



that's helpful *that's* **halfords**

Halfords Autocentre

Analyst/Investor Visit

20th May 2011





David Wild
Halfords Group
CEO

Agenda



Halfords Autocentre Analyst/Investor Visit

- Introduction and background David Wild
- Overview and strategy Duncan Wilkes
- Operations Bill Duffy
- Financial mechanics Andrew Findlay
- Autocentre tours

Background



Natural extension of Halfords business model

- Feb 2010 - “Halfords Expands into Car servicing and repair”
- £73.2m acquisition of Nationwide Autocentres funded from existing resources – 224 Centres
- A natural extension of Halfords business model
 - Car maintenance is core category
 - Trusted brand in automotive
 - Differentiating through service
- Standalone operations
- Single brand
- Back Office minimal savings



Exciting opportunity to extend core business growth

Autocentres – Progress



A year of significant progress

What we said we'd do in FY11:

- 12-18 new centres
- Migrate to Halfords branding
- Secure joint sourcing benefits
- Commence back office integration
- Customer database integration
- Develop cross selling opportunities

What we have done:

- 16 new centres opened – target 30 in FY12
- Halfords branding complete
- Sourcing benefits realised, particularly oil
- Being reviewed – savings minimal
- Databases shared – approach and quality now being upgraded
- Halfords.com footfall being leveraged

Develop infrastructure to support growth ambition

Autocentre Trading Update

halfords

Winning market share in a tough market

- Underlying market remains tough
- Trend to driving less
 - DfT data shows a reduction of 1.5% in car miles per annum*
- Deferring services and repairs (“Amber Items”)
 - RAC report** 2010: 28% of motorists waiting longer for service
 - Less motorists ensuring car is well serviced***
- Average job value down 4.5% YOY
- Marketing campaign building awareness
 - LFL sales Jan/Feb -2.3%
 - LFL sales March to 9th May +0.9%

* Department for Transport Quarterly Road Traffic Estimates Q1 2011

** RAC Report on Motoring 2010

*** ABA research for Halfords





Duncan Wilkes

Halfords Autocentres

CEO

Overview and Strategy

Highly Fragmented Market

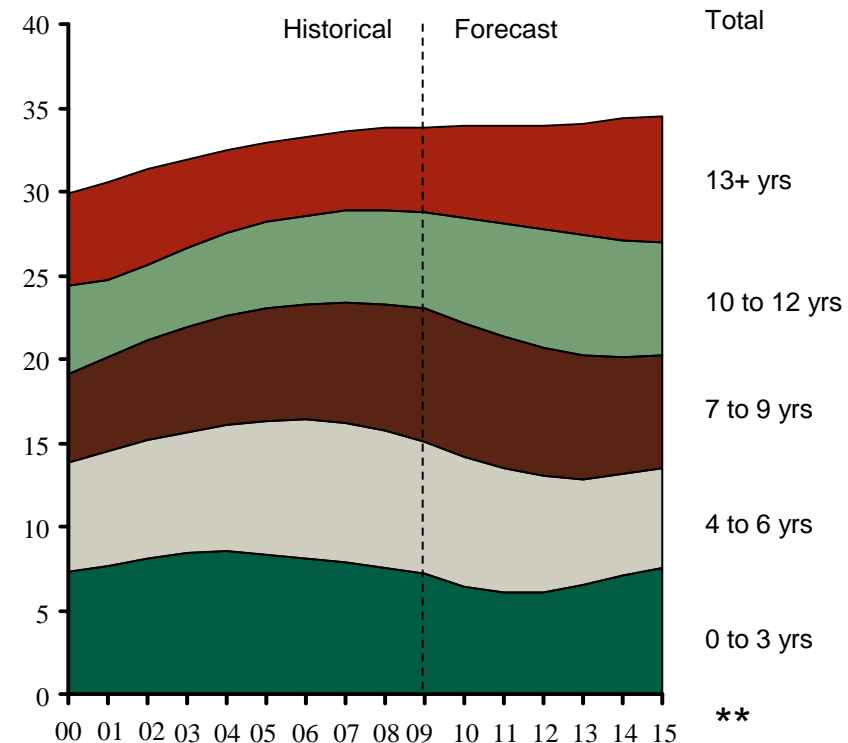


- UK car parc circa 33 mill cars + vans
- Service/Maintenance/Repair spend = £9 bn* p.a.

