Dr. Martens plc

Full Year Results FY21

17 June 2021

Transcript

Kenny Wilson: Hello. Good morning. I'm Kenny Wilson, the CEO of Dr. Martens. I'd like to welcome you to our annual results presentation. Our agenda today: I'm going to walk through a short introduction of the last year and of our brand. Then I'm going to hand over to Jon, our CFO, who's going to walk you through the financials. Then I'll give a strategic review of the year, highlighting some key points from our strategy. At 9:30, we'll also be doing a live Webex covering any questions that any of you would like to ask us around the past year.

Kenny Wilson: The last year for Dr. Martens has been all about our long-term brand custodian mindset, delivering a strong set of results. We've proved to be incredibly resilient through COVID-19. Initially, we focused on cash, but then we invested in our brand, and we focused on keeping our people and consumers safe. We've delivered strong results at the top end of our IPO guidance, with revenues up 15% and EBITDA up 22%.

Kenny Wilson: Our DOCS strategic framework, which is tried and tested over the last three years, remains unchanged and will drive us forward. Today, we're also announcing upgraded sustainability targets for the future. Finally, and most importantly, we are very confident in the year ahead and beyond. Therefore, the guidance we gave at IPO is reiterated.

Kenny Wilson: The custodian mindset. This is the philosophy on which we run Dr. Martens. It's all about long-term thinking. It's all about a brand-first mindset. The role for all of us at Dr. Martens is to take care of this brand, to look after it, and to make sure that we hand it over to the next generation in better shape than we received it.

Kenny Wilson: A little bit about Dr. Martens in terms of background. We are an iconic brand with more than 60 years of heritage, with iconic product, which I'll talk about later. We have broad appeal. Dr. Martens sells to people of all ages, of all walks of life, around the world. Consumers love their Docs. What that means is after you buy into this brand, you stick with it and you tell your friends about how much you love Dr. Martens.

Kenny Wilson: Our business model is direct-to-consumer led. It's e-commerce first, supported by our stores, which are profitable brand beacons in key cities around the world. We have a track record of sustainable and profitable growth as a private business, which we will continue in the public markets. Probably most excitingly of all, we have significant headroom for global growth around the world. With that, I'm going to hand over to Jon, who's going to walk you through the financials. Thank you.

Jon Mortimore: Thanks Kenny. Good morning everybody. My name is Jon Mortimore and I'm CFO of Dr. Martens. I'm here to talk to you about the story of our financial performance for the year ended 31st of March, 2021.

Jon Mortimore: Wow, what a year. We saw COVID-related lockdowns. We listed on the London Stock Exchange, and refinanced our balance sheet, and we grew, which is testament to the strength of the brand. Our financial results were at the top end of guidance. The shape of the delivery of the numbers was bang in line with our DOCS strategy, was volume-led with margin expansion, and highly cash-generative. Finally, forward guidance is unchanged.

Jon Mortimore: We grew pairs by 14%, we grew revenue by 15%, gross margin by 17%, and EBITDA grew by 22% to £224 million. In effect, growth areas expanded as we moved down the profit and loss account. DOCS strategy in action. The result was EBITDA margin expansion by 1.6 percentage points to 29%, predominantly driven by improved gross margins.

Jon Mortimore: E-commerce revenue was particularly strong and grew 73% in the year, to represent 30% of our revenue mix, up 10 percentage points year on year. This was part due to societal shift towards e-commerce trading. That was accelerated due to COVID, which we believe will stick, but it was also part of our focus in this area. We did not cut digital spending through COVID. We continued to build our regional trading teams, and we invested in improving the efficiency of our e-comm picking in our own DCs.

Jon Mortimore: Retail, not unsurprisingly, declined by 40%. We continue to see retail as an important channel to showcase both our brand and our product. During the year, we opened 18 new stores. Wholesale grew 18% with good growth from pure-play e-tailers, and also good growth from websites of more traditional players. We continue to focus on larger and brand-enhancing accounts.

Jon Mortimore: In the year, revenue per account increased by 15%. 95% of the revenue growth was from selling more pairs of boots and shoes to new and existing consumers. Bang in line of strategy. Channel mix declined by two percentage points in the year, all retail. We did increase prices in the year by around 2.5% in autumn-winter '20 in EMEA and spring-summer '20 in Americas.

Jon Mortimore: That said, we do not anticipate moving prices up during the current financial year. We view price increases as an inflationary funding necessity. We do not have a price-led strategy. Gross margin improved by 1.2 percentage points to 60.9%. This was mainly due to supply chain efficiencies. Price increases broadly offset the retail-led cost of channel mix decline, and also inflation.

Jon Mortimore: We expect to see the business return to D2C-led channel mix expansion from FY22 onwards. We continue to target at least a 60% revenue mix from e-commerce and retail in the medium term.

Jon Mortimore: At IPO, we guided efficiency savings to be around 5% of revenue, and we've achieved that much faster than anticipated. This was mainly faster cross-cost comparison of savings between factories, volume-related input savings, and lower duties. We will not be increasing our target savings as we have seen increased input costs from spring-summer '22 season. In effect, we expect stronger savings to broadly fund increased costs.

Jon Mortimore: Turning to look at each region, I will try and comment by exception. It will save me saying "very strong e-comm growth" multiple times. EMEA grew revenue by 17%, and EBITDA by 25%. We opened nine new stores, four in Germany, four in France, and our first store in Italy, in Rome. We also closed three stores in the UK at end of lease term.

Jon Mortimore: We are particularly pleased with our first full year of trading in Germany, following conversion to a directly-controlled model in the prior year. During the year, we also converted the Nordics, which is Sweden, Denmark, and Finland, with good early results.

