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Deckers Outdoor Corp. (DECK)

Q2 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and thank you for standing by. Welcome to the Deckers Brands Second Quarter Fiscal 2025 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'll now turn the call over to Erinn Kohler, VP, Investor Relations and Corporate Planning.

Erinn Kohler

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

Hello. And thank you, everyone, for joining us today. On the call is Stefano Caroti, 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 fact, are forward-looking statements and include statements regarding our current and long-term strategic objectives, capital allocation, anticipated impacts from our brand and marketplace management strategies, changes in consumer behavior, strength and performance of our brands, demand for our products, product and channel distribution strategies, including direct-to-consumer, plans for and the launch timing of new products, marketing plans and strategies, our supply chain and logistics, our anticipated revenues, product mix, margins, expenses, inventory levels, and promotional activity, the impacts of the macroeconomic environment on our operations and performance, including fluctuations in foreign currency exchange rates, and our ability to achieve our financial outlook.

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 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.

Also during the second quarter, the company affected a six-for-one forward stock split, as referenced in the company's release on September 13, 2024. The share, per share and resulting financial amounts mentioned on this call has been adjusted to reflect the effectiveness of the stock split, including prior period metrics.

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 Stefano.

Stefano Caroti

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

Thank you, Erinn. Good afternoon, everyone, and thank you for joining today's call. I'm delighted to report on our impressive second quarter results today. And with this being my first call as CEO, I'd like to share my approach to driving Deckers' continued success.

The business has come a long way over the past few years, and we are executing on the long-term strategy established throughout my tenure with Deckers. As we look ahead, we're honing on four guiding principles to help us build upon our recent wins and amplify the power of our brands and organization, while remaining true to our proven fundamentals.

Starting off, our consumer-first mindset harnesses insights and feedback to create distinctive products that resonate with the growing audience. Next, our brand-led philosophy for product creation and marketplace positioning leverages our unique brand codes for consistent, elevated experiences that prioritize long-term brand health. Third, we're innovation forward, committed to creating leading edge performance technologies and unique designs that deliver tangible consumer benefits. And finally, we're globally driven, aiming to diversify and build international markets for a more balanced business, expanding regionally and strategically through various channels.

In this new leadership role, I intend to build upon our established foundation. These guiding principles have fueled our successful years, and we are enforcing them as cornerstones of our future growth. With our strong operating model and strategic focus on key opportunities for UGG and HOKA, we're well positioned to drive long-term brand health, prosperity and sustained success.

Now, let's dive into the highlights of our second quarter, which include revenue growing 20% versus last year to $1.3 billion, healthy gross margins of 55.9% and diluted earnings per share increasing 39% to $1.59, compared to last year's $1.14 per share. These excellent results reflect the continued strength of our full-price demand, enabled by innovative products that resonate with consumers, disciplined global marketplace management and thoughtful product segmentation.

Key revenue drivers behind Deckers' first half growth of 21% versus last year include HOKA increasing 32%, UGG growing 13%, total company international increasing 28%, and total company DTC and wholesale both growing more than 20% above last year. With this impressive first half growth, the HOKA brand achieved an exciting milestone, eclipsing $2 billion in revenue over the trailing 12-month period for the very first time. I'd like to congratulate our entire global team for their tireless efforts in building the special brand.

Overall, Deckers' first half results demonstrate our team's execution around the globe. Our brands are well-positioned for the holiday season and on track to achieve an increased outlook for the full fiscal year. Steve will provide more specifics later on in the call, but first, I will share a few brand and marketplace highlights from the first half of fiscal 2025.

Beginning with brand highlights. Global HOKA revenue in the first half increased 32% versus last year. HOKA performance continues to be driven by the strength of full-price demand across multiple categories around the globe. The HOKA team has continued to refine their multi-category offense, which is powered by core focus to win the road, dominate trail, and develop fitness and performance lifestyle. HOKA has made great progress in each of these areas through the first half of the fiscal year.

Specific to the run category, HOKA continues to deliver healthy growth in heritage franchises like Clifton and Bondi, while bolstering the assortment with significant newness, incorporating technical advancements that are being well received by consumers and wholesale partners. We're especially encouraged by the early reads of the brand's most recent introductions, Skyflow and Mach X 2.

Skyflow, which, as a reminder, was introduced in mid-July as a co-exclusive with our specialty partners and DTC channel, has received high marks for ride, fit, and feel. Positive global feedback from our partners has highlighted the Skyflow's additional contribution to the existing HOKA road offering.

Mach X 2 incorporates updated geometry inspired by the HOKA brand's pinnacle road racing shoe, the Cielo X1, as well as an upgraded plate in the more aggressive rocker profile which results in a lighter and faster shoe. HOKA celebrated this launch with a Mach Speed Challenge on Strava, leveraging the brand's new Fifth Avenue flagship store in New York City for consumer engagement, with additional activations at the Berlin Marathon and the upcoming Frankfurt Marathon and Oxford Half.

