, a category that performed very well at retail. As we move into spring, Teva's key theme will continue to center on the brand's original sandal collection, which forms the core of our merchandising strategy.

The Teva lifestyle is coming back into favor, and we are positioned to capitalize on this added interest through new colors and materials and new collections, like the Fundamentals. This product is perfect for consumers looking for versatile, go-anywhere footwear and will encompass everything from canvas casual styles to boots for men and women.

Sanuk enters spring with good brand momentum following a solid season at retail last year. This has translated into additional shelf space and more in-store marketing for 2015. The early read is that women's sandals are off to a strong start, led by the yoga sling and the yoga mat. On the international front, we recently introduced the brand in Australia, Brazil, and Japan, three markets that we believe are ideal for the brand and its line of lifestyle footwear, rooted in the surf culture.

The last 12 months have been a period of rapid growth for HOKA, culminating in a very successful Outdoor Retailer show, where the brand's product line received multiple industry awards and recognition. Specifically, GearCaster gave us the innovation award for 2015; Gear Patrol, the Editors' Choice Best of Outdoor Retailer Show; and GearJunkie gave it the Best in Show at the Outdoor Retailer Show.

That said, we believe that this is just the beginning. Right now the quality of the product line is bigger than the brand. We've gotten good traction in the specialty running channel, where we focused our initial distribution expansion efforts.

Next month we'll be rolling out to select doors with mainstream sporting goods retailers, such as Sports Authority, Hibbett Sports, and Finish Line. The priority will be on growing brand awareness to drive demand across all channels and take advantage of the unique position that HOKA occupies in the running industry.

Finally, I want to highlight the recent launch of Ahnu's new yoga performance line; you may have seen it featured on CNBC today. Ahnu's yoga sport footwear will emphasize greater forefoot flexibility to maximize physical stretching moves, as well as a centered heel base, ideal for standing poses where balance is key. With yoga's growing popularity and increased participation rates and Ahnu's authentic positioning in active lifestyle, we believe this new collection is incredibly timely and will be received very well by the yoga consumer.

With respect to Deckers' two other brands, TSUBO and MOZO, we recently made a decision to seek strategic alternatives for these businesses. We'll provide an update on our incubator brands once a final decision has been made as to our future plans. This will allow us to focus more of our resources on the growth of UGG and the other brands.

Now, to close, I want to reiterate that we are continuing to see the benefits of our product diversification and Omni-Channel strategies. Our product teams have consistently delivered attractive, high-quality, functional footwear and accessories that resonate with consumers; and in turn, consumers are extremely passionate about our products and loyal to our brands.

The diversification of our product line has further expanded our target consumer market and growth potential, while our global Omni-Channel initiatives are helping maximize traffic, improve the shopping experience, and drive sell-through. At the same time, it's still early in our product transformation, and we have considerable growth ahead. We have to keep investing wisely in our infrastructure and improving our inventory management capabilities to better monetize consumer demand for our broader portfolio while supporting our plan to begin driving operating leverage in our model in fiscal 2016.

We are taking into account our learnings during the past quarter, and we believe we are implementing the right courses of action to ensure that we can better capture the multiple long-term opportunities that we are very confident exist for our Company. Among other initiatives, this includes better accentuating the luxury and comfort aspects of the UGG products in our marketing as well is putting more emphasis on our classics line.

Before moving to Q&A, I would like to acknowledge the appointment of David Lafitte to Chief Operating Officer, announced last week. We've reviewed a number of candidates for the position, and we determined that David was a great fit for our needs. He has advised the Company since 2006 and has served as General Counsel of Deckers since 2012. He knows our culture and our organization very well and has wide-ranging relationships across our channels, given his experience working with many facets of our business.

David is in China as we speak and formally starts in his new position on February 2. He replaced Zohar Ziv, who announced his retirement last April and stepped down earlier this month. I'd like to once again thank Zohar for his many contributions during his eight years with Deckers. Not only was he a great asset to the Company, he's a great person and a friend to me and many others across our organization.

And with that, let me turn it over to the Operator for the Q&A. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Mitch Kummetz, Baird.

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

A couple of questions. The revision to the guidance -- I think you are going from UGG, from 14% growth to 11% growth, which implies sort of flattish sales in the fourth quarter. I was hoping you could just address that.

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

Yes, Mitch. One of the things to keep in mind is we do have FX pressure relative to the prior guidance as well in the fourth quarter, and that's not only with the euro but also the yen. And relative to prior guidance, the wholesale business is -- for UGG it's pretty on par. The UGG domestic wholesale business relative to the prior guidance is about the same. The international wholesale business for UGG is up slightly. Does that help you?

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

Yes. And I know you guys were previously expecting some comp improvements going from Q3 to Q4, which I think implied a positive comp in the fourth quarter. I'm guessing that's maybe no longer the case?

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

Yes, Mitch. We are continuing to see the similar trends we've had through the past quarter in our retail stores -- and, again, contributed primarily to some of the challenges in China and the migration of classics to the online business. So at a total DTC level, we still feel confident; but the store comps themselves will continue to be negative high single digits.

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

And I've got a follow-up question for you, Dave. I think you had said in your remarks that four-wall margin was up 40 basis points in the quarter, and that's despite a negative high single-digit comp. Can you just kind of reconcile that for me? How did you achieve that margin improvement despite difficult comp in the stores?

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

Yes, we reacted pretty early in the quarter when we saw challenges in the comp trends, and we made a conscious decision to focus on profitability versus comp -- total revenue spend. So we aggressively looked at reducing SG&A and expenses in our store base globally, and then we made decisions to maximize margin opportunity in our outlets and concept stores to make up that difference. So we feel pretty good about the progress we made in profitability despite the traffic headwinds we had.

