

23-May-2019

Deckers Outdoor Corp. (DECK)

Q4 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and thank you for standing by. Welcome to the Deckers Brands Fourth Quarter and Fiscal Year 2019 Earnings Conference Call. At this time, all participants are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. Instructions will be provided at that time for you to queue up for questions. [Operator Instructions] I would like to remind everyone that this conference call is being recorded.

I will now turn the call over to Erinn Kohler, Senior Director, Investor Relations & Corporate Planning. Please go ahead.

Erinn Kohler

Senior Director-Investor Relations & Corporate Planning, Deckers Outdoor Corp.

Thank you, everyone, for joining us today. On the call is Dave Powers, President and Chief Executive Officer; and Steve Fasching, Chief Financial Officer.

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 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 today other than statements of historical facts are forward-looking statements and include statements regarding our anticipated financial performance including, but not limited to, our projected revenue, margins, expenses, earnings per share, cost savings and operating profit improvement, as well as statements regarding our strategies for our products and brands.

Forward-looking statements made on this call represent management's current expectations and are based on information available at the time of such statements are made. Forward-looking statements involve numerous known and unknown risks, uncertainties and other factors that may cause our actual results to differ materially 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 in the Risk Factors section of its Annual Report on Form 10-K and quarterly reports on Form 10-Q. 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.

With that, I'll now turn it over to Dave.

David Powers

President, Chief Executive Officer & Director, Deckers Outdoor Corp.

Thank you, Erinn, and good afternoon, everyone. It gives me great pleasure to share with you that Deckers has achieved a significant milestone in its history. For the full fiscal year 2019, we reached over \$2 billion in annual revenue in a very profitable manner. This accomplishment is a testament to the hard work that our teams put into our company and I'm very proud of the result this dedication, discipline and focus have been able to produce.

In addition to breaking through the \$2 billion mark in top line revenue, the organization has successfully delivered on our long-term margin target a year ahead of schedule, with solid performance recorded in the fiscal year 2019 results. These results include operating margin well beyond the prior target of 13%, driving more than the committed \$100 million of operating profit improvement over the past two years; and delivering returns on invested capital above the benchmark, 20%.

With the strides that the organization has made, especially in terms of earning performance and cash generation, we believe that we are now positioned better than ever to invest in our brands and channels within key areas of opportunities for future growth. As a reminder, the areas of focus that we have identified include investments in marketing to build awareness and adoption of the HOKA ONE ONE brand and growing the UGG Men's and UGG Women's noncore category, as well as investments in technology to enhance E-Commerce capabilities to evolve how we engage and grow with our consumers and talent tools and analytic capabilities that will allow us to maximize the above opportunity.

Today, I will share brand and channel level highlights from our fourth quarter performance and fiscal year 2019 in review before handing the call over to Steve to walk through our financial results in more detail including an outlook for the first quarter and full fiscal year 2020.

To recap the recent performance, revenue in the fourth quarter was \$394 million, coming in above the high-end of our guidance and 1.6% less than the same period last year, with the decline to last year mainly due to retail store closures. Despite that, non-GAAP EPS came in at \$0.85 as compared to \$0.50 last year. For the full year, revenue was at record \$2.02 billion, up 6.2%, while operating income increased to \$327 million, representing a 16.2% operating margin and earnings per share of \$8.84, also a record high.

In reviewing our performance over the past two years, our revenue has grown over 6% each year. Our non-GAAP operating profit dollars have grown 40.5% on an annualized growth rate, and non-GAAP operating margins have increased from 9.2% to 16.2%, representing a 700-basis-point expansion while delivering a two-year annualized non-GAAP earnings per share growth rate of 52%. While these results exceeded our initial outlook, as Steve

mentioned on our last call, we experienced an exceptional selling environment this year in the third quarter and drove much better-than-expected results than what we would normally plan for.

Now, turning to performance by group. Starting with the Fashion Lifestyle Group, UGG sales declined by 7% in the fourth quarter to \$239 million largely due to retail store closures and international softness, partially offset by strength in domestic wholesale. The fourth quarter result was higher than previous guidance primarily related to earlier shipments of spring product moving out of Q1 fiscal 2020 into Q4 fiscal 2019. For the year, UGG sales increased 2% to \$1.533 billion with domestic wholesale and E-Commerce accounting for most of the gain.

During the year, UGG experienced amplified success with younger consumers as evidenced by year-round slipper growth, aided by the newly introduced Fluff Yeah collection, an expansion of the Tasman, continued demand for the Classic Mini and Mini Bailey Bow, and accelerated growth of the new male franchise which included incremental purchasing from both male and female consumers. The UGG team has been focused on de-seasonalizing the business by growing our spring/summer product offering.

Our recent results underscores the progress we've made on this important front. In fiscal year 2019, UGG successfully redistributed its category mix. In conjunction with UGG's domestic wholesale allocation and segmentation strategy of Women's core Classic product, the brand saw increases of over 25% in Women's shoe and sandals categories.

Equally important, UGG brand interest in the U.S. is on the rise. According to Google Trends, interest in UGG over the past year grew by 7%. During the fiscal year, UGG acquired nearly 1.5 million new customers and two owned DTC channels which we believe is the result of delivering compelling products and marketing that resonate with a more diverse consumer base. These trends are representative of why we believe in dedicating investment to target customer acquisition and engagement through digital marketing.

Next, Koolaburra in the fourth quarter grew by 67% to \$3.6 million, rounding out a fantastic year as annual revenue more than doubled to \$44 million, driven by strong full-price sales through a major account. We have high confidence in our strategy of focusing on the family value channel for this brand and next year looks even stronger based on a robust order book. Koolaburra continues to gain market share that is incremental to UGG's business and has already shown the ability to drive profit to our bottom line.

