Dr. Martens FY23 Results

1 June 2023

Kenny Wilson *Dr. Martens plc - CEO*
Good morning, everyone, and thank you for joining our full-year results call, both here and on the webcast. I'm joined today by Jon, our CFO; and also from Dr. Martens, we have Paul Mason, our Chairman, Emily Reichwald, our Company Secretary; and I'm pleased to say back from maternity leave, Bethany Barnes, who is our Head of IR.

So, our agenda for today, I'm going to give you an overview of the year, and then I'm going to spend some time talking to you about our USA business. This has been the big disappointment of our FY23 performance, so I think it's really important to address this upfront, as this is our number one focus area going forward. Jon is then going to take us through a financial review, and then I'll come back and talk about the successes from this year and, crucially, our thinking on the future, the investments that we are making to underpin our growth, and the white space opportunity we have, which gives us confidence in our ability to capitalise on that growth opportunity.

So firstly, an overview of the year, and then, as I've said, a review of our USA performance. So, what are the key messages from the last year? Well, firstly, when our DOCS strategy is implemented well, it is delivering results, and we can see that in both EMEA and in Japan. We have had execution issues in the United States. We are clear on what these are, and we have started to fix them. We can and we will do better.

The backdrop has been challenging, with the consumer under pressure, high inflation, COVID still impacting Asia Pacific in the last 12 months and also war in Ukraine. However, all of our indicators tell us that the Dr. Martens brand is stronger than ever. Global net intent, i.e. “I see myself buying Dr. Martens in the future”, is up 2 percentage points to 17%.

So what are the reflections on the year? Well, later I’m going to talk about what went well. We achieved ££1 billion in revenue for the first time in the company’s history. Our brand is strong. We delivered good performance in EMEA and Japan. Our product strategy is working, and we have made progress in sustainability. However, we have areas to address in the United States.

We have told you before of the operational challenges we faced at our LA DC. And while these are now operationally fixed, there will be a cost impact in FY24. The weather impacted on our performance in the third quarter, and at times, the consumer backdrop in the USA was challenging. However, as the year progressed, we were not happy with either our marketing or ecommerce execution in the USA.

The USA performance also impacted our overall group results. While we increased prices as planned, the USA underperformed versus our expectations, and hence, price did not offset inflation across the group. Boots volumes were lower in the year, this was a combination of planned reductions in Latin America and China, plus the impact of the LA DC issues and poor marketing focus in the USA.

So, if we just go into the USA in a little bit more detail. Firstly, our brand is strong, and we see this in both our October and January consumer studies. In the last two years, we've sold over 1 million more pairs in the USA, or growth of 20% in pairs on a two-year basis.

You see this mirrored here in our consumer research, with last 24 months purchased up 5 percentage points to 13%. USA net intent, the intention to buy Dr. Martens going forward, is also up 4 percentage points to 17%. Future consideration of our brand is up 1 percentage point to 10%. We sold more pairs in the US this year, driven by shoes and sandals. Taking all these things combined, our brand is strong, but our execution has been weak.

So, what have been the execution challenges in the United States? Firstly, the move to the LA DC, which I'm going to discuss in just a moment. As the year progressed and we did a deep-dive view into our USA business, we identified other areas of weak execution. Our marketing was too focused on shoes and sandals and not enough on boots. Our ecommerce execution was weak, and our inventory levels are too high.

Most importantly, though, what have we done? Our USA President identified that we needed to strengthen our USA leadership team, and we have done that. We have hired a new vice president of digital, a new vice president of marketing, a new vice president of HR, and we are out to hire for a vice president of operations.

Our new VP of marketing has refocused our marketing plans towards boots, and we expect to see performance improvement from Q3. Our shoes and sandals have performed very strongly, and we expect that to continue going forward.

Our new VP of digital joined us in late February. He's started to make a real difference, and we are seeing an improving trend of performance in USA Digital, although I would point out that it is still negative. We expect to see an improvement in digital performance in the second half.

We made a decision early last year to consciously increase USA inventory levels. The consumer backdrop weakened, and we did not execute at the levels we expect of ourselves, so we have too much inventory in the United States. However, this inventory is in core black best-selling boots and shoes. Therefore, we do not need to take any significant markdown actions. Avoiding markdown means that we will run with higher inventory throughout this year, but this is absolutely the right thing to do for long-term brand health.

We talked about the LA DC situation in detail in our April call. The LA DC continues to operate well, with throughput now performing at expected levels. We accelerated the expansion of our New Jersey DC. We have successfully run trial wholesale orders from that facility, and we are on schedule to have this DC fully operational for both direct-to-consumer and wholesale from the autumn-winter '23 season. We are now better set up to serve our USA business into the future. Also, we have improved the processes and controls between our sales, operations, and logistics functions.

In addition, we have strengthened our organization by hiring high-calibre directors of logistics for both the LA and New Jersey facilities. Through the fourth quarter and into the beginning of financial year '24, we have continued to have some of our best people on the ground in LA to ensure a well-managed handover to our new USA logistics team.

So in conclusion on the United States, we're disappointed in our performance. We can and we will do better. However, we're confident in our brand in the USA, and this is demonstrated by our growth in pairs and our brand health metrics. We have made leadership changes to improve our performance. We have fixed the LA DC operational issues, and we have invested in infrastructure and people to support future growth.

