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EDITED TRANSCRIPT

DECK - Q1 2016 Deckers Outdoor Corp Earnings Call

EVENT DATE/TIME: JULY 30, 2015 / 8:30PM GMT

OVERVIEW:

Co. reported 1Q16 reported revenue of \$213.8m and reported loss per share of \$1.43. Expects FY16 reported revenue (based on current FX rates) to increase 8% and reported EPS to be approx. \$5.15. Expects 2Q16 reported revenue to increase approx. 1% and reported EPS to be \$1.05.



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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and thank you for standing by. Welcome to the Deckers Brands first quarter FY16 earnings conference call.

(Operator Instructions)

I would like to remind everyone that this conference call is now being recorded. I will now turn the call over to Brendon Frey, Managing Director of ICR. Please go ahead.

Brendon Frey - *Deckers Outdoor Corporation - ICR, Managing Director*

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, which statements are subject to considerable risks and uncertainties. These forward-looking statements are intended to qualify for the Safe Harbor from liability established by the Private Securities Litigation Reform Act of 1995. All statements made on this call, other than statements of historical fact, are forward-looking statements.

These may 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 relate also to the Company's brand strategies, store expansion plans, inventory management systems, and retailer retention policies, as well as the outlook for the Company's market, and the demand for its product. Forward-looking statements made on this call represent our current expectation, and are based on currently available information. Forward-looking statements involve numerous risks and uncertainties that may cause actual results to differ materially from any results predicted, assumed, or implied by the forward-looking statements.



The Company has explained the risks and uncertainties in its SEC filing, including the risk factor section of its annual report on Form 10-K. Given these risks and uncertainties, listeners are cautioned not to place undue reliance on these forward-looking statements. Except as required by law or the listing rules of the New York stock Exchange, the Company expressly disclaims any intent or obligation to update any forward-looking statements, whether to conform such statements to actual results, or to changes in our expectations, or as a result of the availability of new information.

As a reminder, we have posted supplemental information about the [2016] first quarter in a document entitled, First Quarter Fiscal 2016 Commentary. This document is on our corporate website at www.deckers.com. You can access this document by clicking on the investor information tab, and then scrolling down to featured reports heading. With that, I'll turn it over to the Chief Executive Officer and Chair of the Board, Angel Martinez.

Angel Martinez - Deckers Outdoor Corporation - Chairman & CEO

Thanks, Brendon. Good afternoon, everyone, and thank you for joining us today. With me on the call is Dave Powers, President, and Tom George, Chief Financial Officer. Today I'll begin with a high level review of our first quarter results, addressing constant currency growth, with some commentary on brand performance I'll then turn the call over to Dave, who will discuss DTC results and strategic operating initiatives. Then we'll turn it over to Tom, who will provide more details on our financial results on a reported basis, as well as guidance for the Q2 quarter, and for the year.

In our first quarter, our business performed in line with expectations, and we remain on track to achieve full year objectives. On a constant currency basis, revenue was \$221 million, an increase of 4.5% over last year. With the change to our fiscal year end, the first quarter is now our smallest revenue quarter. It's when we sell-through our spring collections, and we start shipping early fall orders, particularly to our international distributors.

We are pleased with the start of the year, and that the results continue to support our long-term strategy of driving diversified revenue growth across our channels, across our brands, and our regions. During the first quarter, each of our brands showcased their most robust and diverse spring collections ever. Our focus has been on further evolving the lifestyle nature of our brands, in order to broaden their commercial appeal, and selectively open new distributions.

Beginning with the UGG brand, as we expected year over year was down primarily due to lower sales from our international distributors, which as we have discussed have lost buying power due to the stronger US dollar. On a constant currency basis, revenue was down 3%. During the quarter, the brand's spring product delivered strong performance, which is a key driver of diversifying the business, and reducing the brand's seasonality. As part of our effort to expand the brand's spring offering, we had a strong year over year growth in our women's spring casuals, and particular strength in sandals.

In men's, our initiatives over the past few years to infuse more innovative features into the product line is proving successful. Sales were fueled by our expanded twin sole offering, and this collection gives men the interchangeable option of UGG pure or leather insoles. Sales were also driven by the introduction of our incredibly lightweight Treadlite collection, which was a new introduction this spring, and that we'll continue to build on in the seasons ahead.

Teva grew 12% in constant currency, and continues to attract new and former consumers to the brand, with its focus on its original sports sandal. This spring the brand sold in a bigger collection of originals, and original derivatives into expanded distribution that includes important lifestyle retailers. Their response has been very positive, with particular excitement generated by the Teva Flatform. On top of this, the derivatives and high profile collaborations have added to the brand's relevancy, with more fashion-conscious consumers and retailers. Our efforts to reposition the brand from an outdoor brand into a lifestyle brand has expanded Teva's potential audience, which is leading to expanded distribution, and increasing the long-term growth prospect for the brand.

Sanuk sales were down 7% in constant currency. These results were in large part due to industry headwinds in the core action sports specialty channel. While we are not pleased with these results, the brand performed well at its national accounts, which includes an expanded door count of department stores and footwear retailers. Our focus has been on growing our national accounts business to bring more diverse consumers into



the franchise. The success this spring with our national accounts positions the brand well for these accounts to continue to devote more open to buy dollars to their growing business with Sanuk.

We also made progress on our long-term strategy to move a higher proportion of the brand into women's. This was due in large part to the growing demand for the Yoga Sling collection. Since its launch just two years ago, Yoga Sling has become a powerful franchise that has elevated the brand's awareness, and expanded the brand's reach into the women's footwear.

HOKA One grew 135% in constant currency. The rapid growth continues, as the brand has grown from a niche brand for ultra marathon runners into a brand for all types of runners. HOKA's spring performance was driven by successful updates of the popular Clifton and Bondi running shoes, both of which are evolving into powerful franchises that consumers are gravitating toward each season. We are extremely excited with how HOKA has penetrated the highly competitive running market in a short period of time. The brand's consumers are fanatical about the products, and the combination of our amazing product targeted marketing efforts, and more mainstream distribution is making HOKA one of the most exciting brands to ever enter the running market.

I'm optimistic about the start to the year, and feel good about how FY16 is shaping up. We currently have good visibility into the upcoming fall and holiday selling season, and we're pleased with how our fall prebook concluded. On top of this, the investments we have made over the past several years to enhance our omni-channel capabilities are creating new opportunities across our brand portfolio.

