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Deckers Outdoor Corp. (DECK)

Q3 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and thank you for standing by. Welcome to the Deckers Brands' Third Quarter Fiscal 2023 Earnings Conference Call. At this time, all participants are in 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, VP, Investor Relations and Corporate Planning. Please go ahead.

Erinn Kohler

Vice President-Investor Relations, Corporate Planning & Business Analytics, Deckers Outdoor Corp.

Hello, and 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 current and long-term strategic objectives, changes in consumer behavior, strength of our brands, demand for our products, product distribution strategies, marketing plans and strategies,

disruptions to our supply chain and logistics, our anticipated revenues, brand performance, product mix, margins, expenses, inventory levels and promotional activity, and the impact of the macroeconomic environment on our operations and performance, including fluctuations in foreign currency exchange rates.

Forward-looking statements made on this call represent management's current expectations and are based on information available at the time 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.

On this call, management may refer to financial measures that were not prepared in accordance with Generally Accepted Accounting Principles in the United States, including constant currency. In addition, the company reports comparable direct-to-consumer sales on a constant currency basis for operations that were open throughout the current and prior reporting periods. The company believes that these non-GAAP financial measures are important indicators of its operating performance because they exclude items that are unrelated to and may not be indicative of its core operating results.

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

David Powers

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

Thanks, Erinn. Good afternoon, everyone, and thank you for joining today's call. I'm pleased to be here today highlighting another record quarter for Deckers Brands as our teams were once again able to successfully execute against our long-term strategic objectives to deliver standout results in a dynamic consumer environment. Our fiscal third quarter record-setting results include $1.35 billion in consolidated revenue, reflecting a reported 13% increase versus the prior year and diluted earnings per share of $10.48.

Key areas of progress during the third quarter included HOKA delivering record revenue of $352 million as the brand more than doubled its DTC business, while demonstrating momentum across the product line and significantly increased wholesale through both market share gains and select new strategic access points.

UGG increasing its mix of business in DTC to 60%, up from 54% last year, as the brand drove an 8% increase in the channel. Total portfolio DTC increasing 19% versus last year to represent 52% of volume with both HOKA and UGG contributing to this mix shift, an all-time high for the third quarter, and our international revenue increasing 12% on a reported basis and growing 25% on a constant currency basis when adjusting for the significant FX headwinds.

Deckers delivered exceptional performance in the quarter and continued progress with respect to our long-term objectives. Notably, our brands commanded strong full price selling despite a highly promotional marketplace during the holiday season. While our brands did experience more normalized promotions relative to extremely low levels in the past few years, we were able to avoid significant discounting due to the strength of consumer demand for our products, as well as disciplined marketplace management through our omni-channel approach.

I'm thankful for the leaders throughout our organization who continue to prioritize long-term brand health and remain committed to our strategic pillars, allowing Deckers to maintain top-tier profitability. Our brands are well-positioned for calendar 2023 as we end our fiscal year 2024 in April. Steve will provide further details on our updated guidance for this fiscal year, as well as how we're thinking about the arduous macroeconomic environment.

For now, let's get into the brand highlights for the third quarter, starting with UGG. Global UGG revenue in the third quarter was $930 million, down 2% versus last year on a reported basis but up low-single digits on a constant currency basis. Overall, consumer demand for UGG was strong in the quarter as the brand delivered global gains in DTC across genders and categories, driven by a 21% increase in acquired consumers and a 17% increase in retained consumers.

The UGG brand's healthy DTC performance was offset by unfavorable foreign currency exchange rate impacts across all channels as well as lower wholesale revenue. This wholesale decline resulted from the unique shipment timing dynamics discussed at the outset of this fiscal year, which included an expectation that the third quarter would be impacted.

Specifically, these earlier shipments drove temporarily elevated levels of inventory in the channel. As a result and in line with our marketplace management strategies, the UGG brand's attention shifted to selling through product already in the channel to strategically reduce marketplace inventory, allowing DTC to capture demand upside and limiting the need for excess promotional activity.

From a style and franchise perspective, UGG continues to find success with fresh updates of iconic styles. Throughout the year, consumers have continued to migrate to fashions that are uniquely UGG, such as the Classic Mini and Tasman, as well as more versatile derivatives of these products.

The consumer demand for these products was quite strong and certain style color combinations even led to out of stocks. Our measured approach to buying aimed at driving improved inventory levels, combined with the high level of demand for these products, led to some scarcity in the marketplace. We see this approach as an effective tool to fuel demand, and we'll continue to optimize our pull model to balance future supply.

With respect to how these styles have performed, we are encouraged to see the continued strength of adoption from the brand's target segment of 18 to 34 year olds. Among this segment in the US, the Classic Short remain the top seller, but the strongest growth came from the Classic Mini and Ultra Mini styles, which ranked second and third, respectively.

Platform Classics were also extremely popular with this age group, likely resulting from the brand heat generated through unpaid product gifting to A-list celebrities, which helped drive the #platformuggs as the brand's number one social trending topic in the quarter.

Among 18 to 34-year-old males in the US, UGG brand consideration reached an all-time high in the third quarter. UGG is increasingly seeing this segment of consumers adopt versatile slipper hybrids like the Tasman and Classic Slip-On, as consumers continue broadening the wearing occasions of iconic styles.

Beyond these hybrids, male consumers gravitated towards heritage winter boots, such as the Butte, as well as weatherized versions of iconic styles like the Neumel. Brand heat remains at an all-time high based on the exciting new products designed for the brand's target audience.

Supplementing these fantastic in-line products our teams develop each season, UGG continues to build fashion credibility through collaborations, the most recent of which was with designer Shayne Oliver, the founder of Hood By Air. Shayne's futuristic take on UGG Classics was covered by several high-profile outlets, including Vogue, Complex and Hypebeast. These aspirational styles continue to drive excitement in the line and bring awareness to a new audience of consumers.

From an international standpoint, UGG showed growth on a constant currency basis despite revenue being down versus last year on a reported basis. This was led by DTC, as acquired and retained consumers in the channel each grew 38% versus the prior year. International wholesale was down versus last year, as UGG lapped the supply chain disruption, which pushed additional shipments into the prior year's third quarter.