- Consumer: Vehicles < 3 yrs = £1.0bn
- Consumer : Vehicles > 3 yrs = £6.7bn
- B2B: Fleet Operators = £1.3bn
- Our target market is increasing

	Market Size £bn ***	% of Market
Tyres	£1.6bn	18%
Exhausts	£0.3bn	3%
Brakes	£1.2bn	14%
MOT's	£0.9bn	10%
Servicing	£2.2bn	24%
Other	£2.8bn	31%

Car parc by age (cars and LCVs)
Millions of cars



*Includes "paid for" MOT's @£900m (source Castrol Trend Tracker 2010)
 ** Source: SMMT; GMAP; OEF
 *** Datamonitor

We have only 1% of a huge market

Competitive Environment



- Independents – c.53%**

- No brand or marketing capability

- Low (variable) credibility

- Soft franchises limited by inconsistency and “two tier” model

- Challenged to acquire tools, diagnostic equipment, data and skills

- Workshops declined by 52% over last 10 years*

- Franchise Dealers – c.27%**

- High credibility

- Structurally high costs and higher prices

- Extended warranty and service plans

- Workshops declined by 13% over last 10 years*

- Fast Fits – 29%**

- Some strong Brands with geographic reach

- Reduction in Exhausts market

- Lower skill set and limited credibility

- Workshops declined by 28% over last 10 years*

* Source: Castrol Trend Tracker 2010

** Composition % based on numbers of workshops



Competition is fragmented and capacity is decreasing year on year

MOT Frequency



MOT frequency potentially changing from 3-1-1 to 4-2-2

- Would increase road deaths, emissions
- Short term potential disruption and reduced sales
- Long term benefit as encourages consolidation
- Halfords actively involved in the consultation process
- Political issue

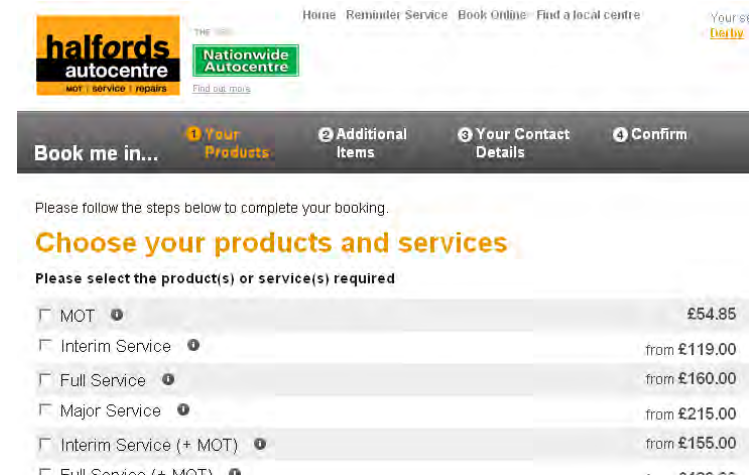


Understanding our customer



Exposed, vulnerable...potential negative mindset

- Servicing / MOTing is a distress purchase
- Majority lack knowledge re functionality of a car
- Concern - can they trust their chosen service centre (quality of workmanship, fear of being 'ripped off', unnecessary work)?
- Can be a costly experience



We differentiate through fairness, service & expertise



*As credible as a franchise dealer,
as cost effective as an independent*

Autocentre Strategy



Consistent and effective strategy for growth

Organic growth through

- Maintaining and growing service advantage
- Maintaining low cost structure
- Investing in new centres
- Leveraging the Halfords brand



As credible as a franchise dealer, as cost effective as an independent



Focus on service – Trust is critical

- Net Promoter Scores measurement via quarterly surveys
 - 55 Responses per centre
 - Details available on line to managers