Jon Mortimore: Taking a closer look at Germany. The rationale for conversion is to control the brand, and then implement the DOCS strategy. This is not a single-year step, but a multi-year plan. Looking at the last three years, from FY19 to FY21, we converted the markets in FY20. The first sell-in of our wholesale business was autumn-winter '19. FY20 to FY19 grew by 88%. This was mainly the capture of the in-market margin, as wholesale revenue per pair is approximately £10 better to us than distributor revenue per pair.

Jon Mortimore: Across the three-year period, we've been implementing the DOCS strategy. We've opened at 10 new stores to showcase the brand and the product, and support e-commerce. Product breadth has expanded, with the Fusion category increasing from 18% of our mix to 30% of our mix. We've rationalized the wholesale account base, closing around 200 of our inherited 500 accounts to focus on large accounts. We have also opened around 50 high-end brand-enhancing “Amp” accounts.

Jon Mortimore: Despite lockdown and social distancing restrictions, we grew revenue last year by 56%. Of all three regions, Americas were probably the least impacted by COVID-related restrictions. All our own stores were closed during the first quarter, and have traded as open since Q2, but with capacity restrictions, which are varied on a state-by-state basis. Wholesale has followed a similar pattern. However, a number of our customers' stores did trade throughout, particularly those with stores located away from the coastal cities in mid-America. E-commerce was exceptionally strong, and we opened six new stores in the year.

Jon Mortimore: APAC is made up from two main countries. The largest is Japan. Here, we have a predominantly retail model, where we have 22 owned retail stores and also 32 mono-branded franchise stores. The second is China. Here, we operate our own website hosted on a T-mall platform, and also 85 mono-branded franchise stores. The balance is a combination of South Korea, where we have predominantly our own retail concession-based model, and also a third-party distributor business across a number of countries, the largest of which being Australia.

Jon Mortimore: In Japan, we've had very, very good e-commerce trading, though from a low base, but store closures and social restrictions have continued throughout the year, and indeed are in place today. Here, revenue was slightly up. In China, we are continuing to invest in our people, process, and systems to build a long-term, strong business. In China, revenue grew by 46%. Kenny will talk a little bit more about China later on.

Jon Mortimore: Profit before tax and exceptionals was £151 million. We incurred an exceptional charge of £80 million in the year, which was all IPO-related. Of this, the cash cost to the company was only £27 million, which is at the lower end of the guidance range. Taxes were £35 million and represented a percentage charge of 49%. This was higher than the UK corporation tax rate, mainly due to non-deductibility of legacy funding costs of preference shares, and IPO-related exceptionals. The underlying tax rate would have been around two percentage points higher than the UK tax rate, due to the variability of international tax rates, and also LTIP accounting.

Jon Mortimore: We have given three EPS calculations, all on a diluted basis. Basic earnings per share after everything was 3.6p. We've then given an adjusted earnings per share basis, excluding exceptional items, of 11.6p. Finally, we've calculated a normalized adjusted figure. This excludes exceptional items, and also excludes the legacy funding costs of the preference shares that have now fully been repaid. This normalized basis is probably a better representation of a go-forward figure for us in a listed environment, at 14.5p.

Jon Mortimore: Operating cash conversion of EBITDA was unusually strong at 104%, representing a normalization of balance sheet working capital at March '21, compared to March '20. Looking forward as we grow, I would expect working capital to be negative as we build inventory and have higher trade debtors, with conversion in the high 70s to low 80s.

Jon Mortimore: CapEx at 2.7% of revenue was low. This reflected decisions taken very early on in the year to protect cash, and the deferral of certain larger IT-related projects. These have now been restarted, and I expect CapEx to be around the top end of guidance for FY22.

Jon Mortimore: We are a highly cash-generative business. We started the year with £117 million of cash, and we ended with £114 million of cash. This is after refinancing all legacy funding arrangements with new debt, and using £161 million of our own resources. At the 31st of March, 2021, we had net gearing, including IFRS6 leases, of 1.2 times.

Jon Mortimore: As I said earlier, we are maintaining guidance. A few highlights from me on this slide. FY21 EBITDA was ahead of consensus, but this is mainly timing. Faster delivery of supply chain savings, with future additional savings required to fund increased input costs. Also, following much stricter social distancing and lockdowns in EMEA in the second half, OPEX of around £5 million was deferred and will be spent in the first half of FY22.

Jon Mortimore: It's also worth noting that the first half of the new financial year will have a further £5 million pounds of annualization of PLC and LTIP costs. Current trading in aggregate is along with expectation. I'll be giving more details of Q1 trading at our AGM. We remain confident in the medium-term journey to a 30% EBITDA margin, as we continue to invest to grow, following a pay-as-you-go model to deliver long-term value.

Jon Mortimore: Finally, we expect our first dividend payment after the first half of the new financial year to be payable in January '22. We have a progressive dividend policy and payout ratio of 25% to 35%. Thank you. Before handing back to Kenny, we'd like to share with you a video of the last financial year for the Doc's business.

< VIDEO >

Kenny Wilson: Thanks very much, Jon. And hopefully that video gives you a little bit of the energy of the last year at Dr. Martens. It's been all about our brand custodians around the world doing what we said we would. But at the same time preparing the brand for an even brighter future.

Kenny Wilson: And the most important thing at Dr. Martens is our brand. Dr. Martens is all about rebellious self-expression. Rebellious self-expression is not how you look, it's a mindset. The people who buy into Dr. Martens are independent thinkers, they're free thinkers. They like to do things in their own way. And when we've researched this concept around the world, what we've actually seen is this is a universally appealing concept as I'll talk about later.