Switching gears to our Performance Lifestyle Group. For the second consecutive quarter, HOKA set a revenue record with the fourth quarter growing by 33% to \$67 million. HOKA achieved impressive growth in fiscal 2019 with sales increasing 45% to \$223 million. The HOKA team's dedication to creative innovative product rooted in authentic performance continues to be the driver of exceptional result.

The Bondi, Clifton, Arahi, and Gaviota Styles represent the core of the HOKA brand. These core styles have continued to deliver significant growth while the brand also continues to diversify its product offering, capturing new consumers as well as satisfying incremental needs of existing loyal customers. Since launching in March 2019, the Sky Collection has received initial positive feedback from both wholesale accounts and consumers as the brand now expands its reach into the hiking category. The Sky Collection is yet another example of how the brand is expanding its category reach, while staying firmly focused on a commitment to delivering authentic performance footwear in the marketplace.

With the continued expansion of category offering, the seasonality of the HOKA brand is beginning to smooth out throughout the year and the team is strategically planning the timing of product launches. On May 1, 2019, HOKA introduced the Carbon X establishing its impressive credentials just four days later with a record-setting attempt.

I would like to congratulate Jim Walmsley on becoming a new world record holder for the 50-mile distance and doing so, while wearing HOKA's Carbon X product. Having just launched to consumers worldwide on May 15, the Carbon X is one of HOKA's most innovative products released to-date with a carbon-fiber plate to help athletes accelerate and propel forward combined with PROFLY X foam, our lightest and most resilient foam yet. We are looking forward to seeing more record-breaking performances in this shoe.

Within the U.S., HOKA's wholesale business was up 30% on the year and the brand is now a top 3 brand in multiple specialty running account. We remain focused on growing our domestic wholesale presence through high-touch premium specialty retailer. The HOKA team is gaining market share with an existing distribution for strategic category expansion. In addition to wholesale, domestic-owned E-Commerce continues to add meaningful volume year-over-year as we work to capture incremental replenishment business.

On the international front, HOKA sales were up 59% for the year with the largest share coming from Europe. As we've noted in the past, Europe remains the largest near-term opportunity for growth while at the same time the APAC region is beginning to show adoption. As we work to grow internationally, we are concentrating on building awareness with consumers through authentic performance aligned with our domestic marketplace strategy.

Turning to Teva and Sanuk, I am pleased with the team's dedication for driving profit to Deckers' bottom line. Both brands experienced an increase in gross margin and contribution margin for the second consecutive year. For Teva, sales were up 3% on the year to \$137 million, a record high for revenue. Growth was driven by a considerable increase in Japan as the brand's functional outdoor appeal was complemented by premium fashion collaboration.

In addition to record revenue, Teva's operating profit dollar contribution was its highest on record increasing over 30% versus the previous year. On the product side, the brand recently celebrated its Born in the Canyon launch to commemorate the Grand Canyon's 100th year as a national park and Teva's 35th anniversary.

Turning to Sanuk, sales for the year were down 9% to \$83 million. The result was driven by a high-single digit decline in U.S. wholesale. From a product perspective, revenue was negatively affected by the softness of the Yoga Sling franchise. Over the last year, the brand has been working to diversify its product offering by introducing Chill products which represent boots and slipper silhouette. Early reads of Chill product have been strong in attracting new consumers to the brand as 75% of online purchasers had previously not owned Sanuk.

Now moving to channel performance, total company wholesale revenue increased 6% for the quarter and 10% for the year. As mentioned in our third quarter call, the U.S. marketplace allocation and segmentation implementation has been very successful. As a result, we'll be implementing the strategy across Europe in the coming year with the hopes of reigniting the market to drive healthy, full-price sales in future years.

Shifting to our Direct-to-Consumer channel, DTC comps decreased 0.5% for the quarter. For the year, the total comp increased 1.9%. Comps for DTC were strong domestically but challenged internationally. We believe suppressed DTC comps internationally a larger – a result of macro headwinds mentioned in our third quarter earnings call but we're also actively engaged in enhancing the health of our brands across all market.

Overall for the year, total Direct-to-Consumer sales were flat. Fiscal 2019 was another solid year for our online business, as we added more than 2 million new customers globally across our brand portfolio. We continue to invest in our digital infrastructure to drive and support online engagement and conversion.

As I reflect on the past year, I'm incredibly proud of the organization's achievement that went far beyond what we had targeted, both for fiscal 2019's initial guidance as well our long-range goal. I'm delighted by the team's successful accomplishments, including highlights coming from UGG's growth of noncore categories within its offering complemented by the implementation of our U.S. wholesale allocation and segmentation strategy. HOKA's rapid momentum across various categories within authentic Performance footwear and using innovation and brand ethos was the driving force and continued supply chain efficiencies and discipline cost management delivering increasing levels of profitability and generating further opportunities to fuel growth as we look to the future.

While we feel favorable marketplace conditions and weather patterns aided our performance this past fiscal year, we believe in our strategies and remain confident in our ability to deliver exceptional levels of performance as we move into the next phase of our growth.

With that, I'll hand the call over to Steve to provide details on the fourth quarter and fiscal 2019 financial results, as well as our initial outlook on the first quarter and full fiscal year 2020.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

Thanks, Dave, and good afternoon, everyone. As Dave just walked you through, it was a very exciting year for Deckers as we have achieved a number of significant milestones. Now, I will take you through our fourth quarter and fiscal 2019 results in greater detail then provide our initial outlook on the first quarter and fiscal year 2020.

Please note, throughout this discussion, where I refer to non-GAAP financial measures, I'm referring to results before taking into account restructuring and other charges that our management believes are not core to our ongoing operating result. Also note our non-GAAP results are not adjusted for constant currency with the exception of our Direct-to-Consumer comparable sales. A reconciliation between our reported GAAP results and the non-GAAP results can be found in our earnings release that is posted on our website under the Investor's tab.