- **Green** > 90 NPS
- **Amber** 75 - 90 NPS
- **Red** < 75 NPS

- Action plan agreed for each Red centre

- Red centres:
 - March 2007 55/208 centres (26.4%)
 - March 2011 33/241 centres (13.7%)

- Tools, data and training also critical



Autocentre Strategy



Consistent and effective strategy for growth

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- **Maintaining low cost structure**
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As credible as a franchise dealer, as cost effective as an independent

Autocentre Strategy



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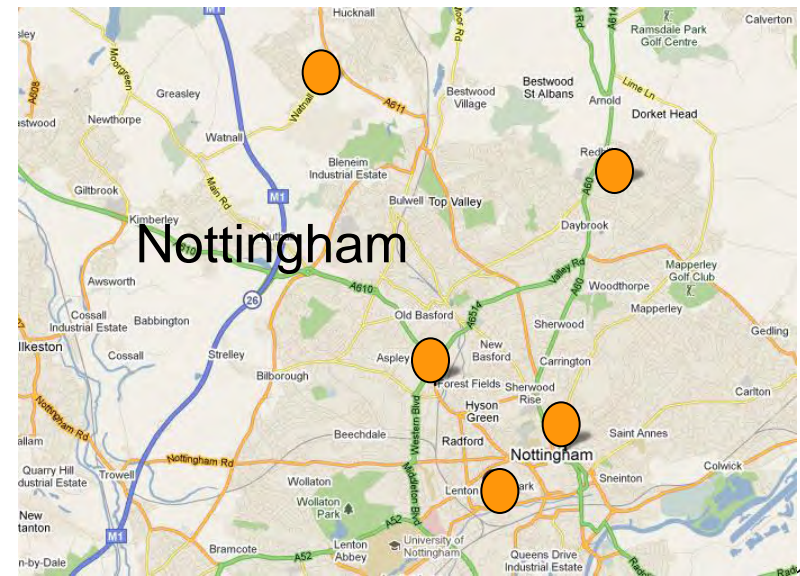
As credible as a franchise dealer, as cost effective as an independent

Invest in new centres



Significant expansion opportunities

- CACI analysis of potential catchments – 400 possibly up to 600 sites
- Built evaluation model based on existing network
- Strong pipeline of new sites consistent with 30 p.a.
- New centre target criteria:
 - 4,500 sq ft “shoebox” in “motor alley”
 - Busy road with good visibility
 - 10-12 car parking spaces
 - Attractive rent





Leveraging the Brand



- Rebranded all Autocentres
- Rebranded all marketing
- Rebranded website
- Spring launch campaign
- Cross selling to Halfords customers



National brand a major differentiator

Marketing – Existing Customers



- Email (56% of addresses are captured)
 - Monthly + promotions
 - Summer/winter promo
 - “Sales”
- Direct Mail – Centre/Customer specific
 - Service reminders
 - MOT reminders
 - Amber reminders
- Centre Manager Phone follow up – Daily Print Out
 - Amber reminders
 - MOT reminders
 - Service reminders
- Call Centre – (Back Up)
 - Service reminders
 - MOT reminders



Generates Enquiries & Bookings (80% Tel, 20% on-line)

Marketing – New Customers



- On-line: PPC and SEO (PPC £3.80 CPA)*
- Mail/Email: Where we can obtain name, address and MOT due date
- Radio: Began February 28, driving both awareness and web traffic
- Partnerships



**PPC – Pay per click, SEO – Search Engine Optimisation, CPA – Cost per acquisition*

Generates Enquiries & Bookings (69% Telephone, 31% on-line)