Strength in the UGG brand's international regions is largely attributed to the successful ongoing marketplace reset activities completed over the last few years, which included a revamped approach to product and marketing, helping drive greater synergies and product adoption across the globe.

Overall, we are very pleased with the performance of UGG this fall. The brand continues to attract new consumers and drive more business through direct-to-consumer with their loyalty program that now has amassed over 7 million members worldwide.

We feel great about the brand's ability to offset more normalized promotional activity through a strategic shift in channel mix, which also helped to reduce marketplace inventories heading into the spring 2023 season. We expect UGG to finish the fiscal year in a position of strength, as demand for the brand's compelling products that are resonating with the consumers globally has never been stronger.

Shifting to HOKA, global revenue for the third quarter was $352 million, representing an increase of 91% versus last year on a reported basis, another quarterly revenue record for HOKA. Just two quarters ago, we celebrated HOKA achieving $1 billion of revenue on a trailing 12-month basis. And with the quarter just delivered, the brand has now eclipsed $1 billion of revenue over the last nine months ended December 2022.

HOKA growth in the third quarter was driven by share gains with run specialty accounts in the wholesale channel as product flow improved this year relative to last, allowing HOKA to increase sell-through, added points of distribution with select strategic accounts as the brand has been slowly expanding throughout the year.

Global DTC revenue more than doubling versus last year, as consumer acquisition and retention increased 95% and 109%, respectively, and a favorable comparable period as wholesale shipments were disrupted in the prior year due primarily to port congestion. We believe the FLY HUMAN FLY marketing campaign has been a key catalyst for the HOKA brand's DTC strength throughout the year, which has driven a higher growth rate than wholesale in each quarter thus far this fiscal year.

During the third quarter, targeted marketing activations in Chicago and New York City helped drive a 22% increase in brand awareness, a 27% increase in consideration, and a 33% increase on purchase intent in these markets over the next six months. We also believe these markets have seen a halo effect from the additional brand visibility created by pop-up stores, which have continued to perform well for HOKA. In particular, we saw significant gains among 18 to 34-year-old consumers, who in the US and EMEA drove the largest year-over-year increase of any age group during the third quarter.

We have been increasingly encouraged by the broad product adoption from females in this coveted demographic, who appear to be actively searching hoka.com for what is new and exciting on a regular basis, giving us confidence in the investments we are making to build brand awareness globally.

The all-new Solimar cross trainer is a perfect example of this trend. The Solimar launched earlier this fall without significant marketing dedicated to the shoe but still landed in the top five of styles purchased by females aged 18 to 34 years old in this quarter. HOKA is also resonating well with males in this demographic but we see a great deal more opportunity to further expose the brand's product depth by testing access points to specialize in serving this target consumer.

Importantly, even with the expansion beyond run specialty distribution, the brand is hyperfocused on delivering in that core channel as well. According to aggregated US run specialty store data, during December, HOKA increased market share by 5 percentage points versus last year, delivered the highest average product turns, and maintain a gross margin well above the channel average.

In terms of our wholesale partner access points in the third quarter, we are extremely proud of the HOKA brand's performance as they continue to build market share in a highly competitive marketplace. With the strength of consumer demand for the brand, HOKA was able to maintain its high percentage of full-price business even with the incremental access points for strategic accounts. Though early days in some of the brand's new doors, the feedback on HOKA performance has been exceptional.

On the product side, HOKA has continued to introduce award-winning footwear. In October, HOKA was featured in the 2022 Men's Health Sneaker awards with the Bondi 8 being chosen for the most comfortable cushion and the Kaha 2 GORE-TEX noted as the best hiking sneaker boot. In addition, Outside Magazine published its winter gear guide for 2023, selecting the Mafate Speed 4 as the best shoe for fast and rugged trail runs.

All of us at Deckers are excited for what is to come for the HOKA brand, starting with a couple of innovative product launches planned for the fourth quarter and more to come in fiscal year 2024 and beyond. In terms of consolidated channel performance in the third quarter, we saw a strong growth in both global DTC and wholesale, but the majority of revenue growth was driven by global DTC, which increased 19% versus last year on a reported basis and 22% on a DTC comparable basis.

DTC strength was driven by impressive global consumer acquisition and retention across the entire portfolio, which increased 44% and 38%, respectively. From a dollar growth perspective, global HOKA DTC volume more than doubled and UGG DTC increased 8% on a reported basis versus the prior year, driving over $100 million of combined incremental revenue.

On the wholesale side, consolidated global revenue increased 8% on a reported basis versus last year. Growth was driven by HOKA brand market share gains in existing points of distribution as well as incremental business from added doors with select strategic accounts. For the total portfolio, the increased HOKA volume was partially offset by lower wholesale shipments for UGG, where the brand focused on selling through existing inventory to reduce the need for promotional activity.

Evidencing this success and illustrating the underlying brand heat during the season, UGG wholesale unit sell-through in the US increased mid-single digits in fall 2022 as compared to fall 2021. With the exceptional demand our brands were able to capture through DTC, combined with the strategic actions taken on the UGG wholesale front, our third quarter DTC mix increased from 50% last year to 52% this year.

In the third quarter, our brands achieved the highest DTC mix ever for our historically largest quarter, which represents great progress towards our long-term objective of a 50% mix of DTC business for the entire fiscal year across the portfolio.

Alongside our disciplined omni-channel approach, I would like to shout out our amazing design teams that continually bring compelling new products to market. The combination of these talented teams creates the exceptional experience with our products that consumers have come to love and expect from our brands.

With that, I'll turn the call over to Steve to provide further details on the third quarter performance and an update on our fiscal year 2023 guidance.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

Thanks, Dave, and good afternoon, everyone. Adding to Dave's remarks, I would like to express how encouraged we are with the performance of our brands as we continue to operate in a very dynamic consumer environment.

We are fortunate that our two largest brands are very healthy, improving resilient in a highly competitive marketplace due primarily to their differentiated and compelling product offering. While HOKA continues to drive incredible growth, as again shown this quarter, UGG was able to deliver relatively flat reported revenue as compared to last year's record revenue, in a much more difficult consumer and macroeconomic environment that included a significant foreign exchange rate impact.

