THOMSON REUTERS STREETEVENTS

# EDITED TRANSCRIPT

## DECK - Q2 2016 Deckers Outdoor Corp Earnings Call

EVENT DATE/TIME: OCTOBER 29, 2015 / 8:30PM GMT

**OVERVIEW:**

Co. reported 2Q16 reported revenues of $487m and reported EPS of $1.11. Expects full-year FY16 reported revenue growth to be 8% and reported EPS to be approx. $5.18. Expects 3Q16 YoverY reported revenue growth to be approx. 9% and EPS to be $5.00. Also expects 4Q16 YoverY reported revenue growth to be approx. 18% and EPS to be $0.57.





THOMSON REUTERS

## CORPORATE PARTICIPANTS

**Brendon Frey** *ICR - Managing Director*

**Angel Martinez** *Deckers Outdoor Corporation - CEO & Chairman of the Board*

**Dave Powers** *Deckers Outdoor Corporation - President*

**Tom George** *Deckers Outdoor Corporation - CFO*

## CONFERENCE CALL PARTICIPANTS

**Omar Saad** *Evercore ISI - Analyst*

**Bob Drbul** *Nomura Securities Intl - Analyst*

**Camilo Lyon** *Canaccord Genuity - Analyst*

**Taposh Bari** *Goldman Sachs - Analyst*

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

**Corinna Van Der Ghinst** *Citigroup - Analyst*

**Howard Tubin** *RBC Capital Markets - Analyst*

**Jim Duffy** *Stifel Nicolaus - Analyst*

**Mitch Kummetz** *B. Riley & Co. - Analyst*

**Scott Krasik** *Buckingham Research Group - Analyst*

## PRESENTATION

**Operator**

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

(Operator Instructions)

I would like to remind everyone that this conference call is being recorded. I'll now turn the call over to Brendon Frey, Manager Director of ICR.

---

**Brendon Frey** - *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 risk and uncertainty. 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 also relate to the Company's brand strategies, store expansion plans, inventory management systems, retailer retention policies, business transformation plan, as well as the outlook for the Company's markets, and the demand for its products.

Forward-looking statements made on this call represent our current expectations, and are based on currently available information. Forward-looking statements involve numerous risks and uncertainties that may cause actual results to differ materially from those -- from any results predicted, assumed or implied by the forward-looking statements. The Company has explained some of these risks and uncertainties in its SEC filings, including the risk factors section on 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 second quarter in a document entitled, second quarter FY16 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 the featured reports heading. With that, I'll now turn it over to Chief Executive Officer, and Chair of the Board of Directors, Angel Martinez.

---

**Angel Martinez** - *Deckers Outdoor Corporation - CEO & Chairman of the Board*

Well, 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 an overview of our second quarter results, and review each brand's performance. I'll then turn the call over to Dave, who will provide an update to the key areas of focus that he laid out last quarter, and the initiatives we have in place to drive our business in the back half of the year. Then we'll turn it over to Tom who will provide more details on our performance in Q2, our guidance for Q3 and the year, an update on our sheep skin and UGG pure prices for next year, as well as our long-term financial drivers.

In the second quarter, we had record revenues of $487 million, or $506 million on a constant currency basis, an increase of 5.4% over last year. EPS for the quarter was $1.11 on a reported basis, and $1.42 in constant currency which represents growth of over 21%. Both our top and bottom line results were in line with our expectations, keeping us on track to achieve our full year guidance.

Our recent and projected full year performance would not be possible, without the investments we have made over the last several years. The majority of these investments have been directed towards five key areas, number one, omnichannel, number two, product innovation, number three, marketing, number four, people, and number five, international expansion.

I'd like to take a moment to reflect on the progress we've made in these areas. Since 2010, we've expanded our global footprint, and connected our stores and e-commerce sites to create one of the leading omnichannel platforms in our industry. We've introduced compelling new products that have broadened our brand's commercial appeal, and extended their selling seasons.

We've increased our marketing spend by investing in campaigns that showcase the lifestyle nature of our brands, highlight key products, and deliver more personalized consumer connections. We've added leadership throughout the organization that has significantly improved our capabilities and processes, and allowed us to execute on a global scale. And we've dramatically increased control of our brands outside the US, by converting from a distributor model to a direct subsidiary model in key countries throughout Europe and Asia. These critical investments have transformed our Company, and the transformation continues.

Even during this investment phase, we have continued to demonstrate our commitment to returning value to shareholders by repurchasing more than $417 million of our common stock since 2011. We now begin the next chapter in our history that we believe will be marked by leverage gains from consistent top line growth and moderating expense growth, as we move toward our goal of mid-teen operating margin. I am very excited by what we've created, and the value that we are poised to deliver for our shareholders.

Now to the brand's individual Q2 performances. Beginning with UGG, sales grew 5.3% in constant currency driven by sell-in of the brand's widest assortment ever of weather, casual boots and specialty classics. This was a result of guiding our wholesale customers last spring to shift their fall order book into non-core categories, and committing that we would carry core classic inventory to chase demand in season. In line with this strategy, initial sell-through of our non-core collections has been strong across all channels.

One particular highlight has been the performance of the Shaye, a new rain boot. Its success demonstrates that the weather category is a powerful natural extension for the brand. Our early reads on our casual and weather boots put us in a strong position to drive sales, as we move into holiday and the rest of the fall season. Along with prebooking more non-core product, we also took deeper inventory positions in key weather and casual styles, which will allow for reorders of this product in season.

In the quarter, the demand for core classics was softer than anticipated. That said, this has always been a relatively low volume quarter for core classics, given the high average temperatures during the period. In the years when we get a cold September, we've seen strong early sell-through, as sales of core classics tend to correlate more closely with cold weather than our other collections. We saw this in the quarter, on the handful of days when the temperatures dropped. However, for the most part, it was a pretty warm September across most of the US.

On top of this, domestic sales of core classics has also been pressured by the decline in foreign tourist traffic, as a result of the strong dollar. Typically, when international tourists shop at our domestic stores, they purchase core classics, and often multiple pairs. We believe a significant component of the softness in core classics we've seen in Q2 is the result of a fewer foreign tourists. Dave will speak to the initiatives we have in place to drive sales of our classic franchise across all channels, in the back half of the year and longer term.

