EDITED TRANSCRIPT

Dr. Martens FY24 H1 Results webcast

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PRESENTATION

Kenny Wilson – *Dr. Martens – CEO*
Good morning, everyone, and thank you for joining our first half results call for FY24 both here and also on the webcast. I'm joined today by Jon, our Chief Financial Officer and also from Dr. Martens by Paul Mason, our chairman. And Emily Reichwald our company secretary and also Bethany Barnes, our head of Investor Relations.

You will also have seen recently that we continue to invest in the senior leadership team here at Dr. Martens. Giles Wilson will be joining us as CFO in the New Year. And Ije Nwokorie, who has spent three years on the board at Dr. Martens, will be joining us as our first ever Chief Brand Officer. I'm really excited about these new appointments and what these two individuals are going to bring to Dr. Martens in the future. The agenda for today, I'm going to walk us through some key messages. Then Jon is going to give us a short financial review and then I will come back and walk us through the business review from the first half of this year.

Overall, our first half performance was broadly in line with market expectations on revenue and slightly better on profit. In the first half, we focussed on controlling the controllables and making progress against our strategy. I'll talk to this later in the business review with some headlines. We delivered significant supply chain savings. We opened 25 new stores. We launched omnichannel in the UK. We transformed our North American supply chain. We started major projects like a supply and demand planning system and the customer data platform. And most excitingly, for me personally, we launched major product innovation with 14XX.

In half one we saw a good performance in EMEA and Asia in line with our expectations. We are pleased with the progress we are making in these two regions. In the USA, the consumer environment has become more challenging for us and also for our competitors. We fixed all of the supply chain issues in LA by April. The boots market is significantly down in the United States year-on-year. We are clear that we have to reignite boots in the USA market and we are taking significant action to meet the consumer headwinds there. The USA is our number one priority and I'm going to talk to the actions we are taking in that market in more detail later.

In the first half, we've continued to deliver on our DOCS strategy. I'm going to go through this in the business review, but here are the headlines. On D, direct to consumer, our DTC business was up 11% in constant currency with DTC mix up seven points to 50% in the first half. On O, we drove operational excellence in both the savings and major transformation projects that we delivered in the supply chain. On C consumer connection, we launched our Made Strong Campaign, our new brand platform. This is all about building awareness and driving consumer purchase globally. On S, we continue to elevate our wholesale account base.

Turning to current trading beyond the half, to date trading in the second half has been mixed. However, in both EMEA and APAC, we have seen improved trading in recent weeks. We expect trading for the remainder of the year in these two regions to be broadly in line with our previous expectations. In the USA, the consumer environment has become more challenging in recent months. Although we have seen some encouraging signs in very recent trading in the USA, including over the Black Friday weekend, we expect that it will take longer to see a material improvement in USA performance. The most challenging part within our USA business is wholesale, with caution amongst our key customers, resulting in a weaker order book than we have seen in prior years. Wholesale customers have low in-market inventory right now of our product and therefore we can expect them to reorder. However, the timing and level of these reorders is somewhat unpredictable. There's still a large part of the financial year ahead of us, including our peak. However, given the consumer backdrop in the USA, we expect that full year revenue will decline by high single digit percentage year on year on a constant currency basis. Assuming this revenue outturn, we expect

FY24 EBITDA and PBT to be moderately below the bottom end of consensus range. I'm now going to hand over to Jon who's going to walk us through the Financial Review.

Jon Mortimore – *Dr. Martens – CFO*
Thank you, Kenny and good morning everybody. In the half year to 30th September, we had revenue of £396 million, EBITDA of £78 million and profit before tax of £26 million. All were lower than prior year half and mainly due to lower volume, with pairs declining by 9% to 5.7 million pairs. The volume decline was all wholesale related. In DTC, we grew volumes by 12%. The wholesale decline was due to four main factors. Three were planned strategic shifts and one was market, and I'll return to these on my next slide. Gross margin expanded by 2.8 percentage points to 64.4%, driven by very strong progress on supply chain savings and also targeted OpEx efficiencies funding some of our key investments, with the timing of the Autumn Winter 23 brand marketing launch shifting from September to October. EBITDA declined by 13% to £78 million, with EBITDA margin decline better than expected at -1.6 percentage points, again due to very strong supply chain savings.

