Jan 24, 2020

Deckers Outdoor (DECK)

$175.01 (As of 01/23/20)

Price Target (6-12 Months): **$201.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 01/22/20) Prior Recommendation: Neutral	**Outperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**2-Buy**
	Zacks Style Scores:	VGM:D
	Value: C | Growth: F | Momentum: B	

Summary

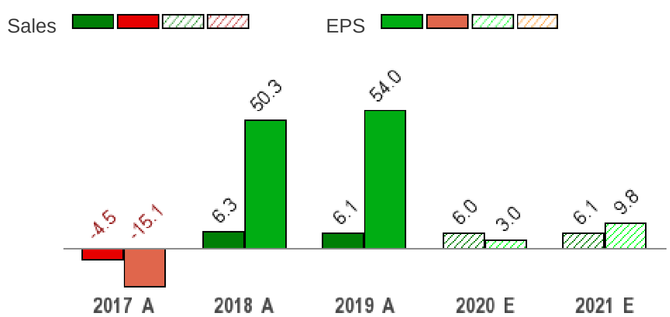
Shares of Deckers have outpaced the industry in the past three months. The company's focus on expanding brand assortments, introducing more innovative line of products, targeting consumers digitally through marketing and sturdy e-commerce along with optimizing omni-channel distribution bode well. These enabled Deckers to continue upbeat performance in second-quarter fiscal 2020, wherein both the top and the bottom lines beat the consensus mark and grew year-over-year. Impressive performance across HOKA ONE ONE, Teva and Koolaburra brands and early shipments with respect to the UGG brands' domestic operations aided the results. As a result, Deckers lift fiscal 2020 view. Although fiscal sales and earnings are anticipated to increase, margins are likely to be soft. Third-quarter earnings is also likely to decline on a year-over-year basis.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	$180.76 - $119.80
20 Day Average Volume (sh)	369,396
Market Cap	$4.9 B
YTD Price Change	3.6%
Beta	0.86
Dividend / Div Yld	$0.00 / 0.0%
Industry	Shoes and Retail Apparel
Zacks Industry Rank	Bottom 32% (173 out of 255)
Last EPS Surprise	15.8%
Last Sales Surprise	2.0%
EPS F1 Est- 4 week change	0.4%
Expected Report Date	01/30/2020
Earnings ESP	3.1%
P/E TTM	18.5
P/E F1	19.2
PEG F1	2.0
P/S TTM	2.4

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	293 E	580 E	928 E	464 E	2,272 E
2020	277 A	542 A	899 E	424 E	2,142 E
2019	251 A	502 A	874 A	394 A	2,020 A

EPS Estimates

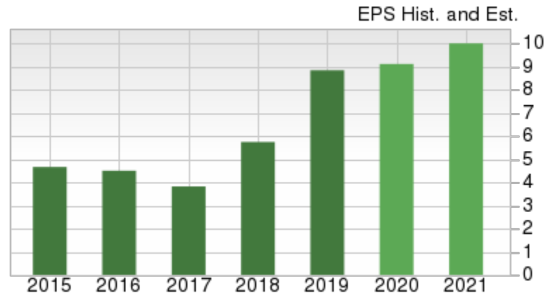
	Q1	Q2	Q3	Q4	Annual*
2021	-$0.89 E	$3.03 E	$6.77 E	$1.06 E	$10.00 E
2020	-$0.67 A	$2.71 A	$6.50 E	$0.70 E	$9.11 E
2019	-$0.98 A	$2.38 A	$6.59 A	$0.85 A	$8.84 A

*Quarterly figures may not add up to annual.

