Dr Martens FY23 Q3 Trading Update

Operator [00:00:00] Good morning and welcome to Dr. Martens FY23 Q3 trading update. My name is Harry and I'll be coordinating your call today. If you'd like to ask a question during Q&A, you may do so by pressing star one on your telephone keypad. I would now like to hand you over to Kenny Wilson, CEO to begin. Kenny, please go ahead.

Kenny Wilson, CEO [00:00:17] Thank you very much. Good morning, everyone. Firstly, a big thank you for joining our Q3 results call at such short notice. We've obviously accelerated this call due to a significant reduction to our FY23 forecast. This is something that I am extremely disappointed about. This disappointment is even greater because a large part of this should have been within our control and it is a people and process failure. Due to a large operational challenge in our new Los Angeles (LA) distribution centre (DC) and weaker than expected DTC trading in the United States, we now expect full year revenue growth of 11% to 13% on an actual currency basis and full year EBITDA between £250m and £260m. We are also reducing guidance for FY24, which Jon will cover in more detail later on this call. However, let me start by explaining the operational challenge, the full extent of which is just emerging, and how we are going to fix this. Our new LA DC, which opened in July 22, now has a significant bottleneck. They are dealing with considerably more inventory than planned and what this means is much lower throughput than planned. This has been caused by three main factors. Firstly, we planned to exit our old Portland DC by the end of September 2022. Our U.S. operations team decided to ship all Portland stock to LA early, putting pressure on our capacity. Secondly, some key customers asked us to reroute direct orders to our LA DC as they had their own distribution capacity challenges. The USA team agreed to this. Thirdly, and ironically, transit times from our suppliers to our LA DC improved a lot, meaning that more inventory arrived in LA earlier than we had in our plan. We could have coped with any of these factors individually but not all three together.

So, what are we going to do to solve this? Firstly, we have secured three overflow warehouses to store the goods. This is expensive, but lower cost than storing product in containers or at port as Jon is going to outline. Secondly, we will be adding a third shift to our LA DC from the end of January into early February. You may ask yourselves, why are they not dealing with this faster? That's because we have to purchase forklifts and we have to find supervisors and the people to run this additional shift, but this will increase our throughput. Thirdly, we will accelerate the expansion of our East Coast, New Jersey (NJ) DC, which was already in our strategic plan. From July, this DC will be fully operational for both direct-to-consumer and wholesale, to support the autumn winter 23 season. Today, this DC already handles direct-to-consumer with a smaller assortment of product. We have quickly formed a focused task force of our best distribution experts who will support our USA team in fixing these issues. We expect the situation will improve month by month but it will be during Q2 of FY24 before these issues are fully resolved. I want to be clear that this is about having too much of the right product at the LA DC and it is not a seasonal markdown problem. We've told you many times before about the continuity nature of Dr. Martens product and that four out of every five pairs which we sell are black.

Moving to the second issue of USA direct-to-consumer. In December our USA DTC business delivered 12% constant currency growth which was a good performance but it was below our expectations. Seasonal weather patterns drove a channel shift in the United States within the period. Our wholesale customers sold 32% more pairs to consumers in the month of December, which was a very strong performance. We believe this will have been driven by the heavy storms which hit the US I

in late December, meaning that customers shopped more locally and outside of key cities. Overall, in December, our global DTC business traded plus 20% on last year, demonstrating the strength of

the Dr. Martens brand. This was driven by excellent EMEA performance with direct-to-consumer mix reaching 66% in EMEA in the quarter. However, today that is overshadowed by our very disappointing forecast reduction driven by the issues that I've outlined. With that, I'm going to hand over to Jon to talk about the Q3 numbers, the bridge between our two forecasts and then we'll take Q&A.

