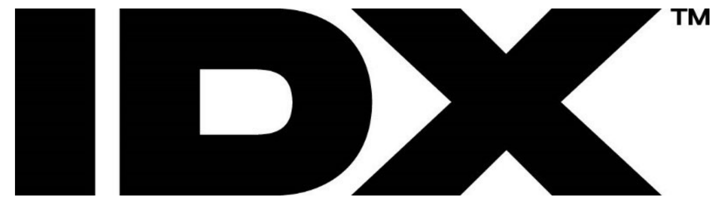

Dr. Martens PLC half year results

Thursday, 28th November 2024 09:00 GMT

Kenny Wilson, CEO:

Good morning, everyone and welcome to our FY25 half one results presentation. I'm joined today by Giles Wilson, our chief financial Officer and Ije Nwokorie, our Chief Brand Officer.

So, our agenda for today, I'm going to provide a short introduction before handing over to Giles who will walk us through our half one financial results. Then I'll provide a business update before Ije informs us on our brand and how we are refocusing it.

Our first half performance is in line with our expectations. Back in May we communicated four key objectives for this year, and I am pleased to say that we are making good progress on all of them. The action plan we are executing in the USA direct to consumer business is working and we will return this business to growth in the second half. We have pivoted our marketing to relentlessly focus on our product and Ije will pick up on this in detail. We have reduced our operating cost base ahead of schedule and Giles will walk through this and we have strengthened our balance sheet while delivering on the reduction in inventory that we promised.

We said that FY25 would be a year of action and we are taking focused action. Over to Giles who will now walk us through the results.

Giles Wilson, CFO:

Thank you, Kenny, and good morning everyone.

As Kenny has set out, our first half has been about delivering on our plan, setting the foundations for the key peak trading period. Before I run through the financial results, I would like to highlight four key areas. I set out back in May that we would take out £20m to £25m of costs from the business on a full year basis, with the full benefit in FY26. I am pleased to report that we have delivered at the upper end of that range, at £25m of annualised savings. We have reduced inventory through reduced purchases and are on track with our target. Last week we successfully completed the refinance of the Group's banking facilities. During this process, we used excess cash generated from the reduction in inventory to pay down the term loan by circa £40m and reduce the level of rolling credit facilities to be aligned with future liquidity requirements.

We are on track to deliver our financial results for the full year, with our key trading months still ahead of us. The swift action taken on the cost plan, and tight cost management helps underpin our full year results.

I said at the full year that I would focus on delivering more clarity in our financial results presentation. At this half year and going forward we will set out our financials both on a reported currency and a constant currency basis versus prior year. This will allow us to show the true impact of underlying trading, taking out the impact of foreign translation on our reported numbers for this year. We have also introduced adjusted profit metrics due to the one-off costs largely related to delivering the cost action program.

Turning to the financials themselves, in later slides I will give more detailed explanations of the key financial metrics. Our key financial headlines are as follows, total pairs are down 20%, however due to better DTC mix, revenue is only down 16% at £332m on a constant currency basis and in line with our expectations. Gross margin is down in line with revenue with gross margin rate broadly flat year on year.

Operating costs have been well controlled with strong cost management allowing for extra investment in demand generation to support the brand as we head into the busy peak. Overall adjusted EBIT is a loss of £2.4m and adjusted PBT loss of £16.1m both significantly back on last year, but in line with our expectations.

During the period, we incurred £9.3m of exceptional costs mainly related to the cost action program and £1.6m due to the currency gains and losses impact on our accounts receivables and payables and our Euro debt.

At the EPS level, there is a loss at adjusted EPS of 1.1 pence. The dividend is set at one third of the previous year's total dividend, in line with our guidance in May.

Turning to revenue by channel. As explained on the previous slide, we are showing constant currency for year-on-year comparison. We guided at the full year results that wholesale revenue would be down by about a third, with actual results slightly better than guidance delivering 27% or £55m down year on year. DTC revenue is down by 5% or £9m, with total revenue down 16% or £63m on constant currency basis, in-line with guidance given in May. I will explain the movements on the next slide. Our DTC mix improved, driven by the fall back in wholesale. The own store estate increased by 13 stores year-on-year and was broadly flat in the half.