Now, to our results for the fourth quarter. Revenue was \$394 million, down 1.6% from last year but above the high end of our guidance range by \$20 million. The better-than-expected performance was driven by \$15 million of earlier-than-anticipated wholesale shipments in the UGG brand, delivering spring/summer product into the marketplace ahead of schedule and \$5 million in outperformance driven by domestic E-Commerce sales for the UGG brand.

Gross margin was 51.6%, up 360 basis points over last year. The gain in gross margin was due to continued improvement from our supply chain effort, better full-price selling as we exited the prior quarter with very low levels of seasonal inventory in the marketplace and higher margins attained on closeout sales as the channel is more tightly managed. These gains were partially offset by channel mix changes in the quarter largely due to timing of E-Commerce revenue recognition with those sales recorded in Q3 and the negative impact of foreign currency exchange rate fluctuation.

Non-GAAP SG&A expense was \$170 million for the quarter, down from \$173 million last year with the reduction primarily being driven by reduced retail store spend as compared to prior year quarter. Non-GAAP EPS came in at \$0.85 compared to our guidance range of flat to \$0.10 and versus last year of \$0.50. The \$0.75 beat to the high end of our guidance resulted from approximately \$0.25 from better than expected margins, \$0.20 due to the early shipment of spring wholesale order, \$0.20 from additional expense savings in the quarter primarily related to retail as well as some unbilled head count vacancies and \$0.10 from higher than expected sales driven by domestic E-Commerce in the UGG brand.

Now to sum up our fiscal 2019, revenue was \$2.02 billion representing over a 6% increase for a second year in a row. The HOKA brand contributed to the bulk of the year-over-year increase, up \$70 million with UGG and Koolaburra both contributing an incremental \$26 million over the prior year.

Gross margin was 51.5%, up 250 basis points over last year. The gain in gross margin was driven by favorable marketplace conditions in the third quarter contributing to our ability to achieve high full-priced sell-through of product with minimal discounting and promotional activity, reduced usage of airfreight in the second quarter due to the ability to take advantage of the in-season opportunity to use less expensive freight options for the delivery of certain inventory shipments, and the continued benefit of our supply chain initiatives which again positively contributed to our gross margin gains in the year.

As I mentioned on our last call, we estimate that approximately 100 to 150 basis points of this upside is due to favorable conditions within the year that we were able to capitalize on and we will not plan for these same conditions to repeat next year. However, if variables outside of our immediate control present opportunity within the year, we believe that we are well poised to capture incremental profit as we diligently manage our operation. I will provide a full picture of gross margin guidance for the next fiscal year in a moment.

Non-GAAP SG&A expense for the year was \$713 million, up from \$695 million last year. As a percentage of revenue, SG&A improved 120 basis point to 35.3% from 36.5% last year. Non-GAAP operating income increased 38% to \$327 million from \$236 million last year, while operating margin increased 380 basis points to 16.2%.

As Dave mentioned earlier in the call, we have successfully added over \$100 million of operating profit as compared to levels in fiscal 2017 when we set out to execute on our operating profit improvement plan. I am confident that as we move into the next phase of our strategic goal, we will be able to maintain healthy levels of profitability while strategically investing in our key initiative designed to accelerate top line growth.

Both GAAP and non-GAAP earnings per share came in at \$8.84 compared to our guidance range of \$7.85 to \$7.95 versus year-ago \$5.74. The upside expectation was largely result of the Performance in fourth quarter as I just walked through, in addition to some differences in tax rate and share count when looking at results on a quarterly basis versus the full year basis.

Now turning on to our balance sheet, we ended fiscal 2019 with \$590 million in cash compared to \$430 million last year. Our cash balance is net of share repurchased in the fiscal year which totaled \$161 million. Inventories were down 7% at \$279 million as compared to \$300 million last year. We had no short term debt outstanding under our credit line and on a pro forma basis our calculated return on invested capital improved to over 20%. We did not repurchase any stock during the fourth quarter and \$350 million of our stock repurchase authorization remains available as of March 31, 2019.

Switching gears to our global backlog inclusive of bulk orders, the total as of March 31 was \$978 million, which represent a year-over-year increase of about 14%. As a note, last year's backlog was missing significant orders from several major accounts due to later order placements last year. If backlog were adjusted to account for the shift in order activity, the year-over-year increase would be more in line with our guided revenue expectation.

As a reminder, our backlog at March 31 only includes orders from wholesalers and distributors for delivery in April through December and represents less than half of our total revenue for the year. The figure does not include our company DTC sale all of the fourth quarter or any future orders that we may book such as at-once orders or closeout.

Finally, moving to our outlook for fiscal year 2020. As we move forward with our strategic priorities, we intend to fuel top line growth through planned investment in key categories of opportunity that we have previously outlined. As we have delivered cost savings ahead of schedule, we still intend to reinvest a portion of these savings into the business to create strong setup for our brand now and in the future. We will target to maintain top tier level operating margins as compared to our peer group, competitively delivering growth in line with levels of profitability that we have created.

For the fiscal year 2020, we expect revenue to be in the range of \$2.095 billion to \$2.12 billion which represents year-over-year growth of 4% to 5%. Gross margins to be in the range of 50% to 50.5%. This is 100 to 150 basis points lower than fiscal year 2019 which is aligned with the expectations laid out on our prior earnings call. The headwinds we expect to experience in fiscal year 2020 include currency headwinds of 40 basis points, additional freight expense of 20 basis points, and normalized conditions during our peak season resulting in more promotional environment impacting margins up to approximately 90 basis points.

As we reinvest in our growth drivers within our brand portfolio, we expect SG&A to be at or slightly better than 36% of sales, all resulting in an expected operating margin in the range of 14.2% to 14.5%. We are also projecting an effective tax rate of approximately 21% which represents an increase over fiscal year 2019 due to one-time benefits received in the year. Therefore, we are projecting diluted earnings per share between \$8.20 to \$8.40. In addition, we expect capital expenditures to be between \$35 million and \$40 million.

