



**HALFORDS GROUP PLC**

***FY20 PRELIMINARY RESULTS***

**7<sup>TH</sup> JULY 2020**

**halfords**

## ***FY20 Financial Performance***

Loraine Woodhouse, CFO

## ***Strategy Update***

Graham Stapleton, CEO

## ***Focus For The Year Ahead***

Graham Stapleton, CEO

## ***FY21 Outlook & Summary***

Loraine Woodhouse, CFO

## ***Q&A***



# ***FY20 FINANCIAL PERFORMANCE***

***Loraine Woodhouse, CFO***

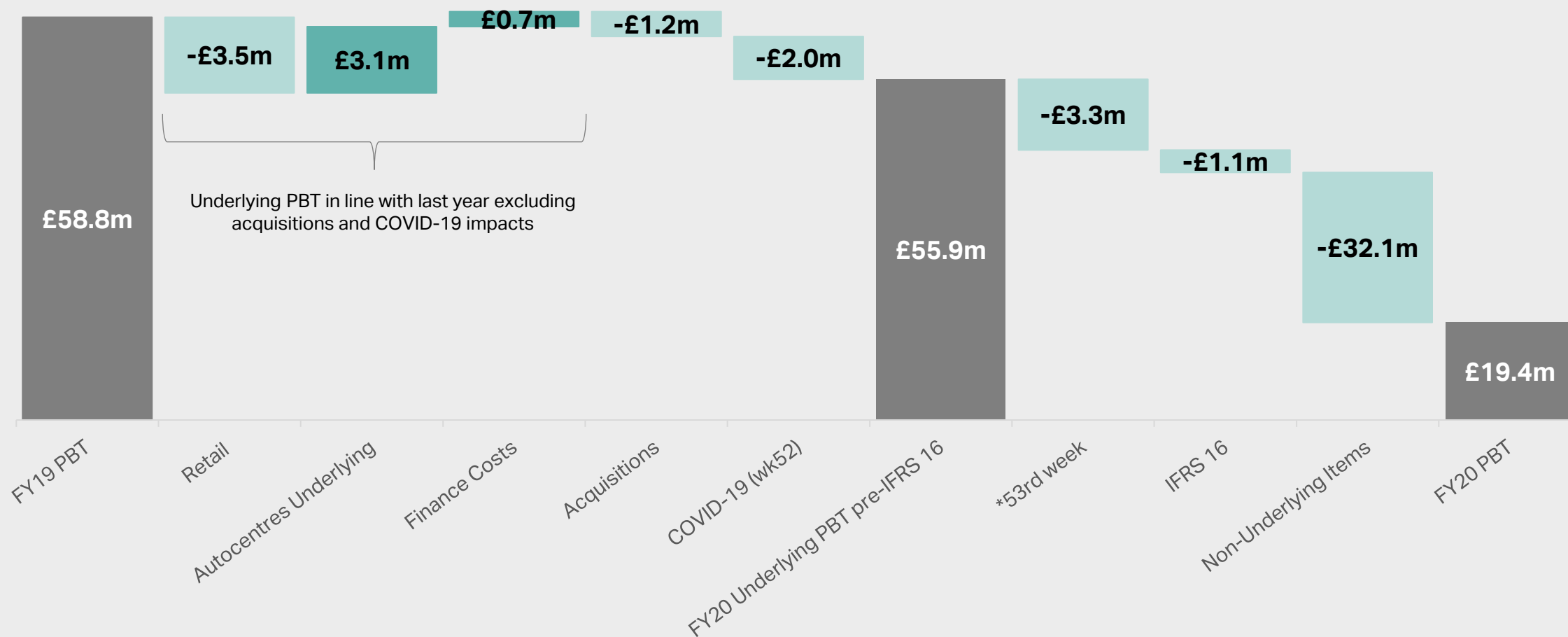
## 4 **FY20 Group Financial Highlights**

- Revenue growth of +0.3%, despite subdued customer confidence from Brexit and more recently COVID-19
- Group PBT of £55.9m in line with last year, excluding the impacts of acquisitions and COVID-19
- Gross Profit % increase of +27bps with underlying margin improving in all businesses
- Significant drive on cost efficiency, resulting in underlying costs excluding acquisitions declining -0.5%
- Acquisitions within Autocentres performing well and ahead of integration plans
- Continued strong cash generation with Free Cash Flow of £54.6m
- Net debt pre-IFRS 16 of £73.2m, £8.6m below last year



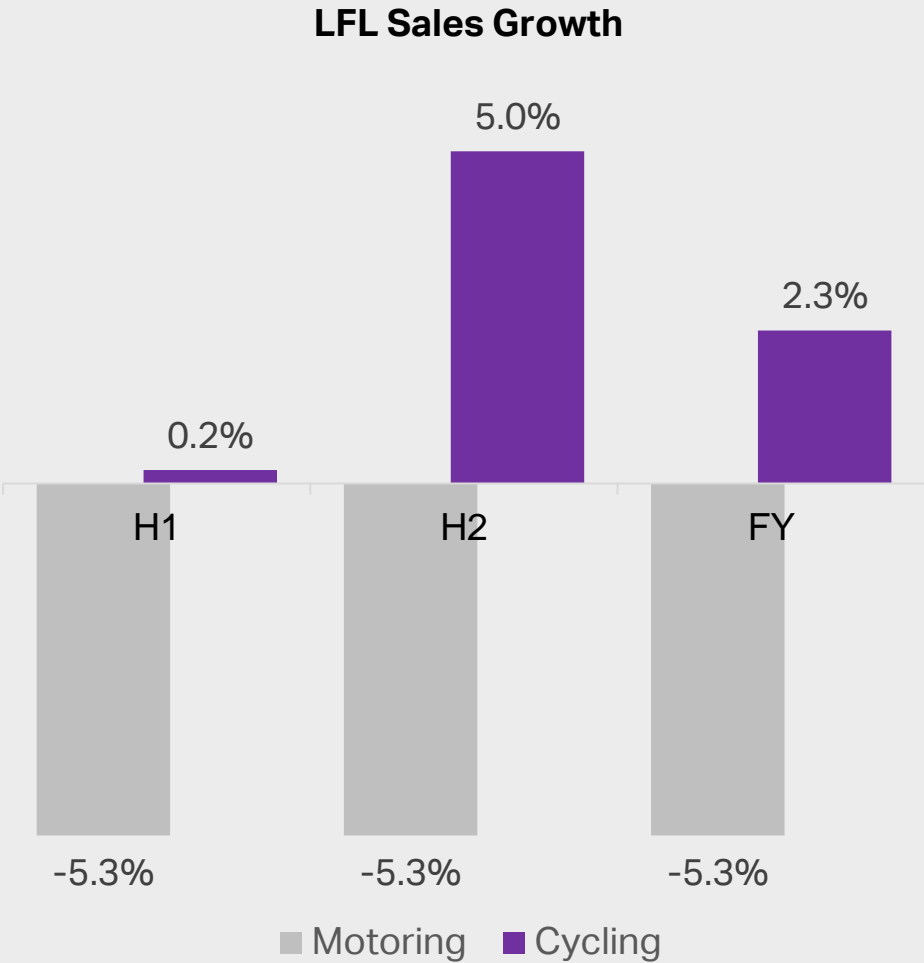
	FY20 52-week	vs. FY19 52-week	FY20 53-week
Revenue	£1,142.4m	+0.3% YoY -1.8% LFL	£1,155.1m
Underlying PBT pre-IFRS 16	£55.9m	-4.9% YoY	£52.6m
Non-Underlying items	(£32.1m)		(£32.1m)
PBT after Non-Underlying items post-IFRS 16	£22.7m		£19.4m
Basic Underlying EPS pre-IFRS 16	24.3p	-0.8% YoY	22.9p
Free Cash Flow	£54.6m	+28% YoY	£54.6m