Now to HOKA ONE ONE, which grew 51% fueled by growing demand for the brand's expanded line of running shoes, and new introductions like the hiking collection. HOKA's authentic position in the running community which was forged through delivering an improved experience for serious runners is providing a great foundation for growth, as we target a larger consumer audience. Runners of all types are increasingly embracing the brand, thanks to positive word of mouth, and despite a very modest marketing budget compared to our running shoe competitors.

One example was that this year's Iron Man World championships HOKA was the number three most worn shoe in the race, compared to number six last year, and ahead of competitors like Brooks and Newton. HOKA's rapid rise is a testament to the power of the brand, the quality of the product, and the hard work of the HOKA team. As we continue to drive top line sales, we are conscious of operating efficiencies, and have made the decision to move the brand to Goleta to create more synergies and opportunities.

Teva sales were down 11.8% in constant currency as we had expected. The decrease in sales was largely due to the timing of orders, as more orders shifted to Q1 this year versus last year. For the quarter, there was strong sell-in of women's and men's boots, which is helping extend the brand's selling season deeper into the year. The brand had particular strength in the women's De la vina boot collection and the newly introduced men's Durban boot. The original sandals continue to sell well and remain relevant, even in colder months with socks and sandals emerging as a fashion trend, and key appearances at this year's New York and Paris Fashion Week.

Turning to Sanuk. Sales for the quarter were down 9%. The decline was primarily due to fulfillment issues, as we transitioned the brand to our Moreno Valley distribution center. For the quarter, the Yoga Sling collection continued to sell well, and we had success with our recently launched women's shoe collection, particularly with the shoe called the Bianca.

The men's canvas collection also sold well, which is encouraging as this category is a key driver of Sanuk's long-term success. At Moreno Valley, there's still work to do, but we believe we've turned the corner on the fulfillment issues. The transition to Moreno Valley has not affected the other brands to the same degree it has Sanuk, especially UGG, as all women's product is serviced from our Camarillo distribution center.

Overall, I'm very pleased to see that the product and distribution strategies that we're executing for each of our brands are producing quality sales growth, and providing us good momentum heading into the back half of the year. The combination of our top line performance and expense controls resulted in operating leverage for the second quarter, a goal we've been driving hard towards in FY16, following a period of strategic investments in our brands and infrastructure to support long-term sustainable growth. Our results give me added confidence that we're on the right path, and we are enhancing profitability, and creating greater value for our shareholders as we become an even more efficient organization. With that, I'll now turn it over to Dave, who will give you more insights on our plans for the second half of the year.

---

**Dave Powers** - *Deckers Outdoor Corporation - President*

Thank you, Angel. As Angel just mentioned, we are excited as we enter into our busiest selling season, and about the opportunities that lie ahead of us. This year we have made a number of strategic changes that put us in a strong position to execute our plans for the year. We have evolved our product to be more closely tailored to current trend, and modified the assortment in each of our distribution channels to better align with our consumer demand. We have also better support for our products, through more targeted marketing campaigns and enhanced analytics. I'll share more with you on these changes in a minute.

Today I am going to touch on four areas of the business, providing you with updates on our progress and our plans going forward. First, I'll review the results of our DTC business. Second, I'll cover how we are unleashing the UGG brand this fall and holiday. Third, I'll discuss how we are driving efficiencies to transform our organization, and finally I'll update you on our outlook in Q4.

First, I'd like to address the results for our DTC business, which includes retail and e-commerce. As a reminder, we report our DTC business on a combined basis, as this better reflects how our management team manages around evaluate our business, in light of the evolution of our omnichannel strategy. As we have discussed previously, the principal reason for this view are due to the interconnectedness of our retail and e-commerce business, and the ways in which they feed off each other, as well as how we communicate and build relationships with our consumers.

Our DTC comp for the quarter was down mid single digits. This was driven primarily by declines in five of our domestic concept locations, Madison Avenue, Honolulu, Las Vegas, San Francisco, and Miami, which we attribute to lower tourist traffic as a result of the strong US dollar. Excluding these specific locations, DTC comps were slightly positive for the quarter. While the strong dollar has created pressure domestically, we believe we have been able to capture this consumer as they stay home to shop, because of the investments we have made in our international DTC operations, further validating our global omnichannel strategy. As a result, our DTC comps outside of the US were up low double digits in Q2.

Our comp stores continue to generate strong average four-wall operating margins in excess of 25% on a trailing 12 month basis, due to our inventory management and OpEx control. We are very pleased with the profitability of our overall store fleet, especially our non-comp stores, which overall continued to perform above our expectations. Nevertheless, we continue to monitor store performance and closed three stores in the quarter. This brings our store closure count to six for this year.

Looking ahead we still plan to open 11 net new stores this fiscal year, and open 26 partner doors in China. This will bring our partner store count in China to 49 doors by the end of the year. Additionally, this fall we will add 15 pop-up stores globally. Last year, we tested pop-ups for the first time, and had great return on sales with low build-out costs. We believe the pop-ups will allow us to test new markets, and drive revenue during our peak season.

I continue to be confident in our ability to deliver low -- a low single digit DTC comp for the year for several reasons. First, we have concentrated our marketing, key product launches and in-store activations for the fall and winter season. We believe this is a better use of our investments and focus as over 75% of our annual DTC sales come in the back half of the year.

Second, we believe the impact that the decline in foreign tourism is having on our DTC business comp will begin to ease in Q3 and Q4. This is because our e-commerce business typically makes up a greater portion of the DTC comp, and is less impacted by foreign tourism. Also, we begin to lap a decline in foreign tourist traffic, we experienced last year as a result of the strengthening dollar.

Despite the pressure on the DTC comp in Q2, on a consolidated basis we performed to the Company's top line target, as we were able to drive revenue in other areas of the business. We believe this is a testament to our balanced omnichannel approach, and our brand diversification strategy. While the decline in foreign tourism is beyond our control, we have a number of product and marketing initiatives that we feel will unleash the UGG brand, and capture consumers' attention to drive our DTC business.

Let me explain. In comparison to year's past, this fall and holiday we have concentrated our marketing efforts, and have our strongest product lineup ever to go after the season in a big way. UGG is the footwear brand for holiday, and always one of the top searched brands of the season. This year we are leveraging our position by amplifying our marketing, and elevating our classics and slipper franchises, while driving growth through a wider assortment of casual and weather boots.

Our marketing will be more impactful than in the past, focusing on the key styles that drive the business, and advertising in high visibility media outlets. We will be creating excitement and awareness through influential partnerships, geo-targeted digital media and social placement. And we will be leveraging our consumer analytics to drive incremental sales through our e-mail database and search optimization.