Our fiscal 2020 guidance excludes any charges that may be considered onetime in nature and does not include the impact of additional share repurchases. Now with our lower projected operating margin for fiscal year 2020, I think it is important to acknowledge how the range of 14.2% to 14.5% compares to the results delivered in fiscal year 2019 at 16.2%. Within our gross margin guidance, we are planning for normalized conditions, including using airfreight and peak season promotional activity which will unwind approximately 100 to 150 basis points.

As foreign currency exchange rates have fluctuated as compared to levels a year ago, we estimate that we will face a headwind this year of approximately 40 basis point. With the remaining difference due to planned investments in marketing and technology designed to improve our connection with consumers. These investments represent roughly 10 to 30 basis points of operating margin and we will control the related levers of variable spend in order to tightly manage our overall profitability.

As a reminder, our prior strategic long-term target for fiscal 2020 operating margin was 13% and the current anticipated 14.2% to 14.5% is well beyond this earlier goal. To provide some additional details on our fiscal year 2020 revenue expectation by brand, the following applies. UGG is expected to be up low-single digit as growth in domestic wholesale and E-Commerce is being offset by the previously discussed order timing shift out of Q1 fiscal year 2020 and into quarter four fiscal year 2019. The allocation and segmentation strategy we have set this year for Europe continued net retail store closures and again FX headwinds as the result of declining exchange rate.

Koolaburra is expected to deliver mid-40s to upper-50s percent growth resulting from continued domestic wholesale expansion in the family value channel. HOKA growing in the mid-20% range fueled by both the U.S. and international expansion. Teva, roughly flat revenue largely due to growth in wholesale domestically and in Asia-Pacific, but offset by a decline in our EMEA wholesale channel with the shift from wholesale through distributor. Sanuk, flat to last year as the brand continues to drive ASPs and a higher proportion of full-priced sales in an effort to better control the North American marketplace.

Our DTC comp is expected to be flat to growing positive low-single digit in light of continuing challenging traffic environment in retail, as well as an assumption of a more normalized weather season. Additionally, we expect in-season wholesale cancellations to be in line with reorders.

Now for the first quarter of fiscal 2020, we expect revenue to be in the range of \$250 million to \$260 million, and non-GAAP diluted loss per share of approximately a loss of \$1.25 to a loss of \$1.15 compared to a loss a year ago of \$0.98. The drivers of the year-over-year variance in EPS include the impact of the shift of the \$15 million in revenue mentioned earlier moving out of quarter one fiscal year 2020 and into quarter four of fiscal year 2019. Adjusting for this shift, earnings per share would be roughly flat to last year, as well as timing of SG&A spend within the year.

As a note, we are aware of and continue to monitor tariff decisions and work closely with our supply chain operations to identify risk mitigation strategy. This includes the potential to adjust shipment timing, which could have abnormal effect on the timing of inventory level. As mentioned on previous calls, we have been actively shifting production outside of China in less than 20% of our global total would be subject to tariff.

We recently joined over 170 other companies in endorsing a memo urging the President to exclude footwear from the next tranche of tariff. Our teams will continue to track, update and will make decisions bearing in mind the best interests of all of our stakeholders.

With that, I will now hand the call back to Dave to provide more details on our strategic outlook and priorities for the upcoming year.

David Powers

President, Chief Executive Officer & Director, Deckers Outdoor Corp.

As Steve mentioned, the upcoming fiscal year is about positioning our brand to drive elevated levels of top line growth in future period while maintaining top tier levels of profitability. Our strategies are working. We have delivered our long-term targets a year early and the organization will remain focused on investing in our strategic growth driver. This includes building awareness of the HOKA ONE ONE brand, growing the UGG Men's and UGG Women's noncore categories, enhancing E-Commerce capabilities to evolve how we engage with our consumers, as well as investing in analytics and technology that will allow us to maximize the above opportunity.

We will deliver strategic growth in these areas by investing in demand creation and leveraging the right marketing tactic at optimized levels. Deckers is adding new capabilities that will amplify personalization within consumer touch point, allowing our brands to build stronger relationships with both new and existing audiences, resulting in an even greater affinity for our brand. We've also added competencies that will enhance our ability to measure marketing effectiveness, ultimately empowering our teams to easily shift investment to improve both short- and long-term return.

As we look out into fiscal 2020, investments in innovation are critical to enable our organization to deliver higher top line growth in the future. I'm excited to share more with the progress we are making with innovation later in the year. With our fiscal 2020 guidance including operating margins of 14.2% to 14.5%, Deckers remains at top tier levels of profitability among our peer group even with the strategic and reinvestment and is dedicated to maintaining this status as we drive healthy revenue growth.

As I reflect on our success in fiscal 2019, I am proud of our financial performance and equally proud of the work our teams have done to operate our business in a sustainably minded way. We have made great progress in advancing our Sustainable Development Goals. In particular, we are investing in the communities in which we

operate globally, promoting diversity and inclusion across our organization, and working to preserve the environment for future generation.

With continued organizational success, we have the ability to be leaders in this space by advancing sustainable business practices to deliver value both financial and environmental to all stakeholders.

This has been an exceptional year and I'd like to thank all of our employees, customers, shareholders, board of directors and their families for their support in helping us drive to these levels of performance well ahead of our original plan. I believe our results demonstrate the strength of the foundation we've built, our commitment to making improvements in the business, and delivering value to all of our stakeholders. I'm incredibly proud of our accomplishments and look forward to continued success in the years ahead.

With that, I'll turn the call over to the operator for Q&A. Operator?

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] The first question comes from Camilo Lyon with Canaccord Genuity. Please go ahead.

Camilo Lyon

Analyst, Canaccord Genuity, Inc.

Q

Thank you. Hi, guys. Great job on a great year.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Thanks, Camilo.

David Powers

President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Thanks, Camilo.

Camilo Lyon

Analyst, Canaccord Genuity, Inc.