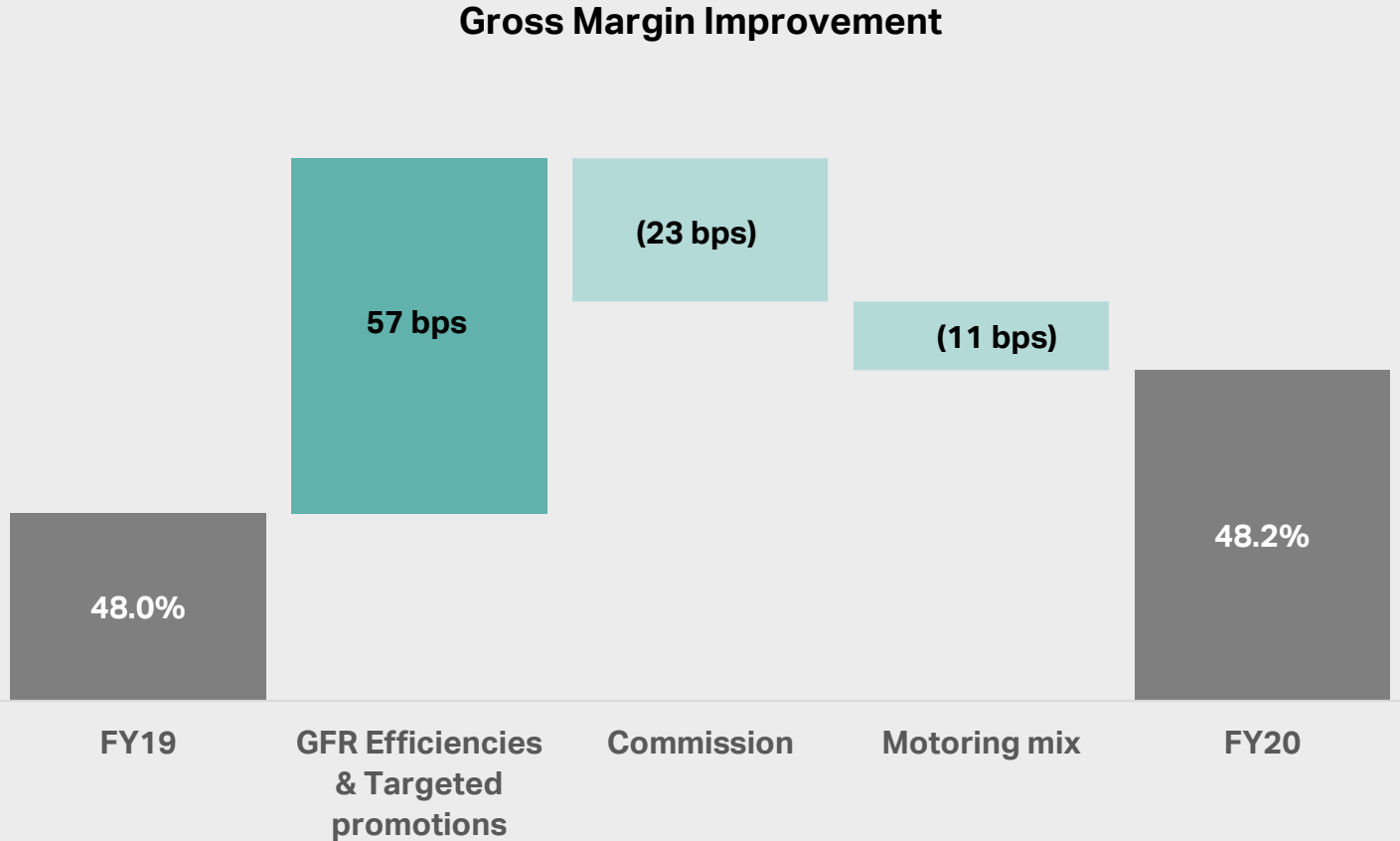
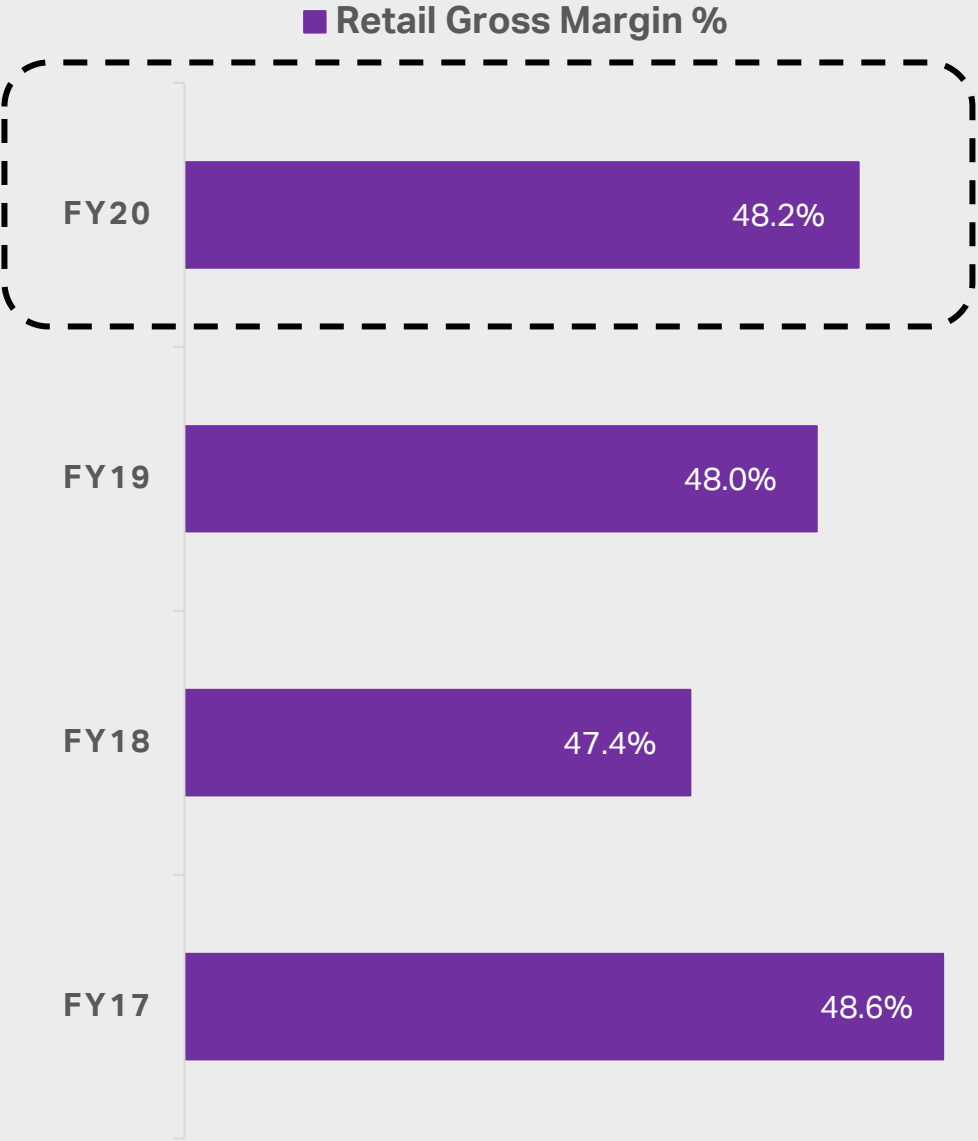
## Group PBT Bridge