In the trail category, HOKA continued to see broad adoption on the versatile transport franchise, complemented by two powerful updates during the most recent quarter, including the sixth edition of Speedgoat, our most popular trail franchise, and the Tecton X 3, our commercialized version of the Tecton X prototype worn by the last two champions of the HOKA sponsored UTMB race.

For those of you unfamiliar, UTMB refers to Ultra-Trail Mont-Blanc, the pinnacle event of a global trail running competition, a grueling 106-mile ultramarathon through the French Alps with over 30,000 feet of elevation gain. Just two months ago, our very own senior manager of HOKA Product Engineering and amateur athlete, Vincent Bouillard, won UTMB in his first attempt at the race, becoming only the fifth runner ever to break the 20-hour mark. His victory is an inspiring story, which is emblematic of the HOKA brand's accessibility and the passion our people have for what they do, proving that even those who aren't full-time athletes can compete at the highest levels.

Okay, moving on to HOKA brand's regional market performance in the first half. HOKA continued to experience solid growth around the globe. Our focus to build awareness in under-penetrated international markets has driven results as international revenue growth outpaced the brand's healthy growth in the US. Through the first six months of the fiscal year, HOKA drove particularly strong international growth across all channels, with DTC outpacing wholesale. We continued to see great progress across all key international geographies as HOKA gained market share in the road and trail categories within Europe, according to Circana, engaged with local consumers through elevated community building activations at the brand's retail locations in Paris, London, Tokyo, and Shanghai, and increased share of shoe counts at key long-distance running events across Asia.

At the same time, the US delivered balanced growth across DTC and wholesale, aligned with our strategy for this fiscal year. Within DTC, HOKA continued to drive growth through increases in consumer acquisition and retention, while in wholesale, HOKA benefited from select door increases with key partners who experienced a positive back-to-school season with HOKA. We saw great early reads with consumer engagement and new accounts, and kept brand specialty front-of-mind with the successful co-exclusive launch of the Skyflow. HOKA has exciting new innovations ahead, and we anticipate continued success and growth for the brand through the holiday and beyond.

Shifting to UGG. I could not be more pleased with the UGG brand's year-to-date results. Global revenue in the first half increased 13% over last year. UGG performance was driven by success across key initiatives, including evolving and elevating iconic franchises to resonate with today's consumers, which is reflected by the year-round momentum for the brand's most popular models. Building new icons, highlighted by the increased adoption of the Golden and Lowmel franchises across shoulder seasons, and amplifying international, which delivered growth above the global brand average. The Tasman and Ultra Mini franchises continued to experience full-price demand from consumers around the world, enhanced by our product team's dedicated focus to keep these franchises special.

The UGG team has done this by allocating core colors and championing new seasonal colors, building complementary silhouettes like weather hybrids and platform variations, and driving heat through aspirational collaborations, including recent launches with Collina Strada and Gallery Department. UGG is experiencing momentum with the Golden and Lowmel franchises. In the first half, both of these landed in the brand's top 10 styles ranked by revenue, each contributing meaningful year-over-year growth.

Additionally, both of these styles are driving consumer acquisition, an encouraging sign for the UGG brand's continued evolution. We view both franchises as highly wearable year round, with opportunities for expansion coming to the product assortment for spring 2025. The UGG brand is also expanding its reach to male consumers, focused to win with product that infuses the comfort expected of UGG with confidence and style.

Recently, UGG announced Grammy nominated musical artist Post Malone as an ambassador for our men's business. UGG will activate this partnership as part of a global campaign, including digital videos and the Feel House experience in Los Angeles.

Moving into some regional highlights for the first half as we head into the peak UGG season. As expected, growth in the first half has been led by international regions, which have maintained high levels of demand through lean inventory management.

Europe season is mirroring last year's trend, with an earlier start to UGG season and consumer demand. This has driven exceptional DTC growth in the region, with first half revenue nearly doubling compared to two years ago. Wholesale performance was also robust, fueled by premium partnerships that elevate brand presentation and enhance consumer experience.

Turning to Asia. Despite a more pressured consumer environment, UGG continued to perform well through the first half across wholesale and DTC. The UGG brand's business in the region has continued to benefit from the success of transitional styles that resonate year-round, especially with the emergence of the Golden Collection.

In the US, UGG continues to perform well, with a majority of first half revenue growth coming from wholesale sell-in, as we allocate more product to the channel and our partners are looking to get into stock earlier. Wholesale sell-through was strongest among accounts that primarily serve younger consumers, as UGG remains a popular brand among the 18- to 34-year-old cohort. I want to thank and congratulate the entire global UGG team for their accomplishments this far in fiscal 2025.