Brand Launch

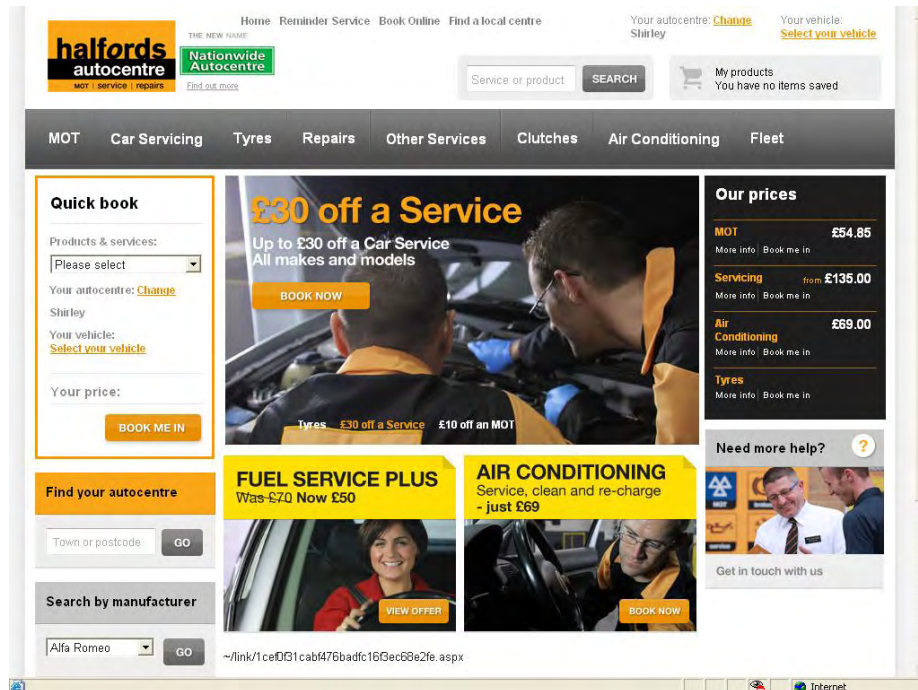


- First ever National advertising campaign
- Impact: Weekly online bookings – YOY growth
 - January/February + 21%
 - March/April/May + 93%
- Positive impact on LfL sales
- Increasing Brand awareness
 - Spontaneous 15.7% pre ads – 23.5% Post Ads
- Developing more effective customer segmentation



Full multi-channel offering

- Upgraded and rebranded website - linked to Halfords.com
- Improvement in conversion of visits to bookings (7.1% to 8.6%)
- Access to Halfords.com customers
- Online bookings/enquiries provided
 - 18% of jobs in FY11
 - 23% April 2011
- Online tyre sales – price guarantee
- Monthly emailers



Our Fleet Business



Attractive Growth Opportunity

- 3 Million Fleet cars focused on newer vehicles
- Market decline – less fleet cars on the road
- Halfords increasing market share
- Nationwide coverage with consistent service and prices across all brands – significant competitive advantage
- Margin enhancing due to great capacity utilisation
- Our top 10 fleet customers = c.60% of our Fleet business and c.16% of our Autocentre revenue

Growing national coverage will enhance our penetration with major fleet operators

Fleet Offering



- USP: A single, national, consistent, service and price across all brands
- Economic advantage and convenience
- Main Limiting Factor: The fleet's ability to direct drivers
- Bookings: Almost 100% on-line
- Service: Almost 100% collect + deliver
- Process to sell additional work similar to retail but electronic and easier



Growing national coverage will enhance our penetration with major fleet operators