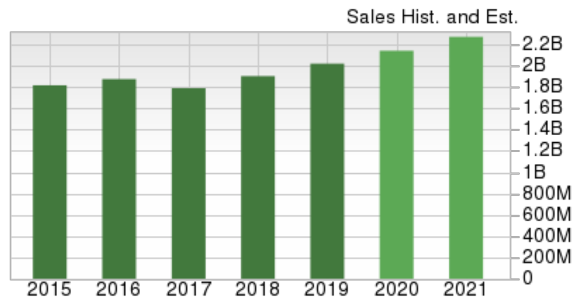
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/23/2020. The reports text is as of 01/24/2020.

Overview

Founded in 1973 and headquartered in Goleta, California, Deckers Outdoor Corporation (DECK) is a leading designer, producer, and brand manager of innovative, niche footwear and accessories developed for outdoor sports, and other lifestyle-related activities.



The company offers footwear that is distinctive and appeals broadly to men, women and children. These includes casual open and closed-toe outdoor footwear, as well as outdoor performance footwear, including multi-sport shoes, light hiking shoes, amphibious footwear, and rugged outdoor travel shoes; and sheepskin footwear, and sandals under various styles.



In February 2016, the company executed a multi-year restructuring plan with an aim to realign brands, optimize retail store fleet, and consolidate management and operations. As part of this restructuring plan, the company realigned brands into two groups: Fashion Lifestyle and Performance Lifestyle. The Fashion Lifestyle group includes the UGG and Koolaburra brands. The Performance Lifestyle group includes the Teva, Sanuk and Hoka brands.

Its products are sold through specialty domestic retailers, international distributors and directly to end-users through its websites and catalogs. The company's products are sold under different brands.

The UGG brand comprises authentic luxury sheepskin boots and a full line of luxury and comfort footwear and accessories; Teva includes high performance sport shoes and rugged outdoor footwear; Sanuk, an action sport footwear brand; and Other brands includes HOKA ONE ONE brand, a line of premium, running footwear and apparel. The company's product portfolio also includes KOOLABURRA, a footwear brand.

Reasons To Buy:

> Deckers is focused on expanding brand assortments, bringing innovative line of products, targeting consumers digitally via marketing and sturdy e-commerce, and optimizing omni-channel distribution.

- **Impressive Stock Performance:** Deckers has outperformed the industry in the past three months, courtsey of strategic initiatives. We noted that the company's shares have surged roughly 16% in the said period, outperforming the industry's growth of around 12.7%. The company is targeting profitable and underpenetrated markets, and remains focused on product innovations, store expansion and enhancing e-commerce capabilities. Deckers' focus on expanding its brand assortments, bringing more innovative line of products, targeting consumers digitally and optimizing omni-channel distribution bode well. The company is making marketing investments to build brand awareness of HOKA ONE ONE and UGG Men's and UGG Women's non-core category.

  The stock also got a boost following Deckers' second-quarter fiscal 2020 results. Remarkably, both the top and the bottom lines surpassed the Zacks Consensus Estimate and continued to improve on a year-over-year basis. Impressive performance across HOKA ONE ONE, Teva and Koolaburra brands and strength witnessed in early shipments with respect to the UGG brands' domestic operations aided the results. Notably, this was the 11th straight quarter of positive sales and earnings surprises. Apparently, better-than-expected numbers and momentum witnessed in HOKA ONE ONE brand prompted management to lift fiscal 2020 view.

- **Impressive FY20 View:** Deckers now anticipates fiscal 2020 net sales to be in the band of $2.115-$2.140 billion, which indicates year-over-year growth of about 5-6%. The company had earlier projected net sales between $2.100 billion and $2.125 billion. The company anticipates flat to low single-digit sales growth at UGG brand. Management expects sales from HOKA ONE ONE brand to be up in the mid to high 40% range for the year. Sales at Koolaburra brand is expected to increase in the mid 50% range. For the third quarter, net sales are estimated to be in the range of $885-$900 million compared with $873.8 million reported in the year-ago period. The company also forecast adjusted earnings between $8.90 and $9.05 per share compared with $8.84 per share reported in fiscal 2019. Management had previously estimated earnings in the range of $8.40-$8.60 per share.