We grew revenue in our own DTC channels by 11% in constant currency, 9% actual currency to £196 million to now represent half of our revenue mix. E-commerce grew by 5% in constant currency and was led by good growth in EMEA, which grew 19% and Asia-Pacific which grew by 18%. These strong performances were offset by America, which declined by 10% in constant currency. All regions improved conversion in the half with traffic growth in EMEA and Asia-Pacific, but traffic decline in America. Retail grew by 17% constant currency; in aggregate growth was led by new and maturing stores across all geographies. We saw continued footfall recovery in EMEA and Asia-Pacific, but a footfall decline in America resulting in like for like growth in EMEA and APAC, but a decline in America.

As I mentioned, the wholesale decline was due to four main factors, three planned strategic shifts and one market. Firstly, we planned to reduce volume - both range and depth - into EMEA etail accounts to accelerate migration of demand to our own channels. Secondly, we planned to not renew a distributor contract in China to enable us to begin to build solid foundations for a DTC business beginning in Shanghai. Thirdly, we planned to reduce shipments into two large US wholesale customers to rightsize their in-market inventory. However, in America, we were also negatively impacted by deep industry wide destocking across all of our wholesale customer base. As a result of these factors, taken together with a conscious decision to not push against destocking trends in America, we have a healthy inventory status across our wholesale customers. In America, in-market inventory is down 20% compared to last year and in EMEA in market inventory is down 23% compared to last year.

Revenue declined by 3% in constant currency, with all of the decline volume related, which costs 11 percentage points. This was part offset by average price increases of 4% and retail space expansion of 4%.

This slide illustrates the principal margin drivers for both gross margin and EBITDA margin. Price net COGS inflation of around 6%, generated 0.7% of percentage points of gross margin. At EBITDA margin price net inflation was flat such that average price increases funded inflation through the profit and loss account. Retail space grew gross margin by one percentage point, but diluted EBITDA margin by 0.9 percentage points due to the temporary cost drag from new stores. Very good supply chain savings of £10 million improved both gross margin and EBITDA margin by 1.1 percentage points. Kenny will describe what we've been doing here later in his presentation. The impact of the above was to grow gross margin by 2.8 percentage points with EBITDA margin broadly level. EBITDA was, however, further negatively impacted from the additional USA storage costs we had previously guided, which reduced EBITDA margin by a further 1.7 percentage points.

Performance by region was in line with plan in EMEA and Asia Pacific, but results were below expectation in America wholesale. In EMEA we grew DTC by 20% in constant currency. This growth was led by the continued multi-year growth in our conversion markets of Germany, Italy and Spain, increasing DTC constant currency by 29%, 62% and 88% respectively. This was supported by good DTC growth in the UK of 8% and also France of 19%. All growth was volume led.

In Asia Pacific revenue declined by 3% in constant currency, mainly due to the exit from a distributor in China. DTC grew 26% in constant currency and was led by Japan with DTC growth of 41%. EBITDA margin declined due to lower revenue, with margin expansion resulting from an increased mix in Japan, our most profitable market.

As expected, DTC trends were weak in America, with DTC declining by 3% in constant currency. This was all lower traffic and footfall in both e-com and retail, only part mitigated by better conversion and new and maturing stores. As explained, wholesale declined by 22%. EBITDA was 31% lower, reflecting lower revenue and inventory storage costs.

Profit before tax was £26 million, 55% lower than last year. Depreciation and amortisation charges were up due to a combination of annualisation of IFRS 16 rent depreciation from new stores and also increased DC space. In addition, continued investment in IT system capability increased depreciation, including charges from implementation of an order management system, and omnichannel channel functionality in EMEA and the annualisation of the global ERP solution going live in Japan from September of last year. Interest charges were higher, mainly due to higher interest rates on bank debt being roughly double last year at 6% and lower average cash. The effective tax rate was 26.4% compared to 22.8% last year, with the increase all due to the increase in UK corporation tax to 25% from April of this year. The interim dividend will be held flat at 1.56p per share and the share buyback program is progressing well.