With that, I am now going to hand over to Jon, who is going to take us through the financial review.

Jon Mortimore ***Dr. Martens plc - CFO***
Thank you, Kenny, and good morning, everyone. I'll walk you through the financial performance for the year to March 31, 2023. Revenue grew by 10% to ££1 billion, representing 4% constant currency growth. This was driven by DTC, which grew by 16%, or 11% constant currency, increasing the mix by 3 percentage points to 52%. The majority of our revenue is now through our own controlled channels which are higher margin.

Volumes declined by 2% to 13.8 million pairs. This was all due to our decision to exit South America distributors in FY22 and also our decision to not renew the distributor contract in China from June '23. Excluding these, volumes would have been up by 2%.

Gross margin declined by 1.9 percentage points and in OpEx, we continue to make targeted investments. Due to a combination of slower revenue growth, higher OpEx investments, and the LA DC costs, EBITDA was 7% lower than last year at ££245 million.

Profit before tax was down 26% and was also impacted by high depreciation and amortisation, an impairment charge, and at the back end of the year, an FX translation charge on a Euro-denominated bank debt. I'll return to each of these topics over the next few slides.
Boots, shoes, and sandals sold via own retail or ecommerce generate approximately two times more revenue per pair and four times the gross profit of wholesale. DTC growth was driven by strong retail, with a combination of traffic recovery and returns from investments made in new stores.

Retail traffic remains meaningfully below pre-COVID levels. In the year, we opened 52 new stores, including 14 stores transferred from franchisees in Japan. We also closed six stores. In the prior year, we opened a net 23 stores, so the annualisation benefit from FY23 openings into FY24 are expected to be higher than the benefit of the FY22 openings into FY23. We've got double the stores.

Ecommerce was marginally up on a constant currency basis and was led by a good performance in EMEA and Japan, part offset by poor trading in America.

Wholesale declined by 3 percentage points on a constant currency basis, mainly due to lower shipments in America and our decision to cease supply to the distributor in China. The quality of our wholesale account base improved in the year, with revenue per account up 15%, as we continue the strategy of closing accounts to focus on higher margin, brand-enhancing customers.

Revenue grew 10%, 4% in constant currency and price grew by 5%. The price growth was 1 percentage point below our expectations due to a lower uplift from America. Here, prices were increased as planned, but with slower trading, the aggregate mix of price increases globally was lower. Retail space was 3% of growth and is represented by new stores opened in the year and the annualisation of stores opened in the prior year. Channel mix, represented by like-for-like store estate growth and ecommerce, grew 1%.

Finally, full price mix. The second half of FY23 was pretty much the first normal post-COVID trading period we've experienced. We know that, to sell black boots, we also need seasonal variations and colour. The second half saw a normalisation of our seasonal product offer, which is typically marked down to clear at the end of a season. The full price mix, therefore, normalised in the year and is broadly in line with pre-pandemic FY22 mix of around mid-80%s full price.

As I mentioned, gross margin was 1.9 percentage points lower and was mainly due to the negative impact from America performance and normalisation of full price mix resulting from seasonal ranging. DTC mix expansion drove 1 percentage point of margin improvement and was all EMEA and Japan.

Price did not fully offset inflation, and the LA DC cost of containers impacted margin by 1.1 percentage points combined. FX, represented by stronger US dollars compared to the pound or euro or yen, negatively impacted gross margin by 0.8 percentage points.

As I explained at our half year, we have a natural hedge with the mix of America profits funding our US dollar requirement for COGS purchases, such that at EBITDA, the FX impact is broadly neutral.

A custodian mindset means doing the right things for long-term growth. We will continue to invest to support scale and underpin our growth potential. During the year, approximately 2.5 percentage points of EBITDA margin were future-facing investments. The investment of 0.4 percentage points in new retail space will generate positive returns in future years and particularly in FY24. The investment of 0.4 percentage points in marketing will drive both brand and product awareness. The investment in DCs will underpin increasing scale, with other investments being mainly people and process in group product, brand marketing, and IT.

The LA DC issue cost ££14.5 million, with the LA DC now operationally fixed. We will maintain the three satellite warehouses in Los Angeles through FY24, with a cost of around ££15 million. This is expected to fall away in FY25 as we right size inventory through the second half of FY24.

Japan is the highest margin market we have globally. Following the investment in transferring 14 stores, which was underpinned by implementation of Microsoft Dynamics during the year, we expect Japan to drive APAC growth through FY24, with Asia Pacific growing very strongly.

America is our biggest market. As Kenny said, we are disappointed with the performance here, and fixing performance is our number one priority.

The UK is our second largest market and during the year, revenue grew by 12%. Given this is our home market, where the brand has been established for the longest time, the growth shows the potential white space opportunity we have in all markets from a combination of both brand awareness and product awareness, with the latter mainly driving UK growth.

Of note, the previously mentioned reduction in etailer volumes in EMEA will mainly impact the UK and Germany. In FY24, I would expect DTC to grow in these countries but wholesale to be negative, such that the pairs per capita will be lower.