- **Omni Channel Expansion:** In keeping with the changing trends, Deckers has been constantly developing its e-commerce portal to capture incremental sales. The company has made substantial investments to strengthen its online presence and improve shopping experience for its customers. The company is focused on opening smaller concept omni-channel outlets and expanding programs such as Retail Inventory Online; Infinite UGG; Buy Online, Return In Store; and Click and Collect to enhance customers' shopping experience. Alongside, the company is making new additions to its portfolio, as evident from the acquisition of KOOLABURRA, a footwear brand.

- **Adopting Customer Centric Product and Marketing Strategies:** Deckers is focusing on product and marketing strategies that are more skewed toward customers and in this respect the company is implementing customer relationship management (CRM) software and concentrating on loyalty program. Moreover, the company is focusing on expanding its product categories according to the customer purchasing trends that differs with weather. The company is paying more emphasis on casual boots, winter and weather boots, and casual shoes. Moreover, in order to capture incremental sales and margins the company is selling directly to wholesale customers.

- **Restructuring Plan Bodes Well:** The company executed a multi-year restructuring plan with an aim to realign brands, optimize retail store fleet, consolidate management and operations, and speed up growth through its long-term strategies. The company realigned its brands into two groups, namely Fashion Lifestyle and Performance Lifestyle. The Fashion Lifestyle group comprises of the UGG and Koolaburra brands, whereas the Performance Lifestyle group includes the Teva, Sanuk and Hoka brands.

  With regard to the consolidation of brands, the company shifted the operations of Sanuk brand to the corporate headquarters in Goleta from Irvine, CA. Moreover, the company closed its Ahnu brand operations office in Richmond, CA and consolidated its European offices. Lastly, the company's store fleet optimization plan focus on striking the right balance between digital and physical stores. These actions are likely to boost profitability and shareholder returns as well as enhance brand and store performance.

Risks

- **Over-Reliance on the UGG Brand & Soft Sanuk Brand Sales:** Deckers' over-reliance on the UGG brand is a matter of concern. In the event of stagnation or deceleration in UGG sales growth, the company's overall results may be adversely impacted. This is because the percentage of contribution from the company's other brands are too small to offset any slowdown in UGG sales. On the international front, the company is at its nascent stage of a multiyear plan to reset the marketplace in EMEA region. As a result of this and currency impact, revenue headwind is estimated to be approximately $25-$30 million for the remainder of the fiscal 2020. During the second quarter, sales at international wholesale was marginally down compared with the prior year on account of UGG reset in EMEA region as well as adverse currency fluctuations.

  We also note that the company is grappling with falling sales from the Sanuk Brand. During the second quarter, net sales from the Sanuk brand came in at $10.7 million, down 22.4% year over year. This follows a decline of 23.5% in the first quarter of fiscal 2020, and 11.7%, 7%, 9.4% and 6.6% in the fourth, third, second and first quarters of fiscal 2019, respectively. Management expects reductions in the Sanuk domestic wholesale business on account of the decision to exit the warehouse channel. Though the move is likely to adversely impact fiscal 2020 revenue, it will help the brand focus on other underpenetrated channels. Management expects sales at Sanuk brand to be down in the 30% range during fiscal 2020.

- **Margins Likely to Remain Under Pressure:** Management now expects gross margin in fiscal 2020 to be 50.8% compared with 51.5% reported in fiscal 2019. During the third quarter, gross margin is projected to contract 90 basis points. We note that higher freight costs and increased promotional environment remain headwinds. Again increased SG&A expenses is likely to weigh on operating margin. SG&A expense jumped 9.1% year over year to $175.9 million during the second quarter, while as a percentage of net sales SG&A expense increased 30 basis points to 32.4%. Incremental marketing investments resulted in higher SG&A expenses. Operating margin is envisioned to be 15% in fiscal 2020 compared with 16.2% in fiscal 2019.