The cash outflow in the first half was typical of our normal seasonal cash profile as we generate the majority of our cash in the second half. The working capital outflow mainly reflected the normal build of seasonal inventory together with higher trade debtors as we ship large volumes to wholesale customers through August and September. Trade debtor days are higher than last year by five days, reflecting the increased mix of EMEA customer debtors, which have an average normal payment term of 60 days compared to around 30 days in America. CapEx of £16 million was mainly spent on new stores and IT projects as previously mentioned. In the half, we drew down £25 million of our working capital facility, but this has now been repaid in full.

We have too much inventory. As previously said, we have minimal markdown risk below cost. This is because we sell a high proportion of continuity products with four out of five pairs being black together with strong product margin structures. We know we need to reduce inventory levels and we will do this in a managed way. We will not negatively impact the brand, for example, we will not accelerate inventory reduction by marking down our icons. We will not negatively impact availability by aggressively turning off future purchases, nor will we push inventory into wholesale at a faster rate than pull demand. As a result of slower trading expectations, it will take longer to rightsize our inventory than originally expected, and we now anticipate inventory to be rightsized through the course of FY25.

Kenny Wilson – *Dr. Martens – CEO*
Thank you, Jon. I'm now going to walk us through the business review. I'm going to talk first about the brand and about product and then going to focus on regional performance. I'll take a deeper dive into the United States outlining the actions that we're taking there and then I'll give you an update on the investments we are making and also the successes we have had in the supply chain.

As Jon’s just said, we have continued to take a medium-term view in managing our brand and in the run up to Black Friday, we clearly communicated to our customers that our most important iconic products would remain at full price. Over this weekend, we did discount our seasonal colours, but we held price on icons. We want our consumers to trust us. In the USA are inventories are too high but as you've just heard from Jon, 80% of this inventory is in core continuity product. We will not mark down this product so it will take us longer to turn it back into cash but this is the right thing to do. We will continue to take brand first decisions despite the tough trading environment that we are facing in the United States.

Our major brand moment and spend occurred after the end of half one in mid-October with the global launch of our Made Strong campaign. Made Strong talks to the rational and emotional truths about the Dr. Martens brand and our wearers. The purpose of this campaign is to raise brand awareness around the world of Dr. Martens and to bring new consumers into the brand. We adopted a key city approach to the campaign with high energy events coupled with out of home marketing and social media. Later, I'll show you how this came alive across all of our regions. Given the very recent launch, it's too early to evaluate campaign performance, but we've seen a big step forward in brand PR coverage.

Turning to product, for those of you who joined our product teach-in, you heard me talk about the fact that we've increased the pace of product innovation and we've got a very strong range for Autumn/Winter 24, the strongest product that I've seen in my five years in Dr. Martens. I'm not going to go through all of the products in detail, but on the left of this image, what you see is our new 1460 sub boot. This is a product that offers protection in a wet environment via an innovative, waterproof shell. Then you see the Audrick snowplow bringing the puffer look to one of our most successful styles. Then the 14XX protection pack, this is the 1461 shoe version of 14XX. I've got no chance of doing the team's work justice in this area, but we've got a brand new outsole with innovative grip technology and clearly a protective upper. This is inspired from the brand's industrial heritage. Finally, the casual zebzag boot, a durable, lightweight product with added comfort for that youngster who previously has worn sneakers. These are just a sneak peak of the exciting newness that we're going to be launching as we move into the next year.

We've also told you before about the important role that collaborations play in driving brand heat, and our recent collaborations have performed fantastically. Here you see a creeper that we launched globally with Supreme this month, and the creeper style will then feature in our main range from March next year. Then a collaboration targeted specifically at the LA community in the USA with local brand Born X Raised. The high-profile, Born X Raised event following this up in LA again to focus on this key USA city. Lastly on collaborations, a recent project with our long-term collaborator Marc Jacobs, celebrating ten years of the Jadon platform boot in vegan leather. These collaborations have completely sold out and they continue to drive brand heat.