I introduced this slide at the full year. The boxes in the bridge set out the key movements by channel & market. Starting with Americas, the key driver in revenue decline was £27m of wholesale, as expected; Kenny will pick up later the time lag on wholesale recovery. Americas DTC was marginally down by £3m driven by weak retail footfall offset by slightly better performing ecommerce, all in line with our expectations.

Turning to EMEA, wholesale was again in line with our expectations, and partly impacted by shipment timing differences due to the timing of Easter. EMEA DTC, as indicated in May, was also impacted by timing of Easter and sale, together with a weaker sandals performance in the summer, particularly in retail, delivered a £7m year on year decline. However, as we entered the boots season towards the end of Q2 we saw DTC performance improve to be back into positive territory in both Americas and EMEA.

Finally in APAC the slight decline in wholesale is as planned and in DTC we saw continued year on year growth in Japan, partially offset by a weaker performance in Hong Kong and South Korea.

Overall, our regional and channel performance was in-line with our expectations. Our DTC revenue performance was better in the second quarter, with retail in quarter 1 generally weak across the group.

The underlying EBIT drops from £39.7m in H1 last year to £2.4m loss on an adjusted basis this year. Stepping through the bridge; £50.1m reduction from the impact of volume at standard gross margin, predominantly due to the decline in wholesale revenue as explained; The impact of better DTC mix and price adding £8.3m; As indicated at the full year results, we increased the support behind our brand by £1.8m; We tightly controlled costs, even before the impact of the cost action plan, delivering a £2.3m reduction in operating costs; A small increase in depreciation due to increase in stores and the exceptional costs and FX translation as I explained earlier.

A key area of focus has been reducing our inventory. This slide sets out the planned inventory reductions over the 2 years, split into the half years. The chart starts at FY23 with inventory at £258m, during the first half of FY24 we built up the levels to £315m, and then during the second half of FY24 we

used that inventory to sell during peak period, closing the year with £255m of inventory. As we entered FY25, the reduced planned purchases can be seen on the chart with the half year inventory position slightly down versus the FY24 year-end, and as we enter the second half of FY25 we sell down inventory during our peak period.

For the avoidance of doubt, our planned reduction in inventory is part of an organised reduction of purchases of core product in FY25, not through significant discounting or selling stock below cost. We remain on track to deliver our year-on-year target for a decrease of £40m. We will continue the inventory reduction into FY26, with purchases planned to again be below our forecasted sales.

Turning now to cashflow, there has been a significant positive reduction in both net bank debt and total debt year on year. The grey boxes are the net bank debt, being bank debt less cash, and the red boxes show the lease liabilities.

Total debt drops from £479m at the end of H1 FY24, as shown in the column on the far left, to £349m as shown on the column on the far right, a total £130m reduction year on year, split £85m decline in net bank debt from cash generation and £45m decline in IFRS16 debt. The bridge sets out the cashflow from the FY24 year-end position.

Starting with the second column which is the net debt at FY24 close, the next 4 boxes show underlying operating cash movement in period. We have tightly managed our cash position this period with a particular focus on bringing down inventory as I've just talked to. Overall, the impact of EBITDA and working capital movements delivers £39m cash inflow, this is then offset by lease payments of £28m and interest & tax payments of £13m. Capex accounts for £11m and, with a positive impact of FX on our euro debt, sees overall net debt marginally increase by £9m since the full year.

As I explained on the previous slide, we would normally expect to see a larger inventory purchase in H1 in advance of peak, which would see our net debt increase significantly from the prior full year position, however this not the case this half given the planned reduction in purchases. Our net debt to EBITDA finished the half at 2.3x, well below our bank covenant levels, leaving significant headroom.

Finally, some new metrics on this slide, showing our average lease term to break across our store and distribution center portfolio. As explained in previous results, the group tightly manages its store portfolio with all leases having no longer than 5 years before the first break. For H1 the average lease exposure to break was 2.8 years, marginally down on the full year average.

Overall, as I set out at the full year results, cashflow is a key focus and we have significantly decreased net debt year on year, predominantly driven by our strategy to turn inventory into cash.

