Dr. Martens PLC
FY25 Q3 Trading Update
27th January 2025
Transcript

Ije Nwokorie: Good morning everyone. Thank you for joining today's call. I'm joined in the room by Giles Wilson, our CFO and Bethany Barnes who heads up IR. Hopefully you've seen this morning's FY25 Q3 trading statement. Q3 trading was as expected and our guidance is unchanged. I'll give some detail on how we're feeling about trading in a moment, and then we'll open it up for your questions.

Before I do though, I want to say how excited I am to have taken on the role as CEO of Dr. Martens. I also want to take a moment to thank Kenny, my predecessor. He was a great leader of this business for seven years, and I'm truly grateful for the time and commitment he put into a thorough and smooth transition.

I spoke at the half year results about what makes Dr. Martens such a strong brand. Its resonance across demographics and cultures, consumer recognition of our premium quality, design and craft, and our product attributes: comfort, style, protection, are things that are sought after by consumers everywhere.

My job as CEO is to capitalise on these qualities, make Dr. Martens an even more effective organisation, and pursue the growth opportunities that this brand presents.

Right now, that means delivering FY25 on the four objectives we set out to achieve: rightsizing our operating cost base, strengthening our balance sheet, pivoting our marketing to relentlessly focus on our product, and returning our USA DTC business to growth in the second half. We talked at length about the first three of these objectives at the first half results, and we're well on track with all of it. It was too soon then to talk about USA DTC performance however, you'll see in today's statement that USA DTC was up 4% constant currency in our key Q3 period. Whilst there remains work to do, we're pleased with the early progress. We're doing what we said we would do.

In EMEA we saw a weaker performance, particularly in our two largest markets of UK and Germany. As usual, we participated in seasonal clearance and had a good Black Friday and Cyber Monday performance. In December, however, we saw very deep and prolonged discounts on the high street, and we did not do this to the same extent, the depth and length of many others in the month. This helped protect our bottom line, but it did cause some revenue softness. We have since seen a return to more rational trading behaviour in the market. EMEA overall was flat constant currency, with growth in wholesale offsetting and a small decline in DTC.

And finally, our APAC region continues to motor with our growth engine here, Japan, delivering another good period. China also had a strong performance.

So there's no change to our guidance, or how we're feeling about FY25. We're operating against a variable and uncertain consumer backdrop, which I'm sure you've heard from others and against this we're focused on our trading and execution plans. I'm looking forward to coming back at our

FY25 results at the start of June to give you a much fuller update on how we're looking at the business, and I'm looking forward to getting to know you all in due course. With that operator, please, can we open up for questions? If you could say your name and firm at the start, that would be great. Thank you.

Operator: Thank you. Ladies and gentlemen, if you wish to ask a question at this time, please signal by pressing star one on your telephone keypad, and please make sure the mute function on your phone is switched off, to allow your signal to reach our equipment. If you wish to cancel your request, please press star two. Again, it is star one to ask a question. We'll take our first question from Kate Calvert from Investec. Please go ahead.

Kate Calvert: Good morning everyone, it's Kate Calvert here from Investec. A couple of questions for me on the Americas, please. Could you give us an idea of how your inventory is looking by channel post-peak? And on the wholesale side, I know you were not planning for any in-season ordering, but was there any? And then just a quick one, could you give us an update on the FX headwind from November, please? Thank you.

Ije Nwokorie: Thanks Kate. I'll say a few things about inventory and wholesale, and Giles will take the FX question. Inventory is down, and as you know, that was one of our objectives for the year. The good news is that our wholesale partners in the US are also significantly down year on year in inventory, which creates opportunity going forward. So I think that's the main thing that we're focused on. In terms of in-season, I think these numbers are too small to begin to play with. All I would say is, for the quarter ahead, we're confident. Wholesale will be a much bigger part of this quarter and that gives us visibility, so we feel good about our plans in wholesale. Giles, do you want to add something and maybe answer the FX question.

Giles Wilson: In terms of in-season re-ordering, nothing that we'd say there is any more significant than we would've seen in prior periods. In terms of FX, we've obviously seen a bit of benefit with the US dollar coming off from its peak, so that's helped a little bit in recent times. The Euro stayed strong and the Yen did as well. So I would've said a little bit of positivity of a few million on the revenue if we continue at the current rates versus what we talked about at the full year and through to the bottom line.

Kate Calvert: Perfect. Thanks very much.

Operator: We'll now take our next question from John Stevenson from Peel Hunt. Please go ahead.