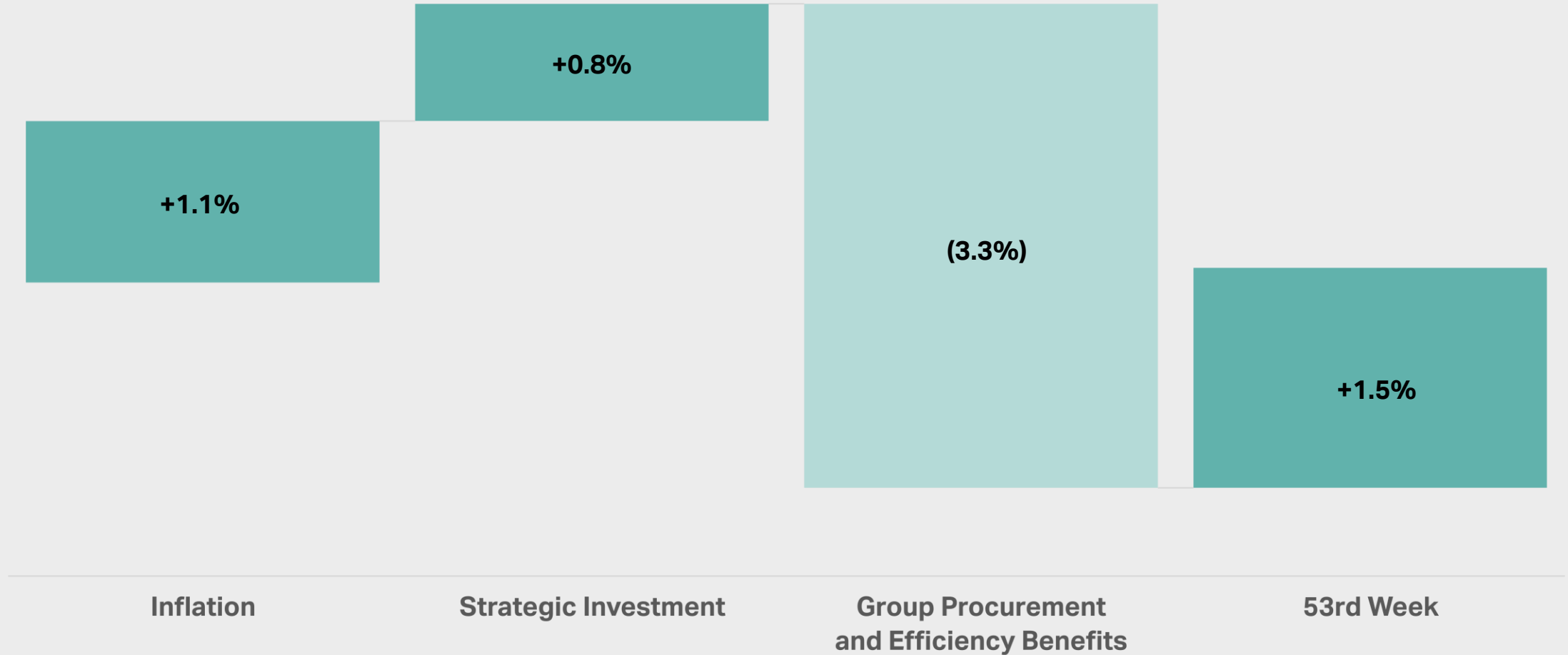
**Note:** \* The 53<sup>rd</sup> week would normally result in a small profit, but the COVID-19 lockdown resulted in a loss of -£3.3m  
 Bars are indicative only and may not be to scale

Revenue	£950.6m	-2.7% YoY -2.3% LFL
Gross Margin	48.2%	+20 bps
Operating Costs*	£404.3m	-1.5% YoY
Underlying EBIT*	£54.1m	-8.0% YoY



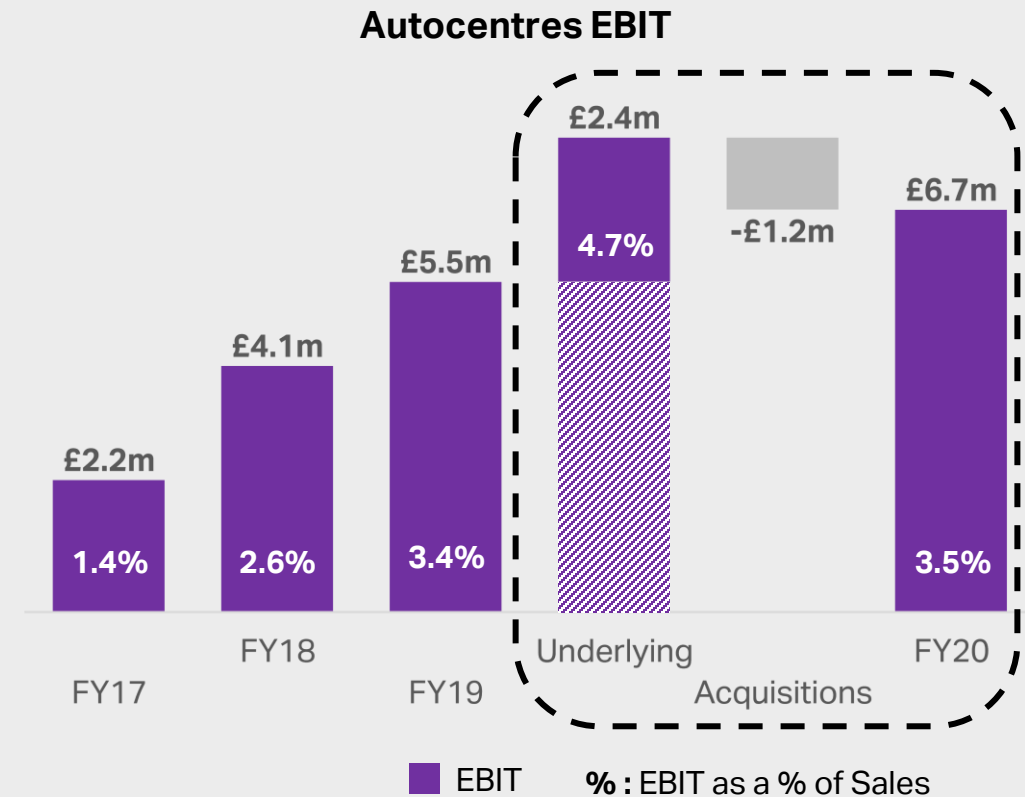


## Retail Operating Cost Movement Year-on-Year

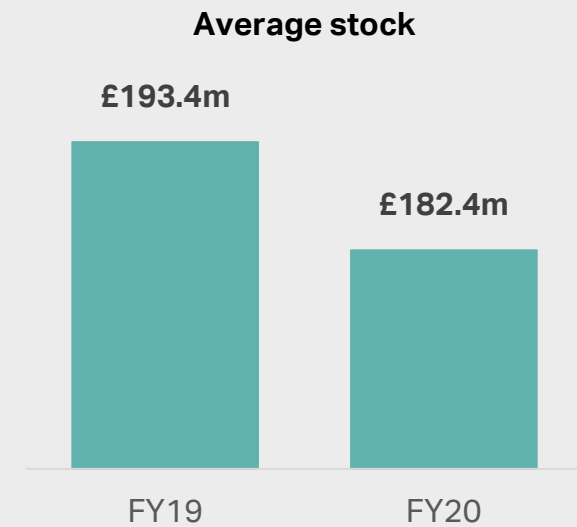


**Note:** numbers are reflected on a pre- IFRS 16 basis; "+" = increase and "(-)" = reduction

Revenue	£191.8m	+18.8% YoY +1.4% LFL
Gross Margin	65.5%	-250 bps
Operating Costs*	£118.9m	+14.1% YoY
Underlying EBIT*	£6.7m	+21.8% YoY