The first quarter in America was strong. From mid-Q2, however, we saw an increasingly challenging consumer environment which was compounded by poor execution of strategy. In the year, revenue declined by 1% in constant currency, with DTC growth of 2%. DTC growth is all new store related. Like-for-like retail and ecommerce were negative. Wholesale declined by 4% in constant currency, mainly due to LA DC bottleneck issues. EBITDA declined by 17% to ££100 million due to LA DC costs, incremental marketing, and the in-year investment of doubling new store openings compared to the prior year.

EMEA grew revenue double digit and was driven by strong DTC growth, which was up 20%, resulting in DTC mix expansion of 4 percentage points. We executed the DOCS strategy very well in this region. We opened 13 new stores in the year, which were predominantly in continental Europe. We also closed five stores, which included three relocations in Dublin, Glasgow, and London. EBITDA grew 2% and was impacted by the annualisation of investments in the setup of conversion market infrastructure in Italy and Spain, investment in an order management system, and FX due to the strength of the US dollar compared to the pound and the euro for COGS purchases.

During the year, we saw very good DTC-led growth in Germany, Italy, and Spain. Germany was converted four years ago in FY19. We grew DTC revenue here by 26%, expanding mix by 8 percentage points to 42%. Italy was converted last year. Here, DTC revenue grew by 80% to the 33% mix, with Spain, which was also converted last year, growing DTC from a particularly small base to a mix of 50%. The very strong DTC performance in these countries compared to the average demonstrates the profitability of this strategy. Germany performance also highlights the multi-year growth opportunity of conversion, with significant white space headroom still available.

FY23 was a year of investment in Asia Pacific, with performance also impacted across the year by COVID restrictions which have only been very recently lifted. We invested in Microsoft Dynamics in Japan, such that 95% of all global revenues are now on this platform. We invested in 25 new stores across the region, including 14 franchise stores transferred in the fourth quarter in Japan. We also took the decision to fully implement the DOCS strategy in China and not renew the distributor contract. Asia Pacific is now set up for high-margin DTC-led growth through FY24.

Profit before tax was £159 million, which was down 26% compared to the prior year. Depreciation was £17 million higher, with £8 million of the increase being higher Capex-related depreciation and the balance amortisation IFRS 16 capitalised leases. Of the increased depreciation, about half is new store related, with the balance being infrastructure spend in DCs and IT projects. The retail depreciation will generate returns in FY24. The logistics and IT spend will underpin scale ambitions.

We have a very profitable retail store estate, with a four-wall return on sales, including rent, of 37% in FY23. As is usual practice as part of the year-end-close procedure, we have impaired three stores in the US, where traffic recovery has permanently shifted away from the store and taken a charge of £4 million. The euro strengthened compared to the pound at the back end of the year. Our bank debt is held in euros with functional reporting currency in pounds. The translation-related non-cash charge is £11 million and compares to a translation-related non-cash credit in the prior year of £3 million.

Finance expense increased in the year and was all higher market-led interest rates. And lastly, the majority of the group's earnings are taxed in the UK, and the tax rate will therefore be close to the UK underlying rate of corporation tax.

In the year, operating cash conversion of EBITDA was low at 20%, compared to 79% in the prior year. This was predominantly due to purchase of inventory and our decision to increase availability in America and Japan. This was successful in Japan and followed the success of this strategy in EMEA. Weak trading and mistakes in America have resulted in inventory being too high in that market. We will right size inventory through the second half of FY24 by purchasing less than we plan to sell. This will result in strong cash generation in the second half of FY24, with annual cash conversion expected to be more than 100%.

Around 80% of inventory is black continuity product and always in the line, the balance is seasonal product. All our products have very rich DTC margins, such that any markdown below cost is extremely rare. At March '23, stock turn was 1.5 times, with historic weeks cover of around 35 weeks. This is inefficient. At March '22, stock turn was 2.7 times, with historic weeks cover of around 19 weeks. This was too tight and driven by COVID-related factory supply constraints. We believe a reasonable target, based on current systems and processes, is for a stock turn of between 1.8 times to 1.9 times, which represents around 30 weeks historic cover.

At March '23, average cash leverage was 1.1 times. If stock efficiency had been at target stock turn, cash would have been around £50 million higher. This would have improved average cash leverage metric to

0.9 times.

Our first use of cash is investment in the business, the second is dividends. The Board is confident in the group's long-term prospects and cash generation potential, such that we will return to 35% payout ratio from 45%. We are therefore recommending a final dividend level with the prior year. Third, excess cash will be returned to shareholders. We have satisfactory cash to invest in the business and confidence in future growth to hold dividends.

Our target average cash leverage ratio is met on a pro-forma basis given we will right size inventory through the second half of FY24. We have therefore announced an intention to commence our first share buyback program.

We said at our H1 announcement that autumn-winter '23 supply chain inflation was set at 6%, and we'll be raising prices for autumn-winter '23 season by 6% in aggregate. We are finalising spring-summer '24 factory costs, with average increase expected of around 2%. This is a reflection of lower freight costs and only slight increases in the cost of leather and oil-based granulates. The benefit of this in FY24 will only be marginal, as the spring summer season is small. However, this is a reasonable indicator, all things being equal, for where the larger autumn-winter '24 season factory costs may go.

Our economic model is for price to offset inflation. Lower forward inflation indicators would suggest future price increases will be low. For DTC, we have positive Q4 exit momentum into FY24, particularly in EMEA and in Japan. As planned, the wholesale order book is below last year due to a combination of etailer reductions in EMEA, managed lower orders with some customers in the USA, and the exit from the China distributor. This channel mix shape of good DTC growth and lower wholesale is reflected in trading to date.