Each year, we're becoming more sophisticated, and we're reacting more quickly to the market conditions to reach our consumers. The insights we are learning from our omni-channel operation is helping us deliver an improved and consistent consumer experience in our DTC channels, and educate our wholesale partners on the products that our consumers seek. I believe these improved capabilities will not only drive sales, but also drive productivity and margin gains in our operations. We're at an exciting time in our Company's evolution, and I am confident that we can capitalize on the opportunities that exist in front of us. With that, I'll now turn the call over to Dave.

Dave Powers - *Deckers Outdoor Corporation - President*

Thanks, Angel. As Angel just mentioned, our business performed in line with expectations, and this result reiterates our confidence in delivering the year. Each of our brands made progress this spring, diversifying their product line, and extending their consumer reach. From a DTC perspective, Q1 DTC sales grew 10.5% in constant currency driven by the new stores we opened, as well as new international country-specific e-commerce sites we launched within the new year.

Total DTC comps for the first quarter were flat. The deceleration in comps was primarily driven by a decrease in traffic in our tourist-driven domestic flagships, in particular to our Madison Avenue, Honolulu, and Las Vegas stores. We believe the pressure we are seeing on traffic from foreign tourism is due to the strength of the US dollar.

We anticipated DTC comps would be more challenging in the first quarter, based on the fact that it's traditionally a busy international tourist period, and that we up against a strong DTC comp a year ago. The pressure on our domestic comps was offset by strong DTC comp gains in both Japan and Europe, while in China the specific merchandise and inventory management initiatives put in place are delivering improved results in company-owned stores.

For the year, we are adjusting our new store opening plans, based on our ongoing efforts to optimize return on sales. The plan is to now add 11 net new stores, down from our initial projection of 16. Three stores planned for Japan will now be pop-ups versus permanent stores, and we no longer plan to open another store in Hong Kong, and we now have included an additional store closure.

The fundamentals of our business are strong, and we are diligently working on five key areas of focus to drive sustained growth and improved operating margin. They are, driving profitable growth in our DTC channels, evolving the core classics business, balancing our global pricing, planning our inventories to strategically drive our fill-in business, and improving our operating efficiencies and generating leverage.

Beginning first with our focus on driving profitable growth in our DTC channel. Despite the flat comp in Q1, we feel confident in achieving our low single-digit positive comp target for the year. As a reminder, Q1 is our smallest DTC quarter, in which we do less than 10% of our DTC sales for the year, and it's also when we faced big year-over-year pressure from the stronger dollar. Looking forward, I expect DTC comps to improve due to the following. We have retail-driven product launches in our concept stores and targeted inventory investments for our outlet stores, that I believe will drive traffic and conversion. Our international DTC comps continue to be strong, and have momentum for us to build on in both e-commerce and brick and mortar. We have adjusted our assortments to drive increases in AUR, and we are enhancing our digital marketing strategy to be more effective and targeted at driving store and site traffic, by leveraging our CRM and consumer insights data.

From an operating profit perspective, we are still focused on driving an improved return on sales going forward. We set our stores to a four-wall operating margin target to returns of at least 20%. And with that said, in the last 12 months, our comp stores have returned an average for four-wall margin of 26%. This is high by industry standards, and we are committed to continuing to drive these results.

For stores that are below our threshold, our regional teams have action plans in place to boost their performance. Our retail model is very flexible. We continue to evaluate the appropriate number of stores in our fleet, and we will take actions necessary to maintain our store level of profitability. Our total DTC operating profit remains very healthy, and is a key driver of Company profit.

In the last 12 months, DTC operating profit has been well above 20%. In addition, our DTC channel is what has allowed us to evolve the lifestyle nature of our brand, and is one of the reasons we are seeing success in diversifying our product line. The channel exposes consumers to the full line of the brand, and has given us data to share with wholesale customers to make the strategic shift in our pre-book process.

Our second area of focus is to grow by evolving the classics business. As we have talked about before, this fall and holiday we are launching two new classic-inspired collections, primarily in our DTC channels. These collections are based on consumer insights and feedback, that I am confident will add to the enduring popularity of the classic franchise, and engineer its next phase of growth in the years ahead. The first collection is a premium sophisticated classic collection that will launch early this fall, and be a centerpiece of our fall marketing campaign.

Our second collection is our new classic slim, which will launch in early November, and be featured in our holiday campaign. We now have a core, slim, and premium silhouette that will allow us to grow our classic franchise. We think of these collections like a denim company would think of a jeans offering, complete with different fits and finishes to serve a variety of occasions and consumers. These collections, both of which were incorporated in the full year guidance, will give current consumers a reason to purchase another classic, as well as bring new consumers into the classic franchise. In addition to these new product launches, we will continue to focus on our specialty and core classics, with targeted marketing and social campaigns throughout the fall and holiday season.

Our third area of focus is balancing our global pricing. As we outlined in our last call, we began strategically evaluating our UGG pricing globally. And looking at the brand's premium positioning in our international markets, we have made some adjustments as a result. In China, the brand sells at a significant premium, compared to other countries. After careful evaluation, we are selectively lowering prices in China on some core styles, to provide better price balance worldwide, and minimize the price difference between our regions, while at the time, allowing more Chinese consumers to experience the full UGG brand experience at retail and e-commerce.

This new pricing program will go into effect in early fall to help create more value in our core product, and better differentiate our core from our specialty classics. In Europe, we are slightly raising prices on certain styles in select markets to reflect the UGG brand's use of premium quality materials that command a higher brand position, compared to other competing footwear brands. While we weren't prepared to speak publicly about the price changes in our last call, we did factor in the adjustments when we built our full year sales and margin guidance.

Our fourth area of focus is to be more strategic in how we will drive fill-in product in the marketplace. As part of working with our wholesalers to shift their order book, we have taken strategic inventory positions in core styles to meet in-season demand for classics. In addition, based on missed opportunities from last Q3, we are better positioned to meet demand for top selling styles that we ran out of last year, and we will have enhanced marketing to support these styles. These positions give us more leverage to drive sales, and to take advantage of the opportunity as they arrive.

Finally, we are focused on improving operating efficiencies and generating leverage. Our organization remains committed to growth and increasing our profitability, and we are making strategic adjustments to our business model to create operating efficiencies this year and beyond. Our teams are focusing on developing key franchise products that drive the most volume, reduce our product assortment and development costs, create efficiencies in our supply chain, and improve our gross margin structure. David Lafitte, our COO and his team are working closely with the brands to identify potential savings in cost structure and processes to create operating expense savings. Going forward, we are reducing SKU count and fine-tuning performance metrics and product development to ensure that we are as efficient as possible in how we bring our product to market.