Given we're talking about the first half and moving on to Sandals, we have previously communicated that Sandals presents a sizeable medium-term opportunity for us. Today, Sandals represents 9% of our total business globally. In H1, our DTC pairs were up 8% and we expect to see continued growth in this business into next year. Adam Owen joins us from Birkenstock in December as our new global head of design to further increase our focus on this category.

Turning to our overall regional performance. We've delivered strong results in EMEA, which has been led by direct to consumer. Our conversion markets continue to be an engine for growth whilst our most mature market, the UK, traded plus 8% in DTC. Our EMEA wholesale business is incredibly clean, with sales to consumers up and inventory's down 20%, as previously mentioned by Jon. In the USA though, we are facing a more challenging environment. Our shoes and sandals are performing, but our boots are down. Our new leadership team there is starting to embed. Wholesale inventories are down in line with sales and our Dr. Martens inventory, as Jon has said, is too high. In Asia Pacific, Japan is our best performing market. China is down in H1 as we planned, and we have streamlined the Korea business for future growth by closing some concession stores. We've also extended the contract of our Australian distributor.

Providing a bit more context on the United States. We are taking focussed action here in a tough macro environment. We fixed all of the operational issues that we said we would in LA by April. We have changed two thirds of the USA leadership team and that new team is now working at pace. We have refocused our marketing spend with a better balance across boots, shoes and sandals from October. In terms of what we're seeing in the market right now in the USA, we see a continuing weak consumer environment and a cautious wholesale customer base. The total boots market across all brands in the USA is significantly down year on year and there was a very warm October which impacted the start of winter product. So, what are we doing to meet these challenges? We're continuing to invest in marketing and the brand in a disciplined manner. We are delivering new products, innovation into the market but this is going to take time to ignite and we continue to deliver upgrades to our website to improve the conversion.

In the first half of this year, we have set up our distribution centre network in the Americas region for future growth and we have also configured it to deliver speed and cost efficiency. As I said, we fixed the issues in LA by April and we have subsequently added automation to improve the pick and pack efficiency of this distribution centre. We expanded our New Jersey DC and we can now ship both direct to consumer and wholesale orders from the East Coast, which will help with speed and efficiency. In Canada we've moved to a bigger DC in Toronto, which is better placed to serve our future business.

Moving to USA retail, we opened seven new stores in the USA in half one. Here are two examples from California. We opened Los Cerritos in July and Victoria Gardens in June. We do not plan to open more stores in the USA in the second half, and that is to enable our teams to focus on peak trading in a difficult environment. However, going forward, our plan is still to build a stores network of 100 to 120 stores in the USA and we will begin opening stores in this market again in FY25.

Moving to marketing, our new USA marketing team has focussed our spend on key cities. We made the decision to move our major marketing investment from September to October this year, one month later than in FY23. Like the other regions, they launched the Made Strong campaign with an event in New York City in mid-October. This event was attended by 1200 people and 300 media in attendance, but most importantly reached 22 million people on social. We also delivered outdoor advertising in key cities and we will continue to invest in USA marketing.

Reigniting boots is our number one focus in the United States. Therefore, we chose to launch our latest and exciting product 14XX in New York in October alongside our made strong event. For those of you that attended our product teach-in, Adam gave you a sneak preview of this product. This product looks like a Dr. Martens boot and delivers breakthrough innovation and technology.

Since that launch, we've seen significant press coverage from the 14XX event and it was well attended by influencers. It has driven press coverage with a reach of more than 55million people so far. The headlines that we've received: “Dr. Martens launches ultra-modern 14XX range”, “Dr. Martens 14XX is a new but old era for the brand”, “Heritage meets Future in Dr. Martens workwear inspired 14XX incubator”. As we move into the New Year you will see this 14XX collection inspired the main range of Dr. Martens.

Lastly, on the USA, I wanted to touch on wholesale, which as I have said has been difficult. We are taking actions to further elevate our business in the United States, just like we've done in EMEA and in Japan. Here you see an example of our recent glass box execution with Nordstrom at the Grove in LA. We held a VIP event with the goal of driving coverage and raising awareness of Dr. Martens at Nordstrom. All of our activity in the USA combined in the last four weeks has driven an increase in PR coverage of 45% year on year on the Dr. Martens brand. We're starting to take actions and we will take more actions as we move into the new year.