In constant currency, the UGG brand delivered growth of low-single digits in the quarter. Our organization's continued commitment to long-term strategic decision-making and disciplined approach to spending in an unchartered environment propelled Deckers to yet another record quarter.

Now let's get to the specifics of the third quarter financial performance. Third quarter fiscal 2023 revenue was $1.346 billion, representing an increase of 13% versus prior year. On a constant currency basis, revenue grew 17.5% versus last year.

Growth in the quarter was driven by continued expansion of HOKA, which more than doubled its global DTC business through impressive increases in consumer acquisition and online retention and increased wholesale revenue by 83% versus last year due to market share gains and select increased points of distribution with strategic partners. HOKA also benefited from an easier comparison to last year's third quarter when wholesale shipments were disrupted by inventory delays that resulted from port congestion.

Gross margin for the third quarter was 53%, which is up 70 basis points from last year's 52.3%. The most material drivers of gross margin in the quarter were a significant benefit from reduced freight costs, which was partially offset by unfavorable foreign currency exchange rates as compared to the prior year period.

Additional gross margin impacts in the quarter, included benefits from favorable channel mix with DTC growing faster than wholesale, favorable brand mix as the sales of our HOKA brand increased, and price increases implemented at the end of last year. These were partially offset from more normalized promotions and closeout activity for UGG relative to minimal discounting last year.

SG&A dollar spend in the third quarter was $350 million, up 7% versus last year's $328 million. As a percent of revenue, SG&A was 160 basis points lower than last year, primarily due to benefits in the quarter from foreign currency re-measurement, but it still remains a headwind in the fiscal year-to-date through December and a lower

ratio of marketing to sales as we shifted the timing of HOKA campaign spend into the fourth quarter to align with the launch of spring 2023.

Our tax rate was 23.7%, which is higher than last year's 20.5%, primarily due to jurisdictional mix of business. These results, combined with favorable interest income relative to last year and a lower share count drove earnings per share to $10.48, which is more than $2 and 24% higher than last year's $8.42 per share.

Turning to our balance sheet. At December 31, 2022, we ended this fiscal third quarter with $1.058 billion of cash and equivalents. Inventory was $723 million, up 31% versus the same point in time last year, primarily to support the continued growth of the HOKA brand, which was light on inventory in the prior year due to factory delays with some offset from UGG inventory being down year-over-year. And during the period, we had no outstanding borrowings. During the third quarter, we repurchased approximately $45 million worth of shares at an average price of $350.25. As of December 31, 2022, the company had approximately $1.46 billion of remaining authorized for share repurchases.

Now, moving to our updated outlook for full fiscal year 2023. We are increasing our full year revenue guidance to be up 11% to 12% from our previous range of up 10% to 11%. This increase now equates to a full year revenue range of $3.5 billion to $3.53 billion. This is being driven by HOKA upside as the brand continues to exceed expectations in DTC and build market share across global wholesale access points.

Reflecting this update, HOKA growth is now expected to increase in the low-50% range for the fiscal year 2023 as compared to fiscal year 2022, implying more than $450 million of incremental revenue versus last year. The HOKA brands increased fiscal year revenue guide now implies a second half growth rate in the high-40% to low-50% range with total dollar volume that is slightly greater than the first half, reflecting the brand's balanced revenue across the year.

Due to last year's supply chain disruption that impacted quarterly wholesale revenue timing, the HOKA brand's growth rate in the fourth quarter will be lower than the brand's typical run rate. With that said, we expect to see continued robust DTC demand from consumers driving strong growth in that channel.

UGG revenue is still expected to be down mid-single digits on a reported basis, implying a year-over-year decline in the fourth quarter as the brand laps abnormal events in the prior year. As a reminder, in the fourth quarter of last year, UGG had late arriving fall inventory, which wholesale customers would historically cancel, but instead kept their orders, preferring to procure inventory on the earlier side for the future seasons. This resulted in additional growth in the prior year fourth quarter that is not expected to be repeated. Additionally, UGG DTC benefited from backorder product that shipped in January last year.

Further, of all our brands, UGG is the most globally exposed brand, and as a result, continues to face the most significant headwinds from an unfavorable foreign currency exchange rates as compared to last year. Beyond our increased revenue outlook for full fiscal year 2023, gross margin is still expected to be approximately 50.5%, SG&A as a percentage of sales is still expected to be approximately 33%, operating margin is still expected to be in the range of 17.5% to 18%, our effective tax rate is still expected to be approximately 22% and our increased diluted earnings per share is now expected to be in the range of $18 to $18.50.

As a reminder, due to the disruptive nature of how the second half of last year played out, the company pushed hard to improve the availability of our products earlier this year, and that strategy has served us well. And due to this push, more products shipped earlier this year and that combined with currency headwinds have placed pressure on the reported percentage growth in the fourth quarter.

With that said, we believe viewing our increased expectation for the full fiscal year more holistically is a better measure of the progress our brands are making. In this context, we are delivering on what we said and have continued to increase our full fiscal year outlook, despite a harsher impact from foreign currency fluctuations as compared to initial expectations at the outset of this year.

Please note, this guidance excludes any charges that may be considered one time in nature and does not contemplate any impact from additional share repurchases. Additionally, our guidance assumes no meaningful deterioration of current risks and uncertainties, which include, but are not limited to, further supply chain disruptions, constraints and related expenses, labor shortages, inflationary pressure, changes in consumer confidence and recessionary pressures, further strengthening of the US dollar and geopolitical tensions.

As we approach the end of our fiscal year, I wanted to provide further context around the state of our business. On logistics, the level of disruption, delays and corresponding freight costs relative to the same point in time last year has continued to improve, though they remain elevated versus pre-pandemic levels. While the ongoing outbreak in China is not currently impacting footwear production or transit times in a material way, we are experiencing some minimal operational hurdles, and we'll continue to watch this situation closely.

In terms of inventory, we have continued to see improvement in the ratio of inventory growth to sales growth over the last few quarters, as was signaled in our expectation throughout this year. While still working to optimize levels, we feel good about our current inventory position, which is up over last year to satisfy increased HOKA demand. We still anticipate unique year-over-year comparisons based on disruption in the supply chain, as well as the dynamics of the HOKA brand's increasing mix of both revenue and inventory, especially as it's more even quarterly revenue cadence compared to UGG.

