Dr. Martens plc

FY25 Results Transcript

Ije Nwokorie, CEO

Hello and welcome to our FY25 results presentation, I'm joined today by Giles Wilson our CFO. I'll do a short introduction before handing over to Giles to run through our FY25 financial results and then I'll return with some closing comments.

FY25 was a year of stabilisation. At the start of the year, we laid out four key objectives and I'm pleased that we delivered against all of these. We turned around our Americas DTC performance, with Americas DTC back into growth in H2. We pivoted our marketing to relentlessly focus on product, with great initial results – you heard me talk about this back in November. We have reduced our operating cost base, taking £25m of annualised savings out of the business. And, really importantly, our balance sheet is significantly strengthened, with inventory and net debt both down significantly ahead of guidance. Over to Giles to talk you through the years financial performance.

Giles Wilson, CFO

Thank you Ije, and good morning, everyone.

Continuing on from the four points Ije just set out, FY25 has been about stabilising our financials and delivering against our objectives. Firstly, my focus this year has been about strengthening our balance sheet, which started with securing the refinance as announced at our half year. At the beginning of the year, we committed to reduce inventory by £40m and we have beaten this with our closing inventory in fact £67m lower, a key driver of the £95m overall reduction in net debt. Secondly, we reset our cost base through the cost action plan, delivering £25m of cost savings with the full benefit being seen in FY26. There was some benefit in FY25. The cost action plan helped reset the business's overall approach to cost, and we have embedded into the culture a strong cost discipline. As Ije highlighted we have seen Americas DTC return to growth, and that momentum is now building in the USA as we enter into FY26 albeit this is the smaller DTC months. As well as the focus to right-size our own inventory, we saw reduced sales to our wholesale customers in EMEA and US as they encouragingly right-sized their inventory, - this sets the markets up for future growth. Overall, we have delivered on our objectives, delivered in line with market guidance, exceeded our inventory and debt reduction targets, and stabilised the business, setting ourselves up well for future growth.

Following on from half year, we are now presenting the financials in both reported and constant currency terms to show the true underlying trading. In addition, this year we have introduced adjusted performance metrics, stripping out the impact of one-off exceptional and other non-trading related items.

Turning to the financials themselves, in later slides I will give more detailed explanations of some of these metrics. Our key financial headlines are as follows.

- Total pairs are down 9%, however due to the slightly better DTC mix, revenue is only down 8% at £805m on a constant currency basis, in line with our expectations.
- Gross margin is down in line with revenue, with Gross Margin rate slightly down year on year mainly driven by the product mix, as shoes and sandals increased, and boots, which have a slightly higher margin, declined. In addition, in quarter 4, we took the opportunity to clear some aged, discontinued and fragmented stock, at reduced rates through our US B2B channel – although to be clear, this was still profitable to us.
- As highlighted on the previous slide, operating costs have been tightly controlled, with the slight increase of 2% year on year mainly driven by increased investment in demand generation, as highlighted at the outset of the year to support the move to product led marketing.
- Overall adjusted EBIT was £67.1m and adjusted PBT was £40.3m, both significantly back on last year but slightly ahead of consensus.
- During the period we incurred £25.3m of adjusting items, driven mainly by the £17.3m of exceptional costs of which the cost action program accounted for the largest part. I will cover in more detail on a later slide.
- EPS on constant currency basis is 1.1p
- As highlighted during the FY24 results, it was the intention of the Board to keep the Dividend flat year on year, given this has been a year of stabilisation.

Starting with Americas, the key driver in revenue decline was wholesale, as expected, with £27m of the £30m recorded in the first half as our US wholesalers reduced their inventory levels. Americas DTC was marginally down, by £2m, with the decline all in the first half and, as discussed, a return to DTC growth in the second half. In quarter 4 we consciously pulled back on discounting over the previous year which slightly reduced our revenue in this quarter following a good performance in the crucial quarter 3 as highlighted in the statement in January.

Turning to EMEA, here it is the same story as with Americas for wholesale - of the £25m shortfall, £23m related to H1 and was in line with our expectations. EMEA DTC continued to be impacted by a highly promotional backdrop generally, together with weaker consumer confidence, particularly in the UK. We chose not to participate in promotional activity over and above our plans. Of the £16m shortfall year on year the majority, 80%, related to UK. In other key markets, France was flat year on year in DTC and Germany showed growth at a total market level.