Jon Mortimore, CFO [00:05:51] Thank you, Kenny. I'll talk you through our Q3 performance and economic implications of the significant operational issues which created the bottleneck at the LA DC, the new expectation and guidance for FY23 and finally, early guidance for FY24. In Q3, total revenue grew by 9% to £336m. This was up 3% on a constant currency basis. DTC revenue grew 11% or 6% constant currency to reach a mix of 65%. Wholesale was poor and declined by 1% constant currency. As we said at the half year, trading through October and November was variable and across these two months together, DTC was up 5%, but down 1% on a constant currency basis. We had a better December with DTC up 20% or 16% constant currency led by an excellent EMEA retail performance, which grew by 48% on a constant currency basis. DTC in America was up 12% in the month of December on a constant currency basis, however this was below our expectation. Wholesale shipments across all regions were in line with plan in October and November. However, wholesale had a poor month in December, which was all in America. Year-to-date revenue was £755m, up 12% actual currency or 5% on a constant currency basis.
Turning to the financial impact for FY23 and economic implications of the LA DC bottleneck that Kenny explained, we have today reduced our full year guidance for revenue growth to between 11% and 13%, which is 4% to 6% on a constant currency basis. This is broadly in line with the year-to-date performance. EBITDA is estimated to be between £250m and £260m. The reduction in both revenue and EBIDTA is all in America. Both EMEA and APAC are trading in line with our expectation. As Kenny has described, in America, the LA DC bottleneck has resulted in a ceiling to the wholesale volume we can pick and pack, which is lower than our expectation through the fourth quarter. This ceiling reduces full year wholesale revenue by £15m, which will cost us about £8m of EBITDA. In addition, the distribution costs and supply chain costs expected to be incurred to resolve this bottleneck are around £8m. Slower than anticipated DTC trading in America experienced through Q3 is estimated to continue through Q4 and reduces revenue by a further £15m and EBITDA by a further £10m. The difference in guidance between 13% growth and 11% growth is predominantly in relation to the pace at which we can fix the bottleneck and subsequently normalise our operations. Turning to FY24, the knock-on effect from the LA DC bottleneck and an uncertain economic outlook will impact revenue growth for that year. As we have explained, it will take time to fully optimise the operational capacity of the NJ DC, which we anticipate will not be complete until towards the end of the first half. Secondly, we have taken the strategic decision to reduce the volume we sell in e-tail accounts in EMEA. While this will underpin DTC mix expansion in the out years, this will reduce revenue in the year of implementation. Thirdly, we've taken a more cautious outlook in relation to the economic environment in our core markets. As a result of the above, we now guide FY24 growth to be in a range of mid to high single digits on a constant currency basis. Finally, while this is all incredibly disappointing, our underlying economic model and strategy do not change. DTC is four times more profitable than wholesale, we have material whitespace growth opportunity in our core markets, the brand is strong and our underlying fundamentals are unchanged.

Operator [00:10:46] Thank you. If you would like to ask a question, please dial star followed by one on your telephone keypad now. Our first question of the day is from the line of David Roux of Bank of America. David, please go ahead.

David Roux, Bank of America [00:10:58] Hi, Kenny and Jon. Just two questions from my side. Just to clarify, you mentioned some impact on wholesale shipments in Q4 from this issue. What was the impact on growth compared to the 3% constant currency that you printed? And then secondly, if I look at the bridge between your previous guide and the new guide, I get to a difference of around about £40 million. I think about half of that can be explained by the DC issue. What is driving the other £20 million? Thanks.

Jon Mortimore, CFO [00:11:39] On your Q3 question, we were expecting small single digit growth in the quarter and we came in at -1% at constant currency. That was all in the US. In relation to your second question, it's all one's view on DTC in the US. EMEA and Asia Pacific are trading in line. The guide I gave was versus average consensus. So, it's broadly US DTC and US wholesale shipments depending on one's view of what they were going to be.

David Roux, Bank of America [00:12:19] So in the new guide, other than the DC issues, there does seem to be a bit more conservatism built in, relating to the US. Is my understanding correct?

Jon Mortimore, CFO [00:12:30] That is correct, David, Yes.

David Roux, Bank of America [00:12:33] Thank you.

Operator [00:12:37] Our next question is from the line of Karina Nugent of Goldman Sachs. Karina, please go ahead now.