  With margins likely to remain soft, bottom line is expected to remain under pressure. The company now envisions third-quarter earnings in the range of $6.30-$6.40 per share. The company had reported earnings of $6.59 per share in the prior-year period.

- **Competitive Pressure:** Deckers faces intense competition in the footwear and apparel industry from other big guns on several attributes such as style, price, quality, comfort and brand name. The competitors with significant financial, technological, engineering, manufacturing, marketing, and distribution advantages may dent the company's sales and margins. Moreover, rapid shift in customer shopping patterns to buy athletic footwear, athletic apparel, and sporting goods from e-retailers could significantly hurt the company's business results.

- **Foreign Currency Fluctuations:** Due to exposure to international markets, Deckers remains prone to currency fluctuations. The weakening of foreign currencies against the U.S. dollar may require the company to either raise prices or contract profit margins in locations outside of the U.S. An increase in price may have an adverse impact on the demand for the products. Deckers anticipates currency related headwinds of 40 basis points.

Last Earnings Report

Deckers Beats on Q2 Earnings, Raises FY20 Outlook

Quarter Ending	09/2019
Report Date	Oct 24, 2019
Sales Surprise	1.97%
EPS Surprise	15.81%
Quarterly EPS	2.71
Annual EPS (TTM)	9.48

Deckers Outdoor Corporation continued with its upbeat performance in fiscal 2020. The company's second-quarter results are the testimony to same. Remarkably, both the top and the bottom lines surpassed the Zacks Consensus Estimate and continued to improve on a year-over-year basis. Impressive performance across HOKA ONE ONE, Teva and Koolaburra brands and strength witnessed in early shipments with respect to the UGG brands' domestic operations aided the results.

Notably, this was the 11th straight quarter of positive sales and earnings surprises. Apparently, better-than-expected numbers and momentum witnessed in HOKA ONE ONE brand prompted management to lift fiscal 2020 view. The company remains focused on expanding brand assortments, introducing more innovative line of products, targeting consumers digitally through marketing and sturdy e-commerce, and optimizing omni-channel distribution.

Let's Delve Deep

The company reported quarterly earnings of $2.71 surpassing the Zacks Consensus Estimate of $2.34. The figure also improved significantly from $2.38 reported in the year-ago period. Higher net sales, improved gross margin, lower tax rate and share repurchase activities aided the bottom line.

Net sales rose 8% to $542.2 million during the reported quarter, following an increase of 10.5% in the preceding quarter. The metric also surpassed the Zacks Consensus Estimate of $531 million. On a constant currency basis, net sales improved 9.5%.

Deckers had earlier guided net sales in the range of $515-$525 million and earnings in the band of $2.15-$2.25 per share for the quarter under review. However, the company went on to report better-than-anticipated results. The quarterly results gained from strong performance across HOKA ONE ONE brand, earlier domestic wholesale shipments for the UGG brand and decent results in both wholesale and direct to consumer channels.

Gross margin expanded 20 basis points to 50.4% during the quarter under review. The company reported operating income of $97.1 million, up 7.1% year over year. However, operating margin shrunk 20 basis points to 17.9%.

SG&A expense jumped 9.1% year over year to $175.9 million, while as a percentage of net sales SG&A expense increased 30 basis points to 32.4%. Incremental marketing investments resulted in higher SG&A expenses.

Sales by Geography & Channel

The company's domestic net sales jumped 14.9% to $358 million in the reported quarter. Meanwhile, international net sales fell 3.2% to $184.2 million. Direct-to-Consumer net sales rose 5.1% to $98.7 million. Direct-to-Consumer comparable sales climbed 7.2% year over year. Wholesale net sales in the reported quarter grew 8.7% to $443.5 million.

Brand-wise Discussion

UGG brand net sales increased 2.2% to $404.9 million in the reported quarter. Koolaburra brand global sales surged 41% to $26 million.