In addition to the key strategies I've just mentioned, there are some key product and brand wins that we will continue to build on that will positively impact the back half of the year. Beginning with UGG, as Angel said, our spring products sold through well. Our results from the quarter underscore that consumers are turning to the brand for its entire line of footwear. This bodes well for the growing momentum in our non-core lines, as we head into the fall and holiday season. This fall we have exciting updates to our popular non-core lines that include an expanded collection of weather and casual boots, as well as specialty classics and slipper collections. In addition to these updates, our plans for our classics franchise and improved inventory position, give me confidence in our ability to drive sales for our DTC channels, and fill-in orders for our wholesale accounts.

For Teva, the focus on the originals have created an identity and a purpose for the brand that is resonating with consumers globally. The expanded distribution is helping to grow the brand's domestic footprint, which includes specialty retailers and national accounts like Urban Outfitters, Nordstrom, Gap and Madewell. The new direction is also benefiting Teva's international growth, where the brand is focusing on key cities like London, Paris, Tokyo and Seoul. The brand's success at retail this spring provides our teams with great support, as they sit down with accounts to preview spring 2016. Teva's collection next spring includes updates to the originals and derivatives like the Flatform, as well as an expanded sandal offering, all of which will feature more premium materials that are both more fashionable and functional.

For Sanuk, their penetration of national retailers like Tilly's, Journeys and Dillards is providing a great foundation for sustainable growth. Our growth with our national accounts is also rehaping the brand's order flow, as these accounts take spring product earlier than core independents, which typically schedules shipments closer to season. This means that the March quarter, our Q4 is becoming more meaningful to Sanuk, as that is when we will ship the majority of the brand's order book. Our strategy remains, growing Sanuk's wholesale footprint with department stores and retailers, and continuing to capture an increasing proportion of women's sales. For next spring, Sanuk has important updates to the brand's popular Yoga Sling, causal canvas, and iconic sidewalk surfer collection that will be sold at much wider distribution, and expose more consumers to the brand.

In spring 2016, HOKA will offer its most complete footwear collection that caters to a broader audience of runners and active enthusiasts. The line includes updates to key franchises, as well as new styles that feature lower profiles, and new collections like track spike, and racing shoes. HOKA has solidified itself as a competitive running brand, and this fall will have sponsored athletes in world's track and field championships. The brand is also beginning to expand beyond running, through their recent launch of a mountain trekking and hiking collection. The enthusiasm for the brand is growing every day, and with its legitimacy and authenticity established within the running community, the brand is well-positioned to capitalize on its tremendous opportunities.

For the Ahnu brand, we are excited about the yoga sport collection, which we are beginning to deliver now. The collection is launching at Dillard's, where the brand has enjoyed success with its popular line of hiking boots. We are also leveraging the HOKA brand's existing relationship with specialty running accounts to launch yoga sport in that channel. We feel that the yoga sport collection fulfills the growing desire consumers have for active lifestyle products that support health and wellness.

As we head into our profitable quarters, the current health of our all of our brands, our improving product line, and our organizational focus gives me great confidence in our ability to drive healthy growth, and profit for FY16 and beyond. With that, I will now turn it over to Tom George.

Tom George - Deckers Outdoor Corporation - CFO

Good afternoon, everyone. Before I begin, I would like to remind everyone that we posted a commentary on the quarterly financials under the Investor information tab on our corporate website. In summary, our sales results were in line with expectations, and we beat our EPS estimates, mainly due to timing around operating expenses. Now starting with revenue on a constant currency basis for the quarter, revenue increased 4.5% to \$221 million. On a reported basis, revenue increased by 1% to \$213.8 million. Detailing out revenue by brand for the quarter, UGG was in line

with our expectations. Sanuk was below last year and lower than expected, due to industry headwinds in the core action sport specialty channel, and Teva and HOKA performed above our expectations, as both brands continue to expand their reach.

Gross margin was 40.5% in the first quarter, compared to 41% last year. The change in gross margin can be attributed to FX headwinds from the strengthening of the US dollar, which was worth 200 basis points. This was partially offset by a higher proportion of DTC sales.

SG&A as a percent of sales was 70.3%, compared to 64.9% a year ago. The year-over-year increase is due to additional retail stores opened this year versus last, increased marketing expense, Germany operating expenses, and expenses related to transitioning to our new distribution center. These expenses were consistent with our plan, and we remain on track to deliver leverage in FY16 between 10 and 20 basis points.

For the quarter, we reported a loss per share of \$1.43, versus a loss of \$1.07 a year ago, and better than our guidance of a loss of \$1.52 per share. The difference between our actual results and guidance was due to timing around operating expenses that shifted between quarters.

Regarding share repurchase, we repurchased approximately 625,000 shares for \$45 million at an average purchase price of \$72.69. As of June 30, 2015, we had \$126.7 million remaining under the \$200 million stock repurchase program we announced in January 2015.

One additional item before I move on to our outlook, we recently reached an agreement to sell the MOZO brand. The proceeds from the sale will be recorded in our Q2 results. The decision to seek strategic alternatives for MOZO and TSUBO is consistent with our philosophy of selling or shuttering brands within our portfolio that do not meet acceptable, financial and operational hurdles rates over time.

Now moving to our outlook, based on our first quarter results and current visibility, we still expect FY16 constant currency revenues to increase approximately 10.5% over FY15 levels. Based on current foreign exchange rates, we still expect reported revenues to increase 8%. For the full year, our forecast is still based on gross margins of approximately 48%, and SG&A as a percentage of sales of 35.8%.

For the full year, constant currency EPS is projected to be approximately \$5.68, which now accounts for the share repurchase in Q1, representing an increase of 22%. On a reported basis, earnings per share is now projected to be approximately \$5.15, adjusting for the share repurchase in Q1, representing an increase of 10.5% over FY15 earnings per share of \$4.66.

For the second quarter on a reported basis, we expect revenue to increase approximately 1%, and earnings per share of \$1.05. This would represent on a constant currency basis revenue growth of 5%, and earnings per share growth of 20%. Also as a reminder, last year our Q2 results included shipments originally scheduled for Q3 of approximately \$15 million. If you adjust for this early shipment as well as the currency movement, a more equivalent year over year comparison would equate to 9% revenue growth. To help put the back half sales in perspective, we currently see reported revenue in Q3, up approximately 9%, and Q4 revenue, up approximately 18% on a year-over-year basis.

One final note, in terms of our input costs and the impact on gross margin, we normally provide sheep skin pricing on our Q2 earnings call in October, after we have concluded our contract negotiations. But early indications are that sheep skin pricing continues to remain favorable, compared to the contracts we entered into last year. We believe our use of UGG pure continues to play a significant part in reducing demand and stabilizing prices in the sheep skin market.