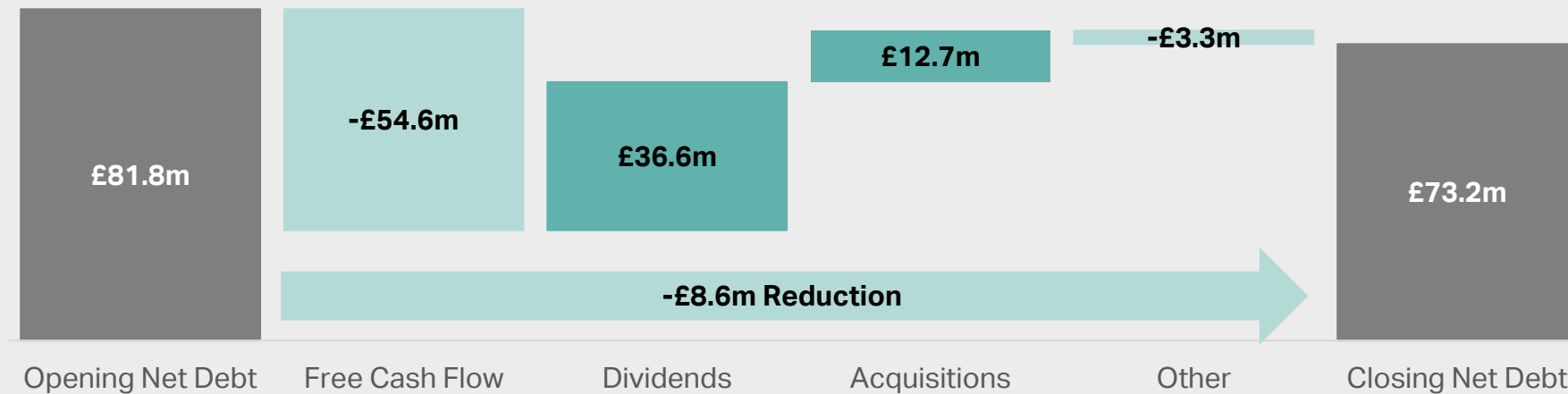


	FY20 <i>£m</i>	FY19 <i>£m</i>	YOY <i>£m</i>
<b>EBIT</b>	<b>23.3</b>	<b>54.4</b>	<b>-31.1</b>
Depreciation & Amortisation	40.0	41.5	-1.5
Working Capital	48.7	-10.4	59.1
Provisions Movement	-3.1	2.7	-5.8
Employee Share Scheme	1.0	0.3	0.7
<b>Operating Cash Flow</b>	<b>109.9</b>	<b>88.5</b>	<b>21.4</b>
Capex	-34.1	-29.4	-4.7
Net Finance Costs	-2.4	-3.1	0.7
Taxation	-16.3	-12.7	-3.6
Other*	-2.5	-0.6	-1.9
<b>Free Cash Flow</b>	<b>54.6</b>	<b>42.7</b>	<b>11.9</b>