HOKA ONE ONE brand net sales soared 49.9% to $78.1 million, while Teva brand net sales increased 6.7% to $23 million. Net sales for the Sanuk brand, known for its exclusive sandals and shoes, came in at $10.7 million, down 22.4% year over year.

Other Financial Aspects

At the end of the quarter, Deckers had cash and cash equivalents of $177.7 million, total short-term borrowings and mortgage payable of $44.2 million and shareholders' equity of $916.3 million. During the quarter under review, Deckers bought back approximately 1.1 million shares for a total of $155 million. As of Sep 30, 2019, the company had $160 million remaining under share repurchase program.

Guidance

Deckers now anticipates fiscal 2020 net sales to be in the band of $2.115-$2.140 billion, which indicates year-over-year growth of about 5-6%. The company had earlier projected net sales between $2.100 billion and $2.125 billion.

The company also forecast adjusted earnings between $8.90 and $9.05 per share. Further, the company had delivered adjusted earnings of $8.84 per share in fiscal 2019. Management had previously estimated earnings in the range of $8.40-$8.60 per share.

Deckers anticipates flat to low single-digit sales growth at UGG brand. Management now expects sales from HOKA ONE ONE brand to be up in the mid to high 40% range for the year. Sales at Teva brand is expected to be approximately flat, while at Koolaburra brand the metric is expected to increase in the mid 50% range. This will be offset by reductions in the Sanuk domestic wholesale business on account of the decision to exit the warehouse channel. Sanuk is expected to be down in the 30% range.

Gross margin for the fiscal year is anticipated to be 50.8% compared with 51.5% reported in fiscal 2019. Further, SG&A expense as a percentage of sales is projected to be marginally lower than 36%. Operating margin is envisioned to be 15% compared with 16.2% in fiscal 2019.

For the third quarter, net sales are estimated to be in the range of $885-$900 million compared with $873.8 million reported in the year-ago period. Management forecasts third-quarter earnings in the band of $6.30-$6.40. The company had reported earnings of $6.59 per share in the prior-year quarter.

Recent News

HOKA ONE ONE Announces New Capsule Collection – November 1, 2019

HOKA ONE ONE has partnered with fashion brand and retailer Opening Ceremony. The new capsule collection will feature three re-releases of classic HOKA product with designs inspired by Opening Ceremony and its pioneering global influence within the space between streetwear and fashion.

Valuation

Deckers Outdoor shares are up 39.6% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are up 30.7% and 20.1%, respectively, in the past year.

The S&P 500 index is up 26.7% in the past year.

The stock is currently trading at 17.82X forward 12-month earnings, which compares to 26.44X for the Zacks sub-industry, 20.42X for the Zacks sector and 19.15X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.55X and as low as 7.95X, with a 5-year median of 15.28X. Our Outperform recommendation indicates that the stock will perform better than the market. Our $201 price target reflects 20.47X forward 12-month earnings.

The table below shows summary valuation data for DECK

Valuation Multiples - DECK

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	17.82	26.44	20.42	19.15
	5-Year High	20.55	26.48	23.35	19.34
	5-Year Low	7.95	18.63	16.16	15.17
	5-Year Median	15.28	23.22	20.11	17.44
P/S F12M	Current	2.18	3.09	2.35	3.56
	5-Year High	2.42	3.09	3.19	3.56
	5-Year Low	0.68	1.99	1.81	2.54
	5-Year Median	1.26	2.58	2.54	3
EV/EBITDA TTM	Current	12.86	25.03	12.97	12.38
	5-Year High	13.14	25.03	17.76	12.86
	5-Year Low	4.17	13.14	11.07	8.48
	5-Year Median	7.9	15.96	12.41	10.69

As of 01/23/2020

Industry Analysis **Zacks Industry Rank:** Bottom 32% (173 out of 255)