Looking ahead, UGG is well positioned to maintain consumer demand through the peak holiday season with an attractive and elevated product assortment. Although we expect a more promotional environment than the exceptionally low levels experienced last year, we're confident UGG will maintain premium levels of full-price selling as it delights consumers this holiday season.

Moving to Deckers' first half channel highlights in the global marketplace. Aligned with our strategy, our revenue growth in the first half has been well balanced across DTC and wholesale. Beginning with DTC, first half global revenue for the channel increased 22% versus last year on a reported basis and 19% on a comparable basis. HOKA continues to drive most of the incremental revenue over the prior year, increasing $100 million with broad strength across United States, international markets, online, and within the brand's relatively limited fleet of retail stores.

UGG DTC also drove strong results in the first half across both digital and physical consumer touchpoints, overall increasing 11% over last year and contributing an incremental $25 million of revenue. As expected, strength in the UGG brand was primarily driven by international markets, with the US also contributing to the growth.

From a global wholesale perspective, revenue for the channel increased 20% versus last year. Both HOKA and UGG drove meaningful wholesale growth, increasing 33% and 14%, respectively. Regionally, international outpaced domestic from a growth rate perspective, but both regions delivered meaningful incremental revenue above the prior year. In all, our teams have continued to maintain a healthy global marketplace, allowing HOKA and UGG to sustain high levels of consumer demand.

Thanks, everyone. I'll now hand it over to Steve to address our second quarter financial results and provide an update to our fiscal year 2025 guidance.

Steven J. Fasching

Chief Financial Officer, Deckers Outdoor Corp.

Thanks, Stefano, and good afternoon, everyone. We are encouraged by the continued momentum HOKA and UGG experienced through the first half of fiscal year 2025. Both brands continued to benefit from their respective well-executed marketplace management strategies that are driving healthy sell-through. HOKA delivered another quarter of exceptional growth, as demand for its innovative performance products remained robust across the global marketplace.

UGG again demonstrated broad-based growth across regions and channels by continuing to captivate consumers with exciting products that feature recognizable brand codes, elevating brand presence globally. Our record second quarter revenue illustrates the exceptional ongoing demand for our brands, and we look forward to carrying this momentum forward as we enter our largest and most complex fiscal quarter.

While we continued to operate in a dynamic consumer environment, our disciplined and nimble operating approach, coupled with our flexible spend model and strong financial framework, continues to enable our brands to capture market share opportunities and progress towards delivering long-term sustainable growth.

Now, let's get into the details of our second quarter results. Second quarter fiscal 2025 revenue was $1.311 billion, representing an increase of 20% versus the prior year on both a reported and constant currency basis. Growth in the quarter was primarily driven by HOKA, which increased 35% versus last year to deliver record quarterly revenue of $571 million as a result of exceptional demand across the brand's global marketplace.

The HOKA brand's growth in the quarter benefited from a high concentration of new product launches during the quarter, as well as some earlier wholesale and distributor shipments relative to the prior year. UGG grew 13% versus last year, delivering broad-based growth across all regions and channels, as the brand continues to resonate with consumers globally, and also benefited from earlier wholesale shipments in the US.

Across both HOKA and UGG, we continue to see retailers looking to get product on their shelves earlier than in prior years, in response to strong consumer demand for our brands. During the second quarter, our distribution center teams were highly effective in managing increased shipment volumes to our wholesale partners, particularly at the tail end of the quarter. We expect this incremental benefit in the second quarter will impact some of our third quarter growth, as we continue to manage the marketplace tightly to maintain a pull model.

Gross margin for the second quarter was 55.9%, up 250 basis points from last year's 53.4%. Second quarter gross margins benefited from favorable brand and product mix, as both our highest margin brand HOKA and our higher margin products within UGG and HOKA drove a larger percentage of growth, and reduced closeouts to the wholesale channel, with partial offsets from increased freight and channel mix, with an increased proportion of distributor business resulting from earlier shipments to our global partners.

SG&A dollar spend in the second quarter was $428 million, up 19% versus last year's $358 million, as we continue investing in key areas of the business. As a percentage of revenue, SG&A was slightly below last year at 32.7%. Our tax rate for the quarter was 24%, which compares to 23.8% for the prior year. These results culminated in diluted earnings per share of $1.59 for the quarter, which is $0.45 above last year's $1.14 diluted earnings per share, representing EPS growth of 39%.

Turning to our balance sheet. At September 30, 2024, we ended September with $1.23 billion of cash and equivalents. Inventory was $778 million, up 7% versus the same point in time last year. And during the period, we had no outstanding borrowings.

During the second quarter, we repurchased approximately $104 million worth of shares at an average price of $152.09. As of September 30, 2024, the company had approximately $685 million remaining authorized for share repurchase.