Q

You guys have done a great job with the UGG allocation strategy at wholesale as well the segmentation strategy. At the same time, you've been very up-front about the benefits that you received from a long and cold winter. So as you think and delve deeper into the outlook that you've provided, can you just help us understand perhaps by brand and particularly the UGG brand, how that all fit into this 4% to 5% top line growth figure? In other words, if we're thinking about UGG and the further steps you'll take with the allocation strategy, if we have a seasonally warmer winter, how protected are you from that potential relative to the guidance laid out?

David Powers

President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Yeah. It's a good question, Camilo. I'll try to answer as many of those details as I can. I think, what we've learned over the last couple of years is planning for what we'd deemed this kind of a normalized winter and retail environment has served us well and we're going to continue on that strategy. That being said, if things are more

favorable, we have the inventory in the right places to be able to capture that. And then we also have some protection and the downside if we need to be a little bit more promotional. I think what you've seen in the guidance from an UGG perspective and in the margin where we've put in roughly 100 basis points or 150 basis points decline versus last year, some of that is mitigating in case there is less unfavorable weather conditions.

At the same time, the managed growth in North America will be continuing. It's a healthy environment, it's very healthy from an inventory standpoint and margins with healthy sell-throughs at wholesale and in our own DTC channels. At the same time, we have work to do internationally and so what you're seeing us do for the UK market in particular is employ the same strategy that worked in North America over the last couple of years which is a really tightly controlled segmentation and allocation strategy to make sure that we are maintaining a healthy positioning in the market. The inventories are clean and we're segmenting the right product at the right level in each of the accounts in that market, and at the same time investing in some additional marketing to improve brand health in that region.

So, it's a balance going into this year. The UGG brand is in great standing in North America with little bit work to do in the European market but overall we think this is a healthy projection looking into ahead of the year with growth in the right categories which are noncore Women's footwear and Men's. And we think that if there is a better than planned winter, with regards to weather in the holiday season that we'll be well positioned to capture that upside.

Speaking to the other brands real quick, we're super excited about the opportunity that we have developed within the Koolaburra brand. Had an exceptional year last year just over the \$40 million mark with high full-priced sales through and healthy margins and a profitable business for us. Retailers, we're very pleased and the order book as you saw or just heard for this fall is very healthy for that brand and we see it as incremental sales to the UGG brand in new and distant channels from where we distribute UGG. And obviously the exceptional results for HOKA. We see that continuing but that's in a very strategic and controlled manner built for the long term health of the brand and really driving growth through the existing distribution both internationally and U.S. and then continuing to drive business and data capture to our E-Commerce site.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah. I think just to add on to that, and kind of what you're alluding to, Camilo, is there upside and I think as Dave said there is probably a little bit upside related to weather related to UGG, right, because that's where we're going to kind of see potential upside.

With the segmentation and allocation strategy that we've been implementing in North America, as well as now Europe, that's going to be somewhat limited in terms of what further upside there may be because that's a controlled strategy in terms of how we want to go. So I wouldn't – if weather conditions are similar to what we experienced in FY 2019, absolutely there's upside from a revenue perspective and from a margin perspective. But as I said in the prepared remarks, we're not going to plan into that.

So always a little bit upside, but I'd say as we've gotten more dialed in with our strategy and allocation and segmentation, not a lot, I would say, in terms of related to UGG. Pretty well as indicated by our backlog, we're booked for the season. So there is some kind of further upside, but to bring additional product well above that would be challenging. So, overall a little bit, but don't go too crazy in terms of what you think that further upside could be.

Camilo Lyon

Analyst, Canaccord Genuity, Inc.

Q

Okay. Thank you for that detail. It's great. So it sounds like on the weather related UGG product, you're planning for that business to be both conservative and promotionally driven?

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Correct. There is a more promotional component factored in and that's part of the gross margin take-back.

Camilo Lyon

Analyst, Canaccord Genuity, Inc.

Q

Got it. And then, if you could just step back, you've talked about hitting your margin target a year early, [ph] you talked about (00:39:03) continued supply chain benefits, you're now stepping up your SG&A component to invest behind some of these opportunities that you've called out. Where do you think your margins can settle out at if you did a 16% this year, but you're looking to do kind of below 14%? What's the right level of operating margin that this business can deliver on a more consistent basis?

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah. It's a good question. And it's one that we've talked a lot about. And, I think, as the way we've looked at it, part of delivering our plan a year ahead of schedule, we always had the investment in FY 2020. And that's why we were able to bring through some of that additional profit. So as we were able to capture those savings and improvements in our business a year early, that's why you're seeing that flow-through really and the 16% operating margin.

As we look going forward, we also recognize that we're delivering top tier performance among our peer group. And to be competitive, we know we have to make these investments. So, to sustainably drive top line growth, it's important for us to put those investment dollars in, as Dave talked about, in marketing, in IT, in innovation to drive some of the product development that's going to help us propel top line growth.

So, as we look at it what we're guiding and some of the factors that 14.2% to 14.5% is good number, we believe, for FY 2020. There might be a little bit of upside and that's kind of how we're looking at the business. So, part of this and over-delivery is all related to the strategy and the timing of when we're going to make those investments. And so being able to capture that early in FY 2019 is what really drove us above what we would normally expect. Now, as we get into kind of the strategy of investment, that's why you're seeing that setback.

David Powers

President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Yeah. And I'd just add on to what Steve said. I do believe now is the right time to start investing. As you know, the last two to three years, we've been working on infrastructure and efficiencies and operationalizing the business, improving SG&A as a percentage of total sales. In the meantime, we've been strengthening the brands and controlling our marketplace. And we believe based off the strength of new categories in UGG, the emergence of the Men's business and the strength of HOKA and the success we're seeing in digital marketing, now is the time to really start investing. And so we want to make sure that we are feeling future growth for the out years. Now, we continue this top tier performance both from an operating perspective but also start returning to higher levels of growth and revenue.

Camilo Lyon

Analyst, Canaccord Genuity, Inc.