For this fall and holiday, we are making a big push around the total classics franchise, which is something we admittedly did not devote enough attention to last year. We have both innovative new product and marketing support to drive this business, and evolve the perception of the brand. As we detailed on the last call, this year we have added two new lines to the franchise with the Luxe and Slim styles. These two new lines offer existing UGG consumers a new occasion to wear classics, as well as attract new consumers into the franchise.

In August, we debuted the Luxe collection. Luxe is our most premium line in the classic franchise and uses high-end Merino lining. The Luxe launch was picked up across top fashion and industry publications, like Vogue and Refinery 29, and was worn on the runway at New York Fashion Week. We are very pleased with the sales to date, and for what this collection has done globally to elevate the brand.

Luxe has also created great momentum for the introduction of the classic slim, which will launch on November 4. Slim will be our biggest product launch since the debut of the UGG classic boot. With the launch of the Classic Slim collection, the brand has further rounded out its Classic offering. In celebration of this moment, the brand will unveil a global holiday campaign which captures the emotional feelings of warmth and comfort that formed the foundation of the UGG brand. To further drive awareness of the Classic Slim as the perfect gift of the season, the teams will implement a focused PR push, and amplified in-store merchandising to drive sales.

Going forward, we will continue to drive innovation into our classics franchise. For next fall, we are currently working on plans to evolve our core classics styles. This next evolution is based on consumer insights, and addresses consumer feedback. We are excited to share with you more details on the next evolution of the core classic in the coming months, as we continue to transform the UGG brand.

This year, we are more strategic with our plans to drive awareness and sales at key times, and we are better prepared to optimize the sales opportunity in the weeks around Black Friday and Cyber Monday. During this time, our efforts will focus on driving traffic to our e-commerce sites, and on activations in our outlet stores. Then in December, we will turn our focus to key gift-giving items, led by our slippers to drive these items like never before. We are supporting our gift-giving items and slipper business with increased investments in non-branded search, social media, and a program in our North American stores.

Then later in December, we will launch our third annual winter campaign, which will place an elevated focus on the cold weather Adirondack collection. The past two winter campaigns have been successful, but we have incurred stock-outs in many of the weather products before the campaigns were launched. This year, we will be in a much better position to support our campaign with inventory. So as you've just heard, we have more targeted campaigns and more powerful product this year to truly unleash the power of UGG during our most important season.

Shifting gears, as we've talked about previously, we have been working on disciplined processes to drive efficiencies across the organization, and looking at our total operations for ways to further reduce costs. This began last year with our business transformation project, which we believe will help create more visibility in our planning process, and improve our systems to support our omnichannel growth. Our major focus from a supply chain perspective is on optimizing our product assortment, and concentrating on the products that drive the most volume. We anticipate this will help reduce our development costs, and free up our supply chain to improve our delivery times and speed to market. We are also continuing to focus on our retail operating model, and are finding ways to make that business even more efficient.

In addition, we are creating efficiencies within the organization, by finding ways to lever our brand portfolio, from how we negotiate with our suppliers and factories, to how we sell product to wholesalers and market to our consumers. More than ever, our Company is operating as a collective unit, and leveraging our expertise across the organization. The management changes over the last year have facilitated increased collaboration across the organization that is allowing us to leverage our brands' consumers insights data and marketing efforts.

For example, this past quarter we utilized the UGG e-mail database to advertise cross-brand product and had great success. Looking ahead, we will continue to leverage our brands to build off one another. Many of these initiatives are long-term, and we will continue to update on our progress.

Another initiative is product licensing opportunities. Recently we entered an agreement for our home line, and we will continue to explore other UGG non-footwear opportunities. By licensing these businesses, it allows us to redeploy time, talent and capital to more productive areas of the business, to improve our returns on invested capital. This decision stems from our routine examination of our portfolio, and our focus on establishing operational guardrails that set performance targets.

In addition, we also recently streamlined the reporting structure of our operations in Asia-Pacific. This has allowed us to consolidate our operations in APAC, in order to eliminate redundancies, reduce SG&A, and align our resources with our business priorities. Across the organization, we are moving faster than ever to get after short-term and long-term drivers of the business to grow revenue, expand gross margins, lever expenses, and improve our operating returns over the next several years.

Finally, we continue to book our spring 2016 business, and now have better visibility into Q4. The order book for our brands is materializing as we expected. For UGG, growth will come primarily from weather and casual boots, as well as end of season close-outs. For HOKA, the brand is expanding its distribution with new retailers, and growing its SKU count with existing retailers through new product introductions. Teva is growing its originals and sandals collections, building off the success from last spring, with strong growth coming from international markets where the brand remains underpenetrated. And Sanuk continues to expand its distribution with its national accounts, primarily through the popular Yoga Sling franchise.

In conclusion, I am very happy with how we are positioned, as we enter the back half of the year. The changes that we are implementing in our marketing and product development are resonating with consumers, and the early reads in our non-core product and introductions like the Luxe have been strong. Looking beyond this year, we are focused on strategic initiatives in the areas of the business where we believe have the biggest opportunity.

Specifically, continuing to attack the running market with the HOKA brand, and within UGG, it's evolving our classics franchise and aggressively getting over categories like weather and casuals in our men's business, and and extensions like Lounge. Across our brand portfolio, we see additional white space for distribution, and ways to better leverage our brands going forward. With that, I'll now turn it over to Tom to review the financials.

---

**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 earnings per share was slightly better than our forecast, due primarily to timing of expenses now expected to be incurred in the back half of the year, and the benefit of our Q2 share repurchase.

Now starting with revenue, on a constant currency basis for the quarter, revenue increased 5.4% to $506 million. On a reported basis, revenue increased 1.4% to $487 million. Gross margin was 44% in the second quarter, compared to 46.6% last year. The change in gross margin was primarily due to FX headwinds from the strengthening of the US dollar. We gained SG&A leverage this quarter, with SG&A as a percent of sales at 33.5% compared to 34.2% a year ago.

For the remainder of the fiscal year, we are on track to deliver leverage. For the quarter, we reported earnings per share of $1.11 versus $1.17 a year ago, and better than our guidance of $1.05 per share. Inventories at the end of Q3 were $595 million, an increase of 23.5% over the same period last year.