Moving on to EMEA where we had a stronger performance. In EMEA, we grew DTC by 20% in the first half. All of our core markets grew significantly in the region with Italy direct to consumer the standout performer at 62%. In the first half, we opened 11 new stores and we have further stores to open in EMEA in the second half of the year. In early November, we opened our second store in London's Oxford Street, and it's quickly established itself as a top performer, attracting a different consumer to our other store west of Oxford Circus.

Like the USA we have supported Made Strong across Europe with events, with social media and outdoor marketing forming the bulk of this campaign across the region.

EMEA ecommerce was up 19% in the first half. Our new stores continue to support our digital business in the region. We've always said that we don't want to become retailers. We want to be a brand-first, digital-first business. Here you see the impact in three different geographies on our ecommerce sessions in specific areas where we've opened new stores. The stores raise awareness of the brand. So firstly, you see Munster in Germany, where sessions are up 42% online. Then you see Oberhausen also in Germany, where, since the store opened, sessions are up 33%. And then finally Milano, where when we opened our first store in Via Torino, sessions went up 33% and then when we opened the second store, we saw a further 21% increase in sessions. We've seen this phenomenon around the world, and we will continue to use stores in key locations to build awareness, to build range awareness, and importantly, to encourage try on.

Japan continues to be our most important market in Asia-Pacific. In the first half, our Japan DTC business was up 41% in constant currency. We opened two company owned stores in the first half and we also opened a new franchise store with our partners in Tsukuba. This brings our total own store count now in Japan to 42 stores.

As in other parts of the world, we also supported the launch of Made Strong in Japan. I had the opportunity to attend our Tokyo Made Strong event in October, which drove real buzz in this important global city and continues to support this market.

Back at our full year results in June, I outlined a number of investments that we are making this year to support the future growth of the Dr. Martens brand. These investments are a combination of both operating expenses and capex. All of the numbers are unchanged and in line with the guidance that we gave to you in June. Some investments like the USA distribution centre projects that I outlined are complete, while others like our new demand and supply planning systems, are now underway. The benefits from many of these investments will be derived for the business in the following years.

Supply chain, as Jon said earlier, we saw good gross margin improvement in the first half, and this was driven predominantly by supply chain savings. This is a result of hard work which has been done by our supply chain teams over the last five years. And what's the major driver of that? Well, back in 2018, Dr. Martens used to buy a finished product from a supplier and had limited visibility on the cost components of that product. Today, what we do is we procure all of the key product components, things like leather or the granulates that make up the sole and we work with our suppliers on detailed costing, also allowing them to make sensible profits. This also ensures that we have even greater control on the product quality of the brand. In the first half, we also benefited from improvements that we have made in inbound freight. Back in 2018, we had about 10% of our supply chain costs under our direct control. With the work that we've done today, that number is now around 70% and we will grow this to 90% in the medium term, offering further improvements for gross margin.

Finally touching on sustainability. We know how important this is to Dr. Martens buyers, so I want you to update on three important consumer facing projects from the first half. We launched our UK Authorised Repair Service in October and it's absolutely fantastic to see people getting their old docs repaired. Following on from the successful Depop trial that we did in the UK, we will be launching our second-hand ReWair programme in the United States next year in the first half, and this will be accessed via drmartens.com. Also in Spring/Summer 24, we'll be launching the first products using the recycled leather from Genix Nappa, a business that we invested in last year. We'll give you a broader update on sustainability at our full year results.

So, in conclusion, we've delivered good performance in EMEA and APAC, but the USA consumer backdrop has deteriorated. We are highly focussed on reigniting the boots market there and we're taking significant actions to make a difference in the USA. We are supporting our new leadership team there to turn around the performance of the USA.

Thank you so much for your attention and for listening in. We're now going to take questions, we will take questions in the room first, I believe and then we'll take questions on the call. I think we probably know most people, but if you could just say your name for the benefit of everyone else and where you're from and then we will take the questions. Thank you so much.

