



Doc Martens (DOCS-LSE): £.93

Market Cap: £902mm

Enterprise Value: £1.02B

EV/EBITDA: 5.1

P/E: 9.2

Rating: Buy

Upside: 60%

12-month perf (%): -36%

30-Day Average Daily Volume: 2.6mm

Date: 3/1/2024

Company Background

Doc Martens (DOCS), a distinguished UK-based boot brand, faced a significant sell-off, shedding 80% of its value since its overpriced IPO in January 2021. This downturn was attributed to short-term operational glitches and inventory issues, compounded by the broader cyclical challenges within the footwear industry. However, these operational and inventory setbacks have been resolved, and there's optimism for the footwear sector's recovery in the next 12 to 24 months. Contrary to market perceptions of a brand in decline, DOCS boasts a robust appeal that transcends gender, geographic, cultural, and socio-economic boundaries. Market skepticism regarding the brand's growth potential overlooks several opportunities that suggest a promising future. DOCS is not only expected to bounce back but is also undervalued, presenting a significant pricing opportunity. With the brand's resilience and potential for growth, there's an anticipated total return of more than 60%, highlighting DOCS as a company poised for strength and expansion amidst current challenges.

Opportunities

- **Market myopia**

Dr. Martens' adoption of a DTC model has boosted revenues by eliminating distributor margins and enhancing brand engagement. However, this approach necessitates increased capital expenditures on IT, e-commerce staff, and retail spaces, leading to significant operating leverage. The brand faced challenges in FY 2023 due to logistical missteps and a misaligned marketing focus, along with an overestimation of inventory needs in the US market. The resulting selling pressures have created an opportunity for investors.

- **Regional penetration potential**

With the reclamation of control in key markets such as Germany and Italy, Dr. Martens is positioned to fully exploit the benefits of its DTC-led transformation. Direct management enables the brand to enhance both awareness and diversity of product offerings, aspects that are often limited in distributor-led regions. DOCS has significant headroom to grow in key markets.

- **Sandals**

Sandals represent a significant growth avenue for Dr. Martens, contributing to around 9% of annual sales.

Valuation

We conservatively estimate that Fiscal Year 2025 will return them to 1 billion in revenue with an after-tax FCF margin of 9%. After this, revenue will grow by 4-7% over the next 4 to 5 years with gradual increases in FCF margin. After discounting and deducting debt, we arrive at an intrinsic value of the equity worth 1.48 billion pounds. This target reflects ~60% upside from current levels.

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