Our inventory is well-positioned to support growth during the back half, including more core classics to chase in-season demand as part of the shift in our prebook strategy that we developed with our wholesale partners. Also we are carrying more weather and casual product to allow for our wholesale partners to reorder in season, and to reduce the stock-outs we experienced last year. For Q3 and Q4, we expect sales growth to outpace inventory growth.

During the quarter, we repurchased approximately 354,000 shares or $23.8 million at an average purchase price of $67.18. As of September 30, 2015, we had $102.9 million remaining under the $200 million stock repurchase program we announced in January 2015.

Now moving on to our outlook. Based on our second quarter results and current visibility, we are reiterating our full year guidance. We expect FY16 constant currency revenues to increase approximately 10.5%, an increase of 8% on a reported basis. Full year constant currency earnings per share is projected to be approximately $5.73 which now accounts for the share repurchase in Q2, representing an increase of 23%. On a reported basis, earnings per share is now projected to be approximately $5.18 adjusting for the share repurchase in Q2, representing an increase of 11.2% over FY15 earnings per share of $4.66. This guidance assumes gross margins of approximately 48%, and SG&A as a percentage of sales of 35.5%.

With respect to the third and fourth quarters, our revenue guidance has not changed. We still see Q3 reported revenue growing approximately 9%, and Q4 reported revenue up approximately 18% on a year-over-year basis. We expect Q3 earnings per share of $5, and Q4 earnings per share of $0.57. For Q3, our gross margins are projected to be slightly under 52%, and SG&A as a percentage of sales is projected to be roughly 25%.

Finally, we recently completed our sheep skin negotiations for FY17. As we indicated in our last call, sheep skin prices continue to be favorable, and our innovation of UGG pure continues to play a significant part in reducing demand, and stabilizing prices in the sheep skin market. We expect these costs to be roughly a 100 basis point improvement over FY16. This does not constitute our gross margin guidance for next year, as our sheep skin inputs are only one component of our gross margins.

Long-term, we remain committed to achieving mid-teens operating margins over the next five years. From a gross margin perspective, we have three main drivers, adjusting our business model to create supply chain efficiencies, improving our product development process, and reducing our go-to-market costs, and continuing to grow our direct-to-consumer business.

From an SG&A expense leverage perspective, this is driven by the fact that most of our direct-to-consumer, corporate, and international infrastructure investments have been made. In addition, we continue to gain more visibility around the efficiencies we expect to generate from our business transformation project. Our omnichannel investments have laid the foundation for our growth, and now we can begin to lever them to expand our operating performance, and improve our returns on invested capital. I'm confident in our ability to lever this year and beyond, and look forward to reporting our Q3 results on February 4, 2016. With that, I will now turn it over to the operator for Q&A.

---

## QUESTIONS AND ANSWERS

**Operator**

Thank you.

(Operator Instructions)

Our first question comes from the line of Omar Saad with Evercore. Please proceed with your question.

---

**Omar Saad** - *Evercore ISI - Analyst*

Thanks, a solid quarter, guys.

**Angel Martinez** - *Deckers Outdoor Corporation - CEO & Chairman of the Board*

Thanks, Omar.

**Omar Saad** - *Evercore ISI - Analyst*

I wanted to ask -- yes, sure. Wanted to ask about the holiday push, a lot of stuff that Dave you talked about around the classics franchise, the genesis of this kind of evolved strategy, what you think you've been missing in the past, how big of an opportunity is it? And I guess, my follow-up question is help us think about the inventory strategy, mechanically, how that better positions you? And does it reduce risk having that much inventory, or is it just fulfill chase opportunities? I guess, it's two part, sort of the same idea.

**Dave Powers** - *Deckers Outdoor Corporation - President*

Yes, great question. And I really look at this, Omar, as a turning point for the UGG brand. We've turned the quarter on reliance on our four classics business. We've now had great success in our casual boots and our weather. In fact, the core classics as a percent of total women's business is down below 35%, 25% of our total UGG business. So it just speaks to the opportunity that we have in new categories beyond classic.

But at the same time, we're not complacent with the classics business either. So what you've seen with the Luxe introduction and the slim introduction next week, those are evolutions of the core classic items into opportunities for new customers, and new wearing occasions for our brand. And at the same time, we're also going back and making sure that we are taking a good look at the core classics, which quite frankly we've been a little bit complacent with over the years.

And so, what we've said is we've really listened to consumer insights on what they're looking for in classics going forward, and we're going to apply some innovation to those classics for next fall. We're still working through the mechanics of that, and so it's too early to share any specifics with regards to inventory strategy, how that's going to play out. But we're committed to keeping that a full price business and managing through the inventory accordingly, so it doesn't disrupt the market.

But the good news is, next year it creates a lot more flexibility in our core business, as well as our specialty classics business. So instead of putting 40%, 50% of our core classics into the marketplace and hoping they sell, we have a lot more options for the consumers, and we have a lot more levers to pull in the process. So I think it's an exciting time for the UGG brand. I think it's an exciting time for the UGG consumer. And I think they're really going to benefit from the evolution of the classics and the updates that we have coming down the pike.

**Omar Saad** - *Evercore ISI - Analyst*

Okay. And then just to be clear, the gross margin, the change in year-over-year trend in the gross margin this quarter is entirely related to -- I guess you'd call it transactional currency exposure, and not something going on with inventory or products?

**Angel Martinez** - *Deckers Outdoor Corporation - CEO & Chairman of the Board*

No. That's right, Omar.

**Tom George** - *Deckers Outdoor Corporation - CFO*

Primarily due to FX headwinds year-over-year.

**Dave Powers** - *Deckers Outdoor Corporation - President*

Just to comment quickly on the inventory. We're really pleased really with how we've been able to manage our inventory levels at the end of this quarter. We've actually brought in some inventory earlier, so we've got the capability to chase some product in season. Also helps us mitigate the stock-outs we had last year. And most of the inventory increase is really related to higher quantities of women's weather and casual boots, and men's slipper and weather product, and that all supports our prebook strategy, we had to shift most of the wholesale orders that we talked about in the past.

I think another thing to point out on inventory is, into the third quarter and the fourth quarter, inventory levels, the growth year-over-year is going to moderate significantly, and the growth levels are going to be lower than our guided sales growth. And for the total year, at the end of the year our UGG inventory level will be half what it is at the end of September.

---

**Tom George** - *Deckers Outdoor Corporation - CFO*

And I think the other thing on the inventory is, the majority of the increase is coming out of non-core classic. It's more the casual boots and weather which we missed opportunity in last year, and we're really poised to chase that business in the end of Q3 and into Q4 this year.