Karina Nugent, Goldman Sachs [00:12:44] Thank you for taking my question. It's fairly similar, but more focused on 2024. Compared to the mid-teens medium term guidance you gave at IPO, that mid to high single digit constant currency is quite different to that. How much of that lowering of expectations is on the underlying trends you're seeing in the consumer versus the other issues that you've highlighted in terms of distribution?

Jon Mortimore, CFO [00:13:11] The LA DC, we believe, will be fixed by the end of the first half and that will cause a range depending on the pace which we can fix that. We believe the reduction to e-tailers should be about 3% to 4% of growth and then the balance will be one's view of where the world economy is going.

Kenny Wilson, CEO [00:13:47] To that point Karina, versus the IPO, which was January 2021, we think the consumer outlook is definitely more bleak and therefore we've reflected that in the guidance which Jon has updated.

Karina Nugent, Goldman Sachs [00:14:04] Brilliant. Thank you. And just a follow up to that. Jon, you've been really helpful in the past providing building blocks to your guidance and I presume the core building blocks in terms of pricing and DTC haven't really changed. So, would the balance be like for like volume?

Jon Mortimore, CFO [00:14:20] That would be correct and that is volume that comes through in one's view of the underlying economic health of the core markets we trade in. What we are very confident on, as we said at the half year and still today with some of the data points we've seen, the brand is still very strong. It is all underlying trading and consumer confidence in our core markets.

Kenny Wilson, CEO [00:14:41] And obviously there could be a pairs impact still from what I outlined, that it will take a bit of time to strategically fix all of the challenges in the US around distribution. Some of these things will happen quickly but some will be fully fixed by the end of the second quarter.

Karina Nugent, Goldman Sachs [00:15:02] OK perfect, thank you.

Operator [00:15:06] As a reminder, if you would like to ask a question, please dial star followed by one on your telephone keypad now. And our next question is from the line of Piral Dadhania of Royal Bank of Canada. Piral, please go ahead now.

Piral Dadhania, RBC [00:15:19] Thank you. Morning Kenny, Jon, I just wanted to ask about the midterm growth profile for the business. Obviously, we're moving on from what we discussed in 2021, which is high teens. I think the expectation is a bit more mid-teens. Could you just give us an indication if we all take a step back, what the growth profile for Dr Martens can look like on a midterm basis? I appreciate we're in a slightly difficult spot, but really what you're guiding to is 2023 revenue growth of mid-single digit, 2024 revenue growth of mid to high single digit. So, we're quite a far cry away from where we were just a few years ago. As we think about the future potential for this business, where should we hang our hat? Is it 10% or Is it lower than that? It doesn't feel like we can be baking in growth numbers in the teens at this moment in time so I would just like to hear your thoughts on that if possible.

Kenny Wilson, CEO [00:16:23] I think that's a very fair question. Clearly when we IPO'd the company, we said we would be growing mid-teens. Other than the first year where we said we would grow high teens and we did. I think the destination hasn't really changed here. What has changed, to your point, is the shape of the journey and clearly reflecting the macro consumer environment, which we think will be difficult through FY24. We've guided to mid to high single digits and we believe going forward beyond that year that we can start to increase the growth profile of the company. We still believe that we've got a strong brand. We've demonstrated that we have the power to increase prices and nothing has changed around the whitespace growth opportunity we saw in our European markets over the holiday period. Some of those new markets that we've converted back are delivering very high growth rates. And we have a short-term problem here in the US and we have to solve it. Hence the reason why we've changed the FY24 guidance. So, it's the shape of the journey that's changed, not the destination.

Jon Mortimore, CFO [00:17:30] I think one of the key economic drivers is DTC mix shift. Last year we had 49% of revenue through DTC and we just reported this year to date that we have improved DTC mix by two percentage points. DTC is four times more profitable than wholesale and that key driver is still valid. As Kenny said, the whitespace growth opportunity is still valid and I think what we're looking at here is actually pace of expanding into that whitespace growth as opposed to anything else. Going back to the e-tailers decision we've taken, that will help underpin and drive in the out years DTC mix expansion. It's just a timing issue as we come out of those e-tailers until we get a transfer into our own channels.