At the full year results, we said we would deliver between £20m and £25m of cost savings. We undertook a detailed and swift process to tackle our cost base. The key process and principles we adopted were as follows, a detailed analysis of FY24 costs was carried out versus prior years, by function, region and cost line. Each global leader was then tasked to identify savings against these FY24 costs. Direct demand generating marketing costs and front-line retail teams were not included in the project. The focus was predominantly on support, operational and back-office costs. Cost savings targets were not against future or uncommitted costs and therefore had to be true reductions from actual costs. Headcount reduction took place across all levels in the organisation. There was an establishment

of steering committee with a dedicated team to support the cost action plan. This also aided the speed of execution. Programs were put in place to exit leavers on a fair basis and to support the teams going forward. Finally, during the first half, certain guardrails around recruitment, discretionary operational spend and capital spend were put in place over and above the normal controls. The process was effective and completed in advance of our peak period.

The outcome of this swift, detailed and well controlled process is that the cost action program was completed with the saving at the top end of the range at £25m in FY26. The make-up of the savings are approximately two-thirds through headcount reduction leading to an exceptional charge booked at half year of c.£7m as explained earlier. The remaining third will be through efficiencies and procurement savings.

I am pleased to share that on 19th November we refinanced the group with a new facility of a £250m term loan, replacing the existing €337m term loan, and a £126.5m rolling credit facility replacing our previous £200m RCF. Our previous facilities were due to expire in early 2026, and therefore I felt it was sensible to secure the new funding facilities slightly ahead of time to give certainty as we go into FY26 and return to growth.

The key features are as follows; An initial term of 3 years, with the option to extend both facilities by two additional one-year terms subject to lender approval; An interest rate rachet relating to key net debt to EBITDA ratios; A maximum covenant of 3x net debt to EBITDA and 12 banks in the facility, made up of a mix of existing and new banks.

The facility is structured to meet the future liquidity requirements of the group, and it was clear with the planned inventory reductions that there were excess funds to allow us to reduce the term loan to £250m. In addition, the rolling credit facility, which has only been used a couple of times since the IPO, has also been reduced from £200m to £126.5m. The new facility gives us more than enough liquidity to meet the Group's future requirements. We don't foresee any changes to net finance costs compared to consensus expectations as a result of the refinancing.

So, to conclude, overall the first half has been about delivering what we said we would do. We have delivered in-line with our expectations, we have focused on our cost base and delivered our cost action plan, we have managed cash tightly and seen inventory & net debt significantly reduce year on year. Finally, we are pleased to have successfully refinanced the group's borrowing facilities. I will now hand over to Kenny.

Kenny Wilson, CEO:
Thank you, Giles. I'm now going to talk a little more about each region before moving on to systems and product.

Turning first to the USA which is a high priority market for us. As you can see from the Circana data the total boots market in the USA continues to be challenging with a 12 percent decline year on year. We are assuming that this weak backdrop will continue into the second half and as previously communicated we expect our USA wholesale business to be down double-digit year on year. However,

despite the external environment we are pleased with the progress we are seeing in our USA action plan.

On the left you see what we said we would do and on the right what we've done.

In marketing we increased our investment in the USA as a percentage of revenue. We've focused on talking specifically about our products and as you will hear from Ije we've recently launched our "Boots like no other" campaign. We have elevated the quality of our retail windows in key cities, and we have utilised more social media to drive consideration of our brand.

In digital we have driven double digit improvements in conversion by improving the quality of our product detail pages and optimising our checkout process. We have also implemented order in store which we already had in our EMEA business.

In wholesale we knew this year would not be about growth. However, we have been working closely with our key wholesale partners in continuing to reduce in market inventory and building plans for the year ahead.

Since the start of AW24 our DTC business in the USA has been encouraging with improved consumer demand. As we have outlined before there is a lag between consumer pull and wholesale orders. In the months ahead our partners will place orders for AW25 and more encouraging consumer demand today should lead to a stronger USA order book for Autumn Winter 25. As product momentum continues to build next year there is the opportunity to take in season re-orders to drive growth.

Turning to EMEA. We have continued to see good strategic progress in our EMEA conversion markets. Italy, Spain and the Nordics saw good growth in H1 while German revenues were flat. We remain confident in the future growth prospects of these markets. We launched our first stores in three new European countries with the opening of Stockholm, Copenhagen and Vienna. These markets provide further runways for growth. Also, we have seen real success in key cities where we have opened two stores – some examples include Milan, Berlin and Barcelona – and we see further opportunities ahead in more markets both in EMEA and globally.

Back at our full year results in May, I shared an update on our Japanese market which continues to perform well, and which remains a significant growth driver, as we have high brand engagement and low penetration at only 4 pairs per thousand people nationwide.