---

**Omar Saad** - *Evercore ISI - Analyst*

Thanks. That's all really helpful.

---

**Operator**

Our next question comes from the line of Bob Drbul with Nomura. Please go ahead with your question.

---

**Bob Drbul** - *Nomura Securities Intl - Analyst*

Hi. Good afternoon. I just had two questions. The first one is, with -- you talk about the weather impacting the business. And I guess have you had any major cancellations from your retail partners, September or October that you could speak to? And then the second question, is on expenses, Tom, you said there was a shift out of the quarter. I was wondering if you could quantify how much of that came out of the second quarter? And like maybe an increase, the increased marketing, any ideas on how much more you're spending in the third quarter?

---

**Tom George** - *Deckers Outdoor Corporation - CFO*

Yes, maybe I'll start with expense shift. It was about $2 million to $3 million, and it was mostly marketing, and that went into the December quarter. In terms of cancellations, it's too early in the season really. We really haven't had anything of significance. If there's weather issues down the road, most of those cancellations would come later in the quarter, if any at all.

---

**Dave Powers** - *Deckers Outdoor Corporation - President*

We haven't had anything significant, and any cancellations that we've had for the most part we are able to backfill with or replace that business with casual boots and weather product that is selling through well so.

---

**Bob Drbul** - *Nomura Securities Intl - Analyst*

Great. Thank you very much.

**Operator**

Our next question comes from Camilo Lyon with Canaccord. Please proceed with your question.

**Camilo Lyon** - *Canaccord Genuity - Analyst*

Thanks. Nice quarter, guys. Just to follow-up on the last question. Could you just help reconcile some of the commentary we've been hearing. So there's obviously warmer weather that's impacted the classics business, you've commented on that. There's also a lot of talk of excess inventory in the channel. Yet your guidance is -- a pretty significant acceleration. Just help us connect the dots there, and understand exactly what's going on there? Because it seems like there's something that's not necessarily congruent there.

**Angel Martinez** - *Deckers Outdoor Corporation - CEO & Chairman of the Board*

Yes, I think the thing you have to remember, Camilo, is that August and September are small quarters, small months for our core classic business. Even though the weather has been warm and that's true, we're hearing that, and it has affected the core selling, it's a small portion of inventory that we're talking about. So there isn't a big backlog that's left over from what we would have sold in September and August in Q3, because of that softness in the business.

Business excess in the channel overall, we're not really seeing that. We're managing that well. If you remember, we planned the core classics business down from an open to buy perspective, and shifted peoples inventory to more into casual boots and weather, and those are the things that are selling through. So at this point, things look as planned.

**Camilo Lyon** - *Canaccord Genuity - Analyst*

Great. And then just my follow-up is, is there an added expectation of cancellations that's built into your plan? I think before you were looking at cancellations offsetting reorders. Is that still the case, or is there more a weighting towards cancellations?

**Tom George** - *Deckers Outdoor Corporation - CFO*

No, it's still our original guidance. A small amount of reorders are assumed, and a small amount of cancellations that would offset each other. So we feel really good where we're at right now with the business.

**Camilo Lyon** - *Canaccord Genuity - Analyst*

Thanks very much. Good luck.

**Operator**

Our next question is from the line of Taposh Bari with Goldman Sachs. Please proceed with your questions.

**Taposh Bari** - *Goldman Sachs - Analyst*

Hey, good morning or good afternoon. So Angel and Dave, nice to see you guys able to deliver versus your expectations. A lot of external headwinds out there, especially a lot of weather talk. You guys called out core classic weakness and tourism pressure, yet you were still able to make your numbers. I guess if I think back, to Deckers of the past that might not have happened. So I'm trying to better understand in light of some of those headwinds how you were able to still deliver? And if in fact the business is a little bit less sensitive to some of those external factors like weather, as we think about what could or could not happen in terms of seasonality into the holiday?

---

**Angel Martinez** - *Deckers Outdoor Corporation - CEO & Chairman of the Board*

Yes, thanks, Taposh. I think it's a radically different scenario now that we have now versus a few years ago, even last year. We went -- last year was a bit of a wakeup call for us -- because we saw that we were still -- even though we've been innovating a lot of new product, we felt that we still had exposure. And as Dave said, we consciously moved our customer base off of core classic, and into the fashion and the weather product that is performing quite well. And tried to right-size the classic business going forward.

Understanding that it's a core staple of a lot of wardrobes, in a lot of people's closets, and we need more innovation there. So really our idea here is to create a brand, a lifestyle brand that is appropriate for any kind of seasonality, whether it's rain, or whether it's very cold weather, or our spring line has done quite well. And so, we really needed to dimensionalize the brand, and I think the team has done that. They've done a fantastic job with that.

Another thing that we've done, is we've got a lot more insight into our business. As you know, we've been investing in business transformation. We're much better able to review the state of our business in a real-time basis, and make adjustments. And a lot of adjustments are being made because we have insight that we wouldn't have, if we were not an omnichannel business. So the fact is, that with our own stores and our e-commerce business, we're able to read the consumer preference, and we're improving our time to market. So that we're able to react in a much faster way.

Witness for example, the classic slim that's coming and launching in about a week or so. That was directly from consumers that we knew there were a large percentage of consumers that liked the brand, but could not get back the shape of the original classic. And we think that classic slim is really going to be well received.

So it's a whole combination of things, but it's resulting in what -- I'll use the phrase Dave used, unleashed UGG. I mean, UGG is being unleashed. There was a lot of -- I think on our part, concern about accelerating the innovation, and not tipping the apple cart, et cetera. And what we found is that consumers really don't want that. Consumers want fresh product, exciting product, stuff that makes them get out of their chair, and go to the store. And not just click on a website, because clearly what's good for everyone is to have this brand, get people out to the stores to try the product on. And that's the role of this brand in this time of year, and I think it's going to fulfill that mission for a lot of customers.

---

**Dave Powers** - *Deckers Outdoor Corporation - President*

Yes, just to add onto that one thing, Taposh is that the softness that we're talking about in core classic is primarily a North American issue at the moment. And where we're seeing a little bit of offset in that, is the international business. We've had great business in our DTC business outside the US, and particularly in e-commerce growth in multiple brands and multiple websites externally.