Paril Dadhania, RBC [00:18:20] Sure. Thank you. I appreciate all the levers that that you've just identified, Jon, but in 2021, we were talking about a volume led revenue growth strategy and that's kind of the elephant in the room. In my opinion. There is a slowdown in the volume growth. I think the previous question alluded to that so it's just the extent to which that is still valid in the overall profile at this point. I appreciate all the other levers but I think that may be where the market and

investors will focus is just on the core piece, which is actually the underlying volumes and what's going on there and the extent to which that can grow in the mid-term.

Jon Mortimore, CFO [00:19:10] No, you're absolutely right. It is a volume led plan and it will come from growing into the whitespace growth opportunity. I think the reason that volumes will be slower for the next 12/18 months reflects the current economic environment we are all facing. A weaker consumer and weaker consumer spending. I think that is the core driver for a slower volume growth or weaker volumes.

Paril Dadhania, RBC [00:19:40] Okay. Thank you. And just in terms of timing, obviously it's only been something like eight or nine weeks since your half year results, maybe even a bit less than that. I appreciate the LA DC is something that was maybe outside of your view until quite recently, but can you just help us understand what has changed in terms of your thinking from then to now? Why are you now much more bearish on the US outlook than you were seven or eight weeks ago, and any other factors that relate to the underlying business rather than the one-off factors that we've that you've already kindly run through?

Kenny Wilson, CEO [00:20:16] I mean, from my perspective, when we stood up at the end of November in the US, we had no awareness of any wholesale issue because we were shifting high double digit on prior years. Jon gave two big assumptions. The first was that there was a weaker base in Europe that we thought would come through in December and that has come through. He also said that we would benefit from improved availability in the US. We didn't improve as much as we had expected in our DTC channel with only 12% constant currency growth, so we missed. However, what we did see and as I said earlier, I think that was due to weather driving a channel shift. Back to your pairs question, we sold 32% more pairs through wholesale in North America in December. So, we have reflected out the fact that our DTC channel has not delivered what we wanted, and that is the assumption that clearly you can point to this was a miss versus what we said.

Jon Mortimore, CFO [00:21:30] When we stood up at the half year, we had seen early data for the Black Friday, Cyber Monday trading weekend in the US, and that was a good performance and I think I shared that as the only data point of support that we had at that moment in time, the benefit from availability.

Paril Dadhania, RBC [00:21:47] Okay, Perfect. Thank you.

Kenny Wilson, CEO [00:21:50] Thank you very much.

Jon Mortimore, CFO [00:21:51] Thank you.

Operator [00:21:53] Our next question of the day is from the line of Edouard Aubin of Morgan Stanley. Edouard, please go ahead now.

Edouard Aubin, Morgan Stanley [00:21:58] Yeah. Hi Kenny and Jon. So, two or three questions from me. First of all, you mentioned the hit from the e-tailers of 3 to 4%. Why the change of mind regarding your distribution strategy? Is it because these guys are too promotional and impacting the brand? And then just to follow up on the on the question about volume because mid-single digit organic, looks like your volumes are now flat to down or you are expecting them to be flat to down. You've mentioned many times before on these calls that you wanted to act as curators of the brand,

which is obviously great for the brand equity desirability long term. But are you now in a scenario where most of your competitors are heavily discounting and that's impacting the value proposition and it's maybe not as attractive as you as you've raised prices, over the past few months? And then just to clarify, Jon, you said that your DTC growth in the US was up 12% if I understood correctly in Q3, but you also mentioned that wholesale sell out was up 32%. And if so, why the difference? Thank you.