Regarding promotional activity, as we have discussed over the last few quarters, the marketplace has become increasingly influenced by higher levels of markdown activity. While our brands have maintained a high percentage of full-price business, there has been a return to more normalized levels of promotion experienced prior to the pandemic, particularly with the UGG brand. HOKA has largely avoided additional discounting beyond the historical model update flow.

Given the dynamics of the marketplace, which is dealing with higher channel inventory, we are well positioned having managed inventory into the wholesale channel, while leveraging our DTC capabilities, selling earlier and at higher margins, gaining share and exceeding our original expectations on the year.

On currency, we have continued to experience impacts on our results from unfavorable foreign currency exchange rates. In the fourth quarter, we are expecting an approximate impact of $20 million to revenue and our expected headwind for the full fiscal year 2023 remains at approximately $100 million.

Finally, as we finish out our fiscal year 2023 and look to deliver another exceptional year, we are also reflecting on the actions we took to manage our expense base and the trade-offs made to deliver these results. While we are not yet providing guidance for fiscal year 2024 and as our business expands, we will continue to review and invest in those areas that will drive the organization forward, especially as we start to see gross margin expansion. In this highly competitive environment, those further investments will support talent, innovation, technology and enterprise infrastructure, which are all critical to our continued success.

Thanks, everyone. And now I'll hand the call back to Dave for his final remarks.

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

Thanks, Steve. We are proud of our strong results and ability to navigate a challenged consumer landscape through our marketplace management strategies tailored to each of our unique brands. Exiting the holiday season, we are encouraged by and have great confidence in the strength of our brands and the exciting future ahead. With the brand heat we're seeing on HOKA and UGG in particular, we feel Deckers is well positioned. Both brands operate on a pull model, and we believe the strong relationships our brands have built with key wholesale partners will serve us well.

Deckers' strategic brand marketplace management, omni-channel capabilities and flexible operating model continue to be the driving forces behind our company's sustained success. But Decker's success is ultimately made possible by the hard-working employees who go above and beyond to deliver consistent results aligned with our long-term strategic goals.

Thank you, everyone, for joining us on the call today, and thanks to all of our stakeholders for your continued support. We look forward to sharing more as we continue to build towards Deckers' exciting future.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] And at this time, we will pause momentarily to assemble our roster. And our first question today will come from Laurent Vasilescu with Exane BNP Paribas. Please go ahead.

Laurent Vasilescu
Analyst, Exane BNP Paribas

Q

Hi everyone. This is [indiscernible] (00:30:40) on for Laurent. You guys hear me okay?

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

A

Yeah.

Steven J. Fasching
Chief Financial Officer, Deckers Outdoor Corp.

A

We can hear you.

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

A

Welcome.

Q

Great. Thanks for taking our questions. Wanted to start on the wholesale side, up 8% in the quarter. I think last quarter, you talked about the channel being down slightly in 2H. Can you maybe just talk about what you're seeing in that channel? How it's progressed versus 90 days ago?

Steven J. Fasching
Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah. You're talking about second half or Q3, Q4, what specifically are you talking about the quarter?

Q

Wholesale up 8% in the quarter, but I think you spoke to wholesale being down slightly in 2H on the last call. Just any color you can give on whether that's still the view or if something has changed?

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

A

Yeah. I'll let Steve get into specifics. But I think a lot of this and you will explain this in more detail as the call goes on, but it's just the timing of deliveries versus last year. So that's the big part of the dynamic and then shifts between Q3 and Q4. But, Steve, I don't know if you have more color on that.

Steven J. Fasching
Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah. I think when we get into the quarterly discussion, it's a little bit about what we alluded to at the beginning of the year. We knew that given coming out of, again, Q4, just to remind everyone, where we ship product last year in Q4 that was going to impact Q3 and Q4 of this year in terms of wholesale growth. So we took the opportunity to sell product in. We have wholesale customers participating and wanting to hold some of that products that they didn't sell in Q4, which we knew would impact Q3 and Q4 of this year.

So I think as we see Q3 and Q4 play out, it's much to our expectation and a little bit better, which is why we are increasing our full year outlook. We knew kind of between quarters, there would be some disruption in the current year, again, why we didn't guide quarterly. But I think continuing to see strong demand with our wholesalers, this is a bit of an impact from pandemic and supply chain disruption experienced last year still playing through this year. It is impacting how we see wholesale growth in the current year, but we knew that, right?

And it goes a little bit back to the point I made in the prepared remarks, which was we were going to take every opportunity to get product in early in the year to make sure that we have an opportunity for strong sell-through during the season, which is exactly what we've seen. And our brands continue to perform well and resonate with customers.

So both on the UGG side and especially, as you can see in the numbers on the HOKA side. So, again, really pleased with our performance. Again, I don't want to get hung up on quarterly percentage changes because really we're measuring the health of the business on the year and that's our outlook on the raise for the year.

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

A

Yeah. And I think, just as a reminder, Q3 last year, we were in some cases starved for inventory, and we brought inventory that we could have sold in Q3, brought it in Q4 for both UGG and HOKA, and wholesalers were happy

to take it at that time. And particularly for UGG, they were happy to fill up on kind of core styles knowing that they would carry it into Q3 this year, and that dynamic has played out, but now we're comping those increased shipments in Q4 last year.

But overall as Steve said, the brands are very healthy. Full price sale throughout our wholesale partners is strong and the demand from them is still there. But keep in mind, they're also working through an inventory situation, a lot of promotional activity in the marketplace and then working through their own inventories. So they're careful about who they bring in for brands. And fortunately, our brands are very, very strong. So they're prioritizing us, but they still have a lot of inventory from other brands to work through in this environment.

Q

Okay. Got it. Very clear. And then, on HOKA, if I could just ask a follow-up. You mentioned expanding through strategic access points on wholesale. Could you maybe just give a little more detail on that, what the opportunity looks like there to expand HOKA in the wholesale channel outside of specialty running and kind of what the strategy is there? Thanks.