Kenny Wilson: So this demonstrates the journey that Dr. Martens is on as a business. DM's has always been a great brand, but what we're doing now is we're building a great business around that. To give some context of the journey it was only 10 years ago that this business was family owned, it was predominantly wholesale led. We had limited brand control and we had a prolific product range.

Kenny Wilson: What we're doing today is we're professionalizing the business. As you've just heard from Jon, it's all about being digital first and direct to consumer led. It's about working with the right strategic wholesale partners and cleaning up our business around the world. We've built a globally integrated supply chain and we're focused on the right form of growth. The quality of our earnings is as important to us as the quantity of our earnings. And probably most importantly from a product strategy standpoint it's all about originals at the core.

Kenny Wilson: So let me tell you a little bit about the product strategy of the business. So the absolute bullseye of Dr. Martens is the 1460, the iconic eight eye boot known around the world with its distinctive heel loop, it's yellow stitching and it's grooved sole. This product alone represents 43% of our business and it sits absolutely at the heart of the original's category. The original products are all archival products from Dr Martens' history. And as you can see in the image here in every Dr. Martens store around the world, there is an original icon wall.

The second most important category for DMs is fusion. And the best-selling product here is Jadon. Jadon is essentially an amped-up version of a 1460 with a zip. And you can see once again it shares all the characteristic Doc's DNA. If you see someone walking down the streets, whether it be in Tokyo in London or in Manhattan, you instantly know with fusion that it's a Dr. Martens. Within the fusion category is sandals. Sandals is one of the fastest growing parts of our business, which helps us to grow in a spring summer season. And as Jon's explained, sandals grew by 54% this year.

Kenny Wilson: Kids is another exciting opportunity for DMs. It's only 5% of our sales today, but we believe it's a real growth opportunity for the future. And our kids strategy is really simple. It's many mini versions of originals and fusion.

In terms of casual, this is a business that we've repositioned over the last couple of years and we've really targeted it with a very contemporary lens looking to target the younger consumer who's maybe bought sneakers in the past and is coming in to buy their first pair of DMs. And then finally collaborations. You saw on the video how important collaborations are to us. Not from a revenue standpoint, but from a positioning standpoint. We work with like-minded brands to position Dr. Martens in opinion leading distribution to opinion leading consumers around the world.

Kenny Wilson: Finally, accessories. Our business here is very simple. It focuses on leather bags and then shoecare. Shoecare is very important because the most important thing is looking after your Docs so that they are sustainable for the future. And that's really important to our consumer base.

So, the essence of our product strategy is a core focus on Dr. Martens' DNA. Alongside our product is obviously our brand. And we have a very simple brand love formula. This originated in the UK market, but it applies in every country around the world. The first step of that is exceptional brand love and awareness. When people buy into Dr. Martens they tell their friends about this brand, and that's why we have the number one net promoter score in footwear across our seven core markets. Secondly, Dr. Martens has incredible democratic appeal. People often say to me who is the Dr Martens consumer? And I say everyone, because we appeal across genders, we're almost a 50:50 brand. We sell to all ages and all walks of life.

Kenny Wilson: DMs is accessible to everyone. We’re also sticky through life stages and what that means in simple terms is most people buy their first pair of DMs when they're late teens or early twenties. And then those people stay with us and they go on to buy just less than three pairs across their lifetime on average. And then finally, Docs is right for multiple occasions, you can wear your Docs if you go to the office, you can wear them to school. You can wear them to visit the pub. You can go to a festival or you can go to a gig. And what that means is people never throw their Dr. Martens at the back of the closet, they're integral to their lifestyle. So we have real brand love.

Kenny Wilson: This is the strategy on which we run the business. DOCS, it's a tried and tested formula. The D-O-C-S is unchanging, but our focus areas they're constantly evolving as the business evolves.

Kenny Wilson: The D is about direct to consumer acceleration. This is about controlling our own destiny. And as you heard from Jon, in the last year this has been about driving more of our business through e-commerce. We've been investing in building our digital capability over the last three years. So when the pandemic hit, we were able to move in an agile way and shift our business towards e-commerce. And then our stores are there in service of the website.

In terms of O, operational excellence, this is about unlocking value and enabling growth. And we've been building a best in class supply chain over the last few years. Which once again meant that we could react when the pandemic struck us.

C, the most important pillar of our strategy - consumer connection. It's about building meaningful relationships with more consumers in more countries. It's all about our product strategy that I've talked about, our marketing strategy that I'm going to come on and talk about. And then also our sustainability journey. We know how important sustainability is to our consumers, but also the people of Dr. Martens who work here.

Kenny Wilson: Finally S: sustainable global growth. This is about growing our business in the right way. It's about prioritizing our resources against our top seven markets. It's about growing with the right wholesale accounts as Jon talked about. And then we're calling out the fact that we are building and establishing strong foundations in the Chinese market. We're investing in the right people, we're investing in infrastructure and we're approaching this with a custodian mindset for the future. So I'm just going to go into each of those now in a little bit more detail.

Kenny Wilson: So starting with D, controlling our own destiny. As you've heard, our e-commerce revenues were up 73%. Some of the highlights of an FY21 performance, we now have 13 directly controlled.com websites. Our regional trading teams drove growth everywhere, and we built out our distribution centers to optimize for the single pick pack of e-commerce. In terms of FY22, our focus here will be about driving localization and personalization of our sites. In terms of retail, obviously with lockdowns around the world our business declined. However, we did open 18 new stores in key cities that around the world and our stores continue to support our e-commerce business. The first photo that you see there is of Rome which is our first store in the Italian market. Prior to opening the Rome store, our number one city for e-commerce was Milano. But three months after opening Rome, what we saw is that Rome is now our number one city for e-comm sales. So what this once again demonstrates, as we've seen around the world is our stores are there in support of the website. And so therefore for FY22, our focus is to open a further 20 to 25 stores in key cities globally.