Japan remains our largest DTC market with 80 percent of revenues through our own channels and we continue to target new store openings in and around both Tokyo and Osaka. We also have a healthy franchise business with great partners, and this remains an important part of our growth strategy. Our franchise partners help us in extending our reach beyond Tokyo and Osaka and growing the brand across Japan. In H1 we opened three new DTC stores and 2 franchise stores, and we have a strong new store pipeline in H2 and the year ahead.

As you are aware we have been investing in critical systems for our future growth and I am pleased to say that two of our biggest projects are now live or close to final implementation. The Customer Data Platform, which gives us a single consumer view across both DTC channels, is now live in EMEA and the USA, and this will enable more targeted marketing and personalised journeys. The benefits from the CDP will increase over time as we gather more data.

Our Demand and Supply planning system will be live by end H1 FY26. This will help us to improve availability whilst reducing working capital and again we expect the benefits to build over time.

Our product performance in H1 was in line with our expectations with DTC pairs down 3 percent on the year. As expected, Boots were down 12 percent and we have made changes to our marketing approach from July which will drive boots demand in H2. Shoes performed well with pairs up 7%, driven by core product and new styles like the Lowell shoe shown in the middle picture here. Sandals were flat year on year - a disappointing performance following several years of growth. This is an area for improvement in Spring Summer 25. Within sandals we saw strong performance for mules – a growing category.

We have a strong product pipeline coming through and as we called out in our statement, current trading has been driven by good DTC sales of new product supported by our product led marketing approach. I'm now going to hand you over to Ije who will walk us through our AW24 focus to date.

Ije Nwokorie, CBO:

Thank you Kenny and hello everyone. I'll now share the progress we've made with one of our focus areas, pivoting our marketing towards relentlessly promoting our products. I'm 9 months in as the Chief Brand Officer, a new role created to pull together our product, marketing, sustainability and strategy efforts to drive the brand forward. And it will be an honour to take over as CEO of Dr Martens next year. It's a brand I not only love but have always marveled at its resonance across demographics and cultures from generation to generation. While we have a lot of hard work to do, I'm encouraged by the progress we are making and excited by the opportunities ahead.

We pivoted our marketing approach and organisation this year based on three strengths I found we were underplaying in our marketing. First, a premium position in the category, by which we simply mean that the consumer is willing to pay more than the category norm for our products, because they recognise the higher quality, design and craft of those products. Second, the consumer connection with our iconic DNA that allows us to connect both new and core products, so we get more bang for our marketing buck. So, we will amplify those things that make Docs Docs – like the yellow stitch, grooved sole, heel loop and our distinctive silhouettes. And third, the correlation between our product attributes – comfort, style, protection etc. – and the things that drive consideration for footwear buyers.

Back in May, as part of this marketing pivot, Kenny shared this slide laying out the key product plan for Autumn Winter 24. We still have the height of the season to come, but I want to share some early progress. The product pipeline is strong, so we will continue to have more great products to drive our marketing efforts for seasons to come.

In July we launched a variant of our core icons in our soft leather. We call it Ambassador. We know comfort is one of those attributes that really matter to consumers, and while we have great comfort options, we haven't made it a big part of our marketing efforts. So, we leaned in hard on comfort, with the line "we've gone soft" and focused all our channels from social media to instore experiences – and the organisation as a whole - on the comfort message.

This has done really well for us, significantly out-performing comparable products from AW23. We've continued pushing these products through the season and they have consistently been in our top selling products season to date. Comfort works really well for us.

In August, we launched our Anistone boot, a Biker Boot style that borrows from our iconic and recognisable DNA to create a new silhouette for Dr. Martens. It leans on our premium position compared to our iconic 1460 boot – retailing at £210 in the UK versus a black smooth 1460 at £170. We're very pleased with the performance so far, with strong sell-through metrics and consumer reaction. The future product line will continue to reflect this elevated style as our designers make the most of our premium position.

Another example of the premium coming through in new product is the Maybole Square Toe, which we focused on in September. At £160, the Mary-Jane shown here sells at a £20 premium versus the related core product. Again, we've seen very strong sell-through metrics globally season to date. The Chelsea boot version you see on the right of the slide, is a particular commercial and social media hit.

In October, we switched our focus from new product back to the core, and the iconic 1460 boot in particular, albeit with a few new friends. Let me now show you the global campaign we shot, and then I'll share a few ways we've executed it in the market.