John Stevenson: Hi, and good morning guys. I wonder if you just give a little bit more colour on the retail sell through across your wholesale partners, and the extent to which that's informing the build for the Autumn/Winter '25 order book. And secondly, obviously you've had a success, I guess focusing on product driven marketing. Can you give feedback in terms of how you felt your approach to marketing and trading has gone over peak for those positives and negatives?

Ije Nwokorie: There hasn't been any massive recovery in sell through. I think the important point though is that the sell-in, so that the amount of inventory going into them is less than the sell through, and so that does create opportunities going forward. In terms of how that looks for the Autumn/Winter '25 selling in, we're early in that process. We're encouraged by the conversations we've had, but I think it would be too early to start giving you a score card on that, but we're encouraged by the conversations we've had.

Your second question is related, which is around, how has the product-driven marketing gone. The main thing to say we're pleased with is, how that's driven sales of our new product. The first thing is that, for any brand, the ability to present new products to a customer is a really good measure of strength, particularly as is the case here, if those are products at the same, or a higher price than your core, and that's what we've done.

I think the second thing to say about new products for us, which is encouraging, is that new products for us doesn't mean non-core. Some of our best-selling new products were actually core products, but you do a soft leather and we consider that new, and those products which we've driven marketing around have done really well. We see those as really positive stories, and conversations that we're having with wholesale right now as we begin to talk about new product in seasons ahead. So nothing to report firmly yet, but we're encouraged by the early conversations, and the new product is a big part of that story.

John Stevenson: Okay, brilliant. Thank you.

Operator: And our next question is from Ben Rada Martin from Goldman Sachs. Please go ahead.

Ben Rada Martin: Great. Good morning Ije, Giles, and Bethany, thanks very much for the questions. I had two if that's okay, please. First, was just on Europe DTC, super helpful you guys calling out a bit of an elevated pricing competition into December. I wonder if you can talk about maybe some of the key geographies you saw that in, and some of the key retail formats. And then the second was just on the US DTC business. I know in the past you've spoken to a market level of growth. I wonder how that went in the quarter relative to your growth in that channel. Thanks very much.

Ije Nwokorie: Okay. I'll take the first question. As I said in my opening statement, the UK and Germany are where we really saw that affect performance. And again to emphasise, we saw that really in those first three weeks of December. We had a very successful Black Friday and Cyber Monday pretty much everywhere. Typically, the market would then pause those seasonal discounts but the market kept those discounts, and we decided not to chase after that to protect margin and to protect the brand. So UK and Germany high street is where we saw a lot of those challenges.

In terms of the US, we have no big evidence that the boots market doesn't continue to be challenged. We don't have any new data on that beyond what we reported at the half year, but there isn't any evidence of boots doing any better. We have seen much more of our broader other product categories doing well for us. And then just driving our own boots sales as we could, but it wasn't due to any big improvement in the boots market in the US. Giles, anything to add to that?

Giles Wilson: No, I was going to say the other two categories did well as well, shoes and sandals.

Ben Rada Martin: Thanks very much.

Operator: Thank you. We will now take our next question from Alison Lygo from Deutsche Numis. Please go ahead.

Alison Lygo: Thank you. Good morning and thank you for taking my questions. Probably following on from the themes we've been talking about, but just coming back to that European promo activity that you saw. Has that really weighed on more of the seasonal product, or has it taken away from the core product too? And just wondering what your expectations are on that front for the remainder of the year. In terms of wholesale, and the phasing obviously can always be a bit lumpy. It was particularly lumpy I think last year in terms of Q3, Q4, should we expect a more even phasing between Q3, Q4 this year? Or should we be thinking about a similar rate to what we've just seen in Q3?

Ije Nwokorie: Thanks for that Alison. For the first question, as you would imagine, if the market is promotional that's going to impact seasonal products. For us, our full price continues to do well, and as I said, the new products continue to do well, but customers were being presented with, and saw a lot of promotion in the market, and so you're going to have that affect the product across the board. In terms of wholesale timing, I'm not going to go too much into what we expect ahead, apart from to say, we feel good, and we have visibility for the rest of this quarter, and the rest of the financial year. Timing and the shifting of that we have to manage, and we know how to manage that, so we feel we have good visibility for the financial year.

Giles Wilson: Just to add to that, obviously Easter will play a part both in DTC and wholesale ordering, and this year we will actually have a year where Easter doesn't fall at all. So It will be in quarter one FY26, and it was in quarter four FY24. So that will have a little bit of a part to play as we get closer to the end of the year.