Kenny Wilson: In terms of S, our focus here is about quality growth. First of all, in wholesale it's about building our partner relationships. We will continue to rationalize that account base work with fewer people and the best partners possible. And as Jon shared in the numbers, as a consequence of the strategy our wholesale revenue per account continues to grow up 15% this year. Our goal for FY22 is to continue to build shop-in-shop space and branded space. You see a great example in the image of Citadium in Paris, and this is what we'll continue to do at around the world to build the presence of the Dr Martens brand.

Kenny Wilson: In terms of distributors we've got some great distribution partners around the world. But our focus for the main is about successful conversion from a distributor to an owned and operated business, where we implement the DOCS strategy. You've seen from Jon that in the first full year of our control in Germany, we've now moved that to our number two business in EMEA. And we also converted the Nordics successfully in the last year. Alongside of that our EMEA team prepared to bring back the Italian and Spanish market. So, we laid the foundations there hiring the right people and opening offices in those markets. You can see an example in the photograph of our new Barcelona showroom which I'm sure everyone in our team will want to visit! But in all seriousness, our FY22 focus will be about doing what we did in Germany and delivering the DOCS strategy in the Italian and Spanish markets to build brand equity and to drive growth.

Kenny Wilson: In terms of O, operational excellence. As Jon said, we sold more boots and shoes to more people up to 12.7 million pairs and our supply chain coped admirably. We saw the benefits from our multi-country sourcing approach as COVID hit Asia-Pacific. In the midst of the pandemic, we actually opened a new third-party DC in New Jersey on east coast of the US to support our e-comm business. And as you've seen, we improved our gross margins by delivering our efficiencies ahead of plan. In terms of what we're going to do in FY22, we're going to build capacity and capability to further enable pairs growth around the world. And actually we've just opened a new third-party distribution center in Los Angeles, which is already shipping e-com orders on the west coast of the United States.

Kenny Wilson: In terms of IT, well at the beginning of the year we had to rapidly deploy new technologies to make sure that large parts of our workforce could work from home and we did that successfully. Alongside of that, we invested in new people and we also continue to invest in cyber security, which is a very important issue for us. For the IT team the number one priority item for FY22 is the roll out of the Microsoft dynamics system in Asia Pacific. And then at that point the entire company will be on the same Microsoft dynamics platform, which is a real step forward for Dr. Martens and part of our professionalization approach.

For me, C is the most important pillar, connecting with our consumers. Even though the world was in lockdown, this was a big year for our Tough As You marketing campaign, which went from strength to strength. This started out as a brand campaign, but actually during the year it moved forward and it became a brand initiative where we were able to drive purpose, to create access and opportunities for underrepresented youth across the world doing something that Dr. Martens really believes in.

Kenny Wilson: Another area of our marketing focus was to invest in our product portfolio about building out arrange awareness. You see an image there of the Jadon I showed earlier, which is one of our six most important products. And around the world we invested in telling more consumers about the diversity of the Dr. Martens product offer.

This brand is also driven by social communities. And we have a highly, highly engaged social community for Dr. Martens. We've got almost 9 million followers in Instagram and Facebook. But towards the end of the financial year it was extremely exciting to all of us we launched on Tik Tok and we got an amazing reaction. In less than eight weeks we garnered 190,000 followers and we got more than 1 million likes on Tik Tok which just shows the strength of the brand.

Kenny Wilson: And then finally we know our Dr. Martens consumers absolutely love music, and obviously they were locked down. They couldn't go to gigs, they couldn't go to festivals. So we took Dr. Martens Presents, our music vehicle, onto Instagram, and we delivered 22 different gigs for our followers out there. So we continued to be part of their community and to be part of their lives.

The final part of C is around sustainability. One of the most sustainable things about Dr. Martens is the durability and the timeless design of our product. After you buy a pair of Docs, if you look after them they can stay with you for many years, which is incredibly important to us. Back in 2019 we launched our first sustainability strategy as a company. And over the last year, we've invested our team and our capabilities. Also we brought in outside help to do a gap and materiality analysis to inform the targets that I'm talking to you about today. There were so many things that the team achieved in FY21, but I want to call out just three of them.

Kenny Wilson: The first is more than 98% of our leather is from medal rated tanneries around the world. Now the heel loops in our boots are from more than 50% recycled plastic. And finally, more than 90% of our tier one suppliers were independently audited even in a pandemic. I think this demonstrates the focus that we're putting on sustainability as a business.

Looking forward we've set ourselves some clear targets as part of our custodian mindset. By 2028 100% of our packaging will be made from recycled and sustainably sourced material. And by the same year we will be sending zero waste to landfill across our entire value chain.

Kenny Wilson: By 2030 we'll have achieved net zero and we will have removed fossil based chemicals from all of our products. Our much more lofty goal by 2040: 100% of products sold will have a sustainable end of life option. And all of our footwear will have been made from sustainable materials without compromising the quality and the durability that people expect of Dr. Martens. We're really excited about these targets as our organization and in our annual report and the sustainability section you'll be able to read a lot more about what we're doing in this area.

Kenny Wilson: So this brings me finally to S, the opportunity for the Dr. Martens across our seven most important markets. They are North America, the UK, France, Germany, Italy, and, in Asia Pacific, Japan, and China. We have very good awareness across most of these markets, but we still have an opportunity to improve awareness through our DTC strategy, and through our marketing efforts.