If this trend continues as we expect it to, then we should be in a position to announce continued year over year sheep skin unit cost reductions, which would then benefit our FY17 margins. We will provide a more detailed update on our October call. With that, I will now turn it back over to Angel for his closing comments.

Angel Martinez - Deckers Outdoor Corporation - Chairman & CEO

Thanks, Tom, and thanks to everyone for joining us today. We're confident that the infrastructure we've invested in over the past several years, puts in place the foundation for us to capitalize on the many near-term and long-term opportunities that we believe exist for our brand portfolio. We're excited about how each brand is evolving and bringing product to market. And we feel good about our ability to achieve the sales and profitability targets we've established for FY16. With that operator, we're ready now to take questions.



QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question today is coming from Omar Saad with Evercore ISI.

Omar Saad - Evercore ISI - Analyst

Hey, thanks. A couple questions, guys, good afternoon. I guess my first question is some of the commentary around DTC. You guys sound really -- almost like there's a step function change in your confidence in that business, not just from an operation standpoint, profitability standpoint, but what it's doing for the brands from a bigger picture. Dave, maybe you could -- and I don't know if you both elaborate on what you're seeing, and where we should expect this to go over the coming quarters?

Dave Powers - Deckers Outdoor Corporation - President

Yes, Omar, it's Dave. I think what you're hearing is all the investments that we've made over the last couple years, we're starting to see those pay off. The work we've done operationally, the work we've done merchandising, inventory management, building leadership team globally. I think the fact that our global DTC operating margin is in the mid-20% reflects our confidence in this business going forward.

We still see upside in e-commerce globally, we still see growth, healthy profitability in our store portfolio globally. We're adjusting our mix, as we've spoken about on our last calls, with regards to outlets versus concept, size of store, et cetera. But a lot of the work that we've done, we're starting to see the positive impacts of that. And I think, the other thing that you're going to see, coming into the third quarter, back half of the year is the impact of us being able to take product to market faster, with the introduction of some of this premium classics and the slim classics, those are DTC initiatives that we are bringing to market fast. And those are capabilities that we're continuing to build into our business model to allow us to react to the marketplace faster.

Angel Martinez - Deckers Outdoor Corporation - Chairman & CEO

Yes, Omar, this is Angel. The other thing I think I'd like to point out is that, is what we've -- the changes in our business that have occurred over, really the last two to three years have been substantial, and I think you know that. You've been following. We were strictly a wholesale company. We had a couple stores. We didn't have an infrastructure to support the rollout of DTC the way we have now.

I think, originally, there were just a handful of people, about 10 people running our retail business. So it's actually a significant shift. It would take a lot of companies five or six years to do this. We've managed to do this in a much shorter period of time. Very proud of that.

Tom George - Deckers Outdoor Corporation - CFO

And I think -- we're very focused on profitability. And if you look at the trailing 12 months of our comp store base, the profitability of those four walls, profitability of the stores is again in the mid-20%. So there's a lot of room for continuing to build in that business. And I have a lot of confidence in the team. The teams are working together as one DTC team. We're getting leverage from those teams, and the benefits that we're getting between stores and e-commerce, both on a merchandising and inventory management, and a go to market perspective, are pretty impressive and gives me a lot of confidence.



Omar Saad - *Evercore ISI - Analyst*

Okay. And then, one follow-up along those lines, can you talk about, on the other side of the equation the wholesale business and your partners there how -- as you turn, as you get the brands into newer categories and bring more of a lifestyle perspective, again driven by DTC and sharing some of that with wholesale partners, can you talk about the reaction of your wholesale partners? Are they embracing this, are certain types of channels being -- are more open to a lot of these changes that are going on? Again, a lot of this coming from the DTC.

Dave Powers - *Deckers Outdoor Corporation - President*

Yes, I think you know one of the things that I have been really focused on in the last year is creating an omni-channel organization, and the DTC team is working closely with the wholesale teams. And that's something that our Deckers culture allows to happen very easily. And so, the feedback that we get from our stores is quickly fed into the wholesale channel, it's fed into the accounts. And we have very strong relationships as you know with our wholesale vendors in North America and Europe.

And they are jumping to the table with more open to buy for new categories, particularly in spring. We had great sell through in extensions beyond the core classic, in the causal shoes and sandals this spring. And so, they're seeing a formula of success that helps diversify our brand in their stores, and also gives them more year-round business as well. We've had great success with the lounge category extension in some of our key accounts in North America.

When it comes to segmenting our stores versus wholesale locations, we're doing that selectively. We are doing that in partnership with the wholesale locations. And one of the things that we're really focused on, is better segmenting our line, between our DTC channels and our wholesale channels, so there's a reason to shop both.

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

And the other thing that really indicates a lot of strength with the brands from a consumer point of view, the consumer-centric approach that we have taken, allows us to be more reactive to what's happening in the market. And I think our wholesale customers are seeing that, they appreciate that. They realize that the consumer is moving very fast today, and is not in the mood to wait around for their needs to be met. Because everyone is a click away as much as anything else, not to mention the nature of brands today, requires that consumers be in the center. And I think, what our wholesale partners are seeing is that our brands are getting stronger, getting more relevant, and adapting quicker to the trends that are emerging in the marketplace.

Dave Powers - *Deckers Outdoor Corporation - President*

Yes, I also think that they're seeing the benefit of a strong DTC business for all of our brands, and how that also benefits the wholesale business.

Omar Saad - *Evercore ISI - Analyst*

Thanks for all the color, guys, appreciate it.

Dave Powers - *Deckers Outdoor Corporation - President*

Thanks, Omar.

Operator

Randy Konik, Jefferies LLC.



Randy Konik - *Jefferies LLC - Analyst*

Thanks a lot. I guess, Dave a question for you on the big picture around the premium core and kind of slim strategy around the core, around classic. How should we be thinking about different SKU counts across the different platforms? How do you think about the distribution angle around that? And what do you really hope to accomplish around that? Should we see a changing trend or a re-acceleration in classic, what are you trying to hope there?

And then, I guess what I'm also questioning. I was very -- I liked your comments around operational initiatives, and just your commitment to leverage, and you guys going to get that leverage this year. Just want to try and get some color on, is there any kind of leverage or SG&A targets we should be thinking about over the coming years? And if not, what areas of the operational initiatives, do you think would be most impactful for us to kind of focus in on to generate better margins over the long-term for the business? Thanks.

Dave Powers - *Deckers Outdoor Corporation - President*

Thanks, Randy. So just think about the classic franchise. I am super excited about the launch of this premium product that's coming out the end of next week, and then the slim product is coming out in holiday. I think our consumers going to be thrilled to see the evolution of our classics style that they've known and loved for years, evolving into a more sophisticated silhouette, and also evolving into more premium materials. And I just think it extends that franchise into new consumers, and allows us to segment the product differently.