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

Okay. Thanks. Good luck.

Operator

Bob Drbul, Nomura.

Karyn O'Brien - *Nomura Securities - Analyst*

Hi, this is Karyn O'Brien filling in for Bob. You mentioned increasing opening price points and getting AURs up to 2013 levels. Is there any way you could put some numbers around that?

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

Yes -- we are still in the process of evaluating that. Coming out of the last month, we have re-looked at our merchandising assortment and inventory mix for fall. But I would say it's safe to bet that we will see an increase of at least 10% across the board in retail AURs. It's a combination of selective price point increase due to styling changes and also inventory mix into higher price point product.

Karyn O'Brien - *Nomura Securities - Analyst*

Great. Thanks so much.

Operator

Taposh Bari, Goldman Sachs.

Taposh Bari - *Goldman Sachs - Analyst*

I wanted to follow up on the idea of weaker classics in your retail stores as your customer shifts to more online replenishment. It seems like a good problem to have.

So I'm not sure if I heard you, Dave, on what the fix to that problem is in the retail stores. I guess maybe the obvious question is: why bother fixing it if you are getting more of that business online?

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

Well, we still think there's opportunity in our classics business. So while the core classics customer is replenishing online, and that seems to be a global trend at the moment, we still believe that there is opportunity in the specialty classics business and more the unique product to the DTC and retail channel. So we're not going to go down fighting on that one -- without a fight on that one. We are going to continue to be aggressive in that classics category while at the same time shifting our inventory and assortments into more of the casual boots and winter boots and fashion to take advantage of that opportunity as well.

So I think it's just -- again, we are continuing to read the shopping patterns of the consumer. And when they want to replenish online, that's great for us; but we still have an opportunity to drive people to the stores at the same time.

Connie Rishwain - *Deckers Outdoor Corporation - President, UGG Australia and Tsubo*

And I also wanted to add -- when people come into the store, they want to see the new products and the new fashion products in casual and boots. So we really want to wow them with that product in the stores.

Taposh Bari - *Goldman Sachs - Analyst*

Got it. And just to follow up on inventories in the channel, how does the performance of the UGG brand this season -- do you think -- if you would, A, comment on what you think the status of inventories are in the channel and how you think that the performance this past quarter impacts orders for fall of next winter?

Connie Rishwain - *Deckers Outdoor Corporation - President, UGG Australia and Tsubo*

Well, our retailers, our wholesale customers are happy with the results of the quarter and their inventory levels. They are very excited about our strategy of buying into more casual boots and more weather products for next fall. So we see an increase in pre-book in those categories.

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

And inventories across all channels remain healthy.

Taposh Bari - *Goldman Sachs - Analyst*

Okay. Thank you.

Operator

Camilo Lyon, Canaccord Genuity.

Camilo Lyon - *Canaccord Genuity - Analyst*

So a few questions. On the classics business, are you seeing anything different on the competitive landscape? Or is there some sort of trade-down away from the UGG brand to middle-market brands or lower-tier brands that could be explaining some of this?

Connie Rishwain - *Deckers Outdoor Corporation - President, UGG Australia and Tsubo*

No, we are not actually seeing that. Overall for the total fall season, classics are up. It was up in second quarter; it's just slightly down in third quarter. So no, we are not seeing any competitive problem there.

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

I think one of the things that we are learning, Camilo -- one of the things that we are learning is having a better understanding of the replenishment cycle by our core classic consumer and all of the various factors that impact that replenishment cycle. Generally speaking, it's -- the consumer every two years replaces their classic.

Many years ago -- well, five or six years ago, our job was to get them to buy more UGG product beyond classic. We have succeeded at that, obviously.

But now, getting back to that replenishment cycle, it can be disrupted. So for example -- and this is speculation; I don't know the answer to this, but it's just one of the things that we have to consider in understanding this. The Polar Vortex of early 2014 in February and March -- people were out buying classic, and they were buying a lot of product that normally would've been postponed until the fall season. And there could have been some impact from that. That's, again, one of the many things that we are starting to better understand, so that we really make a science out of this classic business and the replenishment cycles that impact it.

Camilo Lyon - *Canaccord Genuity - Analyst*

Okay. That's helpful. Just two follow-ups, quickly. You mentioned on how the shift in mix away from classics to more of the weatherized and fashion product, and how the retailers are responding positively to that. How much more of a mix shift will you need to undertake from what you can see right now to get the balance to where you want it to be? Is this kind of an ongoing headwind that you are going to have from a decelerating classics business to a smaller -- much smaller weather/fashion business?

Connie Rishwain - *Deckers Outdoor Corporation - President, UGG Australia and Tsubo*

We see shifting approximately 10% of our core business into these categories. Classic will still remain our number-one category, and it still performed extremely well at retail -- double-digit sell-through every week in November/December with our customers. So it's just a shift into newer products. But again, classics and slippers will still be our two biggest categories.

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

I just want to underscore, again, basically the classic business has emerged as an incredibly powerful foundation stone for this brand, obviously. And it's the kind of foundation stone that if you are properly managing it, you have to manage it as separate and distinct from the brand. It has its own needs; it has its own marketing requirements; it has its seasonality; and as I mentioned, it has replenishment.

Those are all things that we will now be focusing on far more aggressively to fully maximize what classic is as a foundation of our UGG brand. I think, as I said on my comments, it kind of feels like we took it for granted a little bit -- that, you know, the consumer would predictably show up in a certain cycle in a certain quarter every single year. And we know that we have to drive that demand aggressively in order to give her awareness that there is always something new and fresh and a new reason to buy a new pair of classic.