Bill Duffy

Halfords Autocentres

COO

Operations

Our Autocentres



Characteristics of a typical centre

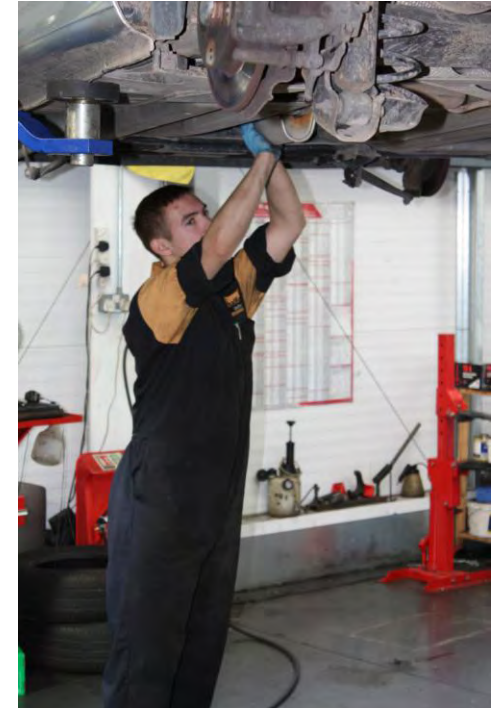
- An MOT lane
- 4 Ramps
- Oil Storage
- Compressor
- Tyre fitting machine
- Wheel alignment equipment
- Diagnostic equipment
- Minimal stock
- 4 Technicians
- 1 Apprentice
- 1 Manager
- £30k-40k sales per month
- 250 Jobs per month
- £3,000 rent per month



Our Technicians



- 941 technicians – 650 ATA accredited
 - Industry average only 10% accredited
- On-line access to data
- 4,000 hours + technical training p.a.
- Largest independent apprentice scheme in UK
 - 3 Year Programme
 - Graduated 215 apprentices over last 5 years
 - Important source of future skills



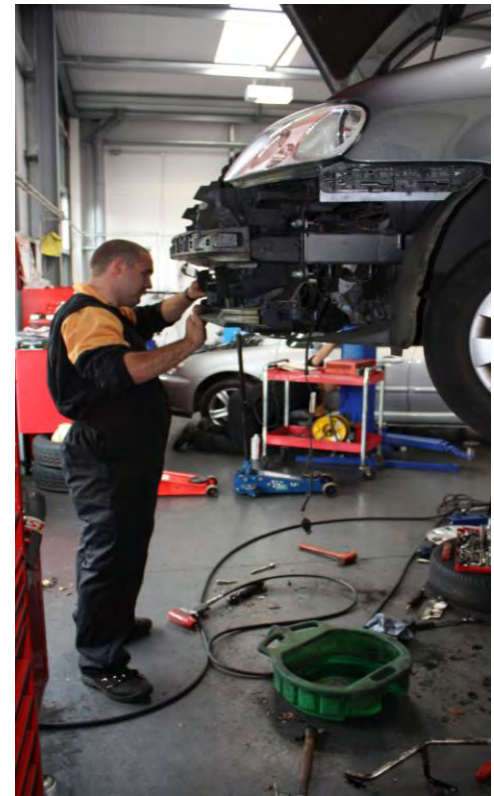
Comparable skills, tools, data and training to franchise dealers, a competitive advantage over independents

What We Do



Full Mechanical Capability

- Broader range of services than many of our competitors
 - Electronic Diagnosis (DS100 equipment throughout the network)
 - All parts meet OEM standards
 - All brands, All cars, All jobs
-
- | | |
|--------------|------------------|
| - Clutches | - Cambelts |
| - Engines | - Cylinder Heads |
| - Misfueling | - Steering |
| - Suspension | |





Significant potential to increase productivity

- Average job 2.1 hours
- Technicians work 44 hours/week
- 2005 Ave. Jobs pp/wk = 12.0 (57% utilisation)
- 2010/11 Ave. Jobs pp/wk = 14.0 **(67% utilisation)**
 - Peak = 15.8 (76% utilisation)
 - Best 50 centres c.18.7 (89% utilisation)
- 16.5 jobs pp/wk or **+18%** achievable on existing head count
- Further minimum **20%** achievable on existing ramp infrastructure with added technicians (1420 ramps in the business now)

Increased capacity utilisation drives higher profitability

How We Manage



Centre Manager is fundamental

- Effective management of technicians and workflow
- Strong relationship/knowledge of suppliers essential
- CM maximises centre profitability through balancing cost of parts from individual suppliers with most efficient use of ramps
- Converts sales/service enquiries and sells to the customer – driving capacity utilisation
- Follow up on amber items
- Building trust with the customer