Now, moving into our updated guidance for fiscal year 2025, we are increasing our expectations for revenue growth, which is now expected to be approximately 12% above last year to $4.8 billion, which compares to the prior guidance of approximately $4.7 billion. From a brand standpoint, we now expect HOKA to increase approximately 24% versus last year, reflecting the continued strength of demand around the globe, and we still expect UGG to grow mid-single digits.

With the strong gross margin achieved in the first half, we are increasing our full year expectation to now be in the range of 55% to 55.5%, recognizing brand and product mix benefits and maintaining our expectation for freight headwinds and a more promotional environment in the second half relative to last year's exceptionally low levels.

SG&A is now expected to be approximately 35%, aligned with our commitment to continue investing responsibly to support the long-term sustainable growth of our business. With these adjustments, we now expect an operating margin in the range of approximately 20% to 20.5%. We are updating our effective tax rate to be in the range of 23% to 23.5%. And as a result of our improved revenue and gross margin expectations, we are increasing our diluted earnings per share expectations to now be in the range of $5.15 to $5.25.

Please note, this guidance excludes any unforeseen charges that may be considered nonrecurring to our ongoing business or impact from any future share repurchases. Additionally, our guidance assumes no meaningful deterioration of current risks and uncertainties, which may include, but are not limited to, changes in consumer confidence and recessionary pressures, inflationary pressures, fluctuations in foreign currency exchange rates, supply chain disruptions, and geopolitical tensions.

Our powerful brands, coupled with our strategic marketplace management and robust financial profile, gives us the conviction to achieve our updated outlook for fiscal year 2025, even in the face of macro pressures impacting the broader retail space. With our incredible first half performance by the HOKA and UGG brands, two of the strongest in our industry, I am confident in the strength of our model, as we are well positioned to continue gaining market share and deliver sustainable future growth.

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

Stefano Caroti

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

Thank you, Steve. HOKA and UGG delivered outstanding first half results, thanks to our disciplined marketplace management and pull model strategy, maintaining strong consumer demand.

As HOKA has now surpassed $2 billion in trailing 12-month revenue, we're focused on growing global brand awareness to reach the next $2 billion. Our aspiration remains for HOKA to become a leading performance athletic brand through meaningful innovation. At the same time, UGG is focused on delivering growth through the evolution and elevation of iconic franchises, while also building new icons. As we continue building both of these powerful brands, we'll prioritize the long-term health and success of our portfolio.

For the Deckers organization overall, we remain focused to continue executing our long-term strategies, remaining true to our fundamentals and prioritizing our guiding principles outlined earlier. This approach will enable us to continue driving growth and delivering value for years to come.

To conclude, I'd like to express my appreciation for our dedicated employees who continue to execute our strategies while upholding Deckers' values, including our company's focus to do good and do great. I would note that, among other things, Deckers was recently recognized by Newsweek as one of America's Greenest Companies for the third consecutive year. Further, I'd like to thank our valued retail partners who continue to champion and elevate our brands on this growth journey, and our shareholders for their continued support.

On behalf of our management team, thank you for joining us today.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question comes from the line of Jay Sole with UBS. Please go ahead.

Jay Sole
Analyst, UBS Securities LLC

Q

Great. Thank you so much. I want to ask about HOKA. Obviously, raising the guidance, very strong growth. Just talk about the impact of some of the higher priced styles that you've introduced this year, the Skyward X, the Cielo X1. And just talk about not just what those are doing for top line growth, but also what they're doing for the brand and how it's allowing you to continue to expand this brand and extend it into new ways and new channels. Thank you so much.

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

A

Yeah. Thanks, Jay. All our pinnacle products that we introduced this past year, over the past six months, have performed even better than we expected. And I'm referring to Cielo X1, the Skyward X, and most recently, Tecton X. So, for the first time, we have really cracked the $200 and above price point. So, we're very, very pleased with the performance of our pinnacle innovation styles.

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

A

Yeah. I think, Jay, and this is Steve, just to kind of add on to that. This is part of our strategy that you've heard us talk about kind of now for several quarters and a couple of years is, as we continue to penetrate the market and expand distribution, this is where, and to your point, those new styles become really important. So, as we continue to resonate in a performance community, we're also with some of our expanded distribution able to use some of that existing product as we move out into bigger box distribution.

And so to Stefano's point, where we're seeing success with these new styles is very encouraging. You're seeing how it's not only growing top line, but it's also improving our margin profile for the brand. And that's some of what you're seeing come through in Q2 and some of the encouragement that we're seeing that gives us an increased outlook from a margin standpoint on the full year outlook on the gross margin. So, many things, I think, working in concert, everything that we've talked about before.