For FY24, we maintain revenue guidance at mid to high single-digit growth. Performance in the year just finished has led us to re-evaluate the pace and timing of our investment plans. As a result, we expect EBITDA margin to decline by 1% to 2% in the year. For the first half of FY24, we expect revenue to be broadly level with FY23. Cost annualisation from FY23 and further investment in the first half will mean we expect EBITDA margins in the first half to be between 5% to 6% lower than the prior year.

For FY25, we guide to high single-digit revenue growth. This is followed by medium-term double-digit revenue growth. We maintain a DTC mix milestone of 60%, with DTC mix expansion driving EBITDA margin improvements.

In summary, before I hand back to Kenny, the business is highly cash generative and the balance sheet is strong. We maintain the final dividend and have announced our first share buyback program. Revenue growth is expected to improve to double digit in the medium term. Margins will steadily improve driven by DTC mix expansion. And finally, I still believe this brand will become a £2 billion revenue business.

Thank you.

Kenny Wilson ***Dr. Martens plc - CEO***
Great. Thank you very much, Jon. So now, we'll move on to a business review of the year. I've already addressed the USA, so what I'm going to focus on now is where we've executed well across FY23, and then I'm going to cover our thinking as we look to the future.

This is our DOCS strategy framework. The approach is consistent globally, but each region develops its own tactics below the D, the O, the C, and the S. And that's due to different market maturity, so that they can drive implementation.

If I start with the C, which is consumer connection. Globally, our brand remains strong, and we remain number one in unprompted awareness for boots. I've already shared the brand metrics for the USA, and we are confident the Dr. Martens brand is in good health there.

As we roll out the DOCS strategy in Europe, we continue to see growing brand awareness with significant growth in Germany, up four percentage points to 66% awareness. In the UK, where sales grew double digit this year, we see net intent to buy up 1 percentage point to 19%. Our home market is in good shape. In Japan, where we've spent the last 12 months heavily focused on brand equity, net intent is up 6 percentage points to 13%.

Moving on to product, our product strategy is rooted in our iconic, timeless products with the 1460 as our absolute bullseye product. Our strategy is to grow our icon products, with a focus on boots, while simultaneously growing beyond our icons. We expect shoes and sandals to grow fastest, but we want to grow in all categories.

If we look over the last five years, on the bar chart, we see the strategy in action. We have grown by 22%. We have grown all product categories, and we are building the business beyond boots. We have the opportunity to sell people their first pair of our icons around the world, while getting people to buy into their first pair of Dr. Martens sandals. In four years, we've gone from number 26 in sandals to number 14. And in shoes from number 10 to number nine, we still have a real opportunity to grow further.

Moving to product innovation. As we look forward in terms of our product pipeline, I'm more excited than at any time in my five years at Dr. Martens. We have significant innovation coming through for financial year '25, and we have very commercial new product news in colour and material delivering in Q4 FY24. In order to continue to drive brand heat, it's absolutely vital that we continue to focus on driving product newness, which, in turn, will support our original icons.

Moving on where we've implemented the DOCS strategy really well. EMEA has had a good year and has implemented our proven DOCS strategy well. I'm not going to walk through everything that is on this slide, but I do want to call out some of the highlights.

We opened 13 new stores across the EMEA region. We developed omnichannel capability and launched a six-store trial in March. This will be rolled out across the United Kingdom this year. We built out our distribution centres in the Netherlands and the UK to support our future growth. We grew boots and shoes and sandals; our product strategy was well implemented. We started the process of reducing etailer volumes, and this will continue in FY24. And as you heard from Jon, we continue to grow all of our conversion markets.

Moving on to Japan. Japan is our leading DTC market globally, and we will be approximately 80% direct-to-consumer share in FY24. In the last year, in Japan, we successfully transferred 14 franchise stores to company ownership, whilst opening four new stores. We launched our first company-owned AMP store globally and focused on building a community in Tokyo. We implemented Microsoft Dynamics 365 to better support our growing Japanese business. And we continued to build the quality of our wholesale account base. We closed doors with existing accounts to only present the brand in their best doors, and we closed etailer accounts. We are well set up for a very strong FY24 in the Japanese market.

Moving to sustainability. In FY23, we made good progress on our sustainability agenda -- planet, product, and people. Today, I'm going to talk mainly to product, but also a little bit about people. In March, we announced an investment in and our partnership with Gen Phoenix, a leading producer of recycled leather. I'm really excited about this product, as not only is it recycled, but it's highly durable and passes our very exacting quality standards. Before the end of FY24, we will launch a product made from this material into the market.

We also launched a successful Recommerce trial with Depop this year. We always knew that there was a strong market for secondhand Docs. And during FY24, we will launch Recommerce in the United States.

During this year, our teams nominated charities to receive grants from the Dr. Martens Foundation totaling £2.4 million. But even more importantly, our people participated in employee volunteering to support the causes that we truly believe in.

So moving from this year to the medium term. We have always talked about our custodian mindset being the guiding principle on how we run our brand. We always think about the long term, and we never take shortcuts. This has been especially important to us in FY23. When the market was highly promotional in Q3, we chose not to participate. We continued to close accounts this year and to upgrade our distribution. We started the process of reducing etailer volume to drive DTC. I could go on.