---

**Taposh Bari** - *Goldman Sachs - Analyst*

If I could just ask a quick follow-up on that line of questioning. How are your retail partners responding to what you're doing, and also vis-a-vis the external kind of condition? So as I think about kind of the investor reaction, mild weather equals inventory risk equals UGG exposure.

I guess, again, that's the way it's played out in the past. But the brand's clearly demonstrated an ability to kind of endure that kind of seasonality and cyclicality, and I'm sure the retail partners have appreciated that. So is there a different mentality this time around, in light of what's going on the ground at retail?

---

**Angel Martinez** - *Deckers Outdoor Corporation - CEO & Chairman of the Board*

Yes, I think for the wholesale partners that have followed the strategy recommendations of changing their mix to be more reliant on weather and core -- sorry, casual boots, they're seeing the benefits of that. And so that's a good story. They also know this is a very resilient brand, and it's still early in the season. And they know that when the weather turns, the consumer's going to come calling, and they feel very good about their ability to flex their inventory with our partnerships to be able to meet those demands. So for the most part, we're having very healthy conversations with our partners, and they're confident we're going to deliver.

---

**Taposh Bari** - *Goldman Sachs - Analyst*

Great. All the best.

---

**Angel Martinez** - *Deckers Outdoor Corporation - CEO & Chairman of the Board*

Thanks.

---

**Operator**

Next question comes from the line of Erinn Murphy with Piper Jaffray. Please go ahead with your questions.

---

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

Great. Thank you and good afternoon. Dave, I was hoping you could maybe expand a little bit more about the direct-to-consumer business you just mentioned outside of the US. Sounds like that was a little bit better. Can you maybe just parse out for us, in some sort of granularity the change between Europe, China and Japan, and what you're really seeing in some of the international regions in that business?

---

**Dave Powers** - *Deckers Outdoor Corporation - President*

Yes, so I can only speak to total DTC, and not particular retail versus e-commerce. But I will say that our comps outside the US were very healthy, double-digit growth comps in Europe, and low single digit growth in Asia-Pacific. Consistent with what we said about the tourist shoppers, shopping a little bit more at home, but also to the strength of the assortment and the merchandising and the operations of the teams in those markets. So China is showing signs of stabilization, Japan is still strong, and the Europe business is actually, I would say, turned a corner and starting to improve nicely.

---

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

That's helpful to hear. Thank you. I guess, just following up on the China piece in particular as you view -- as you've actually kind of repriced some of the product there, can you just talk about some of the learnings, what the consumer demand profiles look like post repricing? And then, as you look across the fleet, are there any other key regions that may -- you have to revisit pricing on at a later point? Thanks. Dave Powers^ Yes, Erinn, it's still early days in the pricing in China. That business is very seasonal over there. So we -- the initial repricing was soft, but it wasn't a high seasonality time frame for us in China. As the season kicks in, we're starting to see a nice healthy benefit from that pricing.

It's not a dramatic change in pricing but it's healthy, and it's bringing more consumers into the brand. So I would say it's been a positive move, and we'll continue to monitor that. The other place we're looking to make adjustments is, in the Hong Kong market to be consistent with the rest of Asia-Pacific. But outside of that, we don't see any other pricing adjustments at this time.

---

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

Got it. Thanks. If I could sneak in one more clarification for Tom. Just on that second quarter gross margin being down about 260 basis points, is that entire piece FX? I mean, were there any offsets on the positive side, just given your mix shift into DTC, as well as kind of the UGG pure, and just overall [sheep] costing environment being more favorable? We're just trying to understand the major puts and takes for that line. Thank you.

---

**Tom George** - *Deckers Outdoor Corporation - CFO*

Most of it was the FX headwind. That's about the second quarter, it was 210 basis points of headwind. Just a few other things, small little amounts, nothing really of significance that impacts things going forward.

---

**Operator**

Thank you. Our next question comes from the line of Corrina Van Der Ghinst with Citigroup. Please go ahead with your questions.

---

**Corinna Van Der Ghinst** - *Citigroup - Analyst*

Thank you, hi. Hi. First I wanted to address SG&A. I know Dave touched on some of the big picture areas that you guys are targeting. But could you maybe talk about some of the specific near term efficiencies, driving the improvement over the next couple of quarters? And also you guys talked about the supply chain process. Can you talk a little bit more about what you've changed or reengineered in your supply chain process to enable you to improve your speed to market in the near term, whether it was with the classic Luxe or slim, or what you guys have coming out going forward?

---

**Dave Powers** - *Deckers Outdoor Corporation - President*

Yes, good question. We're putting a lot of focus on this right now. And I think you heard some of the things we mentioned in the call with regards to restructuring our Hong Kong office over there. That will have a knock-on permanent effect on SG&A, looking at licensing, leveraging our brands for procurement in other areas.

Long-term we're looking at a few components. One we're just looking at how to streamline the offering of our brand. So getting really focused on SKU productivity, adoption rates, and making sure that where we're putting our time and our development into the line is going to give us the biggest payback.

So the brands are really focused on eliminating unnecessary styles and SKUs, and that has a knock on effect on our development costs, on our sample costs, on our delivery costs, and allows us to be much more efficient at our factories as well. At the same time, we're also looking at consolidating our factory base in some cases to be more efficient and be closer to market. And then just overall, just improving our go-to-market process in general to eliminate waste in the process.

So it's still early days but the teams are very, very focused on finding efficiencies, and getting their energies and their efforts to focus on the areas that are going to give us the biggest payback. And I think we'll have more to share with you on that in the next comp months. The other piece that will have continued benefit for us is the business transformation project that we're undergoing, and you'll start to see the benefits of that inventory management in some places in margin over the next year.

---

**Tom George** - *Deckers Outdoor Corporation - CFO*

Corinna, this is Tom. Let me follow up as well. On our current SG&A structure over the past few years, we've been investing in our international infrastructure to be able to scale the business internationally, both in Asia and Europe, as well as corporate infrastructure to scale a much bigger multi-brand global Company, and we're starting to see leverage on those kind of investments.

We really don't see that many more kind of those investments going forward. And I think another thing to point out, and this is really related to some of our segment reporting, our direct-to-consumer segment. That segment absorbs the overhead cost related to scale a much bigger direct-to-consumer business, including most of our Asia-Pacific overheads, and some of our Europe overheads are in that segment. And those investments really are behind us. We're starting to get leverage on those as well.