Camilo Lyon - *Canaccord Genuity - Analyst*

So will the wholesale accounts domestically -- from what you are seeing right now, will they be comfortable ordering up the overall UGG brand -- looks like to reach your guidance -- you know, mid-to high single digits? Is that realistic, given the --?

Connie Rishwain - *Deckers Outdoor Corporation - President, UGG Australia and Tsubo*

Yes, we think so, because we have accounts that this year for fall 2014 had converted a lot of their classic dollars into casual boots and weather. And they were the most successful; they had the most successful year-ends of all of our customers. So the performance of non-classic product in sneakers, in casual boots, weather, slippers was good across the board, and fashion as well. So our retailers are seeing the consumers are voting, that they are buying into these new categories. So they are happy to shift their open-to-buy dollars to this.

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

And Camilo, we are also seeing the same reaction from our key accounts in Europe as well. It's been very positive in this fall line.

Camilo Lyon - *Canaccord Genuity - Analyst*

Are those positive margin categories or neutral margin categories to the classics?

Connie Rishwain - *Deckers Outdoor Corporation - President, UGG Australia and Tsubo*

They are similar. They are similar, yes.

Tom George - *Deckers Outdoor Corporation - CFO*

They're lower price points but a lot lower-cost.

Camilo Lyon - *Canaccord Genuity - Analyst*

Got it. Okay. Thanks, guys. Good luck with the year.

Operator

Randy Konik, Jefferies. Please check your mute function. Scott Krasik, Buckingham Research.

Scott Krasik - *Buckingham Research - Analyst*

One question on gross margin, and then a question on the top-line guidance for next year. I think in the filings you had indicated that your E-Commerce gross margin decreased a little over 700 basis points last quarter. I'm assuming that's just one of the unintended consequences of moving away from slippers and classics -- more markdowns, more fashion risk.

How do you think about that as you grow that piece of the business? Do you sacrifice a little on margin rate for profit dollars?

And then just in very rough terms, how do you build up to the high single-digit revenue growth for next year? I'm assuming the other brands will add about 1 to 2 points, so maybe dissect the UGG piece of that, if you can. Thanks.

Tom George - *Deckers Outdoor Corporation - CFO*

To comment on the gross margins: I know the E-Commerce business -- we were really pleased this quarter with the gross margin performance, and the retail store margins for this quarter were actually, in aggregate on a global basis, a little bit higher than a year ago. To round that out for the quarter at an operating margin level, when you combine retail and E-Commerce together -- you total DTC -- we had improved operating margins year over year. So you'll see that in our filings.

So we are pleased with that. I think one thing to keep in mind for the guidance for fiscal year 2016 is that -- I don't know what exchange rates you all had in your models, but if they were the ones from October, the euro has moved 10%; the yen has moved 10%. So that, everything else being equal, has some pressure on growth rates for next year.

But that said, it is early. Like we mentioned, we are early in our planning process. But we feel very good that we are talking about high single-digit growth rates for next year, feel really good reinforcing that we expect to get operating leverage next year, and feel really good that we will have a year that we grow earnings per share at a faster rate than sales.

Scott Krasik - *Buckingham Research - Analyst*

And UGG wholesale versus DTC next year -- maybe the general growth rates you're planning?

Tom George - *Deckers Outdoor Corporation - CFO*

DTC next year for UGG should be growing at a faster rate than the wholesale.

Scott Krasik - *Buckingham Research - Analyst*

But wholesale will grow?

Tom George - *Deckers Outdoor Corporation - CFO*

Yes.

Connie Rishwain - *Deckers Outdoor Corporation - President, UGG Australia and Tsubo*

Yes.

Scott Krasik - *Buckingham Research - Analyst*

Okay. Thank you.

Operator

Omar Saad, Evercore ISI.

Omar Saad - *Evercore ISI - Analyst*

I wanted to ask you if you have thought about kind of the year-over-year impact of the weather? You know, it was so cold last year in the winter and then going into the spring. Have you thought about how to quantify that in the impact on your kind of core business, which was a little bit part of the sluggishness this quarter, and as you think out to the fourth-quarter guidance, as well? And then I have a couple follow-ups.

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

Well, as I mentioned earlier, Omar, the -- it altered the repurchase or the replenishment cycle. That's a reasonable theory. There are a lot of moving parts to understanding the impact of weather. We have been responding, as you have heard, very aggressively with cold-weather product, with waterproof product. And that has made a big difference.

Because it seems -- from my sort of layman's perspective, it seems that winter comes later and lasts longer. Look at the storms of this last week back East. More intensity. So we are really beginning to understand that impact across our business. And keep in mind that there are regional differences, as well. So Europe, for example, does not have the same weather impact at the same time that we get in North America.

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

And I would add on to that -- I think in the month of October and the first two weeks of November is where we saw -- if I were to quantify an impact from weather anywhere, it would have been those two months. And that was a global issue. Europe was warm; China was warm.

And compounded on top of that, as we got into November, people were also starting to wait for Black Friday weekend. That has a dramatic effect on the European business, where retail kind of came to a halt a couple weeks leading up to Black Friday weekend.

So the October/November time frame was challenging, partly because of warm weather, partly because of the shift in shopping behavior. But it came back when the weather got cold, and we got into the busy season in December. This wasn't enough to make up for that gap in October.

Omar Saad - *Evercore ISI - Analyst*

Got it. So looking forward, should we be worried that it was so cold -- like, the next three months last year were so cold -- I mean, you guys could have been selling UGG on the street for $300, $400 a pair in parts of the Northeast, and I'm sure that you would have found buyers. That kind of tough comparison -- is that something we should be thinking about, or is it -- are we overthinking it?