However, when I reflect on the last year, both the progress that we've made in breaking through £1 billion in revenue and the challenges we faced in the United States, we are clear that we need to make incremental investment in our business to enable us to grow from a £1 billion brand to our new mission of a £2 billion brand and to enable that increased resilience in our business.

So let me share some examples with you of where we're going to make investment. In order to unlock future growth, we're going to make significant investment into our supply chain. This is primarily in the expansion of our distribution centre network, putting in new demand and supply forecasting systems, and in strengthening our supply chain team globally.

In ecommerce, we will invest in an order management system to enable omnichannel capability in our USA business. We will also invest in a customer data platform to give us a single view of the consumer, thus improving personalisation and our marketing capability. In FY24, we will also invest in a product life cycle system to improve both our visibility and our speed to market. Also, we're going to invest in both our product and marketing teams to continue to build a core brand capability.

Turning to some of the high-level numbers. In FY24, 70% of the investment will be in OpEx, which short term impacts our EBITDA margin as Jon has described. For FY25, the incremental investment means that you will not see the full benefit of the unwind of the £15 million LA DC costs.

As previously communicated, we will continue to invest in both marketing and our Dr. Martens store rollout. The investments that I've outlined make us expect double-digit growth beyond FY25 and will help us building towards becoming a stronger business.

Moving to the opportunity that these investments will help us unlock. This is what really excites us as a Dr. Martens team. We still have significant growth opportunity ahead of us. The UK, as you see here, is our most developed market, but we are still growing per capita consumption within the UK. We have opportunity in our European conversion markets, where we have made real progress over the last three years, but we're still below UK levels of per capita consumption by some way. In Germany, we've stepped back slightly in FY23. This is due to us reducing pairs sold into etailers. I would expect that to continue in FY24 before growing pairs again thereafter. For the first time, we've included Spain on this chart, which is a recent conversion market and we expect to see growth in the year ahead in per capita consumption there.

In Japan, this year, our focus was in transferring pairs from wholesale to direct to consumer. And we will grow overall pairs in the Japanese market in FY24.

In the USA, despite all of our challenges, we grew per capita consumption via shoes and sandals. And our goal for the second half of FY24 is to ignite boots in the marketplace. We will increase brand presentation globally in the years ahead.

So in conclusion, FY23 was a mixed year for Dr. Martens. Our performance in the USA, as I've said, was disappointing, but we have taken action and our number one priority is to improve our performance there in the year ahead. Most importantly, though, our brand is strong and we are very confident in our product pipeline.

Where we have implemented our DOCS strategy well, most notably in EMEA and Japan, we are driving growth, and performance is strong. We will invest going forward for future growth, as there is still a lot of opportunity ahead of Dr. Martens as a brand.

Just want to take the opportunity to thank you for your time and attention, both here and on the webcast. And we're now going to turn it over to questions.

Questions and Answers

David Roux ***Bank of America Merrill Lynch - Analyst***
Thanks very much. David Roux from Bank of America. Just a quick question on the FY24 guidance for the margins to be down 1 to 2 percentage points. Could you tell me what the gross margin move is embedded in that guide?

And then secondly, on the incremental investments into infrastructure, as you mentioned, is there anything else one-off related that we should think about?

And then my third question is on the UK business. I think at the trading update, you mentioned double-digit growth in pairs for FY23. Could you perhaps just give us a sense of what volumes are doing year to date, if they're still positive?

Jon Mortimore ***Dr. Martens plc - CFO***
So if I do the gross margin, if you look at what happened in FY23 as a starter for ten, we had gross margin expansion from DTC mix. We've opened more stores in FY23, annualising in FY24. That's positive. And one would anticipate like-for-like and ecommerce to be better because we've had strong momentum from Q4 into the first half.

Price, net inflation, we didn't quite get price to fund inflation last year because of the US. I would anticipate price to fund inflation this year. Full price mix expansion, again, would be driven by space and one's view of DTC mix. So those would be positive.

The LA DC cost in gross margin of £6.6 million, which is the containers, that falls away in FY24. So that was a one-off coming off. I'll let you do currency.

And then the final one to think about would be the full price mix. That was a normalisation to pre-COVID levels. That's now stepped down. I would not anticipate that to move materially again. So if you think about that, the definite up is containers won't be there. The rest, I'll let you come to your own conclusion, but they should be up as well. So the way the guidance works would be, the extra investment, the incremental investment of £20 million, a chunk of that is funded by improved gross margin.

Kenny Wilson ***Dr. Martens plc - CEO***
In terms of your question on the UK, you're right, the UK did grow double digit last year. In terms of the

start of this year, I'm going to caveat what I'm about to say here by the fact that it's April and May and it's a very small quarter. Q1 is very small for Dr Martens. But the trends that we saw of very strong trading across EMEA, including the UK in the fourth quarter, have continued into the first quarter. So we've got very encouraging numbers for the UK and EMEA, but it's early days and it's a small quarter.

Jon Mortimore ***Dr. Martens plc - CFO***
If I just draw your attention as well to the reduction in etailer volumes, as I said, will overly impact the UK and Germany through FY24. So pairs are unlikely to grow in those two markets in FY24.

