EDITED TRANSCRIPT

Dr. Martens FY24 Q3 Trading Update Webcast

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Piral Dadhania – *RBC Capital Markets*

Ben Rada Martin – *Goldman Sachs*

Grace Smalley – *Morgan Stanley*

Kate Calvert – *Investec*

PRESENTATION

Kenny Wilson – *Dr. Martens – CEO*
Good morning everyone, and thank you for joining our Q&A conference call. I'm joined here this morning by Jon Mortimore, our chief financial officer, and also Bethany Barnes, our head of investor relations. If you've got further questions following this call, then please do reach out to Bethany directly.

Before we open it up for the Q&A session, I just wanted to take this opportunity to share my perspectives on our third quarter. Overall, our Q3 performance was in line with the updated guidance we provided in November. This is not to say that it was an easy operating environment. Trading in the quarter was volatile, with considerable regional differences and lumpiness in wholesale. The trends that we saw at Dr. Martens are broadly in line with those experienced by our peers and seen across the industry, including softer December trading globally. Whilst there is no doubt that the consumer backdrop remains challenging, particularly in the United States, we continue to focus on the levers that are within our control to drive growth and to build our product pipeline for Autumn Winter 24 and beyond. Our focus remains firmly on our marketing execution through our made strong platform and digital marketing to target new consumers. Ije Nwokorie, our new chief brand officer joins us next week to accelerate our efforts.

Direct-to-consumer (DTC) sales in the quarter were resilient considering the consumer environment and the abnormally warm weather, particularly in October, down 3% in constant currency. We saw particularly strong direct to consumer performance in our continental European conversion markets and also in Japan. Growing DTC remains a key part of our long-term strategy, and the progress we continue to make on this gives me confidence in our future growth and the direction of our brand.

Our retail business was the strongest channel in the quarter, up 3% constant currency made up of double-digit growth in APAC, solid growth in EMEA and declining revenue in the USA. Our Ecom business was down 8% constant currency with a double-digit fall in the Americas, impacting an otherwise stable performance in EMEA and APAC.

Wholesale revenue was down 46% in constant currency, with significant declines in both the Americas and EMEA. Wholesale in EMEA was predominantly as a result of our planned reduction of volumes into EMEA etail accounts and there were also some significant differences in shipment timings compared to the prior year. In the United States, we continue to be impacted across our wholesale customer base. Looking ahead, the timing and level of wholesale re-orders is unpredictable globally, but we do see lower levels of in-market inventory year on year.

The regional dynamics in the quarter are consistent with those from half one. We're delivering good DTC performance in EMEA and Asia, but America is more bumpy. Overall, EMEA revenue declined 15% year on year, and this was driven by significant decline in wholesale as planned. DTC revenue in EMEA grew low single digit with particularly good performance in our conversion markets, which continue to be an engine for growth and then a slightly softer UK result in line with industry trends. Asia Pacific recorded revenue down 1% in constant currency, with Japan, our largest market in the region, delivering strong overall growth.

In the USA, the consumer environment remains challenging. Our operational issues are now well behind us, but we face a different headwind which is centred on the consumer. We're doing what we can to optimise performance in a tougher macro with targeted and focussed actions. Our USA leadership team is now fully in place and working at pace. We are continuing to invest in marketing and digital in a disciplined manner and we are delivering new product innovation into the market, but this is going to take time to ignite and we continue to deliver upgrades to our website to improve conversion. The USA remains our number one priority, and we continue to implement significant actions to face the consumer headwinds we see there.

Looking ahead, the guidance provided at the time of our H1 results still holds. We expect full year constant currency revenue decline of high single digit. We've also given some additional guidance on FX impact today, which you will see in our statement.

So, thank you so much for your attention and listening in. We're now going to take questions. If you could start by saying your name and where you're from before posing your question, that'd be really helpful. Thank you.

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. While preparing to ask your question, please ensure your phone is unmuted locally. Our first question today goes to Kate Calvert of Investec. Kate, please go ahead, your line is open.

Kate Calvert – *Investec*
Morning, everyone. Two questions from me. Given your third quarter performance, you do need quite material improvements in the fourth quarter to get to full year guidance. I do appreciate those comps are easier but what gives you the confidence in being able to achieve this? And my second question is on Europe specifically. I guess it was perhaps a little bit weaker than expected in the third quarter, due to the UK. I'm just wondering if you could give a bit more colour on what your expectations are for Europe in the fourth quarter, because, the comp there is actually tougher rather than weaker, I think. Thanks very much.

