Deckers Outdoor (DECK)

$218.93 (As of 07/29/20)

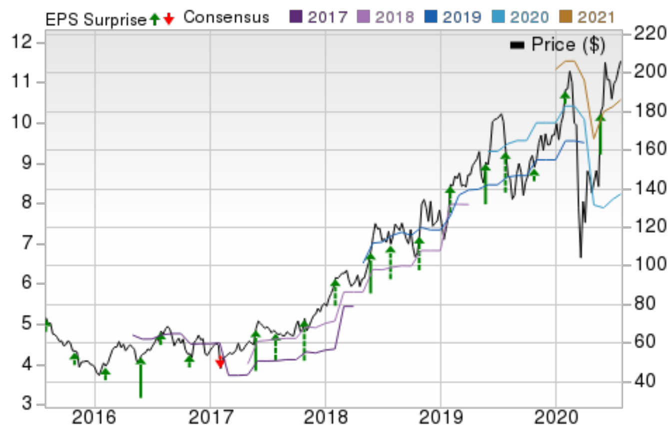
Price Target (6-12 Months): **$232.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 06/22/20) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: C | Growth: D | Momentum: F	**2-Buy** VGM:D

Summary

Shares of Deckers have risen and outpaced the industry in the past three months. The stock got a boost following the company's fourth-quarter fiscal 2020 results, wherein both the top and bottom lines beat the Zacks Consensus Estimate but fell year over year, thanks to the coronavirus outbreak that resulted in store closures. While HOKA ONE ONE and Teva brands aided the results, UGG and Sanuk brands hurt. Management cautioned that the company's performance in fiscal 2021 might be impacted depending on the period and brutality of COVID-19. Nonetheless, the company's focus on expanding brand assortments, introducing more innovative line of products, targeting consumers digitally and optimizing omni-channel distribution bode well. Further, Deckers remains focused on lowering operating expenses and reopening stores at a measured pace.

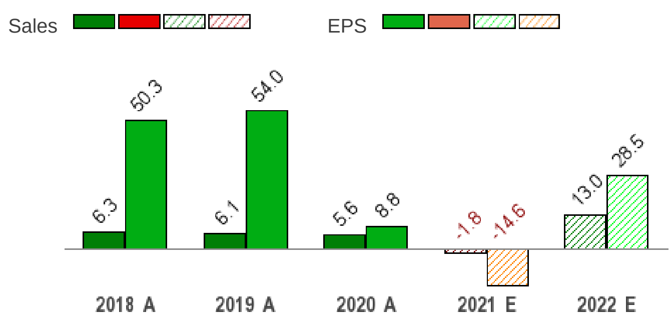
Price, Consensus & Surprise



Data Overview

52 Week High-Low	$220.36 - $78.70
20 Day Average Volume (sh)	318,661
Market Cap	$6.1 B
YTD Price Change	29.6%
Beta	0.99
Dividend / Div Yld	$0.00 / 0.0%
Industry	[Shoes and Retail Apparel](#)
Zacks Industry Rank	Bottom 9% (230 out of 253)
Last EPS Surprise	1,800.0%
Last Sales Surprise	8.2%
EPS F1 Est- 4 week change	1.5%
Expected Report Date	07/30/2020
Earnings ESP	-14.0%
P/E TTM	22.4
P/E F1	26.6
PEG F1	2.7
P/S TTM	2.9

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2022	300 E	556 E	965 E	424 E	2,368 E
2021	265 E	505 E	913 E	413 E	2,095 E
2020	277 A	542 A	939 A	375 A	2,133 A

EPS Estimates

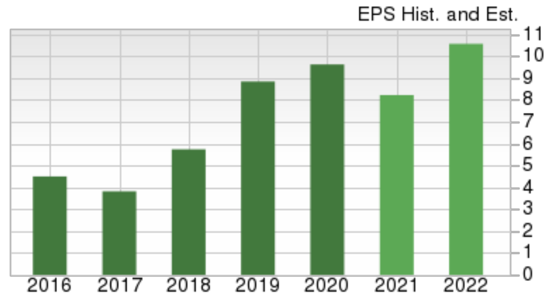
	Q1	Q2	Q3	Q4	Annual*
2022	-$0.59 E	$2.65 E	$7.06 E	$0.61 E	$10.56 E
2021	-$1.11 E	$2.07 E	$6.53 E	$0.64 E	$8.22 E
2020	-$0.67 A	$2.71 A	$7.14 A	$0.57 A	$9.62 A

*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 07/29/2020. The reports text is as of 07/30/2020.