Kate Calvert – *Investec*
Morning, Kate Calvert here from Investec. Two questions. I noticed you mentioned that the wholesale accounts are down to 1900 from 2000, can you give an idea of which geographies you have reduced? And can you say if any of your top 20 in the states have decided to stop taking the brand? And my second question is, what is the right size in terms of level of inventory? So how much you think you've got to reduce that volume by?

Kenny Wilson – *Dr. Martens – CEO*
So on the first question, Kate, on the account reduction. Around the world its pretty even. It's not like we've gone in in one market and we've significantly reduced wholesale accounts. Much of the real rightsizing of wholesale has been done over the last seven years. Some of that started even before I joined. We've had no accounts who've walked away from the brand in the United States. I think one of the things we've really tried to do, which is obviously impacted our results, is we've worked very closely with our big accounts so as they saw the tougher consumer environment happening to them and their sales going down on Dr. Martens and on other brands, we've worked with them to reduce their inventories, as you've seen, which obviously means we've reduced our sales. I think part of that partnership and their trust in Dr. Martens as a brand means that nobody's walked away from the business.

Jon Mortimore – *Dr. Martens – CFO*
On your inventory question, if you look at the year-end close number, which was 40 weeks last year September and 45 weeks now. I think we said under the current technology we have, a low 30 weeks, or a stock turn of 1.8 or 1.9, is about right and the next big improvement will be when the demand and supply system has gone into place and we will be able to fully optimise was a few years down the track yet, which could take it down to a mid 20s number.

John Stevenson – *Peel Hunt*
Hi, John Stevenson at Peel Hunt. Obviously there is no guidance for full year ‘25. I get that from a revenue point of view in terms of where wholesale is going to be, but could you talk about the gross margin momentum outside of DTC mix going forward and also any sort of incremental investment drag we should think about in terms of profit margin recovery? And I guess maybe connected to that, obviously got a brand officer coming. You've obviously been, you know, holding back in terms of marketing spend, there's clearly a lot of activity going on as well. You know, how do you see your marketing activities and how does a brand officer fit in terms of the current sort of organisational structure and what you're looking to achieve?

Kenny Wilson – *Dr. Martens – CEO*
I'll take the second one first and give Jon some time to talk about the investment. This is a branded goods business at the end of the day and the business is growing and it's becoming more complex. I felt like I wanted somebody who had complete oversight on the brand, so in conjunction with the Board we decided to create the position of Chief Brand Officer, and I had the pleasure to work with Ije over three years while he's been on the board. I've been really impressed with him, he's got a great background, was the CEO of a marketing agency, then went into Apple and he's had significant responsibility there for retail and for omnichannel delivery, which is something obviously we're trying to build as a company. He's just a great cultural fit for the business and also back to this point about pace and action, he understands the business, he's had three years on the Board. So Ije will come on board at the beginning of February and we'll start to leverage the time before entry during the January period and then he will assume responsibility of Adam, the Chief Product Officer, Meg, who's the Chief Marketing Officer and Erik the Strategy Director. Clearly what we've outlined is we will continue to grow our investment in marketing the brand by 50 basis points per annum and I think what you would expect to see from us in the new year, although the budgets are not defined yet for next year, would be that we will increase the marketing investment in the United States further and we will fund that through supply chain savings.

Jon Mortimore – *Dr. Martens – CFO*
On your question on gross margin, the supply chain savings are efficiency savings so they should stick and they should be a few more coming through to the second half. Obviously the key driver gross margin going forward is DTC expansion and that's still valid. We've been asked about early visibility on COGS inflation for next year and the inflation from our factories is pretty benign so I don't expect that will be a drag next year. And then I think marketing aside, the underlying investments we described very fully at the full year, they still stand and that should cover the vast majority investments we need to be made.