Alison Lygo: Great, thank you.

Operator: Thank you. As a reminder to ask a question, please signal by pressing star one. And we'll take now our next question from Natasha Bonnet from Morgan Stanley. Please go ahead.

Natasha Bonnet: Yes, good morning, thank you for taking my questions. I've got three. So the first, just on brand momentum, can you share any indicators you have on Dr. Marten's brand momentum currently. What are you hearing from your key partners, and do you expect this year a return to growth in the number of pairs sold in fiscal year '26? The second, just on your stores you had planned to open 15 stores in fiscal year '25, can you tell us the regional breakdown of these new stores, and how they've been performing? But also what your plans are in terms of store openings for fiscal year '26? And then lastly, any comments on current consensus at this stage? So fiscal year '25 EBITS are around 60 million, and fiscal year '26 of around 100 million. Thank you.

Ije Nwokorie: Thanks Natasha. I'll take the brand momentum question, and then Giles will answer the questions on stores and consensus. As you probably know, we do a big brand survey at the end of the year. We don't have the data on that yet, and we'll probably have a few things to share at the full year results. And so what you can really keep an eye on is how open to new products the customer is, particularly the premium end and we've had an encouraging year there. I'm not going to guide into what that means for pairs growth now, because we're really focused on landing this quarter. Our pairs targets will be something we talk about in the full year. But the evidence on brand that I can share with you is the success of new product, and particularly success of new product that is at the premium range. Giles, you want to talk about stores?

Giles Wilson: So I think we've talked about stores, we talked about opening the 10 to 15 in FY25. If you remember at the half year we were actually flat on stores, and we pulled down on them slightly, more just because of trying to get the right stores at the right time. If you also remember, we talk about really focused on EMEA, Japan and other regions in APAC. We've done very little in the US, we opened one during the period which actually was an outlet store. So I would say our store count's slightly down against where we said we would be back at the full year, albeit probably near in line what we said at half year. And again, that's not because we're slowing down, that's just trying to find the right stores in the right locations.

In terms of, what does that mean for FY26, we haven't actually guided on that yet and will pick up in June. In terms of consensus we're expecting EBIT for this year in the mid 60's and £100m for FY26.

Operator: Thank you. We will now take our next question from Anne Critchlow from Berenberg. Please go ahead.

Anne Critchlow: Thanks very much for taking my questions. I wonder if you could talk a little bit about the performance in terms of type of products, so men's versus women's. And then your newer lines like, soft leather, which I think you said were doing well, winterised lines and so on. And then secondly, how should we think about OpEx looking into next year in terms of underlying inflation, versus those cost savings that you've got coming through? Thank you.

Ije Nwokorie: Thank you, Anne. I'll take the first question, and Giles will talk about OpEx. I'm not going to break down anything on gender. As we've talked about, boots have been tough, but on the flip side, shoes and sandals have been really positive for us. I'm not going to go into too much detail on that. But to the other half of your first question there, the new products have done well. We've backed that with product-led marketing, and we're encouraged that when we talk to the customer about specific products, they respond really well and so that's something you should expect us to continue to double click on and push forward.

Giles Wilson: Generally on OpEx, so as we talked about at the full year, we would aim to take £25m of cost out of FY26 on a full year basis and we are confident that we will deliver that. We also have some slight tailwind in the sense of our distribution costs, which were to do with excess capacity, we had in our DCs.

What we are saying at the moment is, we're looking to hold cost as tight as we can. We will deliver that £25m, and the DC savings, and we'll look to offset as much of the inflation as we can, through in '26. Obviously some small headwinds coming through on things like the national insurance change, it's not a big number at less than £2m, but we do need to flag those through. I think the consensus numbers look around about where we'd expect OpEx to be, and we're comfortable at that type of level, and we'll look to manage as tightly as we have this year going into FY26.

Anne Critchlow: Great. Thank you very much.

Operator: Thank you. As a final reminder to ask a question, please signal by pressing star one. We'll pause for just a moment to allow you to signal.

And it appears there are currently no further questions at this time. With this I would like to hand the call back over to Ije for closing for remarks. Over to you.

Ije Nwokorie: Thank you. And thanks again everyone for your time and questions on today's call. As we've discussed, we are doing what we said we'd do, and we're on track for the four objectives of the year. This is a phenomenal brand, and the team and I, as I said in the statement, are squarely focused on returning the business to sustainable, and profitable growth. If you have any questions following this call, please reach out to Bethany. Thank you.