This is just to continue how we're playing out that HOKA strategy, how we continue to build the brand, build elevated performance product that continues to resonate with consumers in that run specialty channel. That also allows us to expand distribution in other points where we can have existing product that has also continued to resonate with products. So, everything, we're playing out, and I think even as you're seeing with the results encouraged by some better-than-expected performance within Q2. So, really encouraged. And I think Q2, again, just demonstrates the strength of the brand and how well it's resonating with consumers.

Jay Sole
Analyst, UBS Securities LLC
Q

Got it. Steve, Stefano, thank you so much. Very helpful.

Operator: Your next question comes from the line of Jonathan Komp with Baird. Please go ahead.

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

Yeah. Hi. Good afternoon. If I could ask a follow-up on HOKA, you raised guidance to 24%. Just given that the first half the growth was 32%, could you give us a little more detail how you're planning the second half? And any more perspective on how we should think about channel or geography performance would be helpful.

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

Yeah. Thanks, Jon. It's Steve again. I'll take the first part, and Stefano, if you want to jump in on it, too. But I think, again, it's how we played out the year. So, if you think about what we said at the beginning of the year, remember that we've said the majority of our percentage growth was going to come in the first half of the year, and that's really what's played out.

So, we knew in the case of HOKA, as we were bringing out new styles, there would be strong sell-in. I think we're, as we said in the first question, kind of encouraged with the sell-through of that product and how it's resonating with consumers. But what we knew is by selling that in and some of the wholesale expansion, so as we increase the number of doors that we were selling to in the first half, that was going to create higher percentage growth in the first half, right? We start to see that settle back down a little bit in the second half, which is playing out exactly again to what we thought.

I think what has encouraged us is the slightly better performance that we're anticipating. And then to your point, that's what's giving us the confidence to increase our outlook on HOKA going now to 24%. But again, we want to control that distribution too, right? So it's not just chasing everything. It's very thoughtful, it's very strategic, how we think about who we're going to go in with and kind of what doors we get to select with those partners. So, that's kind of where we're at.

I think the other thing, and Stefano mentioned it also, is very encouraged by how well we're doing internationally. So, not only do we continue to gain share in the domestic marketplace, we are very encouraged by the progress that we're making on the international front.

Stefano Caroti
Chief Executive Officer, President & Director, Deckers Outdoor Corp.
A

Yes. And specific to international, we still have plenty of runway both in run specialty and run-focused accounts. What is very, very encouraging is that some of the new accounts we have recently opened, whether it's Shoe

Palace and JD here in the US, or even existing distribution with additional doors, are performing very, very well with the brand, both here in the US as well as internationally.

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

Q

Okay, great. And then, Steve, one more follow-up, just that modeling for the back half on the gross margin. I want to follow up there. I understand the assumptions that you're embedding, but are you seeing sort of any signs of pullback in full-price selling at this point? Just curious sort of what you observe in the marketplace. Or is that more of a forward-looking assumption that you're baking into the guidance? Thank you.

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

A

Yeah. Good question. It's a bit more of a forward assumption. We're still early, right, and we know things, I think, are probably a little bit more challenged approaching this holiday season generally macro speaking. And so we are being a little bit more cautious with our assumption around the promotion that we anticipate we will see.

I think there's a couple of things that we're also considering in some of that expectation in the second half gross margin. One is we've got more product in the channel this year than we did a year ago. So, recall that Q3 last year, many of our wholesale partners were running out of product. Some of that increased growth that you saw in Q2 is us selling into that channel. So we know that there's a little bit more product sitting in the channel. So, we'll see. Again, still very early on in the holiday season kind of how that plays out.

And then on the HOKA front, as we're going to have some new product introductions in Q4 and Q1 of FY 2026, we anticipate there may be some inventory that, in a normal course, you'll promote some of the older styles to move through that inventory as you bring in some of the new products.

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

Q

Really helpful. Thank you.

Operator: Your next question comes from the line of Laurent Vasilescu with BNP Paribas. Your line is open.

Laurent Vasilescu
Analyst, BNP Paribas Exane

Q

Hey. Good afternoon. Thank you very much for taking my question, Stefano or [ph] David (00:35:16). I'd love to ask about HOKA International. I think on the fourth quarter call, it was commented that international for HOKA is about 30% of the business. Clearly, there's a lot of momentum there. Stefano, where do you want HOKA International to go over time? And maybe can you – for the audience, can you kind of frame like what innings you are in terms of Europe versus Japan versus China, that would be very helpful for the audience.

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

A

Great question, Laurent. International is between two and three years behind the US. And we've adopted the same playbook internationally that has been so successful here. Brand awareness and consideration is in the – awareness is in the mid-20s and in the US we are in the mid-40s. So, plenty of upside for us internationally across all regions from China to Europe and also to our distribution businesses.

Recently, we have sponsored the Challenge Roth, which is the biggest triathlon in the world in Germany, and we see fantastic feedback from consumers in the German market. UTMB, we have an extensive relationship with UTMB. We're now the main sponsor, the title sponsor. And that relationship has also generated a lot of interest behind the brand in the trail space.