Louise Singlehurst – *Goldman Sachs*
Hi. Morning, Kenny and Jon. It's Louise Singlehurst from Goldman Sachs. Two questions from me, if I can do, please. Can you just remind us on the pricing environment, the pricing that's gone through this year, the outlook as we go into spring summer for next year? And do you think there's been any consumer resistance to pricing, particularly when you look at that USA market and is there more opportunity for more price mix adjustments with all the newness coming through? And then on the second question, obviously we're not going to get anything in terms of the full year guidance for 2025, which was obviously taken away today but is there anything operational that gives us a conversation to be had today with regards to the USA market specifically for full year 25? Is there anything that you're seeing in reduction in doors? You've talked about the boot market needing a bit of a reset, I think, Jon, you mentioned inventory will have to be reset going into FY25. So it's just trying to work out are we actually going to see growth for what we can see today in the USA in FY25 to the best of your points today? Thank you.

Kenny Wilson – *Dr. Martens – CEO*
On the first question around the pricing environment on average, we took price increases this year that were in between 4% and 6%. They were not even across all territories and they were not even across all products. So, in Japan, for example, we took 10% price increase because we hadn't taken a price increase there for two years. And in that market, as you saw, direct to consumer sales are up more than 40%, so clearly prices had limited impact. And equally, in EMEA where we took price increases, you know, we've not seen any impact. The United States is very hard to unpick it in the context of what's going on there with the consumer environment and what we're seeing, not just in our category, but across apparel, drinks, everything. Our bestselling products over the last month have been our core icons. We didn't take further increases on core icons in the United States in Autumn/Winter. So what we expect to see next year on pricing is, as Jon said, supply chain inflation is coming in much lower for next year than this year. So, our goal is not that we will be driving price increases through on average across the business. In terms of FY25 guidance, the reason that we pulled back there was because, number one, the consumer environment in the

USA is uncertain and therefore we didn't feel it was right to guide it at this point in time. We've also got a new CFO who's going to be joining us very shortly. Our number one objective in the USA right now is to reignite the boots market. That's down to us, but it's also down to the other big players in boots because boots generally are down in the United States, not just with Dr. Martens and what we're going to do there is we will push product innovation in the United States and to Jon's earlier question, we're going to have a real marketing focus on the United States because, we're sitting here right now with two regions having performed pretty well, and we're disappointed in one. I suppose the difference versus last year is that it was all down to us last year but this year there's clearly a bigger consumer issue in the United States.

Jon Mortimore – *Dr. Martens – CFO*
Just to build on your inventory question at the end. Firstly, we will not impact availability by aggressively reducing purchases going forwards. The inventory won't go off, it's a working capital negative, but it doesn't go off. Therefore, we won't impact availability. Because we have very low in-market inventory in wholesale, when the restock happens, we are ready to take advantage of it. It will happen, it is just a case of when.

Alison Lygo - *Numis*
Capex was £38 million in the first half and guidance seems to suggest that it’s going to come down in the second half to sort of £70 million. Why would that be? Is there anything we're missing that looks to be coming through these costs and actually potentially be expecting it to step up from an asset D&A perspective? And then bigger picture, you said quite clearly at the start USA is number one priority right now for the business. What would it take from your perspective to actually maybe pull back a little bit there and start focusing on accessing the opportunity a bit faster in Europe or another territory? And I suppose connected to that, is there anything you can kind of give in terms of colour around those conversations that you're having with your wholesale partners in the USA that that gives you confidence that this is a temporary thing and it's not looking to reduce exposure to price points, brands, categories, different inventory model, that sort of thing.