Kenny Wilson, CEO [00:23:23] Thank you, Edouard. I'll take the question around e-tailers and your point about heavy discounting in the market and I'll let Jon take the financial and technical questions. In terms of the question around e-tailers, this is a European point just to be super clear and it's not relating to the other territories. So, in Europe, the brand awareness is growing and it's growing every quarter and there's no doubt that our wholesale strategy has helped us to introduce more consumers to the Dr. Martens brand. What we've discussed with our key e-tail partners in Europe is the fact that we want to focus them on a different product range from some of the products they have been selling and focus some of those products on our own DTC channels. So, we'll continue to trade with e-tailers going forward. We're not eliminating e-tailers and we've got some good strategic partnerships there, but we will curate the products that we put into that channel, and we will direct consumers for other products towards our own DTC channels. That's really what we're trying to do. It's a product and brand point, which is we want to direct different products to different channels. Then in terms of discounting, yes, you're right, there was a lot of discounting out in the marketplace across December in particular, but really from the Black Friday weekend through to Christmas. We only participated in that in a very small way through some seasonal markdowns that we took in our two biggest markets in EMEA and in America. And we've said all along we don't discount the iconic product, the Dr. Martens brand, because we believe that the way to build long term brand value is to have an honest relationship with consumers where if they want to buy a pair of black Dr. Martens, they know what the price is always going to be. I still believe that is absolutely the right decision for the long term but will consumers have spent their pound or their euro or their dollar on something that was so heavily discounted? Yes, but I don't think that's the right way to manage the brand for the long term so we will not be in an environment with heavy discounting, it's not the right thing to do.

Jon Mortimore, CFO [00:25:41] On your second question, on volume Edouard. The way to think about it is, the volumes will be probably flat to lower next year depending on one's expectation, primarily because of taking out the volume that we sell into European e-tailers. A simple bridge for next year's growth would be along the lines of, we've announced price growth of 6%. We'll have the benefit of annualising approximately 44 stores that we've opened this year, including the Japanese transfer into next year. Then there's obviously the reduction from e-tailer volume. There will be a DTC mix shift, and I've said year-to-date is +2%. And then it'll be one's view of what is underlying growth in core markets depending on the economic environment. So that might be flat pairs, marginal reduction in pairs or increasing pairs, depending on which market you look at. The key driver for volume reduction next year on lower volumes is the volumes we're taking out of European e-tailers. With regards to your final question on December trading for the America business. In December, DTC in America grew revenue by 12% in constant currency, which is about pairs flat or up a little. Wholesale sell out to the wholesale final customer was up 32% in December and that was volume. As Kenny answered your first question, that was volume all at full price because we have map pricing in the US. In December, it was essentially combined DTC and B2B up mid-twenties. So that gives us confidence that we can sell in. Our hypothesis of what happened in December, we are able to see the news about snow and cold weather, that pushed people away from the larger cities where our stores are located to more local shopping, which is where the vast majority of the

wholesale distribution is, where there's thousands of stores. We've got about 50 stores that are in the bigger cities. That's our hypothesis of what happened, but the key is pairs growth into the market, DTC and wholesale together to the end consumer was up mid-twenties and that's a positive.

Edouard Aubin, Morgan Stanley [00:28:17] Okay. Thank you, guys.

Kenny Wilson, CEO [00:28:19] Thank you.

Jon Mortimore, CFO [00:28:20] Thank you.

Operator [00:28:22] As a reminder to ask your question today, please dial star one in your telephone keypad now. And our next question is from the line of Richard Taylor of Barclays. Richard, please go ahead.

Richard Taylor, Barclays [00:28:31] I've got three questions, please. One is again on the US. I know you just described in great detail December, but can you just talk in general about the US business because it looks like the other territories you're sort of satisfied with, but the US has been poor overall. Just standing back, what is it that you're unhappy with in that business or perhaps it's not hitting as well as with other markets? Secondly, globally, what's reordering been like from wholesale accounts into FY24? What's the sell through been like and are they reordering at the higher prices? And how does that inform your revenue growth guidance for next year? Finally, you've not talked about margins for next year. We can work out roughly a margin range for this year given the data you've given today. But what are the thoughts on EBITDA margin into next year, please? Thank you.