So, plenty of upside for us across the globe with existing and newer partners. And of course, our DTC business continues to thrive there as well. So, very, very happy with our progress across the globe. And to your question about where do we expect the business to be, ideally, long term, I'd like to see a 50-50 split between the US and international.

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

A

Yeah. And I think, Laurent, again, this is Steve. Just as we think about that international opportunity is that, as we're seeing improved performance, it's global. But what we were really impressed with was the performance and growth of the international business in Q2. I think it really demonstrates what we've been talking about for a couple of years is how we really focused initially years ago on the North American market, make our product and brands relevant in North America and then export that success internationally. And that's what you're seeing come through right now. So, really encouraged with how our brands are resonating with consumers on a global front and really impressed with the performance of our brands internationally, especially kind of in Q2 and the first half of this year.

Laurent Vasilescu
Analyst, BNP Paribas Exane

Q

That's wonderful. Thank you, Stefano. Thank you, Steve. I would love to follow up. I think, Steve, I think you mentioned you were teasing, there's new products for 4Q. If I remember correctly from the last call, I think the Clifton 10 comes out in the fourth quarter. I think you mentioned just a few seconds ago that we should see some new products with 1Q 2026. I don't know, high level, how do we think about the product extension, the brand extension into other footwear categories or maybe into apparel in a bigger way?

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

A

Yeah. First of all, we delivered a very impressive amount of newness to the market over the last few months, including Skyflow, Skyward X, Mach 6, Mach X 2, I mentioned Tecton X 3, Speedgoat 6, which is our biggest trail franchise, have all been upgraded or new products. In the lifestyle space, we just introduced Stinson Evo, which is an archive product, Mafate Speed Lite, which is a brand new product that is completely sold out in the marketplace, and Elevon X. So the amount of newness and innovation we have been delivering, especially in Q2, hence also the very, very strong Q2, has been very, very impressive.

We have upgrades to our two biggest products, Bondi and Clifton. The Bondi update is going to hit in January and Clifton is going to hit in April. In addition to that, we have – our fastest shoe will be updated. Cielo X1 will be updated to a new product in February. And we have our first foray into cold weather with the Kaha Frost, about to hit the market any day. So, our pipeline is very, very robust. And the reaction from the trade has been very positive.

Laurent Vasilescu
Analyst, BNP Paribas Exane

Q

That's wonderful to hear. Best of luck with the holiday season.

Operator: Your next question comes from the line of Sam Poser with Williams Trading. Please go ahead.

Sam Poser
Analyst, Williams Trading LLC

Q

Thank you very much. Officially, welcome to your first call, Stefano.

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

A

Thanks, Sam.

Sam Poser
Analyst, Williams Trading LLC

Q

Erinn, can we just – can you give me the DTC for each brand, please? Because then I'll get to the other stuff.

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

A

Yeah. Hi, Sam. So for the second quarter just completed, what I can provide is global wholesale and distributor by brand. And so again, for Q2, for UGG, that global wholesale and distributor combined would be approximately $512 million. For HOKA, that's approximately $362 million. For Teva, that's approximately $12 million. For our other brands, which is predominantly Koolaburra, would be approximately $25 million. And then that leaves approximately $2 million for the Sanuk brand, which, as a reminder, would be a partial quarter as we completed the sale of that brand in about mid-August.

Sam Poser
Analyst, Williams Trading LLC

Q

Thank you very much. Okay. I have three, sorry. Can you give us some idea of what the US sales were for UGG and for HOKA? And then, how much of the gross margin headwind is freight versus promotions? And then number three is how much – like, how big is the markdown impact of the Clifton 9 and the Bondi 8 as you move out of that over the next few months? And how much of that do you anticipate of the Clifton 9 – the Clifton 10 will ship in Q3 and how much of the Bondi – or Bondi will ship in Q3 and the Clifton will ship in Q4? Excuse me.

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

A

Yeah. Sam, that's a lot of detail and kind of modeling question. So, I'll approach it more from a high level. We don't necessarily break out to kind of your first question. We just don't give out kind of that level of detail. On the second one related to freight, what we've said is pretty consistent with kind of what we've said is, we would begin to experience freight headwinds in Q2. We did. We think the freight headwinds was kind of in that 70-basis-point area, so a headwind of about 70 basis points. Now, as the numbers indicate, right, we were an improvement of 250 basis points. So that other really came from kind of product mix and an improving margin based largely on kind of the product mix within both HOKA and UGG, as well as some of the composition of the product that we sold.

So then to your point and from a higher level, how we're thinking about kind of the gross margin pressures that we'll experience in the second half. We have not given specifics in terms of how much we think to kind of each style that will be replaced in the quarter. There will be a normal course of promotion as we always do and you've seen in the past when we do updated models. Remember, Clifton and Bondi are the two biggest – some of the two biggest styles within that.