Kenny Wilson – *Dr. Martens – CEO*
Thanks, Kate. You're indeed correct that the trends in the fourth quarter need to be stronger than Q3 in order to deliver the guidance. I think the most important thing here is around wholesale. The wholesale businesses are described as being lumpy throughout the year. So in Q1, it was -41%, in Q2 it was -2%, and in Q3 it's -46% and we expect to see a stronger performance in wholesale in Q4 versus Q3. Firstly, the comps are easier year-on-year and secondly, we have the order book to be able to make these numbers so therefore this is now all about getting the product and getting it through the distribution centres and to our customers. In terms of European DTC, again,

you're correct that continental Europe had a good Q3. The UK was slightly weaker in DTC in the third quarter. In order to make our guidance for the full year, what we need to see is a continuation of the trends that we've seen over the last nine weeks so that's effectively what we have to deliver.

Kate Calvert – *Investec*
Okay can you give us a bit more detail on the trends over the last nine weeks?

Kenny Wilson – *Dr. Martens – CEO*
No, we're not giving out country by country detail. What we said is overall Europe DTC was up low single digit in the third quarter. Continental Europe was better than the average and the UK was slightly below the average.

Kate Calvert – *Investec*
Thanks so much.

Kenny Wilson – *Dr. Martens – CEO*
Thanks, Kate.

Conference Call Operator
Thank you. The next question goes to Grace Smalley of Morgan Stanley. Grace, please go ahead. Your line is open.

Grace Smalley – *Morgan Stanley*
Great. Thank you very much. Two questions please. Firstly, on the wholesale order book, you mentioned there that you do expect wholesale to improve in Q4, partly because of the easier comps but I guess as you look more through calendar year 2024, what are you seeing in terms of the trend of wholesale order books, and are there any signs of the wholesale de-stocking cycle, in particular in the US, coming to an end? And then my second question, please, would just be if you could comment on what you're seeing in terms of the impact from the Red sea disruption and if you could remind us how significant freight is as a percentage your sales and your expected exposure to the impacted route? That would be very helpful as well please. Thank you.

Kenny Wilson – *Dr. Martens – CEO*
On the first question regarding wholesale, as you know we've got the visibility on the orderbook for Q4, which is what underpins our confidence in the forecast. As we look ahead to next year, we're still in the process of taking the orderbook for Autumn Winter 24. What would I expect to see? As we said back in November, I don't expect to see that the USA is going to turn around quickly in terms of pre-booked orders. So therefore, as we look at the second half of 2024, I think you'd expect to see more at once orders. Europe is a different situation where we see stronger trends in terms of sell out to consumers and as I said at the beginning of the call, what we see is inventory is double-digit down in both regions. So I think in that regard, we're in a strong position.

Regarding the impact of the Red sea, there's no impact on Asia Pacific or in the United States, this is an EMEA issue. What we're seeing at the moment is an impact of about 12 days of shipping. Obviously, because it has to go around the Cape of Good Hope rather than coming through the Red sea. There is obviously a cost implication to that and then I think really it's more about what would be the impact next year if this were to continue.

Jon Mortimore – *Dr. Martens – CFO*
Building on that, the read across to what we saw in covid supply chain constrained days was the ships and containers potentially be in the wrong place. So, the length of time potentially increasing but it's a watch for.

Grace Smalley – *Morgan Stanley*
Great. Thank you so much.

Kenny Wilson – *Dr. Martens – CEO*
Thank you, Grace.

Conference Call Operator
Thank you. The next question goes to Ben Rada Martin of Goldman Sachs. Ben, please go ahead. Line is open.

Ben Rada Martin – *Goldman Sachs*
Morning. Thank you very much for the question today. I just had two, if that's okay. The first one was just on channel mix into the fourth quarter. I'm interested with your revenue guidance, whether you think DTC can be a positive contributor within the final quarter. Secondly, just on your call out that December was a bit of a weaker month, it'd be helpful if you guys can talk about whether you've seen those trends improving into January or was December somewhat of an abnormality. Thanks.

Kenny Wilson – *Dr. Martens – CEO*
On your second question Ben, I said that in order to make our full year DTC numbers, we have to continue the trend, through the balance of the year and that nine week trend was up to one week from where we are now and that took get everything from Black Friday all the way through Christmas and the beginning of January. So it takes the average of all of those things. What we have seen is the subsequent week in January is in line with our expectations.

Jon Mortimore – *Dr. Martens – CFO*
And on your first question, we're not going to get drawn into Q4 guidance by channel, Ben.

Ben Rada Martin – *Goldman Sachs*
Not a problem. Thanks.

Kenny Wilson – *Dr. Martens – CEO*
Thanks, Ben.