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

A

Yeah, I'm happy to talk about that. And this is, I would say, on a global scale, we are very selective of who we sell [ph] HOKA to (00:35:08) in wholesale. We're always prioritizing the run specialty channel. That's our bread and butter and the authenticity of the brand. But we're strong in places like [ph] REI (00:35:17).

We've expanded doors in DICK'S in the third quarter. And as we mentioned on the call, that's growing very well. We're in a handful of Foot Locker doors. But right now, we're not really looking to expand too many more doors in wholesale. We're focused on healthy sell-through and expanding categories. And then as we saw in Q3, DTC is exceptionally strong, and we want to continue to drive growth strategically in wholesale, create awareness, get in front of the right consumers but ultimately drive as much business as we can through DTC because for all the right reasons, margin, consumer data, lifetime value. So it's a healthy balance, and this is a good reflection of our strategy towards ultimately being a 50% DTC company. You can see how this is working in this quarter.

Q

Thank you so much.

Operator: Thank you. And the next question will be from Jonathan Komp with Baird. Please go ahead.

Jonathan R. Komp
Analyst, Robert W. Baird & Co., Inc.

Q

Yeah. Hi, good afternoon. I want to ask first just about the UGG brand. It looks like you've had some incredible heat for a few of the styles that were hard to get from the consumer side. So I'm curious just how you view availability in your plans for things like the platforms and the ultra? And then what type of response are you seeing from wholesalers who maybe didn't have much of that product, but presumably would want some at some point looking forward?

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

A

Yeah. I could share with you my inbox of e-mails of people looking for those styles. So I think to take it up to a higher level, as we're managing through our inventory in the UGG brand, we pulled back a little bit on how much we invested in some of these new styles, not anticipating how strong the consumer demand for them would be.

So the platform styles, the Tazz, the Ultra Mini, those styles, in many cases, sold out to the piece. And so we missed some opportunity there. The good news is that wholesalers want more, the consumer wants more. And we've realized that these extended classics and more iterations of core classics that keep our brand DNA intact are resonating very, very well with particularly younger consumers, but I would say all consumers and then on a global scale.

So, you can feel confident that we are going to continue on that path in developing these styles, take advantage of the platform trends, et cetera, as we continue through the year and beyond. So good news is that core classics remain strong and healthy. But some of these new iterations were better than we expected, which is great news, and there's demand on the table and the consumer is hungry for them.

Jonathan R. Komp
Analyst, Robert W. Baird & Co., Inc.

Q

That's great. Then maybe a follow-up set of questions on HOKA. A little bit of a similar question. Could you just maybe elaborate on the strength of the 18 to 34-year-old demographic? What's changed there and maybe accelerated adoption? And then just, Steve, when I look at the HOKA revenue, typically the fourth quarter is a little higher than the third quarter in dollars. So I understand that a year ago comparison looks different, but any reason why the fourth quarter dollars would be down from the third quarter? Thanks, again.

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

A

Yeah. Thanks, Jon. So, yeah, on the HOKA side, we're very happy with these results. I think in the early days of HOKA, we were selling obviously to core runners and beyond, and then some people were using it for comfort and longevity reasons. And the younger consumers weren't really adopting it as part of their own yet, but we've seen that shift change dramatically in the last year or so. In the 18 to 34-year-old category was our fastest-growing consumer segment.

So it's working as we planned, probably a little better than we planned. It's happening a little faster than we planned, but some of the activities we're doing, the collabs, with folks like Free People, et cetera, marketing, but you're seeing teenage girls and boys trading from traditional athletic brands into HOKA and raving about it.

So it's very exciting. And it just expands the breadth of our brand from ages 18 to 80. And I think the marketing and the product teams are doing an exceptional job of creating right product for that consumer, putting it in the right place and showcasing it the right way. And some of the extended work we're doing on the lifestyle side, taking core styles, but different treatments, different materials, different colors that are more kind of lifestyle focused, that's working extremely well, too.

So we think that this is a big unlock for the brand long term. We want to be healthy and meaningful and important to this younger consumer and we're seeing that play out, which is really great.

Steven J. Fasching
Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah. And Jon, this is Steve. On the Q3 – Q4 focus dynamic, again, it goes back to a little bit we're dealing with disruptive supply chain last year, right? So there's a dynamic on the year-over-year comparison in Q3 and Q4. Then to your point on kind of Q4 versus Q3 this year, as we've had more inventory availability, we've been putting that into the marketplace. At the same time, we know as Dave said, there is more products in the marketplace.

So we want to control the marketplace. We'll look and see how the brand continues to grow. It's going to continue to grow. It's a little bit disproportionate in percentage terms again because of how we're making those comparisons to last year. But this is a little bit to our marketplace management. We also have new models that are being introduced in Q4. So there's some change in some of the wholesale deliveries in the quarter.

But again, this is a brand that's continuing to grow overall solid growth plan for the year, a little bit choppy between quarters and strong demand that we continue to see that wholesalers are demanding products. So managing the DTC business, managing the wholesale business, managing the marketplace, recognizing what's going on there. I wouldn't get too concerned over the Q3, Q4 dynamic. We've just got choppy quarters going on in this year.

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

A

Yeah. And I think from a consumer perspective, they don't know the quarterly ins and outs, but they're seeing the product that's selling through very well at full price and the demand is certainly there.

And I think you have to pull back and look at the full year results of this brand and especially the way both of our brands in Q3 performed in a very challenging environment, FX pressures, promotional environment, and to come out with this rate of high-level – high-price full price sell-through, healthy margins and still momentum and demand in the marketplace, that's what we're focused on. And so, we see this continuing and the brands, as I said before, have never been in a better place. The brand heat that we see in UGG and HOKA are exceptional. And we're going to continue to build on that and invest in these brands for the long term.

Steven J. Fasching
Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah. And then, I think just the last thing and we'll move on. But I think the demand that we're seeing for HOKA is highlighted in, again, our raise for our full year outlook. So that raise is being driven by the increased demand that we're seeing for HOKA. Again, just speaking to the strength we continue to see with HOKA and how it's resonating in the marketplace.

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

A

Yeah. And particularly international.

