Deckers

Company Overview

Deckers Outdoor Corporation is a footwear and apparel designer that operates under five main proprietary brands: UGG, HOKA, Teva, Sanuk, and Koolaburra. Deckers prioritizes direct-to-consumer sales via e-commerce websites and retail stores, alongside distribution through domestic and international retailers and distributors. Deckers operates with short term contracts with manufactures allowing them to quickly change and adapt styles to market trends. The stock has spiked recently driven by strong consumer response in global markets and an increase in DTC sales of 23% for Q3, representing 55% of total revenue. Gross margin increased 5% to 58% for Q3, primary driven by higher full price selling, particularly from UGG, strategic price increases in key products and the increase in DTC. Of their primary brands, UGG and HOKA makes up 53% and 39% of revenue, respectively. As of March 31, 2023, they have an e-commerce presence in 57 different countries and a total of 164 global retail stores (including 18 HOKA brand retail stores), which includes 83 outlet stores. On March 3rd of this year, the company launched a new division, AHNU, along with their headline sneaker, Sequence 1. The shoe is available at select premium retailers in the New York and was made available for purchase online on March 14, 2024. In other news, the current CEO decided to leave the company, to be replaced by the current CCO, effective August 1st.

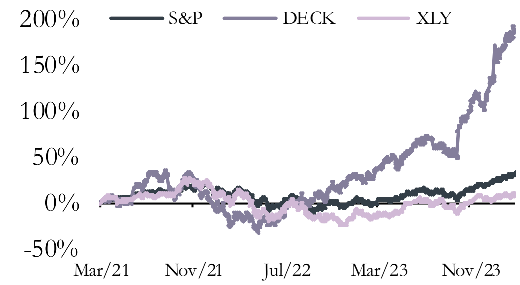
In HOKA, the Clifton 9's has seen strong commercial success and continues to sell-out indicating unmet demand. They also boast Bondi and Mach as two other popular styles with their carbon plate designs seeing less attention from customers. HOKA shoes are known for having greater cushioning and comfort making them ideal for an amateur runner. Popular UGG products included the classic boots, with their new variations like the UGG classic mini II boot and slippers such as the UGG Fluff Yeah logo slide and UGG Fluff It Slide, reflecting the brand's resurgence in popularity thanks to a blend of nostalgia and modern fashion appeal.

Industry Overview

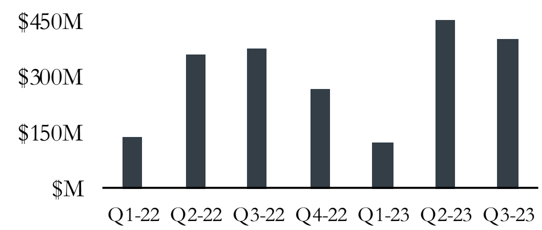
Nike seems to be losing their foothold on the foot industry to modern brands like HOKA. Since HOKA is a relatively newer brand, it is at risk of losing market share to trendy competitors like On. While consumers have shown demand for the product, select wholesale stores have begun to sell at a slight discount, as opposed to UGG with consistent full price sales. UGG is more established and has shown constant growth and customer loyalty with Deckers having greater pricing power due to inelastic demand. The market is highly cyclical with the winter months bringing higher sales and a higher DTC/Wholesale (refer to graph on the second page). Consumers tend to shop more at brand stores then traditional wholesaler's during winter months. As for trends in the industry moving forward, athletic footwear is becoming increasingly more popular, particularly running shoes. Companies are increasingly offering wellness allowances, which are a stipend to spend only on "health" related products driving further demand for athletic shoes. The global footwear market is expected to grow at a 3.43% CAGR until 2028.

Revenue by Segment

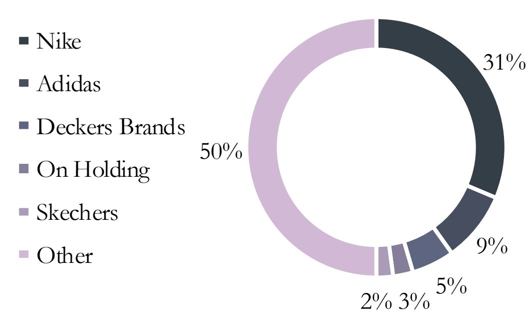
Decker 3yr Growth



UGG Wholesale Revenue



Market Share (Mrk Cap)



Competitors (Mrk Cap)

Nike	Adidas	On
$142.39 B	$39.89 B	$11.27 B

Deckers Outdoor Corporation (Ticker: DECK, Price: $941.26)

Mrk Cap:	$24.16B	P/E (TTM):	34.02x
Revenue:	$3,627M	Beta:	1.01
Gross Profit:	$1,825M	EPS (TTM):	$27.67
Net Income:	$517M	52 Week High:	$956.17
FCF:	$982M	52 Week Low:	$424.36