Finally, in APAC, DTC saw continued strong year on year growth in Japan, South Korea and China, with South Korea of particular note in quarter 4. Our distributor in Australia and New Zealand – a nice business for both us and our partner – showed good revenue growth. The slight decline in APAC wholesale was as planned.

Overall, our regional and channel performance was in-line with our expectations. Though we are disappointed in the overall EMEA DTC performance, this was in part due to conscious decisions not to participate in wider discounting. We were pleased to deliver against our objective of returning Americas DTC to growth in H2.

The underlying EBIT drops from £126.4m last year to £67.1m on an adjusted basis this year. Stepping through the bridge

- £50.8m reduction from the impact of volume at average gross margin, predominantly due to the decline in wholesale revenue as explained, again with the majority in the first half.
- Small impact on mix of £0.4m, with upside of DTC mix shift offset by the US B2B clearance activity.
- We increased our demand generation opex by £4.7m to support the new product-led marketing approach.
- We tightly controlled costs, limiting year on year increase to £1.4m.
- A small increase in depreciation due to annualization of stores
- And finally, the adjusting items I will cover on the next slide.

As highlighted at the half year, we have incurred exceptional one-off items. These were comprised of

- £15.1m, as guided, relating to cost action plan £8.9m, executive director changes and buyout related costs of £4.6m, and £1.6m relating to the refinance.
- In addition, a further £2.8m related to the set-up of our new Global Technology centre in India, which will deliver savings in FY27 once fully established – for FY26 the double running costs offset the benefits.
- Retail Store Impairment of £4.3m related to underperforming stores following a review of our store estate. This mainly related to stores in the USA that have not seen traffic recovery post COVID, together with some in EMEA.
- Currency losses of £3.1m due to the currency gains and losses impact on our accounts receivables and payables at balance sheet date.

One of the key objectives this year was to reduce our inventory and, as I said earlier, we are really pleased to have beaten our target of £40m, delivering a reduction of £67m. This slide is an extension of the slide I showed at H1.

As a reminder, this slide sets out the planned inventory reductions over the 2 years, split into the half years. The chart starts at FY23 with inventory at £258m, during the first half of FY24 we built up the levels to over £300m, and then during the second half of FY24 we used that inventory to sell during peak period, closing the year with £255m of inventory. As we started FY25, the reduced planned purchases can be seen on the chart with the half year inventory position slightly down versus the FY24 year-end. Then as we enter the busy peak period in FY25 we utilised our inventories and stock balances fell to £187m. In addition, we also took advantage of an opportunity to sell some aged and fragmented line stock, through a discount channel in the USA at reduced but profitable margin levels. For the avoidance of doubt, no deal was transacted in the year at below cost.

We have now normalised our inventory levels. Our supply and demand planning system will go live in the first half of FY26 and that will enable to us to continue to effectively manage and optimise our inventory levels going forward.

So finally, for this year's financial results, turning to cashflow, I am really pleased to report our significant reduction year on year in net debt, both in terms of net bank debt reducing by £83.4m to £94.1m and total debt including leases reducing by £110m to £249.5m.

As a reminder on this slide, the grey boxes are the net bank debt, being bank debt less cash, and the white boxes show the lease liabilities.

The bridge sets out the cashflow from the FY24 year-end position, the next 4 boxes show underlying operating cash movement in period, delivering £108m of cash inflow including the £67m of inventory reduction from the previous page and after accounting for the lease payments of £56m and interest & tax payments of £40m. Capex accounts for £19m and dividends in year of £9.5m.

Finally, our net debt to EBITDA finished at 1.9x, well below our bank covenant level of 3 times, leaving significant headroom reflecting the strong cashflow generation in year.

So, to conclude. We set out in FY25 to deliver on our four key objectives, which were.

- Grow our Americas DTC business in H2
- Take cost out of the business and deliver £20 to £25m of cost savings
- Pivot our marketing to a product-led approach
- And strengthen our balance sheet through the reduction inventory

We have delivered on all of four of these objectives as well as securing new financing arrangements. We have stabilised the business and are now ready to execute on our new strategy and set us up for future growth. And as we look forward to the medium term, we expect to deliver sustainable, profitable revenue growth above the rate of the relevant footwear market, with operating leverage driving a mid to high-teens EBIT margin and underpinned by strong cash generation.

Ije Nwokorie, CEO

This year our single focus was to bring stability back to Dr. Martens. We're now looking forward, and I'll talk in detail about how we're thinking about the business strategy and path from here in a separate presentation later today.