[plays video]

Mer Bruce, the actor in that piece, models the iconic 1460 boot alongside two new products inspired by it – the sub boot max which is a big part of our cold weather line up, and the dramatic 14XX that showcases Docs product innovation at it's most avant-garde. But the focus on the campaign is the 1460 Black Smooth boot and the core of our brand.

While fully re-igniting our core icons will take several seasons, we're pleased with how much attention this campaign is getting. You can see on this slide some of the marketing in key cities globally. The campaign came to life on streets, in all our retail stores around the world and in collaboration with many of our wholesale partners.

Since it launched, I've visited retail teams in Berlin, New York, and of course London, and the engagement and feedback we are getting consumer on the ground is encouraging. It is work we will carry forward.

And this month, as the weather turns cold in most of our markets, we've turned our marketing lens on another product benefit, protection, with the launch of our winterised line. This has only just landed, but again the new product lines look great and early consumer feedback is positive.

I hope that helps give more colour on the product-led marketing pivot, the observations and insights guiding the work and the early results we're seeing. Thank you for listening; I look forward to getting to speak to you more in the coming few months in my new role. Back to you Kenny.

Thank you Ije. As you have heard we are on track to deliver on our four key objectives that we set out for this year. We will get USA DTC back to growth in H2, we have re-focused our marketing on our product, we have reduced our cost base and we have strengthened our balance sheet. Ije and Giles will update on our crucial Q3 period at the end of January.

Today marks my last results presentation as the CEO of Dr. Martens before handing over to Ije in the New Year.

When I joined Dr. Martens back in 2018 it was a brilliant Brand. It is still a brilliant brand, but it is now a bigger and better company, with more developed infrastructure and incredible people. The most exciting part is that the best still lies ahead for Dr. Martens, and I look forward to watching Ije, Giles and the team realise that growth opportunity in the years ahead.

Thank you.

We will now turn things over to a live Q&A. Please state your name and who you work for before asking your questions.

Operator:

Thank you. To ask a question, please press star followed by one on your telephone keypad now, if you change your mind, please press star followed by two. When preparing to ask your question, please ensure your device is unmuted locally. Our first question is from Kate Calvert from Investec. Your line is now open. Please go ahead.

Kate Calvert, Investec:

Morning everyone. Two from me. You mentioned that you would reduce the purchase of core products again in FY26. Is this likely to be less of an opportunity than you have achieved in the current year? And I suppose thinking a little bit further forward in the implementation of the new supply and demand system, will the benefits from that really be felt in FY27 or do you think you can get any in FY26? And then in terms of my second question, any thoughts on manufacturing cost price inflation going into next year and how will this feed through into price for next year? Because I do note Ije's comment on the premium or the standing of the brand and the fact that people are perhaps prepared to pay more. Thank you.

Kenny Wilson, CEO:

Morning, Kate. Thank you very much. Yes, you're correct. We do envisage that we will buy less product next year than we're going to sell. We've not quantified the scale of that reduction yet, but I think one would expect again a significant reduction in inventory year on year, which in the future Giles will clarify. In terms of the impact of the new supply and demand system that would really benefit financial year 27 in terms of improving forecast accuracy. On the second question, Giles is going to talk to manufacturing costs and then I can tell you what we've done on pricing.

Giles Wilson, CFO:

So on manufacturing costs obviously as we do, we always have a cost inflation. We look to try and manage that the best we can. So no, we don't see any huge impacts from manufacturing price cost inflation in the new year.

Kenny Wilson, CEO:

And in terms of the second part of the question, which was around consumer pricing, our pricing for Autumn Winter 25 is already set and on a like for like product, you will see no price increases from the brand.

Kate Calvert, Investec:

Okay, thanks so much.

Operator:

Thank you. Our next question is from Ben Rada Martin from Goldman Sachs. Your line is now open. Please go ahead.

Ben Rada Martin, Goldman Sachs:

Great. Hi Kenny, Ije and Giles. Thanks very much for the question today. I have three please. My first is just on the wholesale channel, particularly in US and Europe. Just interested maybe if you can talk to, I guess what you're seeing with your partner's sellout trends and inventory levels at the moment across both of those markets. Super helpful with some of the commentary around how you're thinking about the US from here, but I'm interested I guess what you're seeing at the moment. And the second question would just be on gross profit margins, it might be useful stepping through I guess the drivers between the change year on year, I think it was slightly down versus last year's metric. And then finally just on opex savings. Excellent effort in terms of getting through those quite quickly. I'm interested now, do you think the cost base is at a stable level where you can reposition for growth, or do you think there's still opportunities for efficiencies as we go forward? Thanks.