---

**Corinna Van Der Ghinst** - *Citigroup - Analyst*

Okay. That's helpful commentary. And then just for my follow-up, I did want to clarify some questions from earlier. Can you just help us understand, of that 24% inventory growth in UGG, how much of that is in core classics, and how much of it is in non-classics? And then just your view on share repurchases for the rest of the year? Thank you.

---

**Dave Powers** - *Deckers Outdoor Corporation - President*

Very little of it is in core classics. Most of it's in the non classic product, it's in the leather product, it's in the women's casual as well, there's some increase in women's -- excuse me -- in the men's product as well, and slippers. We have a bigger investment in slippers than we did a year ago, because we actually had some stock-outs a year ago in slippers, early in the season. And the slim product, there's some slim in there as well.

So and -- we're really pleased in terms of our inventory management capability. We brought it in early. We didn't really want to have any logistic issues to stop us from having the product to service the -- our busy part of the season. And consistent with that, from an inventory management of view. By the end of the year, we expect the UGG inventory to be half of what it is at the end of this quarter.

And I think another thing to point out is, we've talked about some startup issues related to our Moreno valley distribution center. That distribution center does not service the UGG women's business. That's still in our Camarillo distribution center and there's been no issues there. That's mostly impacted our Sanuk business, and we might get to it later. But as a result of that, we've missed some sales with Sanuk, and we're going to take down our Sanuk number for the year.

---

**Corinna Van Der Ghinst** - *Citigroup - Analyst*

Great. Just on the share repurchases, please?

---

**Tom George** - *Deckers Outdoor Corporation - CFO*

On the share repurchase, we did -- we don't really comment on what we're going to do in the future. I think something to point out there is our -- the period of time we're in now is our highest demand for working capital, and therefore, our highest borrowing on our line of credit. So you have to be sensitive to the cash needs to run the business. So therefore this period of time is the period of time we have fewer share repurchases.

---

**Operator**

Thank you. Our next question is from the line of Howard Tubin with Guggenheim. Please go ahead with your question.

---

**Howard Tubin** - *RBC Capital Markets - Analyst*

Hey, thanks, guys. Can you just remind us talking about UGG pure, where you stand in terms of its usage now in the sheep skin part of the UGG collection, and where it will be next year if we look out to next year?

---

**Dave Powers** - *Deckers Outdoor Corporation - President*

It's currently about 33%. We do see going forward more opportunities for that to expand going forward. I think something interesting to point out, through our innovation with UGG pure, and what it's done to the demand for the table grade product in the market, table grade costs has actually gone down below some of the UGG pure costs. So we'll even start addressing possibly using even more table grade product going forward as well.

---

**Tom George** - *Deckers Outdoor Corporation - CFO*

It is also a great opportunity for our Koolaburra brand as we start to ignite that business, and bring that to market next fall.

---

**Howard Tubin** - *RBC Capital Markets - Analyst*

Got it. Thank you very much.

---

**Operator**

Our next question is from the line of Jim Duffy with Stifel. Please proceed with your question.

---

**Jim Duffy** - *Stifel Nicolaus - Analyst*

Thanks. Good afternoon, guys. I have three questions for you. Hopefully two of them are quick. On the fiscal third quarter what's the linearity of the quarter, kind of the split between months typically?

---

**Tom George** - *Deckers Outdoor Corporation - CFO*

Mostly back end loaded.

---

**Angel Martinez** - *Deckers Outdoor Corporation - CEO & Chairman of the Board*

Yes, right (multiple speakers)

---

**Tom George** - *Deckers Outdoor Corporation - CFO*

Because there's the high element of direct-to-consumer, a high element of e-commerce, so it's mostly back end loaded.

---

**Jim Duffy** - *Stifel Nicolaus - Analyst*

Did I hear a 50% December?

---

**Tom George** - *Deckers Outdoor Corporation - CFO*

No, no, no.

---

**Angel Martinez** - *Deckers Outdoor Corporation - CEO & Chairman of the Board*

Mostly back end loaded.

---

**Jim Duffy** - *Stifel Nicolaus - Analyst*

Okay. And then Tom, as you think about objectives to lever SG&A in FY17, what's the sales growth you would need for that?

---

**Tom George** - *Deckers Outdoor Corporation - CFO*

That's a good question. We're not giving guidance for next year, so that's obviously a good question. That will be one element, and we -- but I think the way we're looking at our SG&A and our overhead structure right now, is most of our investments are behind us. And we've got the ability to leverage on really on reasonable growth rates. And we're continuing to evaluate ways to streamline the business, like we've up done in Asia-Pacific with the Hong Kong streamlining. And we continue to evaluate how we're going to streamline the other parts of the business around the world. And as I mentioned earlier on the call, we're starting to get good leverage on the buildup we've had to drive our direct-to-consumer business as well.

---

**Jim Duffy** - *Stifel Nicolaus - Analyst*

Okay. Fair enough. And then the final question. I was a little confused on the inventory strategy and the position. It sounded like you were going to backstock inventory in classics, but try to prebook the other classifications, but you're saying the inventory growth is in the other classifications?

---

**Tom George** - *Deckers Outdoor Corporation - CFO*

I think Jim, the thing to point out there is we always have a certain level of safety stock of the classics, at any point in time. And it really -- we didn't grow that much at all. In the newer product, we do have the capability to service that product as well, reorders for that product, for weather product and the casual product. Because last year, we did have some stock-outs on that product, because we did get some reorders.

---

**Jim Duffy** - *Stifel Nicolaus - Analyst*

Okay. Good luck.

---

**Tom George** - *Deckers Outdoor Corporation - CFO*

I'm sorry, go ahead.

---

**Jim Duffy** - *Stifel Nicolaus - Analyst*

That's good.

---

**Angel Martinez** - *Deckers Outdoor Corporation - CEO & Chairman of the Board*

Go ahead, Jim.

---

**Jim Duffy** - *Stifel Nicolaus - Analyst*

Thanks. I was going to say good luck to you guys in the coming months.

---

**Tom George** - *Deckers Outdoor Corporation - CFO*

All right, Jim.

---

**Angel Martinez** - *Deckers Outdoor Corporation - CEO & Chairman of the Board*

Thank you, Jim.

---

**Operator**

Our next question comes from the line of Mitch Kummetz with B. Riley. Please go ahead with your questions.

---

**Mitch Kummetz** - *B. Riley & Co. - Analyst*

Yes, Thanks for taking my questions. Tom, I was hoping you could give us a little more help on Q4. So I think -- did you say $0.58 of earnings on the fourth quarter, if I heard you right or --?