VIRGINIA TECH SEED

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Deckers

BUY Theses

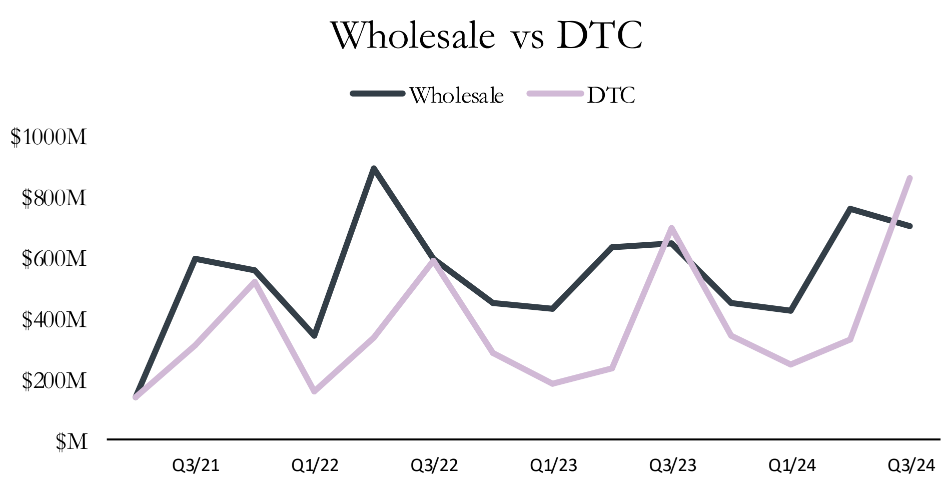
Deckers has shown that it is able to effectively manage its brands and adapt to new market trends leading to its recent success. From a macro perspective, the brand has done particularly well when discretionary spending should be slowing. There has not only been greater spending, but Decker has seen greater DTC with it outpacing Wholesale by its greatest margin ever. This is all to say that the brand will continue to see increases in DTC sales, especially in a lower rate environment. The companies' short term manufacturing contract business model allows them to continuously evolve and release new products. One caveat is that expectations are high for the stock, specifically HOKA, and significant growth has already been reflected in the stock price. HOKA's Q3 growth YoY was 21.9% and has constantly beaten expectations. For Q2, HOKA saw a 27.3% increase in sales YoY but most notably DTC increased 50% leading to higher margins. While expectations are high, there is still significant unrealized growth, especially in international market. I personally recommend we continue to hold Deckers since there is still room to sell past expectations, though the growth rate is expected to slow significantly and there could be more opportunistic alternatives.

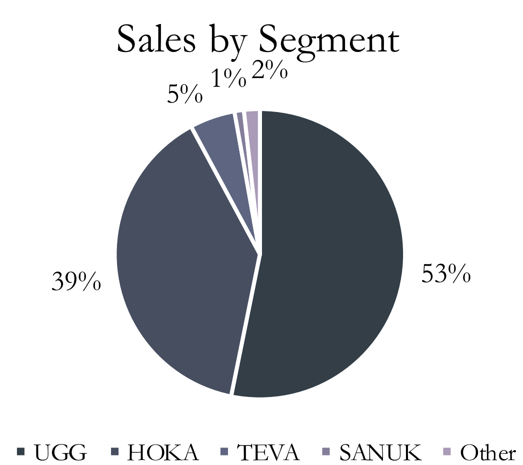
Direct-to-Consumer Focus and Brand Recognition

Deckers DTC primary and outlet store locations will capitalize off their continuous style innovation. With the rate that the company's brands, particularly HOKA, come out with new styles and the limited quantities they are produced at, consumers are almost aways in demand for more. They are able to continuing to push out new styles in primary stores to maintain their luxury status while being able to capitalize of the continued demand for out of season products through their outlet locations. Along with capitalizing off second wave customers, they are building out more locations will add to their high-end brand image. The company has seen increased online search interest and high demand for certain Ugg styles, particularly among 18 to 34-year-olds indicating a greater potential for e-commerce sales. DTC is expected to increase in international markets since only 33% of revenue is currently outside the US. Europe specifically has seen a strong response to HOKA products, and the company plans to capitalize of this newer market by pushing DTC through localized marketing. Deckers has outlined their goal of reaching a 50/50 split between DTC and Wholesale but given resent trends, this could be greater and boost margins higher than expected. In Q3, DTC outpaced wholesale at 53%. In comparison; Nike is at 42% and Adidas is 37%. One thing to note is that the stock price has already reflected expected margin increases but long term, this transition this will allow for increased market penetration which could still drive growth.

Effective Supply Chain Management

Deckers effective supply chain management through individual purchase orders and short-term manufacturing contracts allow them to stay on top of trends and have greater market penetration. Deckers carefully monitors their material supply of sheep skin through forward price contacts far in advance to mitigate inflationary and supply chain risks. The combination of having materials purchased in advance with one time production orders allow Deckers to have greater flexibility in product releases while maintaining low costs. The company plans to continue producing limited quantities as the CEO stated that UGG will strategically start lowering SKU counts. This will allow for the UGG brand to become viewed as higher end and in demand. An example of a new product that is leveraging their supply chain management and limited quantity is the ReImagined by UGG™' collection, which released on March 28th. They have turned surplus materials into new versions of iconic silhouettes like the Tasman and Classic Ultra Mini. This sustainable initiative repurposes excess fabrics, transforming them through creative design into desirable products, further reflecting Deckers effective trend realization.





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