Kenny Wilson – *Dr. Martens – CEO*
I'll take the second question first and then I'll give Jon time to answer the technical question. In terms of the balance between the regions, your question around, if you scaled back in the United States would that help Europe? I mean, we've got to separate leadership teams. We have one global brand with different regional leadership teams. The EMEA team are powering ahead and, they're delivering good growth, they're going to roll out more stores this year, they've got their own marketing teams country by country, so they can get on and do what they're doing. We'll invest behind that business in the way that we've continued to do so. The USA is underperforming and yes, some of it is out with our control, with a weak consumer environment but we've got to do what we can do and take that action. So the goal there is to support that new leadership team, we’ve significantly upgraded the calibre of the people that we've got in the United States and we're making senior leadership changes globally. To Jon's earlier question, we're bringing in the Chief Brand Officer to help support that initiative in the USA. I've spent two weeks in the last four in the United States in terms of supporting that team and giving focus. Adam, our chief product officer has also been out there meeting with our key customers. If we look to next year, people are very confident. They've seen our Autumn/Winter 24 range. They're confident in the product we're bringing to market. We've probably been the clearest we've ever been in terms of communicating with our customers, how we're going to support the brand through marketing in the United States. Unfortunately, the bit I can't control is what’s happening with the broader consumer backdrop that we are seeing across the industry. But that was a long-winded answer to your question. I think the short answer is, as a senior leadership team, we know the USA is our number one focus. We've got very strong leadership team in Europe and we will continue to drive that business on.

Jon Mortimore – *Dr. Martens – CFO*
In terms of our capex and depreciation, capex is guided around £50 million, which might be a bit less than originally thought, but it's not material its just timing. In terms of D&A, we've increased the guidance from £65m to £70m to around £70m. There's a little bit of timing around that, in the third quarter, new stores aside, we try not to deploy too many new capex projects to focus on trading. You spend money in the first half and in the fourth quarter but we focus the third quarter on trade and then get back to development.

Kenny Wilson – *Dr. Martens – CEO*
Okay. If we've got no questions in the room, I think we can go to questions on the call.

Conference Call Operator
Thank you. If you would like to ask a question, please press star followed by one on your telephone keypad. If you would like to retract your question, please press star followed by two. We will pause for just a moment. Our first question goes to Richard Taylor of Barclays. Richard, please go ahead. Your line is open.

Richard Taylor – *Barclays*
Thank you very much. It sounds like you expect a working capital inflow for FY25 as inventory comes down to these sort of levels you talk about in terms of cover or term, but the net debt is obviously gone quite a lot at the half year to £272 million. So just very keen to know the Board's view on capital allocation. I know you have good liquidity headroom still, but questions on things like the dividend but also the share buyback, it looks like you're intending to continue the buyback, but just keen to know your thoughts on that, please. Thank you.

Kenny Wilson – *Dr. Martens – CEO*
Yeah, I mean, I think you're right on the inflow and working capital Richard and Jon can touch on that. In terms of the capital allocation policy. Number one, we will continue with the share buyback that we're in the middle of right now, we’ve got more than enough cash to accommodate that and then with the Board, we'll will refer to our normal capital allocation policy, which is, number one, will invest in business projects that will drive growth in return for shareholders over time in the Dr. Martens brand, that's number one. Number two, then we will review our dividends. And then number three, we will at that point determine if we've got excess cash, how and when we return that cash to shareholders. I think the most important thing is we will complete what we're doing. We'll get through our peak trading period in between now and the end of March, we still have 50% of the full direct to consumer year ahead of us. As we've said, the consumer environment is uncertain in the United States so we'll make those decisions with the Board at the appropriate time.

Jon Mortimore – *Dr. Martens – CFO*
The normal cash profile is a cash outflow in the first half, cash inflow in the second half. On our current guidance we're guiding to operating cash inflow across the year of around about 80% and that would mean inventory is roughly flat year on year at the balance sheet date. So there will be a cash inflow in the second half, it just won't be as much as we had originally anticipated because the incremental cash inflow from our excess inventory. We now expect that to come through in FY25.

Richard Taylor – *Barclays*
Okay, So inventory flat at the March balance sheet date.

Jon Mortimore – *Dr. Martens – CFO*
Roughly yes.

Conference Call Operator
No further questions so I’ll hand back to Kenny for any closing comments.

Kenny Wilson – *Dr. Martens – CEO*
Great. Well, thank you very much, everyone, for your attention, both here in the room and on the call and the webcast. I think in conclusion, we had good performance in EMEA and APAC. The USA consumer backdrop has deteriorated but what I want everybody to know is that we are highly focussed on reigniting the boots market in the United States and we are taking significant actions within that marketplace to make a difference going forward. We look forward to updating everybody after our peak trading is out of the way. Thank you very much.