David Roux ***Bank of America Merrill Lynch - Analyst***
Thank you.

Alison Lygo ***Numis - Analyst***
Hi. Alison Lygo from Numis. Actually, just following on from that in terms of volumes. So clear, EMEA and UK likely to be backwards. How are you thinking about volumes progressing through the US for next year?

Kenny Wilson ***Dr. Martens plc - CEO***
Yeah. I think Jon mentioned in his presentation that, in the United States, in the first half, we've taken planned reductions with a couple of big wholesale accounts and that we have ongoing strategic discussions with our big accounts. We've done that. We would expect that you're going to see that in our first half results, so reduced volume.

As I said, in terms of our direct to consumer performance in the United States, we've seen an improving trend from the fourth quarter into the start of this year online. It's still negative though, so it's still our slowest performing region, but DTC performance in the US is improving. Wholesale pairs, us selling in, in the first half of the year will be down, but that's a planned reduction, and that is embedded in our guidance of mid to high single-digit.

Alison Lygo ***Numis - Analyst***
Great, thank you. And just one more for me. In terms of the store pipeline and the 30 new stores you're looking at this year, the mid=point of guidance, how are you thinking about the split in terms of regions on that?

Kenny Wilson ***Dr. Martens plc - CEO***
Yeah. In terms of store rollout, I think what you'll see is a number of stores in continental Europe. The new stores that we're opening are performing very well, and we'll continue to push on that. We'll also continue to push on openings in the Japanese market. Again, it's about finding the right sites in Tokyo and Osaka, specifically.

And then in the United States, across the full year, I think we've communicated that we'll probably only open seven to eight stores this year. And that's because we want to give the USA team time to focus on their existing business rather than adding a lot more stores. But longer term, we still believe in the numbers in the US that we've talked about before of 100 to 120 stores. That's a long-winded answer of saying expect Europe, expect Asia Pacific, and seven to eight in the Americas.

Alison Lygo ***Numis - Analyst***
Great. Thank you.

Kate Calvert ***Investec - Analyst***
Morning. Kate Calvert from Investec. A couple from me. The first question is, could you elaborate on the different tactics which you employed in EMEA in marketing and online compared to the US in the last year? Because you talked about not being happy with what happened in the US.

The second question is, have some of the investments in the new systems, such as demand forecasting, customer data platform etc. has that been delayed because of COVID? Or were they due to kick in? And can you give some guidance in the timeline of when they come on stream and you think they may impact performance? Thank you, all.

Kenny Wilson ***Dr. Martens plc - CEO***
So, if we start with what's different in EMEA at marketing point. I think the single biggest thing that the European business did differently to the US business was the amount of money that they allocated towards the boots business. And we've always said that our product strategy is to sell boots and shoes and sandals. I think the US business did a really good job of growing shoes and sandals, but they didn't do a good enough job of growing the boots business.

If I look, even through the summer months last year, the EMEA business were investing in, for example, marketing at festivals and amplifying that because they were like, Dr. Martens boots are worn during the summer. So that was the single biggest difference, Kate, when we really - we got the teams together and we compared and contrasted what was done. I think that's a learning for our US business that our new VP of marketing is now allocating money differently for the second half of the year ahead. So I think you'll see us balance the money better between boots, shoes, and sandals.

In terms of did we delay investments because of COVID, I think probably in the big year of 2020, when the world slowed down, did we delay investments? Probably, yes. I think probably most companies did that because we preserved cash. But since then, we've got back into really investing again in the business. Some investments we didn't stop during COVID, so things like stores expansion; we kept opening new stores.

When will things start to pay off? I think it depends versus which investment you're looking at. So, if you look -- if I take a real live example, we invested in an order management system in Europe this year. We haven't got the benefit of that -- those omnichannel sales yet because we've got a trial of six stores. You'll get the first benefits of that in the UK this year, because we'll roll out omnichannel services to all stores in the UK. And then the year after, we'll roll that out to the European business.

America will make the investment in the order management system in this financial year, but you won't really see the financial payback of that starting to happen till the year after. So there's just a time lag between -- it's exactly the same with new stores. You invest in a new store, you take the hit in the first year, but you get the benefits in the outlying years.

Jon Mortimore ***Dr. Martens plc - CFO***
Also we were on a journey of investment with systems. Until you put in your ERP system, you can't then put an OMS system, you can't then do omnichannel. So, there's a natural order of things. Some of these systems investment have been global, really difficult and long term to put in, so it's taken a natural period of time.

So do I think we could have done things faster? We're talking a few months here or there because of the first few months of COVID, but nothing material.

John Stevenson ***Peel Hunt - Analyst***
Thanks. Hi, morning. John Stevenson at Peel Hunt. Just a question on margins in terms of what's the right margin for Dr. Martens over the medium-term forecast? You obviously came to market at 30%. The world's changed, and now we're leaning into investments, so are we saying that the right margins are low-20s EBITDA for the next few years while we do these investments to get back into double-digit growth? Or do you think some of the tailwinds start to come through to change that?

Kenny Wilson ***Dr. Martens plc - CEO***
I think it's a really good question. I think you're right, the world has changed from the point where Dr. Martens IPO’d. There's no doubt about that. I think what we're seeing is that -- and we're outlining today is -- there's some significant investment that we think we need to put in the business over the next couple of years.