Kenny Wilson: Probably the most interesting thing here for me though is when you look at our per capita consumption. So if you look at the UK, the number is 31 per 1000. If you look at the European markets and Japan, the number is considerably lower. If you then look at North America, which is actually our biggest market today, it's just less than a third of the UK. So that just shows if we can get our other territories even close to the penetration of the United Kingdom, that is so much growth to the Dr. Martens brand.

Kenny Wilson: Let me show you that a different way. So this was a piece of work that we did with a strategic consultancy, and what they did was to construct a lookalike model. And what that means is they took people who are already buying Dr. Martens and they found consumers with very similar attitudinal characteristics. Then they quantify the number of those consumers and showed us what the headroom would be. So if you look at the bar chart, in the UK that would say that there's a three X opportunity for Dr. Martens. In North America, there's nearly an eight X opportunity. And in Western Europe and Japan, there's above a 10 X opportunity in every country. So, lots of opportunity for growth. And as we've said previously, the short to medium term opportunity for Dr. Martens is that there is a lot of growth in the Western world. And that's really important to understand.

Kenny Wilson: Alongside of that, you've obviously got that incredible number of an 82 X number in China. We believe that there is incredible opportunity for Dr. Martens in China over the medium term. But as we've said previously, and we've reiterated today, this is about building the foundations to take that opportunity in the right way.

Kenny Wilson: So, it was a very eventful year for everyone, not just for Dr. Martens, but our long-term brand custodian mindset has delivered strong results. The business, as Jon has told you, has been incredibly resilient through COVID-19. We delivered at the top end of IPO guidance. We did exactly what we said we were going to do. We've got a tried and tested strategy in DOCS. It's working for us around the world and we will continue to deploy it. We will focus this organization on looking after our planet for the future, and we feel very confident in the year ahead and beyond. And as a consequence of that, we are reiterating our guidance for the future. Thanks so much for listening to myself and Jon today. And we hope that you'll join us at 9:30 for our live Q and A, where we'll be very happy to take any questions that you have about our last year's performance. Thank you so much for your interest in Docs.

Kenny Wilson: So at this point, I'm going to hand over the moderator, and Jon and I'll take any questions that people have. Thank you.

Karina Shooter: Hi there, thank you very much. And congratulations on the results this morning. I have two questions, if I may. The first one is just about current trading. I think you mentioned it was in line with your expectations. A little bit more colour by geography, potentially, particularly in the US where we've had several luxury brands sort of demonstrate strength there. And secondly, if you could just give a little bit more colour on the distributor market opportunity. You've obviously mentioned incredibly strong growth in Germany, plus 56% year on year last year. If you could give any more colour around other distributor markets, potential pipeline or timeline for those that are taking in house this year, that would be super helpful. Thank you.

Kenny Wilson: Thank you very much, Karina. I'll take them in reverse. We'll take the distributor market question first. So I think as Jon said in our video this morning, we've had extremely strong performance in Germany implementing our DOCS strategy. In the year that's just gone we also laid the groundwork for taking back the Italian market and also the Spanish market. We've put teams in place in Milan and in Barcelona, we've put in place the infrastructure to do that. And in fact, we actually took the markets back this month. So what we envisage that we'll see is the implementation of the DOCS strategy in those markets in the year ahead. Do you want to add something?

Jon Mortimore: Only that I think just to reinforce the distributor conversion, is not just a one year step up in terms of taking in market margin. It's a multi-year plan, and it's all about actually implementing the DOCS strategy over a long period of time, focusing on the higher brand enhancing wholesale accounts that we control, driving improved product makes, opening stores to support e-commerce. It's not just a one hit wonder. That said, the first full year of Germany is exceptionally encouraging, and we look forward to converting Italy and Spain in the coming year.

Kenny Wilson: And then in terms of your question on current trading, we're not really giving any detail today on current trading. We've only had April and May to be realistic, and they're two very small months in the overall scheme of things for our year. What we can say though is that we're encouraged by the start of the year. It's absolutely in line with our expectations. As we look across the year ahead, we feel confident that we'll continue to see strong e-commerce growth.

Clearly as stores open up, we'll get the benefit of lapping closures from last year. So we feel pretty confident in the year ahead.

Jon Mortimore: Yeah, and just to build, what you'll get is that at our AGM, which is towards the back end of July, Q1 trading, and a bit more colour around trading at that date.

Karina Shooter: Okay, very clear, thank you.

Jon Mortimore: Thank you.

Edouard Aubin: Hi guys, just three questions for me. The first one is on EBITDA margin for this year. So your guiding for sales to be growing high teens in fiscal 22. Assuming that you would deliver what is expected today by consensus, which I think is EBITDA around £252 million, that would imply that your EBITDA margin would contract by about 50 basis points, more or less to around 28.5%. So I know you flagged some headwinds in the release, but shouldn't these headwinds be compensated by operating leverage? And also you're going to have a benefit of the channel mix effect in FY22. So that's question number one. So it's a bit of a long one.

Edouard Aubin: Question number two is on brand desirability. And I know it's a difficult question to answer, but can you please provide some updates on how you see your brand desirability today, and I guess most specifically regarding distribution. So how selective that you remain with the wholesale accounts, and to what extent are these accounts asking for more products on that? And then maybe lastly, China. I know it's not very big in the grand scheme of things, but it has always been perceived as kind of a free option for you. So you delivered a 46% increase in fiscal 21. Now it's coming after a 250 basis points... Sorry, 250% increase last year. I know obviously the base is getting much more difficult, but you've made some changes, I believe, in terms of your TMall partner. You changed your franchisee two years ago, you're beefing up the management team. How optimistic are you that you have the building blocks in place now, and you could deliver strong growth. Thank you.