Connie Rishwain - *Deckers Outdoor Corporation - President, UGG Australia and Tsubo*

No. We had a really healthy increase in our weather business this year, and we could have probably sold a lot more if we had had more inventory. We had aggressively stocked it, and we ended up chasing it, and we're still chasing it in January. So we see that weather category being more important than ever before for next year.

And then there's a lot of casual boots that are within the weather category that have weather features, but they just look like everyday casual boots that women can wear to work. And we see a lot of growth and opportunity there. And that performed extremely well this year.

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

And last year we did lose opportunity, because we ran out of cold weather product. We didn't have all the extensions of casual waterproof product that Connie mentioned. And that was one of the adjustments we made as we went into this year.

So I think we are in better shape from a product assortment perspective this year than we were last year. So I think the comparison is not as difficult as one might think.

Omar Saad - *Evercore ISI - Analyst*

Okay. Got you. That's really helpful.

One follow-up -- I think, Angel, you mentioned in your prepared remarks: do a better job marketing the core classics of the business. It's the heart of what -- kind of your profit pool. It's the gateway to the brand, I think you mentioned. Can you elaborate on that -- what you think you could do better in the future?

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

I can use an example from my past, and I think Dave has got examples, too, from his past. When I was at Reebok, for example -- it was many years ago now -- our classic business had grown to be $650 million, which is a very big business. And what was very interesting is that we found ourselves suddenly realizing that we had been putting all the marketing effort toward Shaquille O'Neal and various other things at the expense of that classic business.

So we broke the classic business out. We gave it its own marketing plan, its own marketing budget, its own strategy, separate and distinct from everything we were doing with performance product. And it grew significantly after that. So it then got the attention that it deserved, and it got the focus that it deserved.

This is what we are talking about here. We are saying that if X percentage of our business is represented by core classic, then we need to make sure that we at least devote that percentage or close to it of our marketing spend against core classic, and not to the broader idea of lifestyle marketing for the total brand, because people sometimes then take their eye off the classic ball. You might want to talk about your experience at the Gap?

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

I'm starting to look at the classics business similar to my early days at the Gap -- similar to the denim business there, where your core classic is your basic fit jean. Every season you are doing specialty versions of that, but you are still keeping the heat and the energy on the core basic.

Similar to what we are going through with the core classic here, back in the day at the Gap -- and I'm sure it's still a focus there -- you know, denim was such an important part of that business. And it became the foundation for a lot of the advertising and the marketing that was done for that, brand. And it kept the heat and energy on that business. But also at the same time, you were growing the fashion component. And I think that's where our opportunity is here.

Omar Saad - *Evercore ISI - Analyst*

I appreciate the insight, guys. Thanks.

Operator

Sam Poser, Sterne, Agee.

THOMSON REUTERS

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

Thanks for taking my question. You mentioned -- you talked about the casual and the waterproof business as being -- growing to about 25% total, I gathered is what you said for the back half of the year, if I got that right?

Connie Rishwain - *Deckers Outdoor Corporation - President, UGG Australia and Tsubo*

That's what we are planning next for fall 2015.

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

So can you help us -- because you have other pieces of the businesses that are not boots, like slippers, and so on. So can you talk about how that looks as a percentage of the overall boot business? Basically how it was planned this year and how you are seeing it next year?

Connie Rishwain - *Deckers Outdoor Corporation - President, UGG Australia and Tsubo*

Well, we are planning many of these categories up across the board, Sam. So we are planning sneakers up, slippers up -- not double digits, but up. And we are just trying to convert our open-to-buy dollar to have a much more diversified department and a healthier business with all of our retailers. We have a lot of retailers that have done that already and really believe -- and they believe, as well -- that this is the best future for the UGG brand is to diversify our assortments further.

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

No, I understand that. I want to know what percent those two categories would be in the total boot business versus how you planned them this year. I understand all that. I have no issue with that. I'm just trying to understand the question I asked.

Tom George - *Deckers Outdoor Corporation - CFO*

It's about 25%, Sam, roughly.

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

But if it's 20%-something of your total business, how can it be -- of the total UGG business, how can it be 25% of the boot business, when you have slippers and all these other things in there -- sneakers, and so on and so forth?

Connie Rishwain - *Deckers Outdoor Corporation - President, UGG Australia and Tsubo*

It's 25% of the women's business.

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

He's asking percent of total footwear.

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

Boots.

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

Oh, no.

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

A percent of the total boot business. Not of slippers, not of sneakers. Boots.

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

I would say to you it's probably around 10% to 15%, and that's about where we want it to be, given where we are. Just so you understand, over the last year the mix of classics has really changed. We continue to drive our core Classic business down from roughly a third to below 30%. And that drop in core classics we have made up for by the growth of specialty Classics. Certainly, when you look at the total boot business, we now have to talk about casual boots and weather and fashion. Total women's -- total classics -- all classic for women's in 2014 is up over 6%.

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

All right. Let me follow up with two other things. What is the currency impact on the fourth quarter? Again, Tom, you mentioned it; I think I missed it. You know, as pure currency in the guidance -- in the reduction of the guidance?

Tom George - *Deckers Outdoor Corporation - CFO*

About $7 million of sales. That was in the third quarter. In the fourth quarter it's a similar number and has about a -- close to a 200 basis point impact on the margin relative to our prior guidance.

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

On the op margin or on the gross?

Tom George - *Deckers Outdoor Corporation - CFO*

On the gross margin.

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

Okay. And then, lastly, what was wrong with the product in China? Could just tell us what you did midstream to start correcting that?