---

**Tom George** - *Deckers Outdoor Corporation - CFO*

$0.57.

---

**Mitch Kummetz** - *B. Riley & Co. - Analyst*

$0.57. So that's a pretty big step-up from Q4 last year. Obviously, you expect the revenue to be up nicely, I think it was 18%, right? But can you kind of bridge the gap between the revenue growth and the earnings that you're expecting? Maybe just touch upon kind of expectations around gross margin and SG&A for Q4?

---

**Tom George** - *Deckers Outdoor Corporation - CFO*

Right. First off, just to reiterate on the top line, Dave gave you some detail about our confidence level to be able to drive that kind of revenue growth. We feel really good where our prebook is, this point in time for the fourth quarter, as well as the product and other opportunities we have we're driving. In terms of the margin, we actually expect an improved gross margin relative to a year ago in that fourth quarter.

And as you may recall, a year ago, we were closing down the TSUBO brand, the MOZO brand. We air freighted a fair amount of product, and we had some air freight cost that put pressure on last year's gross margin. And there will still be some sheep skin benefit for Q4 as well.

And then from an operating expense point of view consistent with some of the earlier discussion, we are going to be getting leverage on operating expense in the fourth quarter. So that helps drive earnings per share growth.





THOMSON REUTERS

**Mitch Kummetz** - *B. Riley & Co. - Analyst*

Do you think more of the Op margin increase will come on the SG&A side, just given the level of sales growth that you're expecting?

**Tom George** - *Deckers Outdoor Corporation - CFO*

I think the biggest driver there is just year-over-year gross margins as well as the top line growth. There will be some modest SG&A leverage, but the biggest drivers there, are the top line growth as well, as the gross margin.

**Dave Powers** - *Deckers Outdoor Corporation - President*

And Mitch, when talking about gross margins, let me also add to the second quarter, there was a big FX headwind we talked about, 210 to 220 basis points of FX head wind. We also had some pressure on the margin relative to the year-ago, because we did have to air freight some product in as well, just to make sure we had it available and had it in inventory to service the biggest part of the season.

**Mitch Kummetz** - *B. Riley & Co. - Analyst*

Got it. And then as a follow-up, maybe on Wholesale Dave, you guys have talked a lot about steering retailers toward the non-core product, and you had a lot of success with that. Can you talk a little about what's happening outside the US? I mean, are you doing the same thing with your partners there, even through the distributors, and kind of what success level have you seen there in terms of the performance of the non-core product with international accounts?

**Angel Martinez** - *Deckers Outdoor Corporation - CEO & Chairman of the Board*

Well, actually this is Angel. We've seen even more success particularly in Europe for example. We've been out of stock on a fair amount of what we call women's casual product. Our subsidiary in the UK is looking for inventory from the rest of the Company. So that in and of itself, has been -- that began in the second quarter. So that really is a good sign where people follow the strategy, the results prove to be what the consumer wants.

**Mitch Kummetz** - *B. Riley & Co. - Analyst*

Are you able to move some of the inventory from the US over to Europe to kind of satisfy that demand?

**Angel Martinez** - *Deckers Outdoor Corporation - CEO & Chairman of the Board*

Yes, we're looking at areas in the Company where -- it's specific products, so it depends on where the inventory sits, whether it's Asia-Pacific or North America. But we're very flexible with our supply chain, and omnichannel organization, so we can make some of those moves. It's obviously at a cost, but it's better to make sure that the consumer gets what they want, than have them wait. So those are things that we're looking at.

**Operator**

Thank you. Our final question today is coming from the line of Scott Krasik with Buckingham Research. Please proceed with your questions.

**Scott Krasik** - *Buckingham Research Group - Analyst*

Hi, everyone. Thanks. A few questions on DTC. I guess, I know you're trying to get away from it, but can you sort of allude to or generally what the e-commerce growth was in the quarter?

---

**Dave Powers** - *Deckers Outdoor Corporation - President*

No, unfortunately, Scott, we're only reporting at a DTC level going forward, so I can't do that.

---

**Scott Krasik** - *Buckingham Research Group - Analyst*

Okay. And then all of these DTC numbers, are these all constant currency?

---

**Dave Powers** - *Deckers Outdoor Corporation - President*

Yes, comps are.

---

**Tom George** - *Deckers Outdoor Corporation - CFO*

Comps are in constant currency, yes.

---

**Scott Krasik** - *Buckingham Research Group - Analyst*

Okay. So maybe talk about your confidence to see that accelerate to meet your target, which I think hasn't changed even though you're a little bit short this quarter?

---

**Dave Powers** - *Deckers Outdoor Corporation - President*

Yes, you know, as we said on the call in the script, there is a lot of indications that are still positive for us delivering that number. You have to remember, we still have 75% of the year to go in DTC in Q3 and Q4, and we're off to a good start there. We're still optimistic about delivering that number. E-com also starts to make up a bigger percentage of DTC sales in the back half, so the mix changes.

At the end of Q3 into Q4, we start to lap that foreign tourism impact in our flagship stores which is significant. So we'll get some of that back. And I think like I said, the product launches, the marketing focus, the digital marketing and the analytics, we're all concentrated on driving traffic to the stores and driving traffic to the sites. And I would say, we are better poised than ever to pull some of those levers in the business.

---

**Scott Krasik** - *Buckingham Research Group - Analyst*

And I think I just heard you say, just to be sure, did you say you're off to a good start in DTC in October?

---

**Dave Powers** - *Deckers Outdoor Corporation - President*

(Multiple speakers) I can't comment on that. Things look like they're on plan.

---

**Scott Krasik** - *Buckingham Research Group - Analyst*

Okay. Thanks.

---

**Operator**

Thank you. At this time, I turn the floor back to management for closing comments.

---

**Angel Martinez** - *Deckers Outdoor Corporation - CEO & Chairman of the Board*

Well, thank you all for joining us today. Clearly, we're pretty confident in the strategic direction that we're moving in, and we believe we're going to continue to deliver significant value to shareholders. I'd like to thank our employees around the world.

There's been a lot of heavy lifting, I hope you can appreciate that to make all of this change real, and I'm extremely proud of the work everyone has done, the long hours, and the dedication and commitment that it's taken. And the insight that we've got from our employees. So it's just a great group of people to work with, and I'm confident that we'll continue to deliver results. So thank you all, and we'll speak to you on the next call.

---

**Operator**

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.

---