How We Sell in the Centre



- Capture customer details and due dates: Manager in reception
- Report honestly on vehicle: Technician, in the workshop via VRF using RAG
- QA the red and amber items: Manager in workshop
- Price the work and sell to customers: Manager on the phone
- Explain the work & invoice & guarantee:
Then sell the remaining ambers Manager in reception
- Follow up reminders: Manager phone + marketing

Building the customer relationship



Andrew Findlay

Halfords

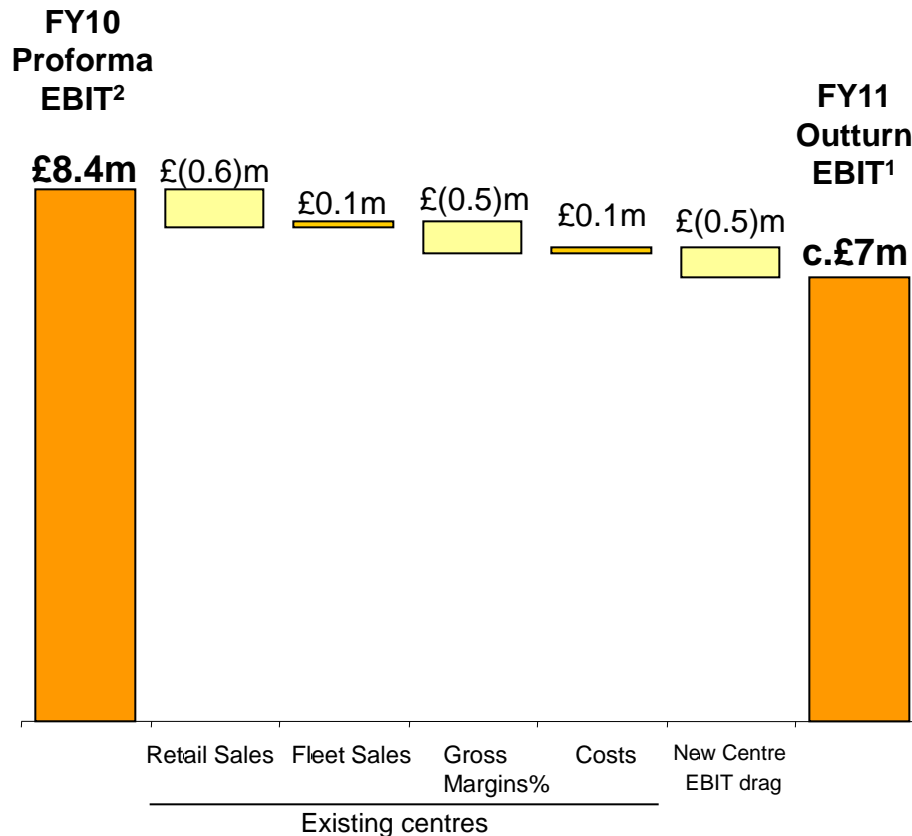
CFO

Financial Mechanics

FY11 Financials



FY11 EBIT¹ c.£7.0m – reflecting tough market



¹ Before Autocentre amortisation of £2.2m.

² Unaudited Proforma EBIT for year ending 2 April 2010

Sales (FY11: c.£98m, -0.6% LfL)

- Greater service intervals plus customers deferring work
- No benefit of brand relaunch
- Fleets revenues marginally up

Gross Margin (c.66.3%, - 50bps)

- Tyres +23% - diluting margins
- Sourcing savings realised

Costs

- Greater productivity & lower bonus
- Investment in marketing and HO headcount to support growth

New Centres

- Wtd. ave. centres c.230 (FY10 223)
- New centre sales c.£1.5m
- New Centre EBIT drag c.£(0.5)m