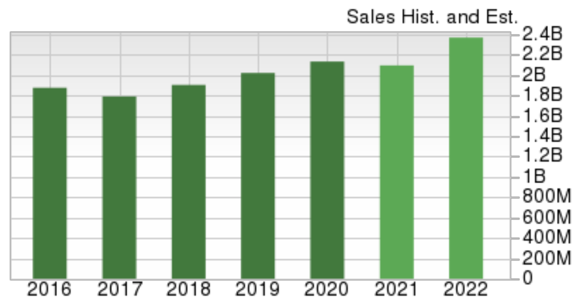
Overview

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:** Shares of Deckers have increased 52.7% compared with the industry's gain of 14.3% in the past three months. Notably, in a month the stock has advanced 12.8%. The stock has gained following the company's fourth-quarter fiscal 2020 results, wherein both the top and bottom lines surpassed the Zacks Consensus Estimate. This marked the 13th straight quarter of positive sales and earnings surprises. Notably, impressive performance across HOKA ONE ONE and Teva brands aided the results. In the earnings call, the company informed that approximately 20% of stores in North America are open and operating in a limited capacity; about half of stores in EMEA are open; roughly 20% of stores in Japan are open; and all of owned retail stores in China are operational. Also, the company has started operations on a limited capacity across its distribution center in Moreno Valley, California, as well as other third-party distribution facilities.

- **Strategic Endeavors:** Deckers 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. Moreover, to address the challenges tied to the pandemic, Deckers remains focused on lowering operating expenses. The company is curbing employee travel, suspending hiring of certain non-essential associates and annual salary increment, switching over to virtual meetings, and eliminating or deferring other discretionary expenditures.

- **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. Notably, for fiscal 2020, direct to consumer net sales increased 3.1% year over year to $736.9 million and direct to consumer comparable sales increased 5%. In first-quarter fiscal 2021 through May 21, direct to consumer business is trending up in the high 40% range as Deckers is witnessing tremendous growth in e-commerce business driven by full price selling at both UGG and HOKA. This is helping in mitigating some of the volume loss from retail.

- **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. Again, the company's store fleet optimization plan focuses 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.

- **Financial Flexibility:** Deckers looks quite comfortable from a liquidity point of view. The company's cash & cash equivalents were $649.4 million at the end of the fourth quarter of fiscal 2020, which reflects an increase of 5% on a quarter-on-quarter basis. Notably, the company's cash position remains sufficient to fund its short term obligations (comprising short-term borrowings and operating lease liabilities) of about $49.7 million as well as long-term obligations (including operating lease liabilities and mortgage payable) of roughly $246 million as of Mar 31, 2020. Moreover, at the end of the quarter, the company's debt-to-capitalization ratio was a respectable 0.21 compared with 0.43 for its industry.

Reasons To Sell:

- **Q4 Sales & Earnings Decline Y/Y:** Deckers came out with fourth-quarter fiscal 2020 results, wherein both the top and bottom lines declined year over year, thanks to the coronavirus outbreak that compelled the company to keep its stores closed. In mid-March, Deckers temporarily closed its retail stores in North America and Europe. Stores in Japan were also closed due to this biological catastrophe. Quarterly earnings of 57 cents a share came below 85 cents reported in the year-ago period. Lower net sales and higher SG&A expenses hurt the bottom line. Net sales fell 4.9% during the reported quarter, following an increase of 7.4% in the preceding quarter. The lower than expected revenue was predominantly driven by approximately $25 million headwind related to the COVID-19 pandemic. Management did caution that the company's performance in fiscal 2021 might be impacted depending on the period and brutality of COVID-19.

> Deckers has been grappling with falling sales from the Sanuk Brand. During the fourth quarter of fiscal 2020, net sales from the Sanuk brand came in at $13.3 million, down 57.8% year over year.

- **Over-Reliance on the UGG Brand:** 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. UGG brand net sales decreased 17.9% to $196.3 million in the reported quarter. In first-quarter of fiscal 2021 through May 21, UGG is down mid-single-digits due to lower wholesale shipments as well as the impact of owned retail store closures.

- **Softness in Sanuk Brand:** We note that the company has been grappling with falling sales from the Sanuk Brand. During the fourth quarter of fiscal 2020, net sales from the Sanuk brand came in at $13.3 million, down 57.8% year over year. This follows decline of 34.5%, 22.4% and 23.5% in the third, second and first quarters of fiscal 2020, respectively. In first-quarter of fiscal 2021 through May 21, Sanuk is down in the mid 30% range, as the brand is experiencing a heavier impact due to the seasonality of their businesses.

- **Margins Remain Under Pressure:** Any deleverage in SG&A expenses are likely to impact operating margin. During the fourth quarter of fiscal 2020, SG&A expense jumped 3.5% year over year to $176.3 million, while as a percentage of net sales SG&A expense expanded 380 basis points to 47%. Again, we note that operating income of $16.7 million came below the year-ago period's $32.9 million. Also, the operating margin shrunk 390 basis points to 4.4%.

- **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 experienced currency pressure during fiscal 2020.