Q

Great. And if I could just sneak in the last one. So, Dave, last quarter you alluded to getting near a point of committing to a longer term, mid-single digit growth algorithm on the top line, 4% to 5% this year. Are you ready to say that that's where you consistently put a – kind of a longer term one- to three-year top line objective out there?

David Powers

President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Yeah. I think we delivered 6% the last two years in a row which is better than we guided to and expected to do or plan to do. 4% to 5% this year, as you heard – as we just walked you through make sense. I think mid-single digit to high-single digit growth over the next three years is what we're aiming for. And that's why you're seeing the investments in the business this year.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah. I think one thing to note too, Camilo, is as we look at the business and I think it's important to call out that \$15 million that we talked about where we shipped in Q4 versus Q1, it really is up FY 2020 business. And so, if you were to equalize the two years, we would be showing more growth in FY 2020. So you're removing that from the FY 2019 number and putting that \$15 million in FY 2020. And what you would see is a shift and you would see growth in 2020 over the growth that we showed in 2019. So it gets a little skewed because of that early shipment. But what we're showing is growth year-on-year-on-year.

Camilo Lyon

Analyst, Canaccord Genuity, Inc.

Q

Fantastic. Good job, guys. Good luck.

David Powers

President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Okay. Thanks.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Thank you.

Operator: The next question comes from Jonathan Komp with Baird. Please go ahead.

Jonathan R. Komp

Analyst, Robert W. Baird & Co., Inc.

Q

Yeah. Hi. Thank you. Maybe just a follow-up to some of the discussions there, but maybe just a bigger picture question on the gross margin. I know you had a very strong year in the low-50s. Historically, when you look, your good year was closer to 50% and then a normal or even a unfavorable year was more in the mid-40s. So could you maybe just step back and kind of highlight a couple of the factors that you think they are sustainable in terms of why 50-percent-plus and maybe building that as the right level going forward?

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah. So, I think, when you look at the 51.5% that we delivered and FY 2019, and as we talked about, our ability to get to that level was really driven by a lot of the improvements that we've made in planning, supply chain efficiencies, the work that we've really been talking about really for the last two years.

The additional components, the kind of the lift from what we're guiding [ph] FY 2020 to (00:44:26) FY 2019, we'll call kind of a better selling environment, cleaner channel inventory and the nonuse of freight in FY 2019. So that kind of 100 and 150 basis points setback we're seeing in FY 2020 are really those components that we do not expect to repeat themselves. They could, and if they do, we still benefit from them. But from a more normalized, what we would say, kind of operating mode, we think that 50%, 50.5% range is kind of the right range which incorporates all the improvements that we've made, and using some freight, as we identify [ph] hot (00:45:10) products and try to bring them into market earlier. So we think there may be a slightly larger freight component and that's part of also the setback.

I think what's also embedded and not clearly apparent in the guide is that we have a currency fluctuation which is a headwind in FY 2020 and we're largely overcoming that with kind of some continued improvement plans that we have for FY 2020. So, we think that 50% to 50.5% in a normal operating year is kind of the right level based on all the work that we've been doing the last couple of years.

David Powers

President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Yeah and I would also add on to that because you referenced prior years of low end, 45%, and best-in-class kind of 50% range. Also keep in mind that we've been working hard to balance and diversify the business. So, if you think about the UGG business today it's much more balanced business with growth in new categories. In Men's, we're less reliant on just one item and one category of Classics, although that's still important and we still have the improvements that you've seen over the last couple of years.

But in the business mix, which is becoming more important, is HOKA which has healthy margins. And over the coming years, the growth in E-Commerce is going to be a benefit to margin as well. So I think all those things considered, as Steve just mentioned and the way we've balanced the business, the team has done a great job there. I think this is the right level.

Jonathan R. Komp

Analyst, Robert W. Baird & Co., Inc.

Q

Okay, great. That's certainly helpful. Maybe one separate question then. A little bit more just looking for perspective on the environment, certainly looks like seasonal, fall, winter goods sold through well this year so far. Channel inventories are clean which you mentioned and that's supporting the orders for next year. I want to ask – I mean certainly there's other pockets of softness that others are reporting, especially some of the department store chains. And I'm just wondering is there any point where you'd see risk that softness in other parts of the business getting later end of the year would potentially risk some of the momentum you're seeing in your own categories, or just any broader perspective on that dynamic.

David Powers

President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Yeah. I've seen some of the recent reports of kind of wholesale department store challenges. I think our performance in those channels over the last two quarters has been very strong. The inventories are clean. The

sell-throughs have been very healthy. The order book going into the back half of the year is good as well, and I think we're well positioned to be successful in those channels, despite some macro challenges they may have.

We're certainly not immune to those, but I think the strength of our brands, particularly the UGG brand in the back half of the year, bodes well for the success of that business. There's obviously an athletic trend going on out there and we're starting to gain some momentum in sneakers and key areas of that sort. But the innovation of the UGG brand through slippers and hybrid slippers and winter boots has been very strong as well. So, while that athletic trend is going on, we're having success in our own way in different unique categories and capitalizing on that.

I think we still have challenges in Europe. I think that's one thing we're working through and hence, the conservative nature of the guide from a European perspective and cleaning up that marketplace. If I was to say there's a risk somewhere that we see in the business for the back half of the year is the potential there to continue to be soft, particularly with some of the macro level environmental things that are going on in that region, if that makes sense?

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah, I think just one other thing, Jon, and I think – Dave, what you just said was kind of spot on. I think there – one, there's always risk, right. You're never quite certain what may happen with retailers or other factors that may influence it. But I think one thing and it's really demonstrated by our results coming out of this year is how well our brands have performed with retailers.

And I think that speaks to the strength of our brands in what we're doing. I think with our strong backlog, it's showing a commitment on the part of our sale partners and their commitment to our brands that we are resonating with consumers and our products are selling through well and that's further demonstrated really by the clean inventory.