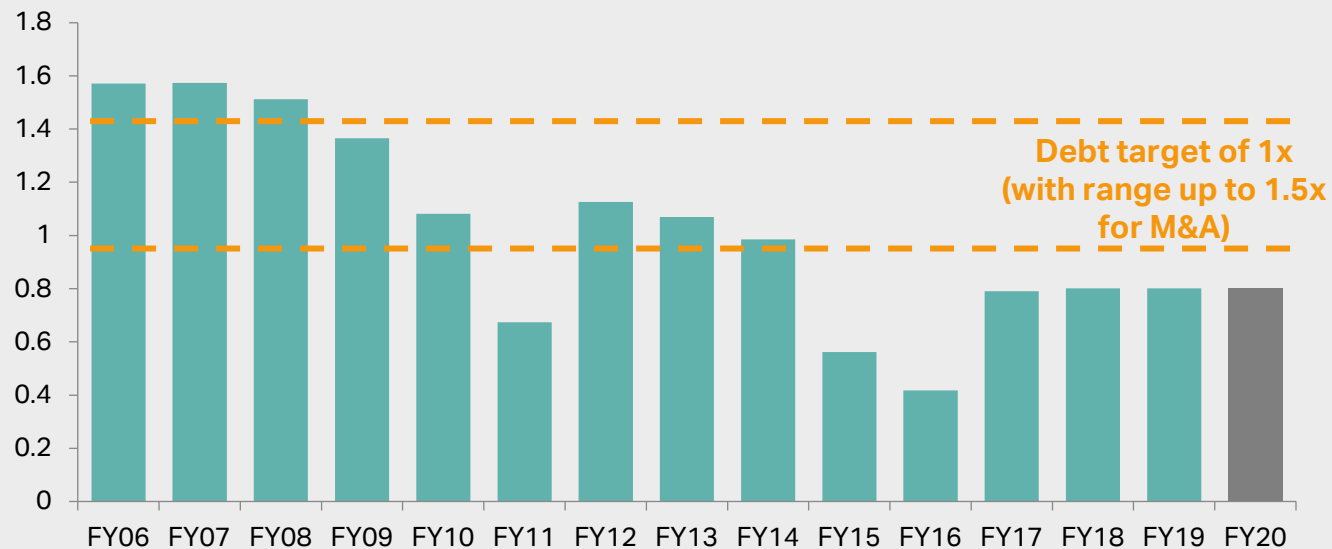


**Note:** \* Includes exchange rate movements and arrangement fees on loans

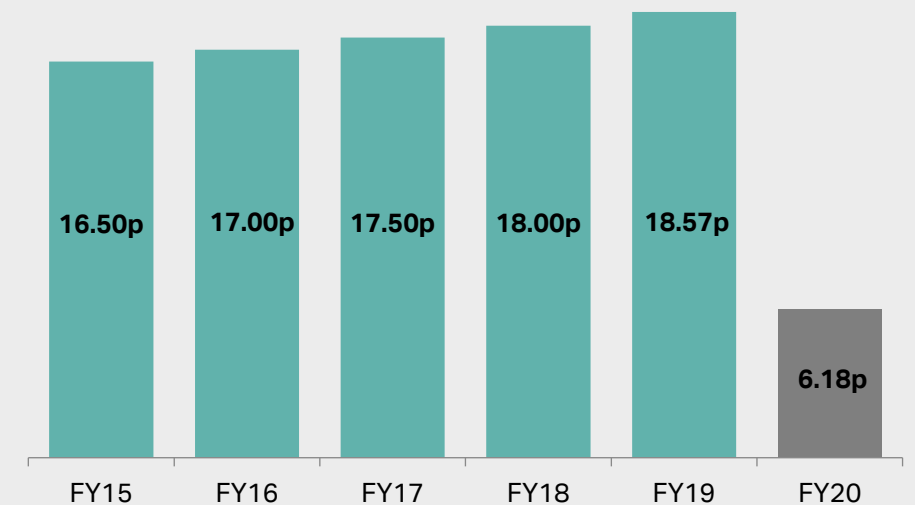
Change in Net Debt Year-on-Year



Net Debt to EBITDA



Dividend per Ordinary Share



**Note:** Figures are for the 53-week period and are pre-IFRS16

# ***STRATEGY UPDATE***

***Graham Stapleton, CEO***

**To *Inspire* and *Support*  
a *Lifetime*  
of *motoring* and *cycling***

**1**

**Inspire** our customers through a differentiated, super-specialist shopping experience

**2**

**Support** our customers through an integrated, unique and more convenient services offer

**3**

Enable a **lifetime** of motoring and cycling



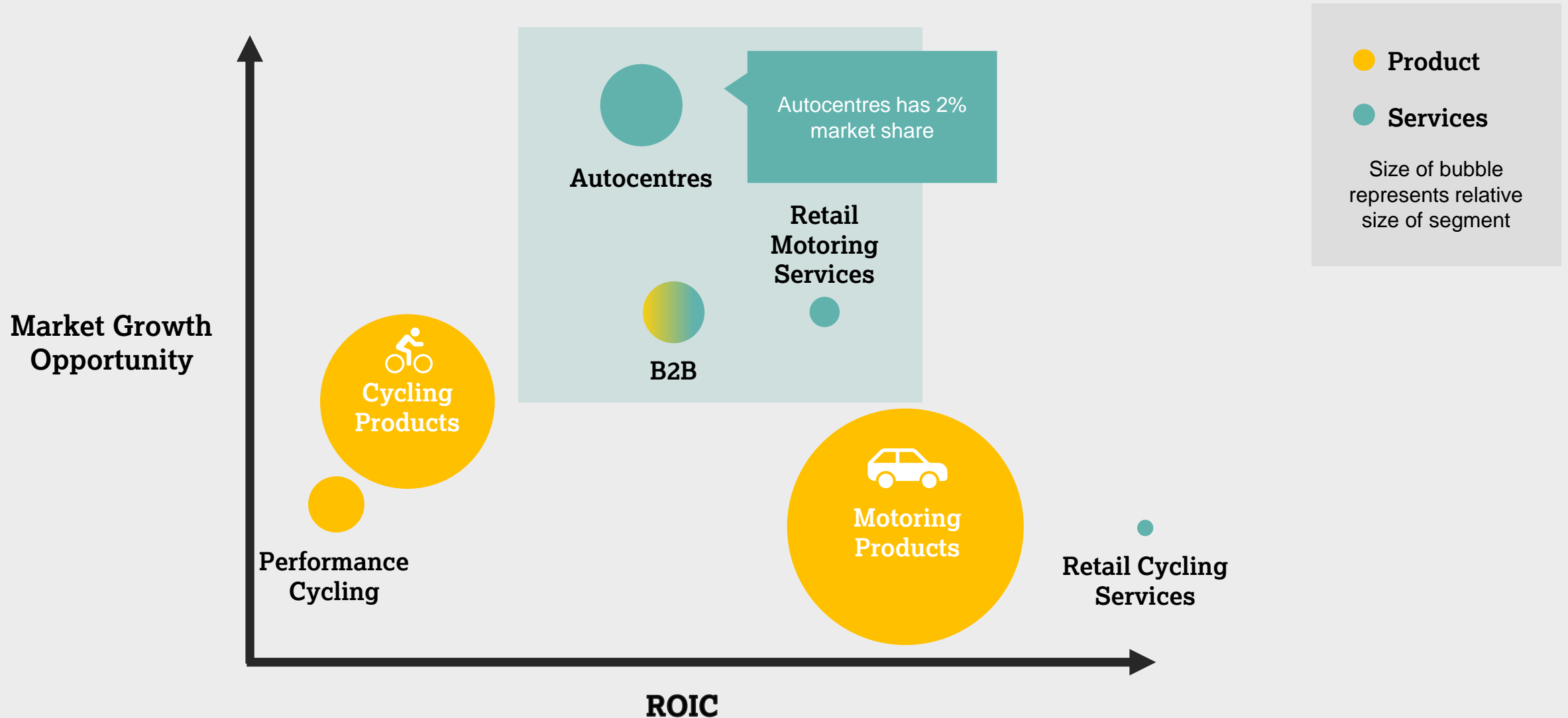
**Underpinned by:**

Focus on **Cost and Efficiency**

Investment in our **Colleagues**

A background image showing two women in Halfords uniforms. The woman on the left is wearing a dark jacket with the Halfords Autocare logo and is looking at a tablet. The woman on the right is wearing a dark jacket over a striped shirt and is also looking at the tablet. The image is dimmed to allow the text to be prominent.

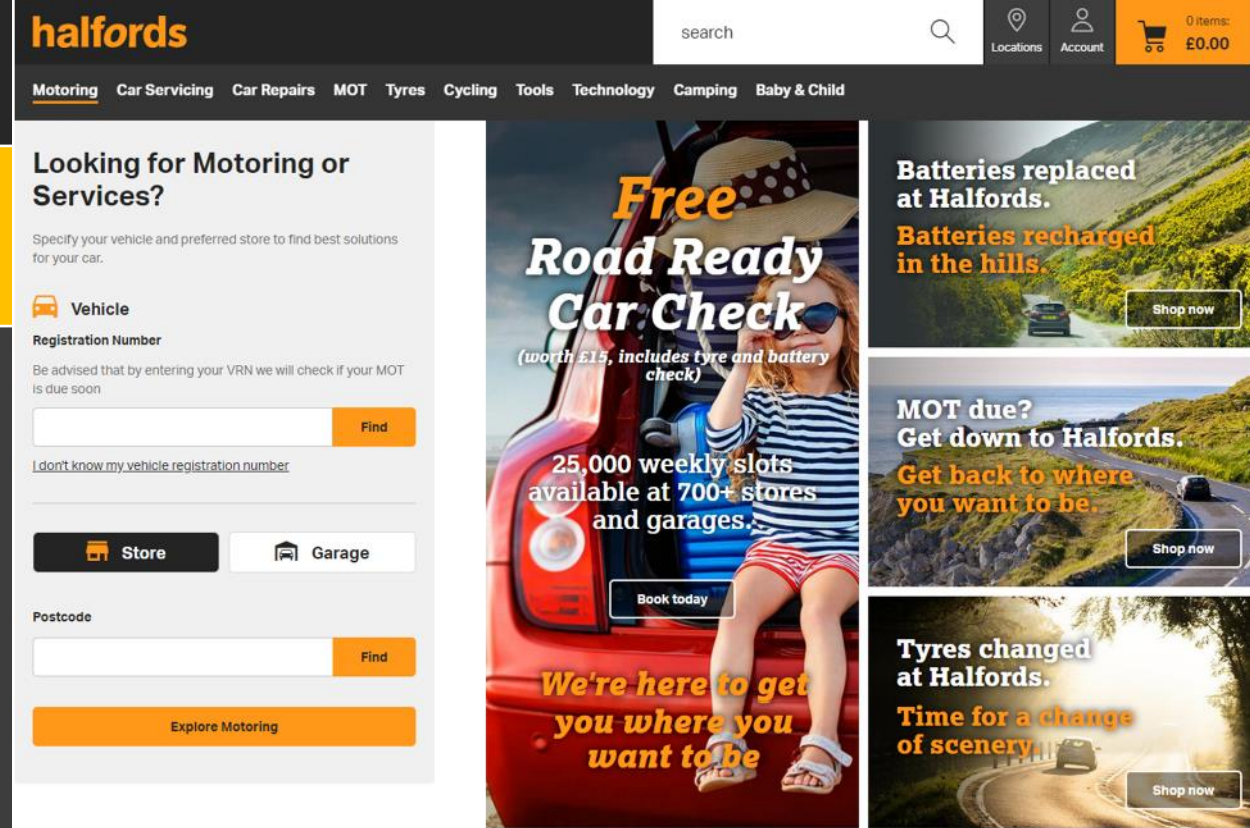
***“Evolve into a consumer and B2B services-focused business, with a greater emphasis on motoring, generating higher and more sustainable financial returns.”***