Conference Call Operator
Thank you. The next question goes to Piral Dadhania of RBC Capital Markets. Piral please go ahead. Your line is open.

Piral Dadhania – *RBC Capital Markets*
Morning, everyone. So if I could just follow up on the Red sea question. Could you just remind us what contracts you have in terms of duration and how long you may be hedged for? Just to try and understand where the cost implication might come through from a phasing perspective. And then secondly just a question on Spring Summer, which I think is being shipped as we speak. With a change in the fashion cycle perhaps in the US market, with boots showing a bit of softness, how do you plan to leverage some of the other categories which have done really quite well over the last couple of years, such as sandals, are you making big bets on those categories, or is there still a bit of a limitation because the marketplace still has a little bit too much inventory? I just wanted to try and understand how you're how you're managing that off season collection and sell-in. Thank you.

Jon Mortimore – *Dr. Martens – CFO*
On your first question Piral, we have a contract with Maersk which I think goes on through the rest of this calendar year but we can confirm that later. The way the contract works is, it's a hedge on normal shipping but when things get extended, you do pick up a surcharge. So again, it comes back to our earlier comment, we need to see how this thing progresses over the next few months.

Kenny Wilson – *Dr. Martens – CEO*
In terms of your second question, around Spring Summer, the fourth quarter of this financial year, January, February, March is obviously the start of the Spring Summer season. As I said earlier, we know what the order book is for Spring Summer. To your point, obviously shoes and sandals were successful for us last year. We grew both of those

categories and our performance was impacted by boots. So we've got a strong order book through Spring Summer. Boots is still the biggest category, it is all year round, but we've got higher levels of shoes and sandals. So I think that's also part of the reason why we feel confident that we've got the orders for Q4 is the fact that these are new seasonal products that are what wholesale customers want from us.

Piral Dadhania – *RBC Capital Markets*
Thank you. Kenny.

Kenny Wilson – *Dr. Martens – CEO*
Thank you.

Conference Call Operator
Thank you. As a reminder, if you would like to ask a question, please press star followed by one on your telephone keypad. And our next question is to Alison Lygo of Numis. Alison, please go ahead. Your line is open.

Alison Lygo – *Numis*
Morning, guys. Just wondering if you could comment on your expectations for gross margin in the second half. Given the weighting we're seeing towards DTC, you could be looking for 500 bps or so of progression. So if we put any Red sea impact to the side and how maybe you've seen the promo intensity on a seasonal product trend through the half.

Jon Mortimore – *Dr. Martens – CFO*
DTC is much stronger in the second half therefore one would expect gross margins in the second half to be stronger than the first half and on a full year basis, we are very happy with the consensus gross margin.

Alison Lygo – *Numis*
Yes. Sorry, I appreciate that. I was kind of thinking H2 on H2. Yes. Okay. Thank you.

Conference Call Operator
Thank you. And as a final reminder, if you would like to ask a question, please press star followed by one on your telephone keypad. We have a question from Richard Taylor of Barclays. Richard, please go ahead. Your line is open.

Richard Taylor – *Barclays*
Sorry, I'm not sure if this is already been asked but I had a question on pricing. A few products had very, very small price increases like a pound or so. Any thoughts on pricing for the calendar year?

Kenny Wilson – *Dr. Martens – CEO*
Thanks, Richard. No, we haven't had a question yet on pricing. If we look at the year ahead, we've now locked in prices with all of our factories through Autumn Winter 24. What we've seen is a major slowdown in cost inflation of products; so obviously last year we talked about 6% cost inflation. Depending on the country, the factory or the products that will be somewhere in the region between 0% and 2%. So, you're right, the price increases that will go through in this year will be very minimal. You know, anywhere between zero, no price increase and a pound and in North America, we've got no pricing plans to increase pricing.

Richard Taylor – *Barclays*
So you say 0 to 3% inflation from a factory. So you're also seeing some inflation it's not as deflation. So you said 0 to 3% is that right?

Kenny Wilson – *Dr. Martens – CEO*
0%-2% Richard is roughly what we're seeing but it really depends on country, products etc. So you can't apply that across the whole base.

Richard Taylor – *Barclays*
Great. Thank you very much.

Kenny Wilson – *Dr. Martens – CEO*
Thank you.

Conference Call Operator
Thank you. It appears we have no further questions, I'll now hand back to Kenny for any closing comments.

Kenny Wilson – *Dr. Martens – CEO*
Great. Thank you very much everyone for your attention. If anyone has any follow up questions following this call, please reach out directly to Bethany. Thank you very much for your attendance.