The launch of the premium collection next week is a DTC launch. And I think we can do more of those going forward, where we launch new innovative product in our DTC channels first. Get a read on them and test them. And then we'll have a better understanding on how that will work for the consumer in the wholesale marketplace. So it really allows us to extend, grow, and reach that franchise into new channels and new consumers. And it's something that I think is going to be a continued focus for us, as we look take this classic franchise to the next level the next few years.

We are also looking at ways we can evolve the classic style, doing some tests on that with product innovation going into next year. Whether there will be a little bit of cannibalization, there may be in some of the core styles, when we introduce a product like [lux] or the slim. But I think overall it's a plus business for the franchise and for the brand, and I'm super excited about those launches.

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

Regarding your question around operating leverage, we are very focused on our DTC perspective, on creating efficiencies across our fleet of stores, and e-commerce business globally. Looking to where we can share resources across those channels, looking for how we can be more efficient in our stores. I think the fact that our trailing 12 months performance in DTC, our contribution actually over the last 12 months its increased versus the year before despite some of the traffic head winds we've had, speaks to our diligence around leverage and efficiencies in the business.

I can let Tom speak to SG&A targets, but I think David Lafitte and his team are very focused on creating efficiencies that he can speak to, but we're partnering very closely with the operations team and the supply chain team, to find efficiencies in how we bring footwear to market, working closer with our factories, margin opportunities. I'll let David speak to a couple of those if he could. By the way, I neglected to mention that David Lafitte is also in the room with us.

David Lafitte - *Deckers Outdoor Corporation - Chief Operating Officer*

Hi, Randy. This is David Lafitte. So in addition, even simple things we're working on, establishment of a procurement function to make sure we are able to obtain savings in our non-train spend for example. Our product development team has taken up the mantra of being sort of the conscience of the brand, and working closely with the brand to make sure we are minimizing any SKU proliferation, and minimizing drops and adds of SKUs late down the development process.



On the margin side we're working with our sourcing base to probably contract that base a little bit, and ease the administrative burden of managing that group. But we also think we are going to treat these factories as better partners, because we see opportunities for both us and our factory base to improve, and really create a sustainable relationship going forward. So those are a few of the things we're working on among others.

Dave Powers - *Deckers Outdoor Corporation - President*

Yes, one other point I would add on that, Randy, is working with the brand teams over the last four months, we've been very focused on reduction of SKU count proliferation across the line, and really getting the teams focused on developing SKUs that are going to be the most productive for us. Bringing big ideas and big initiatives to market, and really focusing on franchise items in categories versus assortment that can really drive volume for us, and make us much more efficient through the development process as well.

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

And by the way, our wholesale partners are applauding that.

Dave Powers - *Deckers Outdoor Corporation - President*

It's obvious, when you see the product line, there's not a lot of fat in the product line. It's all -- it's now a question of how much -- which of these are going to be biggest volume drivers, versus to having to make some fashion choices, and add another color there, et cetera.

David Lafitte - *Deckers Outdoor Corporation - Chief Operating Officer*

And we could support it with marketing.

Dave Powers - *Deckers Outdoor Corporation - President*

I'd say from a target perspective, we've never before more confident, more comfortable in our ability to gain more and more leverage as the years go by. So we're very comfortable reiterating our targets, relative to a mid-teens operating margin going forward.

Randy Konik - *Jefferies LLC - Analyst*

Very helpful. Thanks, guys.

Operator

Laurent Vasilescu, Macquarie.

Laurent Vasilescu - *Macquarie Research - Analyst*

Good afternoon, and thank you for taking my questions. Can you parse out more the global DTC comp by region. Maybe some color on Japan comp versus the China comp. And then, can you remind us what the percentage of DTC spend is done by tourism in the US?



Tom George - Deckers Outdoor Corporation - CFO

Well, just to speak to the DTC comps. So we're speaking to a total DTC comp going forward. I can tell you in EMEA and Asia-Pacific, the DTC comps are low single-digits, compared to what we have in North America, but at a high level, we said we were flat for the quarter. But there is a very positive trend in North America e-commerce, and then the European Asia Pacific DTC businesses.

Still the challenge that we are seeing with regards to the comp are our tourist locations as we mentioned on the call. That continues to be a head wind of ours that we're dealing with from the FX changes. But we see us being able to comp that business, and return to a more normalized low single-digit comp for total DTC throughout the year.

Angel Martinez - Deckers Outdoor Corporation - Chairman & CEO

I'd say just to add generally speaking, going forward. We still see challenging comps in North America, but we're seeing some improvement in Europe going forward, and we're seeing some continued improvement in Asia-Pacific driven mainly by our Japan business.

Laurent Vasilescu - Macquarie Research - Analyst

Okay, great. And then to have a better understanding of the SKU reduction comments that were in the prepared remarks, can you remind us how many SKUs you have in the UGG brand, and then is that one of the brands that you are going to look to reduce SKU counts. And if so, by how much?

Tom George - Deckers Outdoor Corporation - CFO

I don't have the specific numbers for total SKUs in the UGG brand. I don't want to be that relevant for you anyway. But I would say, generally speaking, across all of our brands, we're targeting roughly about a 20% reduction in SKU count target. The one caveat within UGG though, is we are looking to do more flow more often. So while we'll reduce SKU counts overall, we still need 12 drops of product a month for our DTC business to be able to -- sorry a year -- to be able to chase some of those trends. But overall, for all of the brands, we're starting with a target of about 20% reduction in overall SKUs.

Laurent Vasilescu - Macquarie Research - Analyst

Okay, great. Thank you very much. And then if I can ask one last question. On HOKA, I think last quarter you guys mentioned that that business has a low 40% gross margin. I was curious to know if there's any structural challenge within the athletic space, where it would expect you from getting to a high, 40% gross margin?

Dave Powers - Deckers Outdoor Corporation - President

It just comes down to volume. As [it sits] now, it's 100% wholesale business, primarily wholesale business, it's still in start-up phase, from a production standpoint. So once we get into more volume, you'll see a little bit of expansion opportunities there, and get into the right factories.

David Lafitte - Deckers Outdoor Corporation - Chief Operating Officer

Yes, this is David Lafitte I also think we are looking some ways to value engineer some of the products, which makes sure the product is very solid. But there are certain things, that I think we can improve upon, to take some of the cost out of there as well.