**Note:** This graph is indicative only and bubbles are relative to each other  
**Source:** Internal analysis, Companies House, Society of Motor Manufacturers and Trading

**Inspire** our customers through a differentiated, super-specialist shopping experience

- New Group web platform launched in Q4, transforming the digital experience for customers
- Optimised cycling space in all retail stores, improving the customer experience and financial returns in the category
- Strategically reviewed our Cycling business leading to the consolidation of Cycle Republic and Tredz and better leverage our Halfords Retail Cycling business
- Sales growth of own brand and exclusive products was ahead of proprietary brands, and we saw a significant increase in sales of unique and innovative products



## 19 *FY20 Strategic Highlights*

**Support** our customers through an integrated, unique and more convenient services offer

- Accelerated our growth in Autocentres through the acquisition of McConechy's Tyre Service Limited
- Continued development and growth in our Halfords Mobile Expert proposition through organic growth and the acquisition of Tyres on the Drive
- Completed the upgrade of 'PACE', our in-garage digital operating platform, in all Autocentres
- Rolled out new services in Retail, including WeCheck Free and Premium motoring services and a new suite of Cycle Care services



## Enable a **lifetime** of motoring and cycling

- Improved financial service offer implemented across the Group giving us double-digit sales growth year-on-year and access to a new customer demographic
- Our targeted CRM programme is now more relevant to customers – more customers are opening our emails and fewer customers are unsubscribing
- We are encouraging more customers to shop across the Group, leading to a 10% increase in Group Cross-shop revenue



**SPREAD**  
***the cost***

**HALFORDS**  
**FLEXIBLE FINANCE**  
*from £99\**

Powered by **Klarna.**

Our customer strategy is supported by our focus on  
**Cost and Efficiency**

- Delivered significant cost savings through:
  - Supply chain efficiencies
  - Retail productivity programmes
  - Property savings
  - Improved procurement practices
- Agreed strategic buying alliance with Mobivia
- Improved returns in mainstream and performance cycling
- Reduced working capital by £11m on average throughout FY20



Our customer strategy is supported by our investment in **Colleagues**

- Included in Top 25 employer by the Sunday Times
- Significant investment in upskilling colleagues across all areas of the Group
- Gained approval to deliver Hybrid and Electric vehicle level 3 training
- Investment in colleague training to service electric vehicles, E-bikes and E-scooters across the Group
- Successful execution of cross-Group strategic change through our transformation plan



- Acquired two businesses – McConechy's Tyre Service Limited and Tyres on the Drive
- Strategically reviewed our Cycling business and announced the exit of Cycle Republic and Boardman Performance Centre
- Launched a new Group web platform
- Transformed the scale of our mobile services business
- Delivered significant cost and efficiency improvements across our entire business

**Growth of Group  
service-related sales**

**+9%**

**Total Group sales  
through B2B channels**

**15%**

(+3ppts YoY)

**Average working  
capital reduction**

**£11m**

**Autocentres NPS**

**69.0**

(+3.5 YoY)

**Online sales growth**

**+17%**

**Group Procurement and  
Efficiency saving**

**£14.6m**

A man with glasses, wearing a dark blue Halfords uniform jacket and a high-visibility yellow and orange safety vest, is sitting in the driver's seat of a car. He is smiling and looking towards the camera. The car's interior, including the steering wheel and dashboard, is visible. The background is slightly blurred, showing the car's exterior and a glimpse of the sky.

# ***FOCUS FOR THE YEAR AHEAD***

- As an essential retailer, the majority of our stores and garages remained opened during lockdown
- Cycling sales boosted through the period, up 57%, with families getting outdoors and customers avoiding crowded public transport
- Strong digital sales, up 200%, highlighting the value of the investment in the new web platform
- Click & Collect remained popular and accounted for 51% of all Retail sales during Q1
- Halfords Mobile Expert has seen a record number of jobs per day, with more customers opting to have their cars serviced from the safety of their homes
- Significantly higher levels of phone, email and social media contact into the business, driven by store closures and channel shift



## Opportunities

- Increase in motoring and cycling journeys
- An ageing UK car parc
- Healthy living and climate change
- Opportunity to accelerate reduction in cost base e.g. property debt
- Further consolidation of our competitor set

## Challenges

- Accelerated shift to online and home delivery channels
- More expensive operating model
- Potential disruption to supply chain
- Recessionary environment further weakening consumer confidence

1

**Inspire** our customers through a differentiated, super-specialist shopping experience

- Materially upweight our Group web platform and digital customer experience, to create an even more differentiated and specialist proposition

2

**Support** our customers through an integrated, unique and more convenient services offer

- Expand our Motoring Services proposition
- Swiftly completing the integration of McConechy's and Tyres on the Drive, utilising our best-in-class technology across our Services offer
- Significantly scale up the number of Mobile Expert vans, growing the size of our fleet to 120 by the end of the year

3

Enable a **lifetime** of motoring and cycling

- Double the number of customers shopping across the Group, fully utilising the new Group web platform and our single customer view and CRM systems

Underpinned by:

### Focus on **Cost and Efficiency**


- Grow the profitability and returns of our core categories, particularly Cycling, where we are targeting a 300bps improvement in gross margin %
- Close up to 10% of our property estate
- Major review of our supply chain costs

### Investment in our **Colleagues**



- Continue investment in the engagement and development of our colleagues

- Significantly improve awareness of our unique retail store, garage and mobile services
- Expand the scale of our mobile services business
- Continue to assess opportunities to acquire garages
- Further develop our digital operating platform 'PACE' in Autocentres
- Rollout of a new and innovative WeCheck app to ensure motoring services are even easier and more convenient for customers to access



**halfords**  
**weCheck**







**Oh no! Your car needs some  
tender loving care**



 Tyres Issue Found 

Worn tyre

 Battery Passed 

 Bulbs Passed 

 Wiper Blades Passed 

 Windscreen Issue Found 

Small chip in upper right corner

***Focus for FY21***

- Investment in the infrastructure of Tredz
- Significantly improving the digital customer shopping experience
- Improve effectiveness of promotions
- Optimise and simplifying our ranges
- Solution selling in-store and online

***Targeted Outcomes***

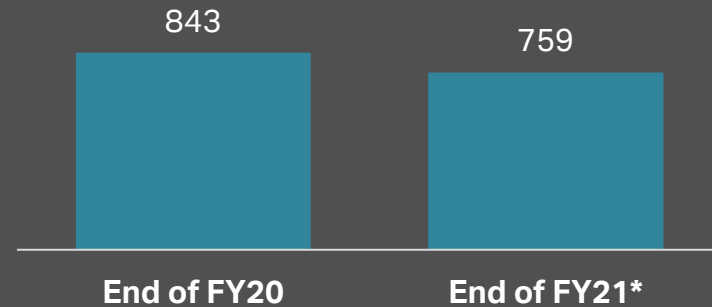
- Improved overall customer experience
- Improved net profitability
- Lower working capital requirements
- Improved Cycling gross margin by 300bps in FY21

**Closing uneconomic locations**

**This year**

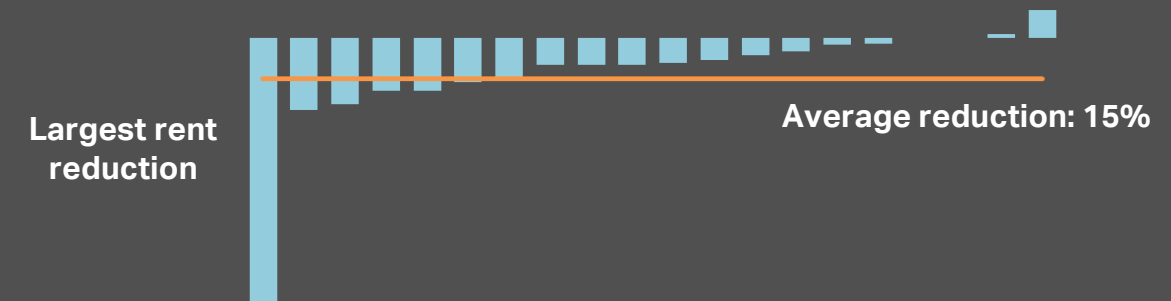
**Lower rentals on existing estate**

We expect to close up to 10% of the Group's physical estate during FY21, which includes the 22 Cycle Republic stores we have already exited.