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

Yes. You know, we are still learning what is most appealing to the Chinese consumer. I think what we have learned is they like things that are a little bit more -- what's the right word for it -- they like sparkles; they like more colors; things of that sort. And we had come in with the corduroy bow collection, which was a material play but didn't have a lot of excitement and novelty in materials.

We had a grunge collection, which didn't resonate well. So they like things that are a little bit more colorful, and sparkles, and novel. We just didn't have enough of that. So that was the miss for them.

The adjustments that we made going into December is we actually started allocation help from the US. We had some issues with people leaving in the middle of the season over there, so we were down a person.

And we had some systems issues. We had some delays in product getting to stores. So we dug in really quick from a US team and helping out with that team in fixing the store presentation. We sent people over there to help in the visual presentations in the stores.

We got a little bit promotional, but definitely not a lot to hurt the business. We saw a turnaround in December from those efforts. In addition to that, Sam, we are heading over there in two weeks. My whole management team is meeting with the Asia-Pacific team and the China team and really getting under the covers in that business. It's going to be a major focus of ours for the next six months.

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

Thank you.

Operator

Erinn Murphy, Piper Jaffray.

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

Great. Thank you. Good afternoon. I just wanted to clarify something on the 2016 guidance. I think you guys said that for gross margin, it would now be down 30 basis points. I know a big piece of that is FX, but I think on the last call you talked about 40 to 50 basis point gain coming from sheepskin costing.

So can you maybe just help us think about the buckets that growth that difference? Is it entirely FX? Is there some different assumption that you guys are using for closeout or broadening opening price points? That would be helpful.

Tom George - *Deckers Outdoor Corporation - CFO*

Good question, Erinn. And it is almost entirely FX. So on the last call we gave you the element that -- on margins relative to improve sheepskin costs in UGG Pure. And now, with the change in FX, what we thought would have a benefit on the gross margin has now gone negative.

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

Okay. Thank you. So then, I guess, from an FX perspective what should we be using in our models for both the euro and the yen to get to that high single digit for next year from a sales perspective?

Tom George - *Deckers Outdoor Corporation - CFO*

Our modeling is based on the current rates at this point in time.

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

Okay. That's helpful. And just the last question -- from a traffic perspective what you are seeing in the North American stores. Could you maybe just parse out for us how much of the traffic decline you assume was just from a shrinkage of that international shopper -- that international tourist, just with the strengthening dollar?

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

I'd say probably a third of it. You know, the thing about our flagship stores -- Madison Avenue, Hawaii, Woodbury -- those are still a large portion of our total revenue and traffic numbers. And when those get hit in a situation like that, particularly in a store like Hawaii, they have a big impact on the total. So it's probably about a third of our total decline is coming out of those major stores, including Las Vegas, as well.

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

Okay. Thank you, guys. That's helpful. And best of luck.

Operator

Jeff Van Sinderen, B. Riley.

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

Can you talk a little bit about any difference -- if there was a noticeable difference in business trends between some of your major retail partners in terms of the demographics they serve? In other words, obviously you've got different retail partners that kind of serve or cater to different demographics. Did you hear of any differences there?

And then, also, did you hear about any geographic differences in the US sales performance at your retail partners that might have been weather related? Just trying to get a sense of where you feel the weather comparison showed up as toughest in the US?

Connie Rishwain - *Deckers Outdoor Corporation - President, UGG Australia and Tsubo*

Right. For most of our retail partners the stores that were hit the hardest were the West Coast and Hawaii, which doesn't affect some of our retailers, like Dillards, but does affect some of our other retailers. That trend was throughout the fall, and it was similar, as Dave was saying, for our own stores -- you know, Hawaii and the West Coast was probably the softest. And then the Northeast and the Upper Midwest was very strong.

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

A demographic that would stick out?

Connie Rishwain - *Deckers Outdoor Corporation - President, UGG Australia and Tsubo*

Yes, I would say men's was very strong. Women's was definitely strong. Kids was a little soft.

Overall, Internet was very strong. A lot of conversion from our stores -- from our customers that have brick-and-mortar and an Internet site. A lot of conversion from their brick-and-mortar stores to the Internet.

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

Okay. And then just as a follow-up to the discussion on tourism and such, just wondering how we should be -- if you think that was maybe 30% of the impact, how should we think about that going forward? How was that baked into your guidance? Just wondering how you are thinking about that in the whole context of FX, and demand, and so forth?

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

We haven't gotten to the point where we have modeled things out going forward at a store level, but it's a dynamic that we are going to have to deal with. It's hard to say at this point, but we are being conservative with our estimates going forward for next year with regards to our larger flagship stores.

We are seeing that some of those locations are hurt by traffic, but also shopping patterns in the streets. So we are modeling that into our efforts for 2016, but we haven't gotten to that level yet.

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

Okay. Fair enough. Thanks.

Operator

Evren Kopelman, Wells Fargo.

Evren Kopelman - *Wells Fargo Securities, LLC - Analyst*

I had a question about your fourth-quarter revenue guidance. I'm a little confused, because you are the reiterating 10% growth, but obviously there is currency translation pressure on that, which almost means you are expecting better on a constant currency basis after the miss in Q3. Can you talk about your level of confidence? What are the drivers for the expectation for fourth-quarter sales growth?

Tom George - *Deckers Outdoor Corporation - CFO*

Relative to the prior guidance, we see a little bit of improvement from the E-Commerce business as well. That sort of balances out relative to the currency pressure.

Evren Kopelman - *Wells Fargo Securities, LLC - Analyst*

Thank you.

Operator

Laurent Vasilescu, Macquarie.