Jon Mortimore: If I take the first one, and then Kenny can pick up questions two and three. Your EBITDA margin question. You're right, average consensus for FY 22 is 252 million pounds. FY 21, EBITDA margin was stronger than we originally anticipated as EBITDA came in about 10, 11 million pounds ahead of consensus. That was all timings we've explained. Partly due to faster than anticipated delivery of our supply chain savings. The next question that would follow that one up would be, are you therefore increasing your supply chain savings target? The answer would be, we are. However, what we have seen from spring summer 22 season is higher increased costs than we had anticipated. So the higher savings will be needed to broadly offset those increased costs that are coming.

Jon Mortimore: In addition, we deferred OPEX of around 5 million pounds from the fourth quarter into the first half, mainly in EMEA region because the stores were closed with stronger social distancing restrictions and closure than we anticipated. So some OPEX just dropped in our lap. So we've got some cost headwinds that hit us in FY22. The final cost headwind through FY22 is the annualisation of PLC running costs and also LTIP costs of around 5 million pounds, that will hit the first half. So whilst at time of IPO, we are still confident and we remain confident on a journey to a 30% margin. One might have seen a steady growth trend like that. We're still in a steady growth trend, but this year into next year is obviously be much, much shallow because we're starting from a higher point.

Edouard Aubin: Okay, thanks Jon.

Kenny Wilson: Your second question, Edouard, was around brand desirability with a subset question around how selective we're going to be around wholesale accounts. I think in terms of brand desirability, clearly the first thing to say is we grew pairs from 11.1 million pairs to 12.7 million pairs in a pandemic, which I think strongly demonstrates the demand that is out there for the Dr. Martens brand. In terms of our brand equity studies, where we clearly track and measure ourselves against growing the brand, we continue to have the number one net promoter score for footwear in all of our top seven markets that we focused on. So we feel very confident in the long term desirability of the Dr. Martens brand.

Kenny Wilson: In terms of our strategy for wholesale, we will continue to do what we've been doing over the last few years, which is we will work with fewer people, but we will work with the right people. We will be focusing on building strategic partnerships with those accounts so that we can present the Dr. Martens brand with the best possible product assortment in the right way. And clearly, as we've mentioned before, we will continue also to focus on our AMP accounts, which are the top part of the distribution pyramid, the sports industry calls them energy accounts, where we're focused on positioning our brand in the right distribution.

Kenny Wilson: In terms of the inventory part of your question. We track the inventory position of our top 20 wholesale accounts in both of our biggest regions in Americas and in EMEA, and inventories that are in really good shape. To your China question, we continue to believe that China is a phenomenal medium term opportunity for the Dr. Martens brand. In the short term, we see more growth in the Western world just as the numbers that we've delivered this year. The work is still ongoing in terms of building the capability to fully implement the DOCS strategy in the Chinese market. So we are continuing to upgrade the calibre of our people there. We're continuing to add people in our Shanghai office, and we're continuing to build the infrastructure to grow in the Chinese market. But the long-term opportunity, or the medium term opportunity for China, we still feel is exceptionally strong for Dr. Martens.

Edouard Aubin: Great. Thank you guys.

Operator: Thank you. Our next question comes from Doriana Russo from HSBC. Please go ahead.

Doriana Russo: Yes, good morning, everyone. I've got a few questions as well. First of all, I'd like to come back to China. China is probably, I mean, it is the biggest opportunity for you longer term. Can you give us a little bit more colour in terms of what have you done, if anything, in terms of e-commerce and local investments. Maybe you can share with us what was the performance of the e-commerce channel, which is your direct channel there. Secondly, I would also like to ask you about e-commerce in the US. If there was any difference from the average that you've reported in terms of sales, and anything specific that you might want to share with us, versus your strategy, which is normally e-commerce performing better around shops, has that still been the case in the US. And my final question is your marketing expenditure. You have a declared target to improve by 50 bps every year. What was the final investment for FY 21? And have you changed the target long-term?

Kenny Wilson: Thank you. Okay, we'll start on question one, which is the China opportunity. And as you said in your question, it's a big medium term opportunity for the Dr. Martens brand. I would also stress though that one of the things that is different about this business relative to other big players in the market is the size of the opportunity that we still have in EMEA and Americas. And I think it's important to take that in context of our overall results. Your question was specifically around what are we doing in e-com in China. Right now, the business is trading with our own Dr. Martens site on T-mall. And the business continues to grow strongly. And as one of the previous questions talked to, we've just changed our TP partner in China because we believed it was time to upgrade the partner. And we've also strengthened the digital team in Shanghai. So we feel confident that we're putting in steps to continue to grow the e-commerce business there. Do you want to add anything?

Jon Mortimore: Only that also in China we've also got the importance of stores. Now, these stores are mono branded franchise stores with our distribution partner. And in the year we opened up a net 35 stores to trade from 85 stores in the largest cities. So it's the same DOCS strategy, stores supporting e-commerce to showcase the brand and the product.

Kenny Wilson: And then in terms of the second question, which is around USA e-commerce-

Kenny Wilson: Go ahead.

Doriana Russo: No, I was just going to check whether you could share with us the performance of the e-commerce in China specifically?