Jonathan R. Komp

Analyst, Robert W. Baird & Co., Inc.

Q

That's all very encouraging to hear. Best of luck.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Okay. Thanks, Jon.

David Powers

President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Thanks, Jonathan.

Operator: The next question comes from Sam Poser with Susquehanna. Please go ahead.

Samuel Poser

Analyst, Susquehanna International Group, LLP

Q

Thank you for taking my questions. I have a few. First of all, your Teva business, you're getting a lot of press there. So could you give us some idea given the switch of Teva over to a distributor model, sort of what the

wholesale equivalent sales would look like both in, let's say, the fourth quarter results and in the full-year guidance?

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah. In terms of switching, we didn't give that number out. It's probably about I would say kind of \$5-ish million.

David Powers

President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

\$5 million.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah. So it's important I would say to the brand and they are overcoming that with what we're providing in our guidance. And so that's why kind of again on the surface, what might not look like significant growth, the brand is still growing because they're overcoming really that switch.

Samuel Poser

Analyst, Susquehanna International Group, LLP

Q

Just in Europe?

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah.

David Powers

President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

And you'll see positive improvements from a unit perspective as a result of that but obviously the revenue hit is being overcome.

Samuel Poser

Analyst, Susquehanna International Group, LLP

Q

Thank you. And then, secondly, two things with HOKA, number one, could you talk about other collaborations that you're working on or success or not success of what you've had recently? And then also, as the business grows, I mean, sort of what are the step-ups as far as getting more scale to even potentially [indiscernible] (00:51:09).

David Powers

President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Yeah. I think some of the collaborations that you've seen, Engineered Garments and a few others, those have been successful at creating energy and excitement for the brand with a broader consumer base.

And I think it's important to keep in mind that brands are seeking out HOKA because they want to work with HOKA because of its performance positioning and its authenticity in the running space. They'll continue to do that in a very strategic and selective way. We're not looking to use collaborations as a huge revenue driver. I think that the brand is not in that situation right now.

We still want to remain true to this core running, community and performance-based authenticity of the brand. So we'll use those and we'll continue to do those at the high end of the distribution chain and using key partners to bring some of that product from a lifestyle perspective to the marketplace. But the real focus remains on the Performance categories and continue expand that.

Right now, with your question on growth, we're seeing tremendous success with the current distribution strategy. We think that's right and continuing that for the short term or at least through the next couple of years and really driving improvements in their E-Commerce channel where we can continue to cultivate the life term value of that consumer. So we know there's bigger opportunities out there in big box and broader distribution. We're keeping an eye on that, but we think the right thing right now is to grow this brand strategically in a healthy way with high margins and high sell-through and create some demand and desire for the consumer versus blowing this out to a broader distribution at this time.

Samuel Poser

Analyst, Susquehanna International Group, LLP

Q

So that wasn't my question. My question really was from a production capacity. You had a big growth, 40% growth, going to get 25-ish growth next year. And it sounds like – so at what point do you hit a scale of production of number of shoes in the market where you can do even better on the price. I was more talking about from a sourcing perspective like that. I mean do you have step-ups as far as number of players in the market that you would then get better pricing on as the brand grows?

David Powers

President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Yeah. We've been working with the same partners over the last few years strategically with a couple partners that can handle the complexity of the product and the – improving innovation of the product over time and that relationship has been great. And they have the ability to scale up as our business grows. They are seeing the potential of the HOKA brand. They're excited about it. They're willing to invest in additional sourcing of production facilities to do that.

And that's one of the benefits of a strong platform at Deckers that we have great partners who see our potential and are willing to invest and grow with us over time. So that hasn't surfaced as a concern from our supply chain teams and the brand. And I think we're well-positioned to sustain this level of growth from a sourcing perspective.

Samuel Poser

Analyst, Susquehanna International Group, LLP

Q

And then last two. Europe and Asia, how long will they take to sort of get on the platform, the brand platform that the U.S. is on? You talked about working on the UK. And then secondly...

David Powers

President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Yes.

Samuel Poser

Analyst, Susquehanna International Group, LLP

Q

...how much demand within your guidance, like, I mean, how much demand do you think you left on the table last year and sort of how much within your guidance you perceive you're leaving out – you'll leave on the table with UGG I guess in the U.S. more so than outside U.S. this year?

David Powers

President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Yeah, I think – this year we just came off a healthy set of meetings last week with the international teams and talking about the game plans for international business. Europe and China are very different markets. One is the mono-brand market and one is obviously a complex wholesale market. So they require different strategies. But both of those will receive attention this year. I think that you'll see – start to see a turnaround in the business coming out of this year and going into FY 2021, returning back to growth in a healthy way.

Samuel Poser

Analyst, Susquehanna International Group, LLP

Q

Thank you very much and continued success.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Thanks, Sam.

David Powers

President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Thanks, Sam.

Operator: The next question comes from Rafe Jadrosich with Bank of America Merrill Lynch. Please go ahead.

Rafe Jadrosich

Analyst, Bank of America Merrill Lynch

Q

Hi. Good afternoon. Thanks for taking my question.

David Powers

President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Sure.

Rafe Jadrosich

Analyst, Bank of America Merrill Lynch

Q

I just wanted to follow up a little bit on Europe, can you talk about what are the changes you're making in the segmentation strategy will be similar to the U.S.? Do you have a lot of distribution that you need to close and then what would be the revenue impact for this year?

David Powers

President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Yeah. It's very much similar to what we did in the U.S. and we've been cultivating a little bit of some of the new distribution in the UK particularly following what we did with accounts like Foot Locker and Footaction and Urban Outfitters in North America. So, we started some of that last year. I think the best way to think about it is it requires a pullback of inventory in the marketplace, it requires a repositioning of the Classic – core Classic business in that marketplace through marketing PR and events to highlight in a new way for that consumer. And then segment product by accounts similar to what we did in North America.