\* modelled after closure of the maximum 10%

Of the 20 completed Retail lease agreements in FY20, 16 have resulted in downward adjustments to rent, with the average reduction 15%. The impacts of COVID-19 are likely to accelerate this trend.

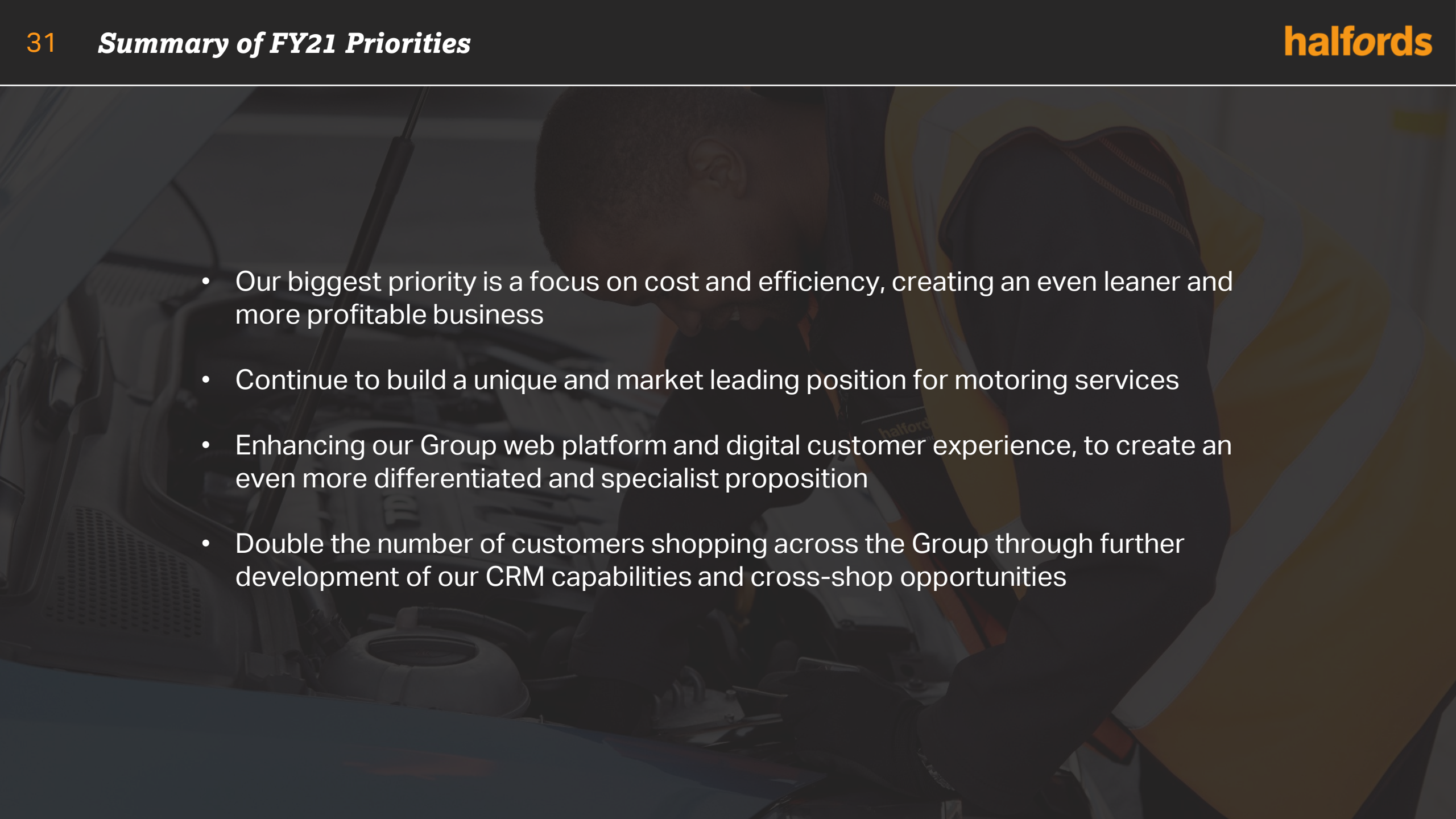


**New Destination store format**

**Next year**

**New hybrid format**



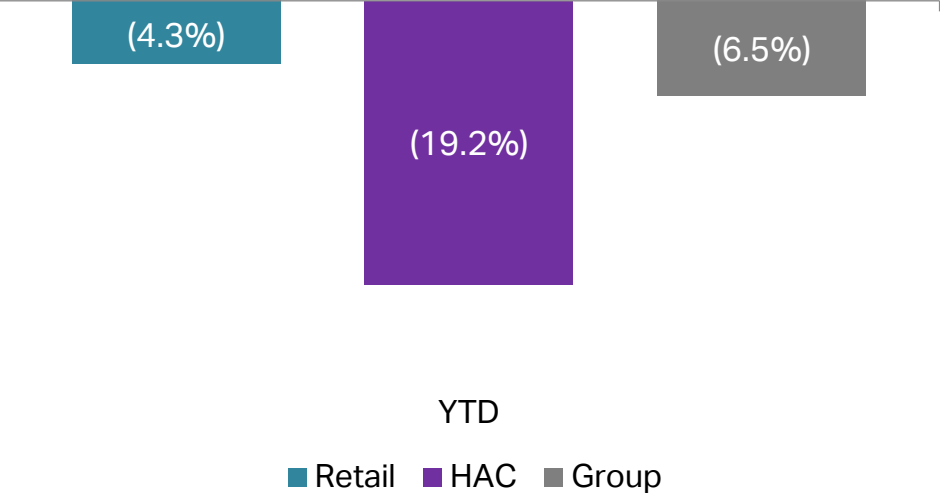
- 
- A background image showing a mechanic in a Halfords uniform working on a car engine. The image is dark and semi-transparent, with the Halfords logo visible on the mechanic's sleeve.
- Our biggest priority is a focus on cost and efficiency, creating an even leaner and more profitable business
  - Continue to build a unique and market leading position for motoring services
  - Enhancing our Group web platform and digital customer experience, to create an even more differentiated and specialist proposition
  - Double the number of customers shopping across the Group through further development of our CRM capabilities and cross-shop opportunities