Dave Powers - *Deckers Outdoor Corporation - President*

Also there's a lot of innovation. It's like every time I turn around, there's a new and innovative idea. Whether it's molding or it's materials that are allowing us to redefine what how -- what that road feel is like for that shoe, for that brand. It's very exciting. But of course, some of these innovation also happen to come, at a better price. And so, very excited about that.

I think, one of the things HOKA does, obviously from the beginning, it was visually disruptive. It looked like no other shoe you ever saw. But there was a lot that is invisible, and that's in the design, the engineering, the geometry of the shoe. All of these things are opportunities for us to redefine, what a great running shoe is supposed to be. And we are using new technologies in the development of the product like 3-D printing for example, which is allowing us to take a lot of the effort and energy out of the development cycle, and which also improves our margins. And that's a big advantage.

Laurent Vasilescu - *Macquarie Research - Analyst*

Thank you. Best of luck.

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

Thank you.

Operator

Taposh Bari, Goldman Sachs.

Taposh Bari - *Goldman Sachs - Analyst*

Hey, guys, good afternoon. Dave, I was hoping you could speak more about your decision to slow the number of new stores this year? I think in the past you provided 200 stores as a potential longer term target. I guess, the question is that still on the table? Is it possible? Is it likely? And I guess, ultimately, how do stores tie into what you are seeing in the e-com channel, both in terms of revenues and profits?

Dave Powers - *Deckers Outdoor Corporation - President*

Yes, so good question. The decision to reduce our store count from 16 to 11 this year is based on real estate opportunities, and some of the learnings we had last year with some pop-up tests that we had. So we'll still have 11 openings of owned stores. But in Japan, we found three great locations that we can do as a pop-up to test the geographical -- the geographics of that location, to see if it's in an area that we want to expand into with a full priced owned store. So the economics work great. It allows us to test, and it give us great return on sales in Q3 and Q4. So we are going to take three of those stores and turn them into pop-ups

And the other decision was to hold off on a Hong Kong store that we had planned for this year. We were originally looking at location in Macau that we decided was too risky in the current environment of Hong Kong, and the traffic manners at Macau. But I would say the slowdown from 16 to 11 doesn't impede our ability to get close to that 600 number. We still have an aggressive plan going forward. There's some great store locations next year in the plan, that we're working on now. And so, it really doesn't impede our ability to get to that 200 target.



Angel Martinez - Deckers Outdoor Corporation - Chairman & CEO

And we've always said that our stores must be profitable. We've always driven a business model around our retail operation that really has, I think a very high bar for profitability, as you're seeing with the performance David was talking about earlier. And so, when we come across a scenario that we questioned. At that point, it's probably one we can do without, and that's how we'll continue to look at the portfolio stores.

Taposh Bari - Goldman Sachs - Analyst

And then, the other question I had, maybe for Angel. A lot of excitement around your new product initiatives for the back half. Can you talk your marketing budget this year? I think last year, it was about 6% of sales, and it's obviously crept up over time. I guess, where are you planning marketing this year, and do you ultimately see that line settling out, relative to sales?

Angel Martinez - Deckers Outdoor Corporation - Chairman & CEO

Well, we'll continue to put a lot of emphasis and focus on digital marketing. We're starting to develop a lot of power around our CRM data. One of the advantages of having a DTC function, is that you get to have a direct relationship with your consumer. So that is informing a lot of the product decisions that we're making.

The classic slim, is a great example. That came right from our consumers. And we learned this a while ago, that there was a significant number of women out there, 23.7% I think the number was, who said, that they love UGG, they love the idea of shearling, and sheepskin and comfort and luxury. But they couldn't get past the shape of the product. And this UGG slim is a great answer to that.

I think it opens the door to the -- almost 24% of women, who now don't have a reason to object to the UGG brand, because everybody loves surely what it feel like. There were people objecting to the look of the product. In terms of our overall sort of philosophy about marketing, we're going to continue to drive as best we can, not only a higher marketing spend, but also a much more official marketing spend, which allows us I think to solidify the relationship with the consumer.

Tom George - Deckers Outdoor Corporation - CFO

As a percentage of sales, Taposh, marketing, it's going to be very similar to the prior year, but to Angel's point, it's reallocation and more efficiency.

Dave Powers - Deckers Outdoor Corporation - President

Yes, just to speak that real quick. Yes, one of the things that we are really focused on is creating leverage in the organization and SG&A savings, that we can invest into the brands. And a key area of focus for investment into the brands, is in marketing. We have opportunity internationally for all of our brands, particularly in China. And we have opportunity to invest more in the brands in North America, through some really focused, targeted digital campaigns.

We have a new head of marketing orchestration, who is basically running our digital marketing for all of our brands. Jim Davis, came on the team about six months ago. He is bringing in some incredible capabilities, he is reevaluating our spend by channel and return on investment. He is working with agencies, to make sure are spend is more effective. And we're launching a loyalty program, and a CRM program in the coming months, that is going to allow us to better connect, and be much more targeted with our consumers. And I think you're going to see the benefits for that. It's a healthy investment for the Company.

Taposh Bari - Goldman Sachs - Analyst

Great to hear. Good luck this fall -- winter.

Operator

Corinna Van Der Ghinst, Citi.

Corinna Van Der Ghinst - Citigroup - Analyst

First, I had a follow-up on the low single-digit direct to consumer comp against that you had in Europe this quarter. Aside from FX, can you comment on how you're feeling about the European consumer, now that we've got seven months of the year under our belts, and how you are planning the fall winter business in Europe this year? Are you guys changing anything about the timing of your boot shipments? And is the open to buy shift towards fashion, similar to what we're seeing in the United States?

Tom George - Deckers Outdoor Corporation - CFO

So just to reiterate, so just to clarify one of the things I said earlier. The comp, the DTC comp in Europe was low double-digits, not low single-digits. So just to get that clarified. I think I misspoke on that. Could you just clarify your second question there, Corinna?

Corinna Van Der Ghinst - Citigroup - Analyst

Sure, just if you're seeing any change in the cadence of how you guys -- or the timing of your shipments going into those markets? And then also, we saw a pretty significant shift in the open to buy dollars in the US with retailers shifting more towards fashion products, and away from some of the core classics. Just wondering if you are seeing a similar pattern in Europe?

Dave Powers - Deckers Outdoor Corporation - President

Yes, we're seeing a very similar pattern in Europe, because we orchestrated it that way. And so, the conversation that we've had with wholesalers is based off learnings in Q3, where we missed opportunity in casual boots and weather. We've worked with them closely to adjust their open to buy to be much heavier into that category, so those two categories.