- **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.

Last Earnings Report

Deckers Q4 Earnings Surpass Estimate, Decline Y/Y

Quarter Ending	03/2020
Report Date	May 21, 2020
Sales Surprise	8.19%
EPS Surprise	1,800.00%
Quarterly EPS	0.57
Annual EPS (TTM)	9.75

Deckers Outdoor Corporation came out with fourth-quarter fiscal 2020 results, wherein both the top and bottom lines surpassed the Zacks Consensus Estimate but declined year over year, thanks to the coronavirus outbreak that compelled the company to keep its stores closed. While the impressive performance across HOKA ONE ONE and Teva brands aided the results, UGG and Sanuk brands took the sheen out of the stock. Nonetheless, this marked the 13th straight quarter of positive sales and earnings surprises.

In mid-March, Deckers temporarily closed its retail stores in North America and Europe. Stores in Japan were also closed due to this biological catastrophe. In the earnings call, the company informed that approximately 20% of stores in North America are open and operating in a limited capacity; about half of stores in EMEA are open; roughly 20% of stores in Japan are open; and all of owned retail stores in China are operational. Also, the company has started operations on a limited capacity across its distribution center in Moreno Valley, California, as well as other third-party distribution facilities.

The company, undoubtedly, 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. All these bode well for the company. However, management did caution that the company's performance in fiscal 2021 might be impacted depending on the period and brutality of COVID-19.

To address the challenges tied to the pandemic, Deckers remains focused on lowering operating expenses. The company is curbing employee travel, suspending hiring of certain non-essential associates and annual salary increment, switching over to virtual meetings, and eliminating or deferring other discretionary expenditures.

Let's Delve Deeper

Deckers posted quarterly earnings of 57 cents a share that came miles ahead of the Zacks Consensus Estimate of 3 cents. However, the figure declined significantly from the 85 cents reported in the year-ago period. Lower net sales and higher SG&A expenses hurt the bottom line.

Net sales fell 4.9% to $374.9 million during the reported quarter, following an increase of 7.4% in the preceding quarter. However, the metric surpassed the Zacks Consensus Estimate of $346.5 million. On a constant currency basis, net sales decreased 4.5%. The lower than expected revenue was predominantly driven by approximately $25 million headwind related to the COVID-19 pandemic.

We note that the gross margin contracted 10 basis points to 51.5% during the quarter, driven by gains in performance lifestyle group. The company reported operating income of $16.7 million, down from the year-ago period's $32.9 million. Again, the operating margin shrunk 390 basis points (bps) to 4.4%.

SG&A expense jumped 3.5% year over year to $176.3 million, while as a percentage of net sales SG&A expense expanded 380 bps to 47%.

Sales by Geography & Channel

The company's domestic net sales decreased 8.4% to $230.8 million in the reported quarter. Meanwhile, international net sales advanced 1.4% to $144.1 million. Direct-to-Consumer net sales decreased 7.9% to $144.2 million. Direct-to-Consumer comparable sales slid 3.7% year over year. Wholesale net sales in the reported quarter declined 2.9% to $230.7 million.

Brand-wise Discussion

UGG brand net sales decreased 17.9% to $196.3 million in the reported quarter. HOKA ONE ONE brand net sales surged 51.8% to $101.9 million, while Teva brand net sales rose 12.5% to $59.6 million. Net sales for the Sanuk brand, known for its exclusive sandals and shoes, came in at $13.3 million, down 57.8% year over year.

Other Financial Aspects

At the end of the reported quarter, Deckers had cash and cash equivalents of $649.4 million, total short-term borrowings and mortgage payable of $30.9 million and shareholders' equity of $1,140.1 million. The company had $469.5 million available under its existing revolving credit facilities. During the fiscal fourth quarter, Deckers did not make any share repurchases. As of Mar 31, 2020, the company had $160 million remaining under its share-repurchase program.

Recent News

HOKA ONE ONE Launches a New Category – March 3, 2020

HOKA ONE ONE, a division of Deckers, announces the launch of its first-ever apparel line. The 27-piece collection features running and fitness staples – including performance tops, tights, woven shorts, socks and hats, plus many other styles.

Valuation

Deckers shares are up 29.6% in the year-to-date period and nearly 40% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down 6.3% and 7.7%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry is up 10% but the sector is down 2%, respectively.

The S&P 500 index is up 1.3% in the year-to-date period and 9.7% in the past year.