Kenny Wilson: No, we're not giving out information on specific markets by channel. In terms of your second question, which kind of talked to that, which was USA e-comm. I think what I'd say is, the overall strength of e-commerce globally at plus 73%, North America was up there. We had an extremely strong e-commerce performance. To your question around the correlation between stores and e-comm, that continues to be strong. So I think in the video I give a European example where I talked about the fact that opening a store in Rome, moved

Rome to our number one e-com city. What we're seeing in North America as we open stores is that same strong correlation. So towards the end of the last financial year, we started to open stores in Texas, which is obviously the second biggest state in the United States, and what we've seen as a consequence of opening those stores in cities like Houston or Dallas is that we are seeing an increase in e-commerce sales in those cities. So the strategy of digital first with a clear stores presence in key global cities around the world is working for us and where we open stores, it just boosts our e-commerce business. Anything you want to add on the US?

Jon Mortimore: No, but e-comm was exceptionally strong everywhere. On the marketing spend comment, you're right, we guided that we're planning to increase marketing spend by around 50 bps a year. I think we set through an IPO a target of around 7% of revenue in the medium term. Last year, we did increase marketing spend by 50 bps. Through the year, digital spend was maintained. All year, we didn't cut any digital spend, even through the depth of COVID. We did cut non digital e-com spend and we caught up in the second half in terms of investment, but the full year, we increased by 50 basis points.

Operator: Now, my next question comes from Piral Dadhania from RBC Capital Markets. Please go ahead.

Piral Dadhania: Yeah. Hi, morning. Thanks for taking my questions. I have two on gross margin and one on the customer demographic. So on the gross margin, you guys are flagging some inflationary cost pressures, which is understandable for the coming year, but my understanding would be that these dollar hedge rates should be more than able to offset some of those. So could you give us a bit more color as to where those cost pressures are coming from in terms of raw materials, FX, and what your hedge rates on the pound dollar look like for spring/summer 21? Because I would have assumed that your sourcing with a more favorable hedge rate would more than offset some of those inflationary cost pressures and freights are relatively small proportion of cogs.

Piral Dadhania: Secondly, on the presentation that you've got on your website, coming back to supply chain efficiencies, you guys are flagging that you've reached your 5% of sales target in the year 21. You show 40 million of gross savings for 21, which is a net change of 23 million versus the prior year, but in the previous slide, which is the gross margin breach, you're only recognising 8 million of that efficiency. So the question really is where does the remaining 15 disappear to? A little bit more understanding around where that's gone would be helpful for modeling purposes.

Piral Dadhania: And then finally, just on the customer profile. With e-commerce being the fastest growing channel, I just wanted to understand whether you've seen any change in your customer makeup. I think at the time of the IPO, the commentary was around 50% returning versus 50% new customers in terms of traffic. Have you seen any changes to your key customer KPIs in the year to 21? Thank you.

Kenny Wilson: So I think Jon will take the detailed financial questions around gross margin and supply chain efficiencies. Just to give you an example on the raw material costs going up, we're seeing the costs of plastic going up effectively which everyone is seeing. We're seeing the cost of metals going up, for example, for the eyelets of the product, so most of our raw material costs are rising. And as Jon said earlier, that will impact spring summer 22 and we know that already at this point. This is the point I will shut up and hand over to Jon on the gross margin.

Jon Mortimore: In terms of cogs, all of our cost of goods are bought and paid for in US dollars because all the factories are in Asia. We pay for everything in US dollars. And you've got dollar purchases from the US, so there's no hedge there. Yes, you're right. We purchase the dollars from the UK in Sterling but the UK is a small part of our total mix. We buy Euro's dollars for Europe and then Yen, Hong Kong dollar, et cetera in other markets. So it's not a straight - we buy in Sterling, hedge Sterling versus dollar rate. We do hedge Sterling versus dollars, that's only a small part of the overall. So we have got dollar price increases in dollar sourced product that we pay in dollars from multi currencies, and which is why the costs are real costs and they are going up.

Jon Mortimore: In terms of the efficiencies, the difference between the two pages is the 40 million, the 5%, that is gross savings, which will have a volume benefit. The incremental on the gross margin, that is the incremental savings achieved in the year, not volume related. Going forwards, what we're saying is any incremental savings will be needed to fund incremental cost inflation over and above our underlying inflation assumption.

Kenny Wilson: And then your final question was around customer profile, and you remembered correctly what we said at IPO which is broadly, online, we were 50% recruiting new consumers and 50% retaining existing consumers who came back to buy more product. What we did see in the first three months of the pandemic is we did see an increase in new consumers, and I think we also mentioned at IPO that we currently don't have the capability to have a single view of customer and track that customer in store and online. So whether they were truly new to Dr. Martins or not is impossible for me to tell or to give you a straight answer on. And what we see now once again is that basically, things are stabilizing back to the normal level. So our strategy remains the same. We will continue to recruit new consumers into the Dr. Martins brand globally and we will continue to encourage consumers to buy their second pair or their third pair.

Piral Dadhania: Thanks, Kenny. Jon, could I just come back to your comment on the volume versus non volume related benefit. I'm sorry but I don't fully understand that. Could you perhaps just explain to us in a slightly different way what a volume benefit versus a non volume benefit is?

Jon Mortimore: Okay, so volume benefit would be, so for example, if we got some savings of say five pounds in FY 20 per pair, sell more pairs, that five pounds could become 10 pounds, it could become 20 pounds through just selling more pairs of boots and shoes. Whereas, if we add a saving on a pair of five pounds in FY 20, but then the following year, we got an incremental one pound of saving to six pounds, that incremental one pound you'd see on the gross margin bridge, but the volume would be the full six pounds itself. So one's got multiplied by pairs, the other one's the incremental achieved in the year.

Piral Dadhania: Got it. Okay, so the volume benefit only comes through once.

Jon Mortimore: The volume benefit will be there. The incremental only comes through once, then it sticks.