And then I think we'll start to see margins grow thereafter. The biggest driver of what's going to build out the EBITDA margin is the expansion of DTC. And I think that's going to be the biggest single driver of how the EBITDA margin will build over time.

And then over my last five years with the company, what have we seen? Usually, you have a period of -- you've got to put investment in and then you get a leverage off of that investment, which is a bit -- to Kate's question, there's investments we've got to put in and we'll start to get leverage. But the biggest driver of margin expansion is DTC.

John Stevenson ***Peel Hunt - Analyst***
So DTC aside, we should expect similar margins over the next few years while the investment cycle rolls?

Jon Mortimore ***Dr. Martens plc - CFO***

That would be valid. But again, you can't really say DTC aside because that's an integral part of the business, and the whole part of the strategy is to drive DTC. And we have been successful in that, even through the last year. So it's DTC growth and where do you think DTC will get to -- that's the core driver where the EBITDA margin in this business will end up.

Kenny Wilson ***Dr. Martens plc - CEO***
I think, John, the way I think about it is, it goes back to what you said in your question, which is the world has changed since IPO. Inflation is higher, consumers are under more pressure. We didn't think we'd have a war in Ukraine, all the rest of it.

Does the end destination ultimately stay similar, but the shape of the journey changes because of what's happened? I think that's right. If you model out DTC mix, those higher 20s numbers etc., that we were at, that's very realistic.

John Stevenson ***Peel Hunt - Analyst***
Thank you. And actually, just an easy question while I'm here. Just on net debt for this year, you've been very specific on guidance. I guess the number missing would be working capital inflows. You alluded to £50 million of stock benefit for the year ahead. Is that where you see working capital inflows this year?

Jon Mortimore ***Dr. Martens plc - CFO***
Yes, it's mainly inventory related. Correct.

Piral Dadhania ***RBC Capital Markets - Analyst***
Thank you. Piral Dadhania from RBC. Morning. So, I was just wondering, for the FY24 revenue guidance, it obviously implies a second half weighted acceleration based on what you said for the first half. Could you give us an indication of what the wholesale order book looks like, particularly for the US? Obviously, there's reduced order intakes for the first half, but just wanted to understand how the autumn winter order book is shaping up for now.

And secondly, just on the fashion cycle, and I know that that's a term you don't really like. But some of your distribution partners in the US have talked around a slight change in trend where the boots category is showing some signs of softness and other categories, as you allude to, are accelerating, as well as customers looking for a lot of newness versus more classical product, if you like.

So I just wanted to understand whether there is any change in the mindset and a perhaps increase in your seasonal product focus, if you like, over and above the originals lines, just as you try to address some of the changes that are taking place in the US market. Thank you.

Kenny Wilson ***Dr. Martens plc - CEO***
So, if we start with what's going on with the order book and how does that pertain to revenue guidance. Obviously, we've come out today and we've said our revenue guidance remains at mid to high single-digit, and obviously embedded there is a knowledge of what our autumn-winter '23 order book is in the

United States. Also in there is a knowledge of how we are trading, from a direct consumer perspective, in Europe and in Asia Pacific and the order books in those regions.

The only bit we don't know right now is -- well, obviously you don't know what's going to happen with DTC, but the bit on the order book that we don't know is we don't know what's going to happen in January, February, March because we haven't taken those orders yet. But the orders that we've got still leads us to believe that we will be mid to high single digit.

In terms of your question around the fashion cycle and what's happening with core and seasonal, I've spent my entire career in this industry, and there will always be a period, well, this is being talked about, that's not being talked about. That's the nature of it. If you look at WGSN at the moment, they're saying, yes, shoes and sandals are on trend, but actually, they're saying next year boots are going to be more on trend again, and that always happens.

If I look at what we're seeing, everywhere in the world, we've said we're growing faster in shoes and sandals, but in our European and Japanese businesses, we are also growing in boots. The only business that we didn't grow boots in was the US, and that was a combination of the fact that we walked -- well, the Americas, we walked away from Latin American boots, and our DTC boots business declined. And it goes back to Kate's earlier question of the fact that we don't believe we did a good enough job as the number one brand in boots. Your job is to keep boots relevant, and our European teams and our Japanese teams did that well; our American team didn't, and we've got to learn from that.

But I think in terms of what the trend forecasters are saying, they're saying that this year will be a big year still for shoes and sandals. Great, we're going to grow those categories, but they're actually saying that next year will be a big year in terms of boots.

In terms of our product strategy, are we going to suddenly become a seasonal business? Nope. It's what I said in the presentation, which is, in order to keep the most iconic product relevant, what do you have to do? You've got to drive newness, interest, and innovation. And if I look at our product pipeline, both in terms of true innovation, whether that be new sole development, or colour, and material innovation, I think we've got the best product coming down the line that we've had in my five years at Dr. Martens.

But if I look at our best sellers around the world, you've still got, in all regions, six of the top 10, that will be core black best-selling boots. Why? Because this is the number one brand in the world for boots.

Jon Mortimore *Dr. Martens plc - CFO*
Just a little build on Kenny's first comment, your first question, Piral, in the US. The US is seeing a weak consumer environment a lot of other brands are seeing. We saw on your note, and I wouldn't disagree, but I think we saw a weak consumer environment from about August, September last year, compounded by warm weather because we're a boots brand.