The stock is currently trading at 24.32X forward 12-month earnings, which compares to 33.04X for the Zacks sub-industry, 33.89X for the Zacks sector and 22.44X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.61X and as low as 7.95X, with a 5-year median of 15.91X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $232 price target reflects 25.78X 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	24.32	33.04	33.89	22.44
	5-Year High	26.61	33.63	33.89	22.44
	5-Year Low	7.95	18.63	16.12	15.25
	5-Year Median	15.91	23.39	19.85	17.52
P/S F12M	Current	2.8	2.89	2.31	3.54
	5-Year High	2.8	3.02	3.22	3.54
	5-Year Low	0.68	1.99	1.68	2.53
	5-Year Median	1.47	2.6	2.5	3.02
EV/EBITDA TTM	Current	15.23	19.66	10.48	11.95
	5-Year High	15.23	24.5	17.79	12.85
	5-Year Low	3.99	12.39	9.01	8.25
	5-Year Median	7.97	16.01	12.31	10.88

As of 07/29/2020

Industry Analysis Zacks Industry Rank: Bottom 9% (230 out of 253)

Top Peers

Company (Ticker)	Rec	Rank
Adidas AG **(ADDYY)**	Neutral	3
Anta Sports Products Ltd. **(ANPDF)**	Neutral	4
Carters, Inc. **(CRI)**	Neutral	3
Rocky Brands, Inc. **(RCKY)**	Neutral	3
Steven Madden, Ltd. **(SHOO)**	Neutral	4
Skechers U.S.A., Inc. **(SKX)**	Neutral	3
Wolverine World Wide, Inc. **(WWW)**	Neutral	3
Caleres, Inc. **(CAL)**	Underperform	5

Industry Comparison Industry: Shoes And Retail Apparel

	DECK	X Industry	S&P 500	CAL	SHOO	WWW
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	5	4	3
VGM Score	D	-	-	B	F	F
Market Cap	6.13 B	1.57 B	22.69 B	280.83 M	1.89 B	2.02 B
# of Analysts	7	6	14	1	6	7
Dividend Yield	0.00%	1.01%	1.8%	4.01%	2.64%	1.61%
Value Score	C	-	-	A	C	C
Cash/Price	0.11	0.28	0.07	0.64	0.13	0.25
EV/EBITDA	14.87	7.97	13.11	4.69	7.87	10.16
PEG Ratio	2.70	2.68	3.05	NA	2.71	1.97
Price/Book (P/B)	5.37	1.36	3.15	0.98	2.46	2.75
Price/Cash Flow (P/CF)	19.44	9.23	12.28	1.71	10.04	8.74
P/E (F1)	26.63	30.09	22.27	NA	40.64	19.68
Price/Sales (P/S)	2.87	0.85	2.46	0.11	1.33	0.92
Earnings Yield	3.76%	3.03%	4.25%	-28.65%	2.47%	5.10%
Debt/Equity	0.22	0.48	0.75	2.80	0.00	0.77
Cash Flow ($/share)	11.26	2.85	6.94	4.07	2.26	2.85
Growth Score	D	-	-	C	F	F
Hist. EPS Growth (3-5 yrs)	24.51%	4.76%	10.85%	-5.78%	12.77%	12.63%
Proj. EPS Growth (F1/F0)	-14.55%	-43.77%	-7.70%	-195.24%	-71.37%	-43.75%
Curr. Cash Flow Growth	1.85%	0.00%	5.31%	5.00%	5.46%	-5.09%
Hist. Cash Flow Growth (3-5 yrs)	8.34%	6.40%	8.55%	4.97%	8.40%	1.05%
Current Ratio	3.97	2.14	1.31	0.94	1.80	1.12
Debt/Capital	17.75%	42.21%	44.23%	73.72%	0.00%	43.59%
Net Margin	12.95%	3.33%	10.45%	-11.06%	2.56%	4.61%
Return on Equity	26.45%	10.04%	14.99%	3.78%	10.70%	22.11%
Sales/Assets	1.20	1.05	0.53	1.08	1.17	0.86
Proj. Sales Growth (F1/F0)	-1.77%	-0.89%	-1.97%	-27.02%	-25.76%	-18.47%
Momentum Score	F	-	-	A	C	F
Daily Price Chg	3.90%	2.74%	1.52%	3.25%	2.76%	5.73%
1 Week Price Chg	2.20%	0.72%	0.37%	-1.35%	0.72%	3.46%
4 Week Price Chg	12.60%	2.81%	5.44%	-11.87%	-4.98%	6.54%
12 Week Price Chg	53.41%	9.95%	15.38%	14.80%	2.62%	35.16%
52 Week Price Chg	40.02%	-15.10%	-1.61%	-62.83%	-34.25%	-8.25%
20 Day Average Volume	318,661	237,958	1,846,377	670,379	654,457	416,312
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	1.54%	-0.98%	0.27%	0.00%	-14.76%	-0.45%
(F1) EPS Est 12 week change	3.40%	-18.03%	-0.85%	-322.22%	-59.59%	-1.76%
(Q1) EPS Est Mthly Chg	0.98%	-0.56%	0.13%	0.00%	-11.20%	-0.56%

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	D
Momentum Score	F
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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