Laurent Vasilescu - *Macquarie Research - Analyst*

FX appears to be a hot topic these days. Could you remind us what percentage of your quarters from suppliers are done in US dollars or in currencies pegged to the US dollar?

Tom George - *Deckers Outdoor Corporation - CFO*

From our customers relative -- customer orders, right, as opposed to factory orders and that kind of thing?

Laurent Vasilescu - *Macquarie Research - Analyst*

Yes, correct.

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

Our international business is about 33% to 35% of our business. A good two-thirds of Europe, probably, is in local currency. A good amount of the business is in the pound, and a faster-growing amount of business is in the euro -- not only our Benelux business, but now that we are direct in Germany, that's had a big impact.

And then another big region of the world is Asia. And obviously, China is big; but Japan is even bigger, and Japanese currency has moved significantly. Japan and China run sort of neck-and-neck in terms of equal size within the market. And those are located -- all of Asia other than some of the distributor sales, which are pretty modest, are in local currencies.

Laurent Vasilescu - *Macquarie Research - Analyst*

Okay. Great. And a quick follow-up on store comps. I think in late October it was mentioned that the third-quarter comp could be guided down to negative 0.8, suggesting to me that the store comp was better in October, when guidance was given. So I'm trying to reconcile how the quarter played out in terms of the comp.

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

To segment it by market -- what happened in North America is that comp shifted to online from a replenishment perspective. So when the winter weather started getting colder, classics business shifted to online. But we have made up that business online. Where we really got hurt was in China, which -- we didn't foresee those challenges coming at the time we made that assumption into the business.

Laurent Vasilescu - *Macquarie Research - Analyst*

Okay. Thank you. And then, lastly, I think in the prepared remarks you outlined that you are valuing the store openings for FY16. Can you tell us what the percentage of stores are profitable today? And would you possibly entertain rightsizing some locations next year -- fiscal year?

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

I don't have the exact number in front of me as a percentage of the mix, but profitable -- virtually all are profitable. It was a couple of non-UGG stores that were in the mix right now.

So at the moment we are going through a bit of a retail rationalization exercise by market and by channel. I don't foresee us closing any at this moment, but it's still early in our assumptions. But we are going through the exercise of making sure that each one of these from a lease perspective, from a return-on-profit perspective still fit our threshold for acceptable profit.

Laurent Vasilescu - *Macquarie Research - Analyst*

Okay. Great. Thanks. Best of luck.

Operator

Corinna Van Der Ghinst, Citi.

Corinna Van Der Ghinst - *Citigroup - Analyst*

Good afternoon. My question was also on the moderated pace of new store openings. Presumably, we will get more details in June, but how many outlets could you potentially open in the US and also internationally over the longer-term?

Does this change -- in retail growth, combined with some of the macro headwinds that you guys highlighted this quarter -- does that impact how you are thinking about your potential for international growth over the next few years?

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

If you think about -- so take Europe for example. We've been cautious and conservative in that market, so we haven't had a lot of growth planned in. We do have an outlet store planned for opening next fiscal year in that market, but that's it.

Asia-Pacific -- Japan is still a healthy, strong, positive growth market with a lot of upside there. So both concepts and outlets have pretty significant opportunities for us. China is the one where we are taking a deeper look. And what we are looking at right now is potentially shifting some of our own store opening plans to partner stores.

We opened 18 partner stores last year, and those have been off to a very solid start. And our partners are actually coming back looking for more stores for next year. So that's a healthy opportunity for us to shift some of the onus of that business to the partners.

In North America there is still tremendous opportunity in outlets. What is exciting about our outlets is we are selling a lot of what we would call full-priced product now in our outlets. We have a high demand for product in those outlets, and we don't have a lot of price resistance.

So it's a very healthy business from a margin perspective. We see pretty significant opportunity in that channel to continue to drive positive sales growth and profit. So I don't have an exact number yet, but there's a number of still A locations and top B locations throughout the country that we are taking a significant look at.

Corinna Van Der Ghinst - *Citigroup - Analyst*

Okay. Thank you. And then should we expect the pace of share repurchases to start accelerating as we get into calendar 2015, given the new authorization?

Tom George - *Deckers Outdoor Corporation - CFO*

Well, certainly, everything else being equal, with a bigger authorization that certainly could happen. We really can't comment on the timing, and price, and whatnot of share repurchases. But obviously we are very pleased that the Board did authorize an additional $200 million.

Corinna Van Der Ghinst - *Citigroup - Analyst*

Thank you.

Operator

Eric Tracy, Janney Capital Markets.

Eric Tracy - *Janney Capital Markets - Analyst*

I guess if I could start with DTC -- I know we have gone through this at length, but just as we step back sort of strategically, again, in the future sort of allocation of capital to new stores -- I understand internationally going to partner doors, but just relative to the E-Comm business, seemingly that's where the consumer continues to migrate.

Maybe just, again, talk about the investment spend, the SG&A spend. I know you got a little bit more tactical in the quarter, but is that a kind of longer-term thing we should be thinking about?

And then, again, as it relates to your wholesale partners, are you all at this point somewhat more channel-agnostic? And why don't you just go where the consumer takes you? Or still doing the best to optimize the wholesale business while you see the DTC accelerate?

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

This all goes back to our high-level Omni-Channel strategy. So if you think about the channels that we do business in -- the brick-and-mortar, E-Commerce, and wholesale -- they all play an important, significant role in the consumer experience and shopping behavior.

Our goal is to give them the most flexibility to shop between those channels based off their preference. We still think it's very important, based on the tactile nature of UGG and the diversification focus that we are putting into this brand, to be able to have stores that showcase that. And people can still go to the stores to experience the full breadth and experience of that brand.

