Not What the Dr. (Martens) Ordered

Perspectives: July 3rd, 2023

The year 2021 will go down in long-term history as a spectacular bubble peak in stock market valuations across many global industries. Right on cue, this overvaluation heralded the arrival of opportunistic initial public offerings ["IPO"], when company owners and their many handlers *legally* take advantage of some members of the investing public and institutional market participants who might be partaking in a feeding frenzy.

At times it can be a bit easier [*if there ever is such a thing!*] to spot a more obvious dud IPO – an unproven business model and industry, a series of rapid-fire acquisitions to bulk up for the hot-sell IPO listing process, or the absence of credible executive leadership and institutional share owners.

The fascinating [*and scary*] case studies are the ones that appear with a healthy dollop of investment credibility – such as the UK listed company, Dr. Martens.

There are several important things that I like about Dr. Martens as a business. It was founded in 1947, it owns a culturally iconic consumer brand and patents, its core products have successfully globalised, it is growing rapidly, it is laser focused on its core products and strengths, its footwear is known for quality, comfort, and extreme durability, it has an influentially large shareholder of reference, its products sell for a meaningful premium, it is highly profitable, and it did not make any value-destructive acquisitions.

As you can see from the share price chart above, this IPO was unfortunately *not* a success for any of its new public shareholders since listing in 2021. Were there 'tells' in 2021?

Firstly, the price, or rather, the price-implied valuation multiples. In 2021 it listed and traded at over 45 times earnings, over 7 times sales, and over 35 times EBITDA. This starting valuation alone would make it extremely challenging for all its new minority shareholders to make any money.

Secondly, during the IPO process the key seller of 30% of Dr. Martens was a private equity firm called 'Permira Advisers'. They had acquired it for GBP300mn in 2013 from its former owner, the R. Griggs Group Limited. A new CEO was brought in from Vans, and UK production capacity was doubled in 2019. Total annual sales in 2023 was 13 *times* that of 2013, and more than double 2019. At the IPO Permira had cashed in a cool GBP1,1bn, but they still owned 44% of the company – worth GBP2,2bn at the post IPO high share price of GBP5,00. Permira's most recently disclosed holding in Dr. Martens is 36%, implying they must have continued reducing their stake meaningfully since the listing. **As far as I am concerned, Permira is the smart money. Their actions as long-term investors to buy low, grow the business, and sell high are sensible as well as highly instructive.**

Thirdly, Dr. Martens annual sales are highly concentrated in a super-niche footwear product range, and at just GBP773mn was tiny by global footwear industry standards. To provide a sense of scale - in 2019, annual sales at Nike were US$39bn and Adidas EUR23,6bn. To their credit, Dr. Martens have stuck to their core product range to date, but they have shifted production to the

Far East and of late their historically loyal customers are complaining bitterly about the decline in product durability – a major red flag.

Our work continues...

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