# ***FY21 OUTLOOK & SUMMARY***

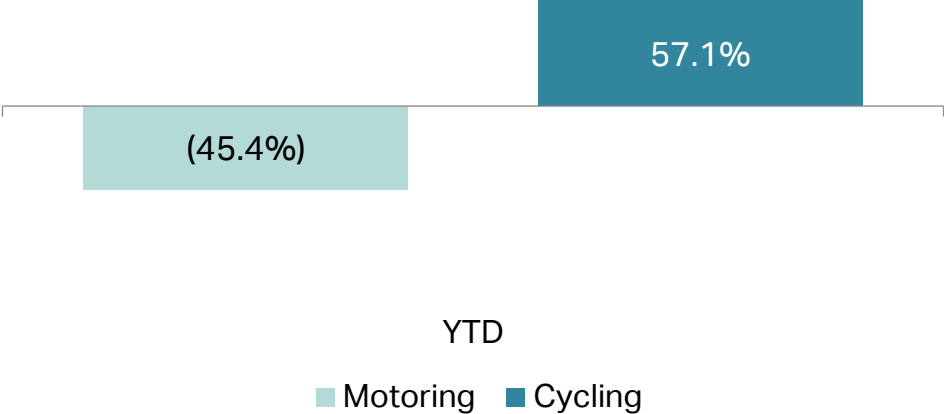
***Loraine Woodhouse, CFO***



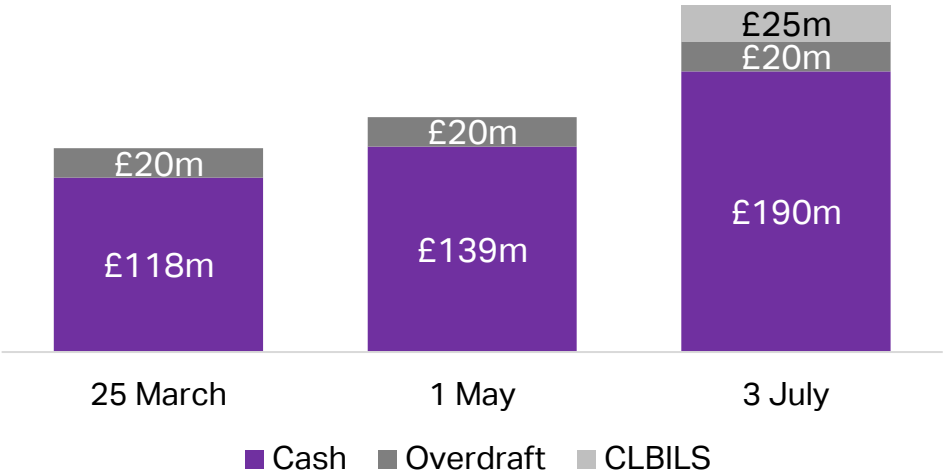
Group Sales LFL%



Retail Split - Sales LFL%



Available Liquidity



The Group has an existing facility of £200m comprising a £180m RCF, which is fully drawn, and a £20m overdraft.

An additional £25m of CLBILS funding has also more recently been agreed.

The table below shows our updated scenarios for possible revenue outturns in FY21:

LFL revenue growth (YOY%)	Scenario 1	Scenario 2	Scenario 3
Quarter 1	-6.5%	-6.5%	-6.5%
Rest of Year	-10.5%	-7.5%	-4.5%
Full-Year	-9.5%	-7.5%	-5.0%

Based on the revenue scenarios above, we estimate the following range of possible profit and Net Debt outcomes:

FY21 £m	Scenario 1	Scenario 2	Scenario 3
Underlying Profit before Tax, pre-IFRS 16*	-£10m to £0m	£0m to +£10m	+£10m to +£20m
Net Debt, pre-IFRS 16	£55m to £65m	£45m to £55m	£35m to £45m

**Note:** \* Underlying PBT includes funding from Government support schemes

- Strong financial results for FY20; significant progress against operational and strategic objectives in a challenging trading environment
- Clear strategic priorities for FY21
- Current year uncertainty - but Halfords is resilient and well-financed



**Q&A**





# ***APPENDICES***

	FY20 Highlights	Focus for the year ahead
<b>1</b> <b>Inspire</b> <b>Championing the shift to electric smart travel through education, engagement and community support</b>	<ul style="list-style-type: none"> <li>Published a report on E-bikes to better educate consumers on the benefits of electric mobility.</li> <li>Trained 308 technicians in electric vehicles or E-bike servicing, bringing the total to 759.</li> <li>Contributed to an Parliamentary debate on micromobility and we discussed the matter with MPs</li> </ul>	<ul style="list-style-type: none"> <li>Accelerate our investment in training and upskilling colleagues to better support customers</li> <li>Continue to invest in consumer research to understand how we can help people make the switch to electric</li> <li>Continue to engage with the Government and MPs for the law to change regarding the legalisation of private E-scooters</li> </ul>
<b>2</b> <b>Support</b> <b>Help put the consumer in control, through products, services and solutions</b>	<ul style="list-style-type: none"> <li>Delivered 'Customer First' training to all colleagues providing a better consistency of customer support</li> <li>Distributed over 54,000 Cycle-to-Work vouchers during the year</li> <li>Helped over 11,000 key workers keep moving with free car and bike checks throughout lockdown</li> </ul>	<ul style="list-style-type: none"> <li>Maintain pace with consumer trends as consumers look for alternative and 'Green' methods of commuting – accelerating our efforts to promote E-mobility</li> </ul>
<b>3</b> <b>Lifetime</b> <b>Walk the walk: make our business carbon neutral by 2050</b>	<ul style="list-style-type: none"> <li>Set out and committed to the target of carbon neutrality by 2050</li> <li>Rolled out energy-saving LED lighting across the entire estate</li> <li>Focused on initiatives for recycling of rubber products such as tyres and wiper blades</li> </ul>	<ul style="list-style-type: none"> <li>Introduce Science-Based Targets, creating a road map to 2050</li> <li>Continue to invest in our physical estate to further reduce our carbon footprint</li> <li>Work with suppliers to reduce waste and improve recycling</li> <li>Introducing Scope 3 reporting to cover all indirect emissions within our value chain</li> </ul>

Income statement impact	FY20*	FY19
Rent	£85.8m	
Depreciation	(£72.6m)	
FX movements and impairment	(£1.4m)	
Operating profit adjustment	£11.8m	
Interest	(£10.8m)	
Net Impact on underlying Profit Before Tax	£1.0m	
Non-Underlying costs	(£2.1m)	
Net Impact on Profit before Tax	(£1.1m)	
Balance Sheet impact		
Right-of-use asset	£349.9m	£396.3m
Lease liabilities	£416.0m	£456.8m

- The Group has initially applied IFRS 16 at 30 March 2019
- A right-of-use lease asset and a lease liability is included on the balance sheet, and depreciation and interest has been charged to the income statement instead of existing rental charges and operating expenses
- Discount rates ranging between 0.76% to 3.94% have been applied based on UK Government Gilt rates of an appropriate duration and adjusted by an indicative credit premium
- The Group has adopted the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in Retained earnings at the date of initial application.

**Note:** \* FY20 is presented on a 53-week basis

Revenue	£1,155.1m
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Gross Profit	51.1%
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Non-Underlying Items	(£32.1m)
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IFRS 16	(£1.1m)
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Profit Before Tax	£19.4m
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Basic Underlying EPS	22.9p
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Free Cash Flow	£54.6m
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Non-Underlying Items	FY20 £m
Organisational restructure	£2.8m
Strategic Review	£1.0m
Acquisitions	£1.9m
One Off Claims	£0.8m
Closure Costs	£25.6m
<b>Non-Underlying Items Pre-IFRS 16</b>	<b>£32.1m</b>
Closure Costs	£1.2m
Impairment of Right of Use Assets	£0.9m
<b>Non-Underlying Items Post-IFRS 16</b>	<b>£34.2m</b>



### ***Contact and Newsflow***

For further information, please go to  
[www.halfordscompany.com](http://www.halfordscompany.com)  
or contact:

#### **Neil Ferris**

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Next newsflow:

8<sup>th</sup> September 2020: FY21 20-week trading update