But we still have the opportunity to chase classics business in season. So we're taking an inventory position on classics, and the hope is there, that they will have positive sell-through in casual boots and weather in some of the non-core categories. And then, they'll come back for fill-in the classics business. But the trend that we're seeing, and the timing in Europe is very similar to what we have in North America.

Corinna Van Der Ghinst - Citigroup - Analyst

Okay, great. And then I apologize if I missed this nuance earlier. But can you give us a little color on, where the new premium and slim classics are being picked up at retail so far? Should we see it in your major US accounts come fall, or is it really just being tested in your owned stores and e-commerce at this point?

Angel Martinez - Deckers Outdoor Corporation - Chairman & CEO

Yes, great question. So the premium style, that is actually launching next Thursday. So you'll see that on our site and in our stores only next Thursday. That's pretty much solely a DTC exclusive, which is great. It's going to bring us higher average price points to our line, and also drive traffic to those channels, which we're very excited about. And then, the slim collection is a global launch as well, in DTC. In North America, it will be in select wholesalers such as Dillard's and Nordstrom's. And then in European markets, it will be in key wholesalers as well

Corinna Van Der Ghinst - Citigroup - Analyst

Great. I'm excited to look out for those.

Dave Powers - Deckers Outdoor Corporation - President

Yes, me too.

Operator

Mitch Kummetz, B. Riley.

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

Yes, thanks for taking my questions. First question, just on your sales the cadence of your sales guidance for the balance of the year, up 1% for Q2, then 9%, and 18%. Just trying to get a better understanding of that. I know there were some shifts happening last year that you are anniversarying, and some of that was driven by international. I get that that's changed.

But if I'm not mistaken, your wholesale, your domestic wholesale partners were taking product earlier last year too, as they were buying into sort of transitional product. Is something happening there that's shifting back? I'm a little surprised by that, I guess.

Angel Martinez - Deckers Outdoor Corporation - Chairman & CEO

Okay, Mitch. Yes, let me just clarify a few things, because it's probably going to come up in some later questions. First, the Q2 revenue guidance, that has the biggest currency headwind of all the quarters, and also just to reiterate, last year we had orders shipped in Q2, that were planned for Q3. And this combined with the currency headwinds, really makes a more equivalent Q2 revenue growth of 9%.

And then in terms of just the back half guidance, when you look at the two, the third quarter and the fourth quarter combined. The shift works the other direction on the third quarter. And in addition, our pre booked for Q3 really supports a significant amount of growth.

And we're better positioned from both the marketing and inventory perspective, to mitigate the risk of missing sales and better capitalize on the weather, so especially around the casual boot, and there are classic reorder opportunities as well. So does that help clarify some of that?

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

Yes, it does. Go ahead.

Dave Powers - Deckers Outdoor Corporation - President

I can add a little bit of color to that. If you think about the opportunities that we missed in UGG the last Q3 and into Q4 because we sold out of casual boots and weather product that wholesalers and our owned channels were looking for. As we stated in the last call, we've taken a deeper inventory position in some of those key categories, so we can have a stronger fill-in business in the season. But that will also lead into stronger business in Q4.

And then across the board, the sell-through for all of our brands this past spring in extended categories beyond core, and some of the key franchises in Sanuk and Teva and HOKA, are leading to very healthy spring discussions with our key accounts going forward too. So those two factors are the main drivers for the growth in Q3 and Q4.



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

Let me just follow-up on that. Because that's kind of where my second question was going anyways. I know you've orchestrated the order book to favor some of the fashion cold weather product versus core, and you're expecting fill-ins in Q's three and four on core. What's your assumption around -- are you assuming, is the guidance at this point assuming a decent -- I guess, I'm asking you this because, you lack visibility on that, because you don't have an order in hand for it. So just trying to get a better sense as to how conservative, aggressive you are being with your assumptions around those fill-ins on core, based on how you're -- you kind of set up the back half?

Tom George - *Deckers Outdoor Corporation - CFO*

Yes, Mitch, this is Tom. Let's focus on the US wholesale for UGG. And we're still assuming reorders and cancellations are net-net. But I want to point out, we do have the opportunity to chase fill-in business for classics, and that would be upside to our numbers.

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

Okay.

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

But generally speaking, the plan -- the way we planned it, is relatively conservative.

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

Got it. That's all I needed, thanks, guys.

Operator

Corinna Freedman, BB&T Capital.

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

Hi, good evening. Most of my questions have been asked and answered. I wanted to dig in a little on the merchandising initiatives. Last year, had a big home initiative, and also did some apparel, what is the status of those this year?

Dave Powers - *Deckers Outdoor Corporation - President*

Yes, great question. Those are pretty exciting categories for us, especially the lounge category. We've recently, since the success of the initial launch in some of the key wholesalers, we've now put in place a dedicated sales team around that product category. And so, we're seeing great reaction in some of our key accounts again, like Nordstrom and Dillard's. And so, we see nothing but momentum in that category.

Still small, obviously, from a total contribution perspective. But the reaction for the consumer, the open to buy that is being generated for that business from our key accounts, also a lot of independents are coming looking for that product, speaks to the opportunity we have within that apparel category, and how it's resonating with the consumer.



Internationally, we're in the early days, we are getting that into some of our DTC channels and a couple key accounts. But our goal is to really nail the success of that category here first.

Home, I would say, is more of a brand extension, that creates excitement for the brand, another touchpoint for the brand. I don't see that as a major revenue driver, but again, it brings UGG to the consumer in a new way, but still delivers on the equities of the brand. And we are looking for opportunities to bring that into some key accounts as well.

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

Yes, and let me also add. I think last year, and I've said this before, I think last year we made a mistake by focusing on a brand campaign during the holiday season, versus the prior year where we were much more product focused during the holiday season. And in doing that, we gave the consumers a new reason to replenish their classic and their core product. This year, you're going to see a return to that tried and true method.

You're going to see a lot of reasons to go out and replenish that UGG core classic that you've got. Probably now that it is two years old, and our research shows that our consumer replenishes the core product every two years. So we think we're in a good cycle. We think we've got a campaign that is going to give a lot of stimulus to this need to go replace your old pair of UGG classics.

Dave Powers - *Deckers Outdoor Corporation - President*

Yes, I think that's a good point. And I know you didn't ask specifically ask about marketing, but I think the campaigns that you're going to see starting next week, with our premium product launch, and then specifically going into holiday and our classic launch, we made the decision to go back to product focused campaigns. Still have an emotional connection with the consumer, but really driven -- or driving the consumer towards big ideas for the brand, new innovative product that we are bringing to the market. But at the same time, through social and digital and direct marketing opportunities, we are going to be talking to our consumers about replenishing their classics on a more frequent basis as well.