So, we're careful about inventory management as we've demonstrated over the years, but we always know there's going to be some, and we'll promote it. We're not saying kind of to what level that will be. That will be dependent on how much inventory we have and how we're approaching kind of the launch of those dates. So we'll play it out. But there is, to that point, some recognition that we are going to be increasing promotion this year. That's embedded in that second half gross margin decline that we're guiding to.

So, we'll see again how it plays out. We're making some assumptions. We're trying to read what's going on from a macro event. We're trying to anticipate what inventory levels will be. We're encouraged that actually product has been selling in and selling through well, which is contributing to a little bit better expectation on our margin, which is why we're increasing our gross margin assumptions for the year. But we'll see how things play out.

Sam Poser
Analyst, Williams Trading LLC Q

I got one last thing on tariffs. Can you give us some idea of how you're thinking about tariffs going forward, given what's going to happen in less than two weeks from now?

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

Yeah. I think it's an interesting question. We'll see. It's not clear, right? I think you're hearing a lot of noise before an election. Who knows how all that is going to come out? So, really too early for us to see. But if there were tariffs that impacted us, that's something that we'd have to take into consideration. That's not necessarily figured into our guidance right now.

Sam Poser
Analyst, Williams Trading LLC Q

Thank you very much. Continued success.

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

All right. Thanks, Sam.

Stefano Caroti
Chief Executive Officer, President & Director, Deckers Outdoor Corp. A

Thanks, Sam.

Operator: Your next question comes from the line of Dana Telsey with Telsey Group. Please go ahead.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC Q

Hi. Good afternoon, everyone, and congratulations on the nice results. Just wanted to focus on the earlier wholesale shipments. Is it from all categories of wholesale accounts? Does it differ by brand at all in terms of what you're seeing? And does it differ by international and domestic?

And just lastly, on the moderation in growth for UGG going to mid-single digits from the 13% and 14% in the first and second quarter of this year, given the newness that you have, is it – could there be upside to that number, and how are you thinking of new product introductions for UGG for the balance of the year? Thank you.

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

All right. Thanks, Dana. I'll try to attack that a little bit. So, it is a little bit different by brands, right? So I think it's important for the dynamics that we're seeing. And again, we indicated at the beginning of this year that we expected to see earlier wholesale shipments. So, first, if we look at the UGG brand, one of the things that we encountered last year was some earlier shipments, but then quickly selling through that product. And it helped contribute to a stronger DTC performance for ourselves.

This year, as we approach growth with the UGG brand, we have given our partners an opportunity to participate in some of that growth. That has contributed with the success of what happened last year, as well as continued strong demand for our brands, wholesalers continuing to want that product earlier. So, that's contributing to that percentage increase that you're seeing in Q2 because, one, they are continuing to want product earlier; and two, as they're participating in our growth with the brand, you're seeing that higher percentage in Q2. We think that is going to impact kind of the back half as there is more inventory sitting in the channel.

To your question on upside, sure, there's always some. We'll see. I think we are prepared with some inventory with upside opportunities. But again, we operate in a very controlled marketplace. So, we'll be careful about how we work that growth really into the back half should it be there. We are very disciplined again in our marketplace management.

Then, as it relates to growth with HOKA, there, as you recall, what we said is, last year we were very tight with expanded distribution, right? So we were careful about how many more doors we were opening. This year, we have spoken to increasing the number of door counts, right? So, again, as we've seen demand globally increase for the brand, we are opening points of distribution. Again, still far fewer than many of our peers because we are very controlled in that distribution. But what you've seen in the first half is we are opening up more points of distribution, again, very controlled. That is contributing to a sell-in to those accounts and doors, right? So that is lifting that percentage growth in the first half of the year. So, that's where you start to see some moderation of growth in the second half because you're starting to see kind of that inventory sitting in those expanded outlets.

So, much of the expansion happened in the first half as it relates to HOKA. So, that's when you look at it on a full year basis. It's what we said at the beginning of the year. On a percentage basis, the majority of our growth would come in the first half and you would start to see growth moderate, so falling below that annual guide number in the second half as we control the marketplace and took advantage of early demand and strong demand for our product. And we'll see how it plays out, right? Always a little bit of room for some upside, but a lot of uncertainty, as we heard in some of the prior questions, how we're thinking about back half kind of the retail calendar this year versus prior years. So, we'll see. But encouraged with how we started, much in line with what we thought from percentages and a little bit better with the first half performance.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC
Q

Thank you.

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

A

All right. Thank you.

Operator: Your next question comes from the line of Rick Patel with Raymond James. Please go ahead.

Rick B. Patel
Analyst, Raymond James & Associates, Inc.