Steven J. Fasching
Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah.

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

A

Yeah.

Jonathan R. Komp
Analyst, Robert W. Baird & Co., Inc.

Q

That's great. Thanks again.

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

A

Thanks, Jon.

Operator: The next question will be from Paul Lejuez from Citi. Please go ahead.

Paul Lejuez
Analyst, Citigroup Global Markets, Inc.

Q

Hey. Thanks, guys. Just maybe on HOKA, if you can talk about a little bit more detail in terms of how much of the growth is being driven by existing accounts versus your new distribution partners. Any more color you can give around that? And then second, just curious how much has pricing been a driver in the sales change at each brand? And maybe whether that looks different within DTC versus wholesale? Thanks.

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

A

Yeah. Good questions. I would say for HOKA, the majority of the growth is coming from existing accounts outside of some expansion in Q3. In DICK'S stores, there really wasn't a lot of expansion in new doors globally. So we're continuing to gain market share. You saw that in the pre-recorded comments, and that's happening across the board. It's not just in run specialty. So strong full price sell-through, healthy margins for the retailers, great presentations in wholesale, but we're getting better at it as we go. And the wholesale accounts are realizing the power of this brand. And so the majority of that is coming from existing accounts at this point, which again goes back to the brand marketplace management and just speaking to the right consumer. What was the other question, sorry?

Paul Lejuez
Analyst, Citigroup Global Markets, Inc.

Q

Price – The pricing.

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

A

Oh! Pricing. Yeah, sorry. We have raised prices in both brands this just past Q3 and coming into the fall period, and we didn't see any – I mean really any resistance to that. And obviously, evidenced by the sellout of some of these UGG styles and some of the price increases in HOKA, we haven't really seen a slowdown in sell-through. And so I think the product is worth it. The brand is meaningful and important to these consumers, and they were willing to pay full price even though some of the prices were higher.

Paul Lejuez
Analyst, Citigroup Global Markets, Inc.

Q

What was the magnitude of the increase year-over-year, if you can share that?

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

A

Yeah, I think it was like overall it was about 8% across both brands.

Paul Lejuez
Analyst, Citigroup Global Markets, Inc.

Q

Got it . Thank you.

Steven J. Fasching
Chief Financial Officer, Deckers Outdoor Corp.

A

On...

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

A

Yeah. On select styles. Okay.

Steven J. Fasching
Chief Financial Officer, Deckers Outdoor Corp.

A

On select styles.

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

A

Select styles.

Steven J. Fasching
Chief Financial Officer, Deckers Outdoor Corp.

A

Again, we didn't do – we didn't raise price on everything.

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

A

Correct. Sorry. Go ahead.

Steven J. Fasching
Chief Financial Officer, Deckers Outdoor Corp.

A

We raised price on certain select styles. And to Dave's point, that was call it around 8% on the styles. And it wasn't all at the beginning of the year. It was some styles on HOKA at the beginning of the year, and then it was some product in UGG on the fall season. Yeah.

Paul Lejuez
Analyst, Citigroup Global Markets, Inc.

Q

And is that an even higher number when you adjust it for mix? Are you introducing higher price files into the assortment generally?

Steven J. Fasching
Chief Financial Officer, Deckers Outdoor Corp.

A

The pricing is up a little bit, but not, I wouldn't say significantly different.

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

A

No. In UGG, when we're also doing more slippers and Tasmans at a little bit lower price in the classic and some of the minis, it may affect the total average price across the board, but I think we're providing excellent value and quality for the price. And I think the consumer sees that, and it's resonating strongly with them and willing to pay it.

Paul Lejuez
Analyst, Citigroup Global Markets, Inc.

Q

Got it. Thank you. Good luck.

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

A

Thank you.

Operator: And the next question will be from Tom Nikic from Wedbush. Please go ahead.

Tom Nikic
Analyst, Wedbush Securities, Inc.

Q

Hi, everybody. Thanks for taking my question. I just wanted to ask about UGG. So, obviously, the last couple of years have been fairly wonky between COVID stuff and supply chain and the dynamics on wholesale. But I mean, when you kind of think about UGG on a more normal basis or a long-term basis, like how should we think about the growth of that brand? I mean, what is it, you think a mid-single-digit grower? Is it a high-single-digit grower under normal times, like just I think given how wonky things have been the last year, I think it's hard to sort of wrap your head around what the sort of normal algorithm is for this brand.

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

A

Yeah. I mean, certainly, we're still dealing with the normalization of the business from COVID, and some of that is related to refilling the marketplace of inventory coming off the peak and balancing that out. And so, right now where we sit right now, we're probably looking at low-single digits, just to be prudent and as we reset the marketplace. I am very excited about the product pipeline and the new leadership under Anne and the way the design teams and the marketing teams are collaborating globally for this brand. We're getting better at this every day.

And so I think the opportunity is there. But we're still trying to navigate and make sure we set the marketplace correctly. Right now, it's extremely well-managed globally. The inventories are clean and healthy. We have some inventories a little bit to work through here and there. But the long-term outlook for this brand, I think, is exciting. But I would say where we sit now in the shorter term, we're looking at low-single digits, knowing that the

environment and the global macroeconomic situation is still a little bit challenged, different than HOKA, because that's more of a hyper growth.

And a lot of people haven't heard of the brand yet across the globe, where UGG is obviously a household name, and it's about fine-tuning the product assortment, being meaningful to each of the consumer segments and managing the marketplace globally, while driving a healthy DTC business to improve margins.

Tom Nikic
Analyst, Wedbush Securities, Inc.

Q

Understood. And if I could just follow up on margins real quick, so I think you did talk a bit about normalizing promos but – or normalizing discounts or whatever, but on the gross margin, it would seem like there would be some kind of good guys over the next 12 months as well, kind of freight rolling off, and FX, I guess, turns from a bad guy to a good guy and channel mix and brand mix, et cetera. So it definitely seems like there's a fairly bright gross margin outlook. Like, how should we think about the drop through to EBIT margins? And I know you want to invest in the growth of the brands, but can we see EBIT margins creep higher over time?