Piral Dadhania: All right, yep. Perfect. Thank you both.

Jon Mortimore: Thank you.

Kenny Wilson: Thank you very much.

Operator : And we have a followup question from Doriana Russo from HSBC. Please go ahead.

Doriana Russo: Yes, it's me again. A couple of questions if I may. You mentioned that sandals did quite well in the last year. I was wondering if you can comment more in terms of the performance of the different categories versus the average of growth of 15% that was delivered. In particular, if you can show us the number for Fusion versus the other lines. And also, a follow up question on China. Have you been able to track brand awareness if there was any change versus the 63% I think that was reported for previous year. And if so, where was it coming from? And my last one, very last one, apologies for that, in on CapEx. There was a signal of higher capex coming in next year. Can you give us a sense of where do you plan to invest across geographies or channels, or any particular projects that you have in your pipeline. Thank you.

Kenny Wilson: I can take the first question which is around product mix. So we're not giving out by category the overall growth rates. You referenced the strong growth in sandals, which I think it was 54%. Sandals is obviously a subset of Fusion. What I can tell you is that Originals and Fusion are by far and away the two biggest categories. They're circa 80% of revenue and they grew broadly in line with the overall company average, so that's what we're seeing.

Kenny Wilson: In terms of your question around awareness in China, since the IPO, we haven't had an update to our brand study so there is new update in terms of awareness in the Chinese market that I can give you today because we have no more current stats than we had at the time of IPO. And I'll let Jon take the CapEx question.

Jon Mortimore: On the CapEx, you're right, guidance is three to three and a half percent. I did say on my cashflow side that I think FY 22 will be at the top end of that. That's mainly catch up through the last financial year. I think CapEx was 2.3, 2.4% of revenue, so a little bit lower. Mainly deferred IT projects, the largest being the rollout and implementation of Microsoft Dynamics D365 to Asia Pacific region, which we paused back in April, May last year and have subsequently restarted. That's going to take 18 months or so to roll out across Hong Kong, Japan, China, and South Korea. That's the biggest timing issue. Otherwise, it's as previously, is the CapEx for 20 to 25 stores and then numerous other smaller projects. That's the biggest timing one.

Kenny Wilson: Thank you.

Doriana Russo: Thank you.

Operator: And we'll take now with the next question from Richard Taylor from Barclays. Please go ahead.

Richard Taylor: Yeah, morning. It's just a question really on the trends you're seeing in store re-opening since some of the restrictions have lifted. I realise a lot of that will have been since the year end and I know you're not giving us specific current trading updates. But just within that, can you give us some colour on behaviour, on retail versus online as restrictions have lifted? And Kenny, you're saying inline overall but is there anything that's surprised you in behaviour, people still preferring to order online? Has that stuck more than you think or has there been quite a strong reopening within retail? Thanks.

Kenny Wilson: Yeah. I mean, to your question, Richard, we're not going to give any specific guidance around channel performance yet. It's very early in the year. What I would say is that we're really encouraged by what we're seeing. In terms of your question around will e-comm stick, we believe that yes, it will continue to grow from the 30% mix that Jon talked about earlier. We don't expect that the growth will be as high as the 73% that we've seen this year obviously as stores open up, given we had big periods last year when the shops weren't open in many countries around the world. In this first quarter, which we'll talk about at our AGM, obviously we're up against considerable store closures so the numbers will look quite large.

Kenny Wilson: I think what we're seeing is, our colleagues are telling us, it's great to be back in the stores. They're really excited about being back in the shops. We're seeing high conversions in stores, probably like many other branded businesses right now because people who are out there shopping are out there on a mission to buy. So we feel very encouraged, both by the e-commerce numbers and by the store numbers at this stage, but we'll update a little bit more when we get to our AGM.

Richard Taylor: That's great. Thank you very much.

Operator : We have a follow-up question from Piral Dadhania from RBC Capital Markets. Please, go ahead.

Kenny Wilson: Go ahead.

Piral Dadhania: Hi, thanks. Just a quick one, sorry to interject at the end. Could you just remind us or give us an update on your views on profitability by channel. Obviously, highly disrupted year in 2021 but as stores reopen, should we expect any margin mix changes as the revenues shift in channel terms? Or put it a different way, have you been able to generate any incremental margin uplift in e-commerce relative to where we were, say, six months ago?

Jon Mortimore: Thanks, but I think the answer to that is it's exactly the same as when we went through the IPO what we're seeing. So you think when we did the IPO, I talked to the profitability of a 1460 boot, D2C channels versus B2B channels for want of a better description, how a boot or standard 1460 boot is four times more profitable to us through a DTC channel than through a B2B channel. That metric hasn't changed. We didn't give out and we're not going to give out profitability by channel but we did see, the most profitable challenge is e-commerce followed by wholesale followed by retail. That hasn't changed in terms of ordering, so in terms of our underlying economics and metrics going forwards, we don't envisage any material changes. I think one thing we did see through last year, obviously with the stores being closed is the overall D2C mix reduced from 45% to 43%. As we normalize through this year, we're confident we'll get back on our journey towards a 60% D2C mix in the medium term.

Operator : There are currently no further questions in the queue.

Kenny Wilson: Great. Well, if there's no further questions, I'll just summarise by saying thank you much for your time, your attention and the questions that we've received this morning. Clearly, it was an unprecedented year, but overall, our long-term custodian mindset continues to position the brand in the right way. We believe that we've delivered strong sets of results, which is exactly what we said we were going to do, and we feel very confident in the year ahead. So thanks for your questions. If anyone has any follow-up questions, please direct those towards Bethany, our director of investor relations. Thank you so much for your time. We really appreciate it.