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

Great, and back to that new slim product. Have you tested this item, and I know you said you were expecting some cannibalization, but have you quantified what that might be?

Dave Powers - *Deckers Outdoor Corporation - President*

We are actually in the process of doing some focus groups right now, with all three of our products, getting direct feedback, so that can influence our inventory position going forward. So it's early days on that. I will tell you that product -- I do believe will bring a new consumer to the brand. It is -- from a wearing occasion perspective, it's the kind of boot that you can wear it to work, you can wear it out to dinner and dress it up. But it also has a comfort story to it. We're using our Treadlite technology on the outsole. It has arch support in the (inaudible) footliner.

It has stain resistant defender on the outside of the boot. So I do believe it's going to bring a new consumer to the table. And it's also an extended wearing occasion, so it might have some cannibalization. But you'll still go home, and wear your classic UGG on a casual wearing occasion too, and it's also at a higher price.

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

And what's the launch date of that?



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

It varies by region, but it's essentially mid November in North America.

Tom George - *Deckers Outdoor Corporation - CFO*

And as Angel said, its at a higher price point, so it helps our AURs

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

Perfect. Thank you so much.

Operator

Bob Drbul, Nomura Securities.

Robert Drbul - *Nomura Securities Intl - Analyst*

Hi, good evening. I just got a couple questions. Can you talk a little bit about the men's product in terms of the expectations? What you're seeing and the expectations for year? And I'm just curious on the marketing front, Tom Brady has been in the news a little bit lately. I just wonder if there is any updated thoughts on your men's spokesperson?

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

Yes, great question, Bob. I am very, very bullish on our opportunity in the men's business. We actually recently, have brought on -- he hasn't officially started yet, but a gentlemen of the name [Rob Keenen], who has great footwear experience at Timberland and [Cat] and Hush Puppy for Wolverine brand. He understands the men's business extremely well. He understands footwear, He understands distribution channels and what it takes to win. And so he's going to start in August. He's already engaged in a couple conversations around redeveloping the focus for the line, building franchise styles, building franchise items. We've had some great success recently with our Treadlite program that we launched in spring in our Twinsole program.

Our slippers business continues to be very strong. I think you're going to see some great response to our fall and winter boots this year. So I'd say we're at the tipping point, where I think the men's business is going to start to take off. It's a healthy business for us, particularly internationally in DTC, and it's going to be a continued focus for us going forward. We think we can add significant growth to that category.

With regards to marketing and Tom Brady, we are still in a healthy relationship with Tom. We still think he adds value to portfolio, and to the men's business. We are going to be selective, I think in on how we use him going into the fall campaign, knowing that's there's a polarized view of him in the media right now. But we're going through that process right now, and watching the news closely. But we'll use him in a focused way to drive sales, to keep product going into fall.

Robert Drbul - *Nomura Securities Intl - Analyst*

Got it. And I'm not sure if you went into this, but I was just wondering, is there an update on the search for President of the UGG brand?



Dave Powers - *Deckers Outdoor Corporation - President*

No updates since our last call. We're still speaking to candidates. I spoke to one this morning. We are very selective on who comes in to fill that role, both from an experience perspective, somebody who is strategic visionary leader, but also fits within our culture, and can further develop our teams in the business. So no new news, but we're focused on finding the right person that we think can take that brand to the next level over the coming years.

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

It's not going to be -- we're being very selective as Dave said, and this person is going to have very big shoes to fill with Connie's departure. So it's a very tough act to follow, but the person is out there.

Dave Powers - *Deckers Outdoor Corporation - President*

the one thing I would say in addition to that though, is that the UGG team absent Connie's departure, has done a tremendous job of running the business. We've have just gone through a restructure of the business, where we're developing a product management category, or sorry, function within the business and the team, really shoring up our design and marketing capabilities -- bringing in the head of men's. We're looking for a head of women's at the same time. So it's an opportunity for us to restructure the brand, for the right -- for next days of growth. And the team has done a tremendous job of doing that, along with myself, and key people in HR over the next couple of months, getting ready for the new brand president.

Robert Drbul - *Nomura Securities Intl - Analyst*

Great. I just had one more question. The share repurchase program, Tom, how should we model that, or think about the authorization that remains and the share count, and expectations over the next several quarters?

Tom George - *Deckers Outdoor Corporation - CFO*

What we've included in our guidance, is the share repurchase we had over the last quarter. So that's what the current share count assumes. I think, we really can't get into commenting about when and what price we are going to be repurchasing stock price going forward, but we've got \$127 million left on that authorization. You can see we've done a good job of repurchasing stock.

Robert Drbul - *Nomura Securities Intl - Analyst*

Thank you very much.

Operator

In the interest of time our final question will be Howard Tubin from Guggenheim Securities.

Howard Tubin - *RBC Capital Markets - Analyst*

Great, thanks very much guys. Can you just talk maybe for one more minute about Sanuk, and how you're feeling in general about the brand, and what you're seeing in the specialty channel there?



David Lafitte - *Deckers Outdoor Corporation - Chief Operating Officer*

Yes, so I can speak to that. This is Dave, Howard. So a couple things. The results of the last quarter are not indicative of the opportunity for that brand, is the first thing I would say. Some of the challenges that we had or focused on core specialty surf distribution, and in the Texas region we've had difficulty with weather.

So putting that aside, the opportunity based off some of the recent distribution success we've had, and some of the new areas of distribution for that brand have been very successful. And I think speaks to the opportunity going forward, both in that new distribution, but also with the female consumer. And the team is really focused on what I would call these franchise items. The yoga sling is becoming one of the hottest items in the portfolio actually.

And I think there's tremendous upside to extend that franchise item into new distribution, into new iterations, and different price points. And in the men's area of the business, focusing on the casual canvas opportunity and reinventing the sidewalk surfer, to expand the reach to the new consumer beyond core surf. I think all of those speak to the success that we've recently had, and the opportunity going forward, particularly next year.

Howard Tubin - *RBC Capital Markets - Analyst*

That's great. Thanks. Appreciate it.

David Lafitte - *Deckers Outdoor Corporation - Chief Operating Officer*

Yes.

Operator

Thank you, We have reached the end of our question and answer session. I'd like to turn the floor back over to management for closing comments.

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

Well, thank you all. I really appreciate your questions and your time today on our call. As you can see I think we're very excited, we have a lot of great opportunities going forward, and the brands continue to evolve and develop, and gain power and momentum in the marketplace. So we're looking forward to sharing our results with you next quarter. Thank you very much.

Operator

Thank you. That does conclude today's teleconference. You may disconnect your lines at this time, and have a wonderful day. We thank you for your participation today.



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