Q

Thank you. Good afternoon. And I'll add my congrats on the strong execution. Can you double click on your performance in Asia? Obviously, China is top in line with a lot of investors given the tough backdrop there. Curious if you're seeing any changes in performance or you need to make any changes in strategy that are worth calling out. And then also, how do we think about the contribution of Asia to your growth as we think about the rest of this year?

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

A

Specifically China, Rick, we're very pleased with what Olivier and team have done in China market. Our brands are performing well in a challenging economic climate and they connect very well with consumers, their communities. HOKA is now top five in terms of shoe counts and major races, and UGG continues to perform well throughout the country with various styles as a result of local collaborations and influencer relationships.

And as the brands continue to perform, we are able now also to secure greater footprint in major malls with our stores. So, we're very pleased with our China performance, which are in contrast to what is happening with other brands in the marketplace. As regards to Asia, Asia continues to grow at strong double digits for us, and that's the hope for the upcoming few months and seasons.

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

A

Yeah, Rick. And just to kind of add on to that, I think as we've said, Stefano said kind of earlier in the call, as we think about international, right, couple of years, generally speaking, behind what we're seeing in North America. In Europe, we're further along, I would say, than we are in Asia Pacific. And so really encouraged, again, by the strength that we saw in Europe in the first half of the year and especially Q2, very encouraged with what we're seeing in Asia Pacific and China.

I think the thing to note and remember here is we're very small in China. So – and we're well aware of what other brands are saying and some of the challenges that they're encountering in China. We're fortunate to be very small. And a lot of what we're doing is to build community within China. So a lot of sponsorship bringing people in, activities and so forth. And so we have the benefit of being small and now really beginning to resonate with those consumers and grow that brand. So, good time for us to be growing a brand that's very small in China.

But, again, Asia Pacific is a little bit behind Europe in terms of where we're at and distribution. The other thing to remember is distribution is a little bit different in China. We're more direct in China than we are anywhere else. So it's about retail experiences. We have more stores in China than we do anywhere else. So very small but growing and very encouraged by how we're resonating with consumers there. And in part, that's about the marketing and the localization that we're doing to resonate with consumers there.

Rick B. Patel
Analyst, Raymond James & Associates, Inc.

Q

Very helpful. Thanks so much.

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

A

All right. Thanks, Rick.

Operator: And your final question comes from the line of Adrienne Yih with Barclays. Please go ahead.

Adrienne Yih
Analyst, Barclays Capital, Inc.

Q

Great. Thank you very much. And let me add my congratulations. Stefano, I was wondering if you can address, when you were talking about sort of the expansion in the US, what is the door growth strategy with the US national retail partners, specifically DICK'S and Foot Locker? I think you're in targeting, let's call it, 500, maybe half of what DICK'S has and then a much smaller footprint in Foot Locker.

And then, Steve, can you talk a little bit to sort of maybe not numbers, if you don't give it, but the demand creation budget, how you are investing in HOKA versus UGG and where you're deploying those dollars? Thank you very much.

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

A

Yeah. Thanks, Adrienne. It's not our practice to provide door counts related to specific wholesale relationships. We are very selective in our expansion. We continue to be very diligent about the way we manage the marketplace. We are looking at door productivity before we expand. And when we perform, we open a few more doors. So, that has been our strategy. That's what we'll continue to do with the likes of DSG and Foot Locker and others.

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

A

Yeah. And I think then to the second part of your question in terms of how we think about spend and demand creation, and it's a good question. We – as we're performing better, and you've seen some gross margin expansion, we are taking a portion of that to continue our investment in demand creation. And so with two of the best performing brands in the space across the globe, it's important, right, for us to continue to be able to invest behind these brands. So in terms of your question is kind of where, clearly, a lot going on with our top two brands. Stefano mentioned in his prepared remarks some of the things that we've done with UGG and Post Malone, HOKA and some of our sponsorship with UTMB and some marathons and so forth. I think we're going to continue to do that.

What we're also doing is creating more localized content. So as we're seeing improvements and growth in our international markets, we are creating more localized content. So overall, what you're seeing is an increase in our marketing spend as a percent to revenue over the last couple of years. That's afforded to us with some of the gross margin improvements that we're seeing. So, as demonstrated by our outlook and improved guidance, with the improved gross margin, we've taken a portion of that to increase our SG&A. And that's really going behind variable marketing spend to create further demand for our brand.

So, that's how we operate. We're very financially disciplined. We look at it where given an opportunity, we'll take that opportunity. But we're firmly behind backing our brands, increasing local content to resonate with consumers across the globe. And I think you see that paying off.

Adrienne Yih
Analyst, Barclays Capital, Inc.

Q

Excellent. Very helpful. Thank you.

Operator: This concludes the question-and-answer session as well as today's call. We thank you for participating. You may now disconnect your lines.