Steven J. Fasching
Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah, Tom. This is Steve. I'll take that one. And you know we're not giving guidance yet. And it going a little bit to what I said in the prepared remarks. So we are experiencing improvements in gross margin. You're seeing it in Q3. As you model it in, you'll see it in Q4. That's largely coming from the freight. So you are right. We're seeing freight rates come down in the current quarter. Q4, we're going to benefit from that. We're seeing that increase.

Overall, there still is an FX headwind. So for the year, as you can see in our guidance, we are lower on a gross margin basis. We'll continue to see some improvement with ocean freight, but it's going to be at lower levels than what you're seeing come through in the current quarter. So there will be to your point a little bit of a tailwind. We'll see what happens with currency, right? Currencies turned more beneficial to us in kind of mid-to-late Q3. We're seeing some of that, but it's still down from a year ago.

So to your point, we'll see what happens. There is a potential there for some improvements that could contribute to the gross margin. But as I also said, we've tightened our belt this year to deliver on what we guided. We held off on some investments within the business to continue to deliver within that range of guidance.

And so we're evaluating. And while we haven't given guidance on next year, we do expect there will be some gross margin expansion, and we're going to use that to invest in the business, especially in the competitive nature of where this business is and what we're doing with our brands. And so that investment is critical to keeping us relevant and leading in this space. So that is clearly something we are going to do with some of that gross margin expansion.

Now, as I've said before, right, when there's an opportunity and we see strong business, is there opportunity to reflect some of that upside, yeah. And we did do that a couple of years ago. But first, we're going to make sure that we're looking at some of this gross margin expansion, investing it in the business because it's proving well. We're delivering exceptional results. We're well above many of our peers in terms of our operating profit. So we got to keep continuing to invest in this business. So, yeah, there is, but there's also investments that we have to make in this business.

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

A

Yeah. Yeah.

Tom Nikic
Analyst, Wedbush Securities, Inc.

Q

Thanks guys and best of luck this year.

Steven J. Fasching
Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah.

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

A

Thank you.

Steven J. Fasching
Chief Financial Officer, Deckers Outdoor Corp.

A

Thank you.

Operator: And the next question will be from John Kernan from Cowen. Please go ahead.

Krista Zuber
Analyst, Cowen & Co. LLC

Q

Hi, this is Krista Zuber on for John. Just wanted to circle back on the inventory question in terms of kind of where you see or how – what your level of comfort is on the inventory levels by channel, DTC and wholesale? Thank you.

Steven J. Fasching
Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah. I think the – so speaking to our inventory, we – this is something we indicated at the beginning of the year that it was something that we would be working through this year, and I think we've demonstrated that. Inventory levels have improved. As we've said in the prepared remarks, again, inventory level on UGG actually decreased, again signaling some of the work that we've been doing and the improvement efforts that we've been making.

What we're also doing is increasing our HOKA inventory. So when you got a quarter that's growing 90%, you got to have inventory to service those sales. So we have been increasing inventory – I think in terms of – as we look out further, there's still opportunity to optimize inventory levels. But when we look at the relationship of inventory to sales growth, it's coming much more in line. We feel comfortable about our inventory.

There's always room for a little bit of improvement. We'll continue to work on that improvement as things begin to normalize, especially with the supply chain. But where we sit today with everything that's going on with the growth of our brands, we feel comfortable about our inventory position, and we'll continue to work to optimize those levels.

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

A

Yeah. And I would say from a channel perspective, I think the channel is in good place with inventory. We were able to fill the bucket, so to speak, in UGG last year, and we're getting back inventory in key styles and HOKA. So I think it's in a very healthy place and that's reflected in how DTC exceeded wholesale growth in the quarter, still healthy sell-throughs globally. So, again, credit to the teams managing the marketplace in this environment. But I would say from a brand health and a marketplace – and a market channel perspective, things are in good shape and in addition to what Steve said about how we're managing it on our own levels.

Krista Zuber
Analyst, Cowen & Co. LLC

Q

Thank you.

Operator: And the next question is from Sam Poser with Williams Trading. Please go ahead.

Sam Poser
Analyst, Williams Trading LLC

Q

Good afternoon, Erinn, I know, and thank you guys for giving part of what I always ask, but Erinn, could you give us the whole thing, please, for wholesale or DTC?

Erinn Kohler
Vice President-Investor Relations, Corporate Planning & Business Analytics, Deckers Outdoor Corp.

A

Hi, Sam. Sure thing. So for the quarter, global wholesale, including distributor by brand as well, I'll give you. So for UGG, that would be $374 million. For HOKA, $224 million. For Teva, $25 million. For Sanuk, $3 million, and then that gives you other, which is predominantly Koolaburra, $20 million.

Sam Poser
Analyst, Williams Trading LLC

Q

Thank you. And Steve, I just want to – I want to commend you. I think you should run for President given your answer to Jon Komp's question. So I'm going to ask it again. Could you give the – if you look at the DTC business and if you look at the wholesale business historically, Q4 for HOKA has accelerated from Q3. So the question is, do you anticipate that Q4 HOKA revenue will be higher than Q3?

Steven J. Fasching
Chief Financial Officer, Deckers Outdoor Corp.

A

Well – and I think [ph] Jon (00:56:01) answered that question, right? So when you take the numbers in, given what we sold in as well as what we sold through our DTC, we're not expecting that on Q – growth on Q3. Again, you've got dynamics that are underlying between quarters, right?

And that's why I want to be careful that people aren't so focused on Q3, Q4. As I said, we're managing this business for the year. It's why we have not this year given quarterly guidance. We know we've got dynamics within quarters this year where we're trying to get more products in early and that, as I said before, has worked well for us, right?

So we want to make sure we have the right perspective of how the business is trending. Now, when you then look at mix, right, that's going to play an impact on revenue reported. So when we're looking at volumes, right, volumes

are little bit different due to the channels that we're selling in. Our guide equates to similar volume levels. But again, I want to be careful that people aren't so focused on a Q3, Q4 dynamic. It's the full year, right? And we're coming out of a quarter where we grew the brand 90%. There is demand out there.