Top Peers

Rocky Brands, Inc. **(RCKY)**	Outperform
Adidas AG **(ADDYY)**	Neutral
Anta Sports Products Ltd. **(ANPDF)**	Neutral
Caleres, Inc. **(CAL)**	Neutral
Carters, Inc. **(CRI)**	Neutral
Steven Madden, Ltd. **(SHOO)**	Neutral
Skechers U.S.A., Inc. **(SKX)**	Neutral
Wolverine World Wide, Inc. **(WWW)**	Neutral

Industry Comparison Industry: Shoes And Retail Apparel

Industry Peers

	DECK Outperform	X Industry	S&P 500	CAL Neutral	SHOO Neutral	WWW Neutral
VGM Score	D	-	-	A	B	C
Market Cap	4.90 B	1.90 B	24.46 B	845.15 M	3.53 B	2.69 B
# of Analysts	5	4	13	1	5	5
Dividend Yield	0.00%	0.95%	1.75%	1.34%	1.43%	1.20%
Value Score	C	-	-	A	D	C
Cash/Price	0.04	0.05	0.04	0.06	0.05	0.05
EV/EBITDA	13.08	12.22	14.11	20.93	16.71	11.11
PEG Ratio	1.95	2.03	2.04	NA	2.26	0.88
Price/Book (P/B)	5.52	2.16	3.40	1.29	4.19	3.39
Price/Cash Flow (P/CF)	16.48	10.96	13.66	5.68	20.40	12.99
P/E (F1)	19.21	16.19	19.10	8.80	20.32	13.27
Price/Sales (P/S)	2.35	1.00	2.67	0.29	2.00	1.20
Earnings Yield	5.21%	6.18%	5.23%	11.37%	4.93%	7.54%
Debt/Equity	0.25	0.55	0.72	1.27	0.00	0.73
Cash Flow ($/share)	10.62	2.68	6.94	3.67	2.06	2.56
Growth Score	F	-	-	A	A	D
Hist. EPS Growth (3-5 yrs)	18.60%	9.89%	10.60%	4.74%	13.26%	9.89%
Proj. EPS Growth (F1/F0)	3.08%	11.21%	7.59%	7.24%	6.49%	11.27%
Curr. Cash Flow Growth	33.19%	7.54%	13.90%	-1.02%	19.61%	24.22%
Hist. Cash Flow Growth (3-5 yrs)	15.19%	6.27%	9.00%	6.01%	4.53%	3.89%
Current Ratio	2.44	1.68	1.22	1.01	2.80	1.14
Debt/Capital	20.22%	39.81%	42.99%	55.90%	0.00%	42.29%
Net Margin	13.36%	6.90%	11.35%	-0.44%	7.71%	7.51%
Return on Equity	27.89%	14.85%	17.10%	13.84%	20.01%	22.50%
Sales/Assets	1.30	1.25	0.55	1.25	1.46	0.95
Proj. Sales Growth (F1/F0)	6.00%	5.72%	4.03%	4.70%	6.55%	4.05%
Momentum Score	B	-	-	A	A	A
Daily Price Chg	-0.18%	-0.25%	0.26%	-2.11%	0.60%	-0.89%
1 Week Price Chg	5.14%	1.40%	2.29%	-2.77%	1.80%	2.80%
4 Week Price Chg	4.67%	-0.63%	2.24%	-11.69%	-1.84%	-1.92%
12 Week Price Chg	14.46%	2.06%	7.79%	-3.11%	2.06%	12.10%
52 Week Price Chg	42.37%	0.00%	21.61%	-27.25%	31.10%	-1.60%
20 Day Average Volume	369,396	66,296	1,536,379	245,632	410,995	398,572
(F1) EPS Est 1 week change	0.44%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.44%	0.00%	0.00%	0.00%	0.00%	0.12%
(F1) EPS Est 12 week change	0.44%	-0.02%	-0.23%	-2.07%	4.66%	-0.21%
(Q1) EPS Est Mthly Chg	0.72%	0.00%	0.00%	0.00%	0.00%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	F
Momentum Score	B
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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