Kenny Wilson, CEO [00:29:20] I think in your first question, Richard, the businesses in Asia-Pacific and EMEA came in exactly in line with what we'd expected. In fact, EMEA did a little bit better than we expected. The US business, clearly, the performance is not where we want it to be across the whole quarter rather than in the month of December. The quarter was disappointing and as we said when we stood up in November, we felt at that point that that was due to unseasonably warm weather. December, our sales out through our own channels at 12% was up, but it wasn't up as much as we wanted so we're disappointed in that and then our actual sales out to consumers through wholesale at +32% was actually very strong. Our sales into wholesale which you can see from our numbers were terrible based on the distribution issue and overall, we didn't deliver what we said we were going to do in the US business, so we've got to be disappointed in our own performance there but the fact we sold significantly more pairs in December says people still wanted to buy the Dr. Martens brand. We've got work to do clearly. If you don't deliver your numbers, then you've got to be disappointed in your own performance. In terms of your point about global reordering, we know the order file for spring summer 23 because those bookings have been taken for Jan, Feb, March, April, May, June. We're in a situation where we're happy with those orders. In the US, as we've said today, we won't be able to ship all the orders we've got ironically, because of the issue we've got in the LADC, so we're going to have to pick and choose exactly which orders out of those we are able to ship. If we look at the autumn winter 23 season, which is still the biggest part of financial year 24, we're at a point of low visibility unfortunately at the moment and what I mean by that is it will be another three or four weeks before we really firm up the order file, hence why, in our guidance for next year, we're being cautious on pairs because we don't know the answer yet. Usually, people ordering is a function of how they're selling out, so I've got nothing to believe that in the guidance Jon's given for FY24, that we won't meet the pairs numbers that we've got embedded in there, but we won't know the true answer until we take all of the orders for autumn winter 23.

Jon Mortimore, CFO [00:31:58] And building on that and picking up on your last question, we purposely have not guided around EBITDA margin for the next financial year because as Kenny said we're at the point of minimum visibility. The current issue has hit us really fast this week and we need to work through what all of this means in much more detail, and we'll come back at an appropriate time.

Richard Taylor, Barclays [00:32:21] Just on the second point, on the wholesale reordering. I think in the previous statement Jon noted the position of the key wholesalers. You're at points of low visibility, I understand that, but have they sold through well? Your prices are going up, what are the conversations like with those wholesalers? What's your degree of confidence in them reordering next autumn winter at those higher prices given their balances at the moment?

Kenny Wilson, CEO [00:32:50] If you look at the situation, Richard, we mentioned that people had healthy inventories going into peak at wholesale. And I think the +32% pairs in the US in December demonstrates they had the stock. We're in the ironic situation that the people will be sold out of certain sizes on certain products but we've got an order file which was pre-booked that we have to ship first, so we won't be able to replenish everything that people have sold out. We have visibility on our inventories of our top ten accounts, again, because we saw good sales in December and our US team updated us that for wholesale, the December momentum has continued into January. That will further bring down inventory in the wholesale channel. As Jon said in November, we believe that we'll exit this financial year, with our key wholesale accounts, with our inventories in better shape than they were at the same time the previous year. So that's America. I think for Europe, Europe's wholesale sales were absolutely in line with expectations. A couple of accounts did better. We haven't got all the sellout numbers yet for Europe, in the way that we we've gone through in infinite detail for the United States. We get the inventory week on week and I'm very comfortable with where we are on wholesale inventories in EMEA. So other than the pairs that we are going to take out with our e-tailer partners, I don't have the order book yet, but I feel pretty good about how the order book is evolving in EMEA and they are actually slightly ahead on timing versus the America business, on getting those orders in. Then in Asia Pacific, there's only really one big wholesale customer, and it's the Australian distributor, and their sales have been extremely good in the last quarter so we feel very confident about that number. Given the fact that wholesale sell out in December has been good, we feel okay about that number but in the fourth quarter of this year, we will not be able to replenish all of our sales in the US because of our distribution issue. I want to be super clear about that.

Jon Mortimore, CFO [00:35:05] And if you think back in terms of order book build. At the year-end last year, we shared with you the order book status for autumn winter 22 and this would have been early June and we were about 70% sold. And then we did it again with the expectation to be 100% by the end of September. We'll be able to share those same stats when we get to the year end. But at the moment, as you said, the order book is just starting to be built, so we can't talk much about it.