So, again, we're going to get product in. We're going to get it in there. We want to make sure it has an opportunity to sell-through and then we'll see what happens. And then, again, we have tremendous confidence in HOKA and – but at the same time, we're managing the marketplace. We know that there are a lot of competitors that have a lot of inventory within the wholesale channel. We don't need to contribute to that confusion. We've got a brand that's red hot that continues to perform well. This goes to our marketplace management. So brand is in great shape. I don't want people to get worked up about a Q3, Q4 dynamic.

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

A

Yeah.

Steven J. Fasching
Chief Financial Officer, Deckers Outdoor Corp.

A

That's not what we're talking about now.

Sam Poser
Analyst, Williams Trading LLC

Q

Well, I understand. And I'm not trying to get worked up, just we're trying to model this properly. The question though is, as you talked about, I think, Dave you spoke – I have one more after this, which is related to UGG. But with HOKA, you spoke about some new – some shoes you sounded pretty excited about that are launching in Q4. And now is this a situation because of the scenario that Steve just mentioned that you would launch it in direct-to-consumer first maybe in Q4 and then launch at the wholesale in Q1? I mean, is that – so, is that what you're thinking about? I mean, as far as manage, how you bring things to market, where – I mean, I'm just trying to understand it because...

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

A

Yeah.

Sam Poser
Analyst, Williams Trading LLC

Q

...if you're bringing in brand new products and the demand is real high, then those retailers want your product and it really will probably take away from some other brand, not necessarily from you and theoretically not make things worse.

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

A

Yeah. I think what you're looking at a little bit is some of those launches in Q4 had to ship in Q3 to be in the marketplace in time. And then also I talked about the Solimar and also the new transit that just wants today. Those are small buys and small volume drivers in a first introduction. So heavily weighted on DTC, wholesalers want to see performance in your own channels before they invest heavily. So, yes, they're exciting. Yes, they're

new, Yes, there's still some market share from competitors, but the scale of those on the business at this point are still small. And then some of that inventory has also shipped in Q3, which is why you see the 90% increase.

Sam Poser
Analyst, Williams Trading LLC

Q

Got you. And then on UGG, given the guidance, I would assume that you're going to have a big swing on wholesale in the fourth quarter, which is really about the big increase that happened in Q4 last year.

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

A

Right.

Sam Poser
Analyst, Williams Trading LLC

Q

But can you just – and since it is not on a relative basis, it's your second smallest quarter, can you give us some direction on how to think about the wholesale for UGG in the fourth quarter? I mean, does it have a negative – is it a negative 20 handle or negative 30 handle or negative – give us something there that can – because it sounds like the wholesale is going to be down much more than the DTC, though the DTC is probably going to be down a bit?

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

A

Yeah. I mean I think DTC, there was exceptional results in DTC in Q3. As we said, some of those really hot styles have sold out and we're selling [ph] fumes. The Goldenstar (01:00:41) has been a new introduction in Q4 that is already selling out. So there's hot demand for some of these styles, but as we've been managing our inventory levels, we didn't buy as heavily into some of these new styles yet, not anticipating that kind of sell-through.

On the wholesale side, yeah, they still have inventory left over from what they purchased throughout the year, more in kind of the core classics. They're still struggling with hot new styles, just like we are in DTC, but you're going to see it down in the 20% to 30% range for the quarter. But again, if you look at the market sell-through and the health of the brand in the marketplace, that's what we're focused on. And it's tough, I understand you're trying to model quarters, but it's a funky dynamic, wonky as one person already said. And – but I think we got to go back to like what is the health of this brand and how are things selling through and...

[indiscernible] (01:01:32)

Sam Poser
Analyst, Williams Trading LLC

Q

Well, again, I mean the UGG costs of being down in Q4, you had so much that shifted from Q3 to Q4 last year, and you brought more of it in Q3 this year. And so that's not really – that's a different scenario than health. That's not expected. It's just more a matter of try to triangulate where it is. So, thank you.

Steven J. Fasching
Chief Financial Officer, Deckers Outdoor Corp.

A

Yeah. Yeah.

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

A

Absolutely.

Operator: And our final question today will come from Chris Nardone with Bank of America Merrill Lynch. Please go ahead.

Christopher Nardone
Analyst, BofA Securities, Inc.

Q

Hi, guys. Good afternoon. Can you talk a little...

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

A

Yeah.

Christopher Nardone
Analyst, BofA Securities, Inc.

Q

...bit about what you're seeing on the ground in China for both your UGG and HOKA businesses? I mean if you can elaborate maybe on your specific expansion strategy for HOKA. And then if there's any way to quantify the potential build back you can see in the UGG business given the lockdowns over the last two to three years. Thank you.

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

A

Yeah. Sure. It's hard to comment on things right now in this quarter, but I think coming out of the year-to-date so far in China – listen, I give our teams over there, the leadership, the management team, the way they have managed the last three years in that marketplace with all the challenges from COVID and lockdowns and consumers not being able to spend, I think we're in exceptional shape in our brands as we – considering the marketplace. So the brands are strong. They're healthy. They're in demand. The marketing tactics that we're employing for both brands over there being more locally relevant, the collabs that we're doing in UGG, the fashion partnerships, reaching a younger consumer, those are all checking boxes and performing extremely well.

I think what you'll start to see, and I was talking to the China team the other night, you're going to start to see consumers come back out. And we feel really good about our chances for the finish of this year and heading into next year. Keep in mind that China isn't a massive business for us yet. We do have long-term aspirations. But I think we're going to see that consumer come back not only domestically, but globally, and that will be an interesting dynamic for us and other brands.

But we like the way we're set up. We like the way we're managing the marketplace, the way we're resourcing it. And then specifically to HOKA, so far so good. We've invested in our own stores. We're working with partners on door expansion, creating awareness in the marketplace in an authentic way. And we're going to continue on that path, because we see just tremendous opportunity for HOKA in the long term. And so far, we're seeing good signs from our partners and our retail stores and gives us a lot of confidence that this can be a big success over time.

Christopher Nardone
Analyst, BofA Securities, Inc.

Q

Thanks.

Operator: Ladies and gentlemen, this concludes our question-and-answer session. And that concludes today's call. We thank you so much for joining Deckers Brands' third quarter fiscal 2023 earnings conference call. And you may now disconnect. Take care.