Kenny Wilson, CEO:

Great, thank you Ben. I'll take the first one on wholesale and then Giles is going to pick up on gross profit and opex. In terms of what we're seeing in the wholesale channel, I think as we've said, we expect wholesale to be down this year. We know that because we know what's in the order book. In terms of the sellout, the trend is not as good as our DTC business. However, the really encouraging fact is the inventories at our wholesale customers both in Europe and in the USA are down more than the sellout. So, the slide that I showed earlier today about the lag effect, the improving and encouraging trends we're seeing in direct to consumer, I think we'll see some of that translate into wholesale next year.

Giles Wilson, CFO:

Thanks Kenny. In regard to gross profit or gross margin, you're right, it's actually broadly flat year on year. It's very, very slightly down. We've seen a positive move on DTC, which obviously helps. We've seen a slight headwind in regard to our product mix, so there's lots of moving parts in there, but overall we've managed to hold our gross margin flat. In terms of opex savings, I think what we said at the full year results, we said that we would focus on operational back office, procurement savings, those sorts of things. We wouldn't cut into the muscle of the business, we wouldn't take any cost out of direct marketing or out of retail stores, which is exactly what we've done. We believe that we have now right sized the cost base for the business today.

Ben Rada Martin, Goldman Sachs:

Great. Thanks very much.

Operator:

Thank you. Our next question is from Richard Taylor from Barclays. Your line is now open. Please go ahead.

Richard Taylor, Barclays:

Morning. Thanks for taking my questions. I've got three please. Firstly, can I push you a bit more on inventory please? I think this was just over a hundred million back in FY21/22. I realise that was during Covid, so perhaps not the right time to think about, but is there any chance that you can get down to that sort of level over the medium term with your current DTC and wholesale split? Secondly, Giles, you mentioned the lease duration being quite short on stores. If you do want to come out, just wondered, did you allude to this because you were considering making some cuts to the store portfolio and more generally, can you update us on your approach between DTC and the use of wholesalers as you look forward? And then finally, thank you for the data on the Boots market. Can you help us match up how you performed versus this market over the last 12 months or so?

Kenny Wilson, CEO:

We start with inventory, Richard. We're not quantifying the number today. I think what we're saying is that we will buy less core product again next year than we are going to sell. So, we'll see that inventory come down, but we're not going to quantify the exact number today.

Giles Wilson, CFO:

Yeah, so turning to leases, we made reference to it really so that people understand the full extent to the lease liability and also the fact that we very tightly manage our store portfolio, and we never have anything longer than a five-year lease or a break at five years. In terms of are we planning to exit, no, it was focused solely around giving an explanation by what we do to make sure that we manage very tightly both our capex and our leases.

Kenny Wilson, CEO:

I think in terms of your second part to that question, Richard, around DTC and wholesale, I mean clearly what we said is that both channels are really important to the company. We've driven our growth over the last few years by building out the direct-to-consumer business and we'll continue to do that going forward. But we know that one of the things that wholesale does is it brings new consumers into the brand. For those people who wake up in the morning and they haven't decided which brand they want yet, they go “we want a pair of boots” and they go to the store, and they discover a great assortment of Dr. Martens. So, both channels, DTC and wholesale will continue to be important to us. In terms of the boots market in the USA where we gave the statistic of the boots market being down 12% year on year, I think clearly, we've said that our business in the USA was down more than that. So, in the first half of the year this year we've underperformed relative to that. Most of the action plans we put in place in the United States were intended to deliver getting the USA DTC business back to growth in the second half. And as we've said, we feel encouraged by where we are in terms of current trading in the United States, and we believe that we'll deliver on those numbers.

Operator:

Thank you. Just a reminder to ask a question, it is star followed by one. Our next question is from Charlie Rothbarth from HSBC. Your line is now open. Please go ahead.