And then obviously, we had some mistakes that Kenny described. So we track against a weak base in the

US from pretty much the beginning of the second half that other businesses might just be seeing now. So that's why you can have a difference from what we see mid to high single digit versus what other brands are seeing. So we see a weak base in the US DTC from the second half.

Kenny Wilson ***Dr. Martens plc - CEO***
Have we got questions on the Webex or more questions in the room?

Operator
(Operator Instructions) Richard Taylor, Barclays.

Richard Taylor ***Barclays Capital - Analyst***
Yeah, morning. I've got three questions, please. Firstly, on EMEA, UK revenue double digit, I think Germany, Italy, both up, 10% revenue growth overall, constant currency. So given those factors, other countries where revenue went down, are there any problems? Or is the balancing factor there all wholesale being down?

Secondly, on EMEA margin, the DTC mix was up quite considerably, but margins went down. What are the reasons behind that, please, and how should we think about that going forward?

And then finally, what's the sellout in wholesale globally, but especially in the US? And as far as you can track, what is the trend on full price sales through wholesale? Thank you.

Kenny Wilson ***Dr. Martens plc - CEO***
Okay, Richard, I'll take one and three, and I'll give Jon the middle question on margin. So, on European DTC, yes, you're right. All markets traded positive, and we did take pairs out in the second half of the year in wholesale, which was the start of the move that we're making to reduce the etailer business. You saw that specifically in Germany, where there's some big etailer accounts there that we reduced volume with. What you also saw in Jon's slides was that gave us a big spike in DTC business in Germany. So that's something we'll continue to do as we go into the next year, and as Jon indicated, we'll pull wholesale pairs out in Germany and UK primarily. They're the two markets where we'll really focus.

In terms of what we're seeing in sellout at wholesale, so I've got the numbers in my head up to the end of the fourth quarter, which is this financial year that we're talking about today. European wholesale pairs sellout is up. It's up single-digit positive. So not quite as good as our own DTC, but trending in the right direction. It varies slightly customer by customer, and it varies depending on who that account is and what they're selling is but it's an overall positive trend.

Up until the end of the financial year, so to end March, pairs in USA wholesale in the top 20 accounts that we track, pairs were up year on year. They were up more in shoes and sandals, and they were down marginally in boots. So actually, US wholesale in the fourth quarter performed better than our own DTC, which was the same trend that we saw in Q3.

As we've moved into the start of the new financial year in the US, it's similar. Boots are down, shoes and sandals are up. And as I said, we're actually seeing a slightly improving trend, but in decline in our own DTC.

Jon Mortimore ***Dr. Martens plc - CFO***

The principal driver of gross margin decline in EMEA was FX, Richard. 95% of our cost of goods are purchased in US dollars. We use pounds and euros to buy those US dollars; the dollar appreciated in the year. And you'd seen on the group gross margin bridge, the FX cost 0.8 percentage points of margin. That was -- the vast majority was in EMEA, with a bit would have been in Japan, but the vast majority in EMEA.

But because we've got a pretty good natural hedge, that lower margin in EMEA is offset by the translation benefit from the US, such that global EBITDA pretty much nets out.

Richard Taylor ***Barclays Capital - Analyst***

Okay, thank you. Just a quick follow up on the US wholesale. I think there are a couple of specific accounts where you're trying to manage things a bit more carefully. So just any further comments on that US wholesale piece with the rest and those two key ones that we should think about in terms of those trends you've just discussed.

Kenny Wilson ***Dr. Martens plc - CEO***

Yeah. I think what we're saying is we've planned down orders for the first half of the year in the United States. We've said many times that we take a long-term view on this, and we never want to sell more, so that customers end up with too much inventory. So we agreed with those accounts that we would take the order base down for the first half of the year, and we've done that. And that is planned into our guidance. We know the answer to that now.

So therefore, when we've quoted mid to high single digit, that includes a lower order book for America in the first half. And we don't expect them, as Jon said, not just with Dr. Martens, everybody's talking about the fact that the North American business is the toughest business right now for most major brands. And that's what we're expecting through this year; we're expecting our Asia business and our European business to perform better than our US business.

Richard Taylor ***Barclays Capital - Analyst***

Got it. And sorry, I forgot full price sales, US?

Kenny Wilson ***Dr. Martens plc - CEO***

Yeah. It's in line with the answer that I gave you because we have an MAP policy in the United States. We've not taken any promotional activity in the US other than seasonal markdown. So we did have an end-of-season sale in DTC like we'd always do. And our key wholesale accounts do that.

And we had -- we did have one MAP violation, in the spirit of full transparency. And we called that account immediately, and they rectified it. So, we don't have a problem with promotional sales in the United States through any channels, Richard. So the numbers I'm quoting you, where we had a good sellout to consumers in the fourth quarter in US wholesale, predominantly driven by shoes and sandals, that was at full price.

Richard Taylor *Barclays Capital - Analyst*
Got it. Thank you very much.

Operator
Thank you. (Operator Instructions)

Kenny Wilson *Dr. Martens plc - CEO*
Okay. So that looks like we've exhausted the questions for today. Thank you very much for giving us your time and attention. We really appreciate it. Thank you.

Jon Mortimore *Dr. Martens plc - CFO*
Thank you.