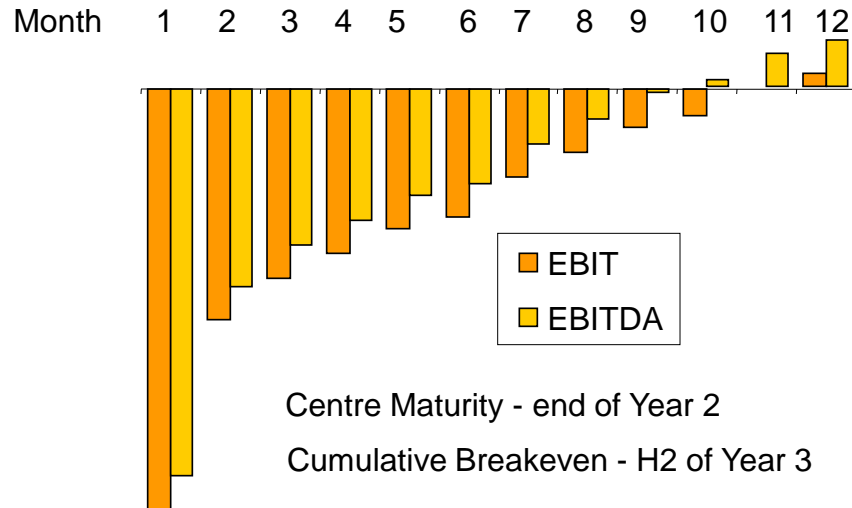
Financial mechanics



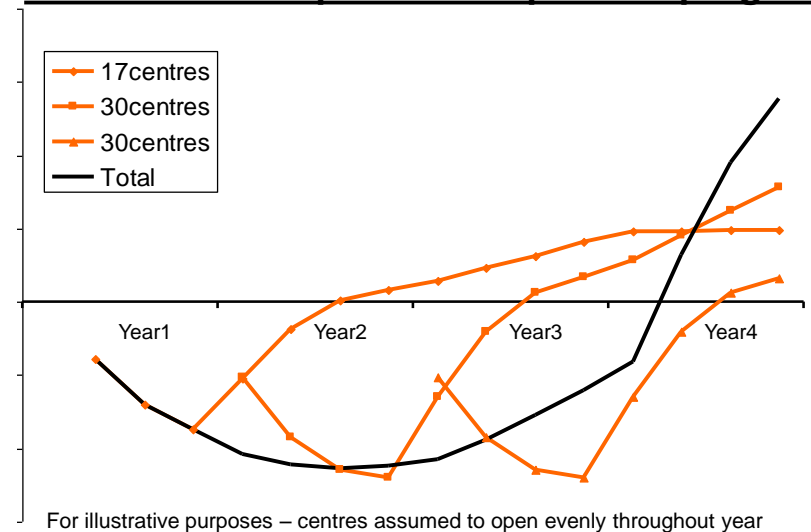
High operational gearing - cash generative business

- Operating costs (inc labour) predominantly fixed in mature centres
- Typical mature centre currently generates c.£40k of annualised EBIT
- 30 new centre openings targeted in FY12 - phased throughout year
- FY12 EBIT start up losses from FY11 & FY12 new centres c.£1m
- Continued investment in growing customer awareness
- FY12 capex around £5m – self funded
- New centre capex: £125k to £150k ea. subject to condition. Payback c.3.5yrs

Typical centre 1 year EBIT profile



Illustrative EBIT profile of expansion programme





Questions



Bill Duffy

Halfords Autocentres

COO

Autocentre Tours

What You'll See



3 Autocentres:

- Olton...Diagnostic Skills, Equipment & Training
- Solihull...Retail & OEM Services & VRF process
- Shirley...Technical capabilities, demo of cambelt fitment





Appendix

Autocentres Tour



A	B	C
David Wild	Andrew Findlay	Louise Richardson
David Jeary	Aurelie Caspar	Nick Bubb
Kate Calvert	Andrew Mobbs	Isabel Green
Warwick Okines	Sanjay Vidyarthi	Jonathan Pritchard
Assad Malic	Paul Rossington	John Stevenson
Geoff Ruddle	Andy Wade	Mark Photiades
Ben Spruntulis	Katharine Wynne	Adam Carroll
Rosie Bichard	Edward Perkin	John Leahy
Carl Stick	Andy Wace	Emma Burdett
Matt Lewis	Chris Baird	

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