If they choose to then shop online, that's fine. If they choose to then shop in wholesale, that's fine. We are setting up our systems, and our teams, and our product assortments to be ready for that. With regards to continuing to open stores, it is still a significant growth driver for us. We don't see the majority of that business shifting online. We still think people are going to want to go to a store, and we still think that it's important to have that experience.

Particularly with some of the omni-channel capabilities we are putting in place with Infinite UGG, retail inventory online, click and collect, the stores are just changing in their strategic role in the business. So it's not a place where you go to just purchase your classics anymore; you can do that online. But if you want to see the breadth of the line; you want to talk to a sales representative and interact with the full product and brand experience, that's where you are going to go. And we still think that's an important part of our Omni-Channel strategy.

Connie Rishwain - *Deckers Outdoor Corporation - President, UGG Australia and Tsubo*

Right. And with our wholesale partners, the store business is still very, very critical. And we are really excited about opportunities with presentation and cross-merchandising between loungewear. We had a lot of that this year, especially at Nordstrom, where we had shelves in the loungewear department and kiosks throughout the store.

So our presence in our wholesale partner stores is very critical. They are seeing a shift to online as well, but that doesn't diminish the importance of our business in-store.

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

And I would just add, further to that -- we are obviously looking at the mix going forward of the business coming out of E-Comm versus stores. And I think that was one -- if you didn't understand that in the script, that is something that we got surprised by this past quarter is how dramatic some of the consumers are shifting to online. We are addressing that in our plans going forward for sure.

Eric Tracy - *Janney Capital Markets - Analyst*

Okay. And then just a follow-up for you, Dave, in terms of, again, the sort of tactically from an SG&A perspective cutting back. Was that really just a 3Q sort of event? Or as we think about going forward, is it really just, hey, we are going to flex depending on sort of what the traffic and the trends look like?

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

Yes. The Q3 reduction in OpEx earnings was just tightening our belt and being ready in the stores for the continued traffic decline -- so making sure that we are more efficient in our stores. But going forward, from an SG&A trends perspective, we are going to continue to do that.

We've done that in our new store model with regards to capital expenditure and operating model. But also, I think you are going to see that impact in a place like China, where we think we can save on SG&A and capital and have some of the partners do the business for us.

Eric Tracy - *Janney Capital Markets - Analyst*

Okay. Perfect. Thank you guys so much. Best of luck.

Operator

Corinna Freedman, BB&T Capital Markets.

Corinna Freedman - *BB&T Capital Markets - Analyst*

I just wanted to unpack the SG&A guidance for fiscal 2016 and how we get to that 40 basis points of leverage. Does the shortfall in revenue change the way -- or your philosophy towards brand marketing? And is that where we might see some savings for next year?

Tom George - *Deckers Outdoor Corporation - CFO*

Not in marketing. We are going to evaluate our marketing, as we talked about on the call. We will consider doing some shifting around and reallocation, but it's not in marketing.

It's directionally fewer company-owned retail stores and partner stores. There's really not much SG&A associated with that. This year there was some one-time items that won't recur next year -- i.e., some reorganization costs and the transaction costs related to the Germany conversion.

The only good thing about FX is it does reduce your operating expenses in those local currencies. So that will help next year. We are gaining some more operating efficiencies around the supply chain as well as others we are seeing and anticipating for our business transformation effort. So that's what's going to be driving leverage next year.

Corinna Freedman - *BB&T Capital Markets - Analyst*

Okay. And if you guys could just elaborate on how the outlets performed relative to the full-priced stores and relative to that overall negative 7% comp?

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

Yes. The outlets had a better comp than concepts, generally speaking; and the other important piece of that was that our margins were better in outlets than they have been in the past. And that's directly associated to our SMU strategy and putting some of our core classic traditional product in those at full price.

Corinna Freedman - *BB&T Capital Markets - Analyst*

Okay. And then, Connie, when do we anniversary the price reductions on some of the fashion product? How much longer are we going to see that impact going forward?

Connie Rishwain - *Deckers Outdoor Corporation - President, UGG Australia and Tsubo*

So we really rolled that out for fall 2014, and so our pricing will be similar for fall 2015.

Corinna Freedman - *BB&T Capital Markets - Analyst*

Great. That's all for me. Thank you.

Operator

Danielle McCoy, Wunderlich Securities.

Danielle McCoy - *Wunderlich Securities - Analyst*

I guess just if we could go back to gross margin -- 180 basis points expansion during the quarter -- is there any way you can kind of break that out between benefit from UGG Pure, increased Direct-to-Consumer, and kind of the negative impact from FX?

Tom George - *Deckers Outdoor Corporation - CFO*

Yes. I would say there is also the impact of having more Direct-to-Consumer relative to a year ago, as well. So really the FX impact pretty much offset the improvement we saw because of sheepskin cost and a higher penetration of UGG Pure. So that was close to a wash.

We had a positive impact on margins relative to fewer closeouts than a year ago. So that helped -- fewer closeouts not only in volume, but improved margins on our closeout.

Germany -- that was a lift as well. Then we talked about the Direct-to-Consumer; that was about 50 basis points of improvement, because we had the higher content at Direct-to-Consumer at better margins. So a lot of puts and takes, but it did end up with 180 basis points of improvement.

Danielle McCoy - *Wunderlich Securities - Analyst*

Okay. And I'm not sure if I heard correctly -- the 200 basis points of FX impact is expected in the fourth quarter?

Tom George - *Deckers Outdoor Corporation - CFO*

So there will -- you are right. Additionally, for our guidance for the March quarter, because of FX roughly at the same sales impact number -- around $7 million -- that has a direct negative margin impact. That's going to reduce our gross margin expectations by about 200 basis points in that quarter.