So we have an existing distribution network there that works very well for us, making sure that they are differentiated from some of the new accounts we're bringing on that are focused on a younger, more sports lifestyle consumer and then augmenting that with the appropriate marketing in both those channels. In all honesty, we pulled back on marketing a little bit last year in order to make sure that we're driving profitability in the right areas. Part of the reinvestment in marketing this year is focused on the UK marketplace in particular to bring back heat and energy to that business and then a tight control distribution with the segment and offering is the formula that we're employing and has worked well in North America.

Rafe Jadrosich

Analyst, Bank of America Merrill Lynch

Q

Okay. Thank you. And then in terms of HOKA, can you talk about the international opportunity and maybe what's the mix of domestic versus international today and how do you see that changing?

David Powers

President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Yeah. I think as you saw, we grew 59% internationally last year. In HOKA, it continues to be incredible upside in that market. There's strength and momentum in the European market. We have healthy distribution there. The brand is in a premium positioning and selling through well. And as we expand into new categories, you're going to see continued growth in Europe.

China is early, early days. We don't have awareness there yet, we don't have a direct business really established to go after that market in a healthy way yet. So that's down the road. But, we are seeing real strong success year-to-date or so far in Japan where the brand is very – positioned very well and as you know seen as a really desirable Performance running brand in that marketplace.

So I think the mix, I'll let Steve speak to the exact mix or what that business looks like today. But we do see international being a significant driver of growth going forward, inclusive of E-Commerce in those markets as well.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah. I mean, roughly on the mix, it's about two-thirds kind of domestic, one-third international at this point...

David Powers

President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Yeah.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

...with both areas still growing...

David Powers

President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Still growing.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

...internationally.

David Powers

President, Chief Executive Officer & Director, Deckers Outdoor Corp.

Yeah.

A

Rafe Jadrosich

Analyst, Bank of America Merrill Lynch

Okay. Thank you. And just the last question for me, you've been pretty aggressive buying back your own stock the last couple of years. What's sort of the strategy for share repurchase going forward? And I know it's not baked into your guidance or anything, but how should we think about it?

Q

David Powers

President, Chief Executive Officer & Director, Deckers Outdoor Corp.

Thanks Rafe.

A

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

Yeah. So we don't include any share repurchase in our agreement. As you know, we've recently expanded it in January to \$350 million. We still view share repurchase as a great way to drive value back to our shareholders. We've been more aggressive as of late, really over the last two years. We think the \$350 million gives us further opportunity. We don't comment specifically on intent to repurchase but again see it as a great way.

A

Rafe Jadrosich

Analyst, Bank of America Merrill Lynch

Okay. Great, thank you.

Q

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

Okay.

A

Operator: The next question comes from Tom Nikic with Wells Fargo. Please go ahead.

Tom Nikic

Analyst, Wells Fargo Securities LLC

Hey, everybody. Thanks for taking my question. I just want to ask about the DTC channel. I know you're guiding to flat to slightly positive comps, but how should we think about store closures and any quantification around loss revenue related to the store closures would be tremendously helpful. Thanks.

Q

David Powers

President, Chief Executive Officer & Director, Deckers Outdoor Corp.

Yeah, there is embedded in the guidance a little bit of loss revenue as a result of store closures. There will be net-net more closures than openings in FY 2020 and we're having great E-Commerce strength which is offset by a softness in retail stores. So, you're seeing that in the guidance for DTC. We're continuing to optimize the retail fleet, getting to the right level of stores that we think is best for the brand and the business overall to cover that –

A

that touch point for the consumer. Retail will remain an important part of our strategy going forward, particularly as we're showcasing additional categories and on global scale. So, we're still in the optimization mode of the retail fleet but I think we're making great progress. I know we're making great progress.

What we need to focus now on going forward is improving the experience in the store, driving traffic and leveraging that to help drive the E-Commerce business over time.

Tom Nikic

Analyst, Wells Fargo Securities LLC

Q

Got it. And then, just one quick follow-up on the investments this year, which should drive, I guess – the SG&A growth is a little bit higher than what we've seen in the last few years. Could you just remind us of what some of the big areas of investment are? I would imagine some of it is demand creation for HOKA and just various other initiatives. But just sort of a high-level overview of what the investments are going towards would be great. Thanks.

David Powers

President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Yeah. Happy to do that. So the biggest investment this year is around marketing. It's a combination of really three things: One is UGG to drive interest in growth in emerging categories, as well as I mentioned earlier, a little bit in the UK to reboot that market. HOKA is another beneficiary of invested dollars in marketing this year. We're seeing great return on ad spend in the HOKA brand as well as creating awareness and buzz at a high level at the top of the funnel. We're going to continue to invest in that business because we believe there's potential – tremendous potential upside for the brand and it's all about getting shoes on feet because we've learned that once you get a shoe, the HOKA brand on someone they become consumers for a long time and then we can really build on that. So it's a global approach for both of those brands are really driving awareness of new categories in HOKA for a long-term growth.

In addition to that, we're really focused on enhancing our digital marketing capabilities. We're adding some new capabilities this year around personalization for our consumers and our websites and social media. And then just better data and analytics capabilities from an IT perspective to be able to use some of those real-time insights so we can make quicker, more nimble decisions on marketing and product to market. So it's a combination of those three areas from marketing and IT perspective, and then, also investing in innovation across all of our brands. I think you saw the success of one of our most innovative products recently which is the Carbon X, a great example of how the innovation is working within the brands and feeling excitement and upside potential for all of our brands. We're going to continue to invest in that area of the business as well.

Tom Nikic

Analyst, Wells Fargo Securities LLC

Q

All right. Sounds good. Best of luck this year.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

A

All right.

David Powers

President, Chief Executive Officer & Director, Deckers Outdoor Corp.

A

Thank you.

Operator: This concludes our question-and-answer session and the conference has also now concluded. Thank you for attending today's presentation. You may now disconnect.

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