Charlie Rothbarth, HSBC:

Good morning, everyone. Thank you very much indeed for taking my questions. I wanted to ask you about inventory, but I think another question on that might overdone. Can I just push you a bit on your leases? I don't know any company that says they aren't tightly managing leases. Across your portfolio,

are you seeing rental costs come down in the area you are in or are you seeing them stay flat and are you keeping your store portfolio constant across your region, sorry, the proportion within your region, because I appreciate the guidance you gave us before the UK budget, so increases in NI might well impact how you view stores at a marginal level.

Kenny Wilson, CEO:

If we take the last question first, I think Dr. Martins does 82% of its revenue outside the UK and 18% in the UK, so we're very much a global brand and as we've said previously, we have no real plans to significantly increase the store estate in the UK. Looking out our focus will be on growing the brand outside the UK in terms of new store openings and I think you see that this year in terms of the stores we've opened have been predominantly in Europe and in Japan.

Giles Wilson, CFO:

Rental costs, city by city, country by country we do the best deals we can do, but actually interestingly enough where we feel the rental costs are too high, we will look to either exit that store or actually maybe not take on that store. And you'll have noticed this year that we have actually taken down the number of stores that we were planning to open, not because we don't want to open them, because we couldn't find the right stores that delivered the right financial metrics.

Charlie Rothbarth, HSBC:

Okay, understood. Thank you very much. And then finally, are you expecting a material difference in your finance costs on the back of the new financing.

Giles Wilson, CFO:

As explained during the presentation, we expect consensus finance costs to stay in line with consensus already guided.

Charlie Rothbarth, HSBC:

Sorry must have missed that. Thank you very much indeed.

Operator:

Thank you. Our next question is from Bob Pyro from RBC capital markets. Your line is now open. Please go ahead.

Piral Dadhania, RBC:

Hi, it's Piral here from RBC. Thank you. I have one question on the product strategy, if that's okay. And I guess it's directed to Ije. I'm just wondering really whether there is any inclination to transition some of the offer towards more technical categories. We've seen a strong growth profile in hiking and outdoor pursuits post covid. I think some of your competitors have been perhaps better positioned to capitalise on that trend and we know Dr. Martens has a slightly more lifestyle focused positioning, so is that an area that you see as an opportunity, and can we expect to see some changes to the overall product portfolio? Thank you.

Ije Nwokorie, CBO:

Thanks, Piral. The first thing to say is I'm a real believer in our product strategy and if you look at my presentation just now, the level of attributes we can talk to our products about really excite the market and work in the market so I don't think this is about any new product strategy, but we will speak to functionality. So, things like comfort might create new wearing occasions for our users and for our wearers and that's a good thing. But no, we have no plans to go compete in other people's spaces. We are quite happy with where we're positioned. We just have to work harder to make sure that the customer is discovering the right product and when we do that, we've already shown that that works really well for our brand.

Piral Dadhania, RBC:

Okay, thank you.

Operator:

Thank you. Our next question is from Kate Calvert from Investec. Your line is now open. Please go ahead.

Kate Calvert, Investec:

Just a question on your sandals performance, because you called that out as being disappointing. I'm just wondering why do you think it was disappointing? What do you think potentially you got wrong there.

Kenny Wilson, CEO:

Ije will take that one Kate.

Ije Nwokorie, CBO:

Yeah, thanks Kate. It's a good question and one that we've really paid some attention to. The first thing to say is that that Sandals performance is coming off of a few years of significant growth in sandals. I think over 3, 4, 5 years, Sandals has grown from 5% of our business to 9% of our business, so just a bit of context for that performance. We also would say to ourselves that our summer lineup needed a bit of refreshing and there are products that did really well in there. We did really well with mules, but we needed a bit more newness in our summer lineup, we'd have to admit to ourselves. So, I'm really excited about what we have in this spring summer. So, a bit of context that we were coming off of quite a few years of strong comps, but also we could put a few more things in the product line and we'll do that this upcoming Spring Summer.

Kate Calvert, Investec:

Okay. Great. Thanks.

Operator:

Thank you. As a reminder to ask a question, please press star followed by one on your telephone keypads now. We currently have no further questions, so I'll hand back to Kenny for closing remarks.

Kenny Wilson, CEO:

Great, thank you very much. So, I think today really has been about demonstrating that we have delivered on the action plan that we set out back in May. Our results are in line with expectations and we're delivering on our strategic objectives. We'd like to thank you for your time and for your attention. And our next update will be at the end of January when Ije and Giles will update on our third quarter performance. Thank you so much.