Danielle McCoy - *Wunderlich Securities - Analyst*

Okay. And then can you just talk about inventories a little bit more specifically with Sanuk?

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

A couple of things going on there. First, they pre-booked their spring business at a higher rate than they did a year ago. So they are bringing in their inventory sooner.

There was some concerns with the port strike that was going on that they wouldn't get inventory in time for reorders, so they brought that in earlier, as well. They are expected to have a good March quarter, so they need inventory to service that sales increase. And they do have a much broader product assortment now that they are broadening their offering for women as well as broader distribution as well.

Danielle McCoy - *Wunderlich Securities - Analyst*

Right. Great. Thanks, guys.

Operator

Chris Svezia, Susquehanna Financial Group.

Chris Svezia - *Susquehanna Financial Group - Analyst*

First, I think, Dave, you mentioned a comment about increasing average selling prices in certain either categories or products. Could you clarify what that is, exactly?

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

Yes, it's -- well, what we are planning for fall 2015 is elevated price points in specialty classics through some SMUs that we are developing for our DTC channel, and then a higher mix of the casual boots and the fashion and weather product that will impact the total AUR.

Chris Svezia - *Susquehanna Financial Group - Analyst*

Okay. So just mix of casual and weather product will automatically increase the AUR also -- you're not increasing AUR in those?

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

No. Those have more to do with mix. Specialty classics we will be increasing prices on, but they will demand it on design.

Chris Svezia - *Susquehanna Financial Group - Analyst*

Okay. But that's in DTC specifically, not in wholesale?

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

Correct.

Chris Svezia - *Susquehanna Financial Group - Analyst*

Okay.

Connie Rishwain - *Deckers Outdoor Corporation - President, UGG Australia and Tsubo*

I'd say it would affect wholesale as well as they convert more and more. The mix will affect wholesale as well.

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

Yes.

Chris Svezia - *Susquehanna Financial Group - Analyst*

Okay. I got it. Okay. And then the 25% -- I think you made the comment of casual and cold-weather product. Is that for 2015? In other words, calendar 2015 for the most part; what was it for 2014? Was it 15%?

Connie Rishwain - *Deckers Outdoor Corporation - President, UGG Australia and Tsubo*

Let's see. It was about 15% to 16%.

Chris Svezia - *Susquehanna Financial Group - Analyst*

Okay. All right. Got it.

And then just one clarifying point here: the classic business -- when you guys think about it -- take China out of the equation for a moment. But at sort of US wholesale, it underperformed, you felt like either A, from a marketing perspective; a demand perspective; whether some of it was attributed to weather; whether some of it was attributed to the fact that February was so strong it might have pulled some of that demand.

How are you going to kind of manage that fall process as you think about fall 2016? Are you feeling like retailers are going to want you to hold more inventory, or more at-once business? I'm just curious how you think about that.

Connie Rishwain - *Deckers Outdoor Corporation - President, UGG Australia and Tsubo*

We historically do stock classics for our retailers in the core colors. And we historically stock slippers as well. I think really they were happy overall with the performance of classics. It did sell double digits.

It was really tough to make up. As we were saying, the Black Friday week and the first couple of weeks of December were just softer than last year, but they still performed at retail. But we couldn't -- they couldn't necessarily make up the dollars in those last three weeks of December.

But overall for the year classics were up. It was just for the quarter they were down. And that was really due to a few soft weeks compared to the prior year. But still, I must emphasize: it really performed at double digits every week in retail sell-through.

There could be more, yes -- there could be more -- I was leading to your question. There could be more at-once business next year. They plan their pre-book down in the core, and we'll have inventory for those at-once orders.

Chris Svezia - *Susquehanna Financial Group - Analyst*

Okay. Do you expect, Connie, as you go into next year, the classic business -- is that expected from a pre-book and order backlog perspective at US wholesale -- is that expected to be up overall? Or no, based on this sort of new dynamic -- what's happening in business?

Connie Rishwain - *Deckers Outdoor Corporation - President, UGG Australia and Tsubo*

We've been moving people from core to specialty for the last few years. And we saw a shift from core to specialty. We will continue to do that. So the core pre-book may go down. I think specialty will go up; and then, of course, casual boots and weather will go up.

Chris Svezia - *Susquehanna Financial Group - Analyst*

Okay. That's all I have. Thank you.

Operator

And that does conclude today's question-and-answer session. Mr. Martinez, at this time I will go ahead and turn the conference back over to you for any additional or closing remarks.

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

Well, thank you all for joining us. Let me just reiterate that it was a record quarter for this Company, and very proud of the adjustments that we have made -- particularly in this very dynamic consumer environment, with all the parts all moving, including FX now, which is a whole other conversation.

I'd say another thing: as we look at our UGG business, we have more consumers than ever accessing more product in more channels with more diversity than ever. And the brand continues to grow, because now we see that consumers want to have their UGG in a variety of different tastes, if you will. And that bodes well for the future. That kind of gives us a much more multidimensional foundation around which to grow the business.

The other piece of this was that it was a business that was done at primarily full margin, which is very important for our retailers. And let me underscore the flexibility of our Omni-Channel strategy, which allows us to analyze trends in the marketplace in a consumer -- a retail brick-and-mortar environment, an E-Comm environment, and a wholesale environment, and move the pieces around to allow us to maximize revenue and maximize profit.

That's a very important thing going forward. I think that kind of flexibility is pretty important. So thank you all. We appreciate your time, and we look forward to talking to you on the next call.

Operator

Ladies and gentlemen, this does conclude today's conference. We thank you for your participation.