Richard Taylor, Barclays [00:35:35] Just moving on from the inventory comments playing into your net debt estimates, I didn't think there's anything given in the statements on net debt, but perhaps you can refer to a consensus range on net debt if you are comfortable with that, please.

Jon Mortimore, CFO [00:35:51] I have not looked at the net debt numbers at this moment in time. However, from a net debt cash point of view, I have got no concerns. But can I get back to you on that point, please?

Richard Taylor, Barclays [00:36:01] Yes. Thank you very much.

Operator [00:36:05] Our next question of the day is from the line of Kate Calvert of Investec. Kate, please go ahead.

Kate Calvert, Investec [00:36:11] Two questions for me. Will the issues in the US DC impact upon your new store plans in FY24? And my second question is just on Asia. Do you think it will return to growth in FY24?

Kenny Wilson, CEO [00:36:32] So I think on the first one, we plan to go ahead with a similar number of stores next year in America that we've done this year. So, I think we'll end the year at about 15. I might be wrong by one either way. Our plan is to open a similar number of stores in the US next year. As we've said before, we're very happy with the 4-wall performance of stores that are opening in America. So as a strategic lever, we feel good about that. Currently, the LA DC ships all product codes to our DTC business and our existing NJ DC ships a selection of product codes to stores on the East Coast. So, we already ship DTC in the US from two DCs. And as I said earlier, we already had a plan in place that was part of our strategic plan that we were broadening out the capability of that NJ DC. First of all, we were going to expand the full DTC range in that NJ DC. That was already in action, it was in progress. As I've said today for wholesale, we're going to further expand that. It's a long-winded way of saying DTC shipments, either e-com or stores, we put them first and the fact that we've got two DCs, it won't impact it so that the store openings will move ahead. In terms of Asia Pacific, Jon can talk a bit more detail on this. I mean, what do I think we see? The Japan business, as we mentioned in the statement, is performing well. Everything is going on plan to transfer over the 14 franchise stores in Japan to owned and operated and that will happen before the end of the financial year. So, we feel very good about the business in Japan. China right now with the removal of zero COVID, it's a small business for us. A high percentage of our employees in China have COVID, which probably means most people in China have COVID, and you would assume the situation will get better in China as the year goes on. And then we also feel cautiously optimistic about the business in Korea. And as I mentioned, the Australian business, which is run through a distributor, which is one of our biggest businesses in Asia, is also doing well. So that was a long-winded way of saying I think we feel pretty good about Asia for next year.

Jon Mortimore, CFO [00:38:54] Yeah, just to build, Asia growth next year will be driven by Japan. Think Japan is an old school, mainly physical retail country. We've got a small website, the same as lots of other companies. But think old school retail. Footfall in Japan is still about 25% below pre-pandemic levels. There's opportunity for footfall growth and we've got the annualisation of the 14 stores that we're taking back. I think we've opened four or five stores in Japan this year as well. So, the big annualisation benefit in Japan as well is still good, some good headway on footfall recovery. So, we feel confident that Japan will drive the returns we get from Asia Pacific next year.

Kate Calvert, Investec [00:39:39] Thanks very much.

Kenny Wilson, CEO [00:39:41] Thank you.

Operator [00:39:44] We currently have no further questions registered, but as a final reminder, please dial star one if you'd like to ask a question. That's star one for any further questions. And it appears we are having no further questions registered. So, I'd like to hand back to Kenny for any closing remarks.

Kenny Wilson, CEO [00:40:09] Thank you very much. As we said, we've accelerated this call today because of a reduction in our forecast. I just want to emphasise how disappointed we are about that and the fact that some of this should have been within our control. We're not pleased about that and we will be putting the fixes in place to make sure that we move this forward. I just want to thank everyone for joining this call because obviously we've had to call it at short notice. So, thank you. And we'll be available in the days ahead for follow up questions. Thank you very much indeed.