



Preliminary Results  
52 Weeks to 28 March 2008

City Presentation Centre  
5 June 2008

**halfords**

Richard Pym  
Chairman

# Highlights



## Strong set of results building on consistent, well executed strategy

- Financial
  - ◆ Sales £797.4m (2007: £744.0m); Growth +7.2%; LFL +4.3%
  - ◆ Profit before tax £90.2m (2007: £83.5m<sup>1</sup>)
  - ◆ Basic EPS 29.3p (2007:26.6p<sup>1</sup>)
  - ◆ The Board is recommending a final dividend of 10.35p, making a total dividend for the year of 15.10p per ordinary share, up 9.0%
- Strategic Progress
  - ◆ Sales and market share growth in each category
  - ◆ **wefit** and **werepair** jobs increased by 13% to 1.3m
  - ◆ 29 new stores opened, Central European & Bikehut developments at pilot scale
  - ◆ Continued growth & development of multi-channel
- Current Trading
  - ◆ Automotive categories in line with expectation, leisure gaining momentum after impact of early season adverse weather

Note: 1. Before exceptional finance costs

**halfords**

Nick Wharton  
Finance Director

# Financial Highlights



- Sales £797.4m (2007: £744.0m)
- Gross and operating margins maintained
- Operating profit £101.0m (2007: £93.5m)
- Profit before tax £90.2m (2007: £83.5m<sup>1</sup>)
- Basic EPS 29.3p (2007: 26.6p<sup>1</sup>)
- Share buy back: 9.5m shares acquired, during the year, at a cost of £30.3m (319.6 pence per share)
- Closing net debt £181.7m (2007: £180.0m)

Note: 1. Before exceptional finance costs

# Profit and Loss Account



	2007/08 £m	2006/07 £m	Growth %
Revenue	797.4	744.0	+7.2%
Gross profit	402.5	376.1	+7.0%
<i>Gross profit %</i>	<i>50.5%</i>	<i>50.6%</i>	<i>-10bps</i>
Net operating expenses	(301.5)	(282.6)	+6.7%
Operating profit	101.0	93.5	+8.0%
Net finance costs <sup>1</sup>	(10.8)	(10.0) <sup>1</sup>	+8.0%
Profit before tax	90.2	83.5	+8.0%
Basic EPS <sup>1</sup>	29.3p	26.6p <sup>1</sup>	+10.2%
Weighted average number of shares	218.4m	222.9m	

Note 1: Excludes exceptional finance costs of £2.6m

# Sales Growth

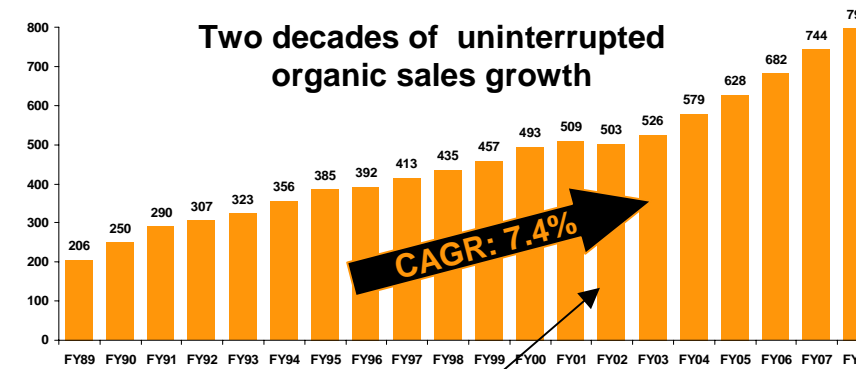


	2007/08 No. of Easters - 2 %	2006/07 No. of Easters -1 %
Like-for-like sales growth	4.0	5.3
Non comparable Easters	0.3	0.7
Net new space	2.9	3.1
<b>Total sales growth</b>	<b>7.2</b>	<b>9.1</b>

## Easter adjusted like-for-like comparatives:

	2007/08	2006/07
Half 1	5.5%	5.0%
Half 2	2.5% <sup>1</sup>	5.6%
Full Year	4.0%	5.3%

Note 1: Adjusting for child seats, underlying LFL 3.2%



Note: Excludes £17m of Garage sales, business sold to AA, August 2001

# Net Operating Expenses



	£m	% Revenue
2006/07 operating costs	282.6	38.0%
2007/08 non comparables <sup>1</sup>	(0.4)	
Space increase	7.8	
Underlying cost inflation (4.1%)	11.5	
<b>2007/08 operating costs</b>	<b>301.5</b>	<b>37.8%</b>

- Reduction in underlying cost inflation (2007: 4.8%)
- Underlying store payroll productivity improvement
- Store rent inflation moderating
- Increased advertising investment
- Consistent and sustainable level of landlord contributions

Key Ratios (% Revenue):	2007/08	2006/07
Store Payroll	11.6%	11.5%
Store Rent & Rates	11.2%	11.3%
Advertising & Promotions	2.5%	2.3%
Landlord Contributions	£4.5m	£4.5m

**Note 1: Non comparables e.g.** Central European development costs and management incentives



## Balance Sheet



	2007/08	2006/07	
	£m	£m	Growth
Goodwill and intangible assets	256.8	257.8	-0.4%
Property, plant and equipment	116.2	107.5	+8.1%
Derivative financial instruments	1.6	(1.0)	-
Net working capital <sup>1</sup>	57.6	45.7	+26.0%
Net debt	(181.7)	(180.0)	-0.9%
Creditors > 1 year	(28.8)	(26.9)	-7.1%
<b>Net assets</b>	<b>221.7</b>	<b>203.1</b>	<b>+9.2%</b>

- Stock increased by 7.1% compared to sales growth of 7.2%

Note: 1. Includes capital and interest creditors

## Capital Expenditure Summary



	2007/08	2006/07
	£m	£m
New stores and re-sites	12.1	11.3
Store conversions	1.8	2.3
Czech Republic	1.5	0.4
<b>Total portfolio</b>	<b>15.4</b>	<b>14.0</b>
Head office systems (incl. Web)	5.5	2.2
Store systems	6.3	4.2
Supply chain	0.7	0.5
Other	1.6	2.6
<b>Total capital expenditure</b>	<b>29.5</b>	<b>23.5</b>

- Record store openings (29) and infrastructure investment
- Fixed asset additions:depreciation ratio 1.4x (2007: 1.2x)
- 2 year capital expenditure requirement remains c.£50m

# Cash Flow and Net Debt



Operating cash flow		Free cash flow		Net debt <sup>1</sup>	
	£m		£m		£m
Operating profit	101.0	Op. cash flow	111.6	Net debt 31.03.07	(180.0)
Depreciation/Amortisation	21.4	Net finance cost	(9.4)	Free cash flow	40.2
Employee share scheme	1.0	Taxation	(27.1)	Share buyback	(30.9)
Fixed asset write-off	0.4	Dividends	(31.4)	Share options	12.4
Fair Value adjustment	(0.5)			Non cash movement	(0.3)
Working capital	(11.7)	Capex Maintenance	(3.5)	Capex Investment	(23.1)
<b>Operating cash flow</b>	<b>111.6</b>	<b>Free cash flow</b>	<b>40.2</b>	<b>Net debt 28.03.08</b>	<b>(181.7)</b>

Note 1. Including Head Office finance lease £12.3m (2007: £12.4m)

**Halfords remains strongly cash generative**

# Debt Structure & Profile



## Debt Structure

- £180m 5 year term loan, repayment July 2011
- £120m revolving credit facility.
- Cotermious £70m interest rate swap

## Debt Profile

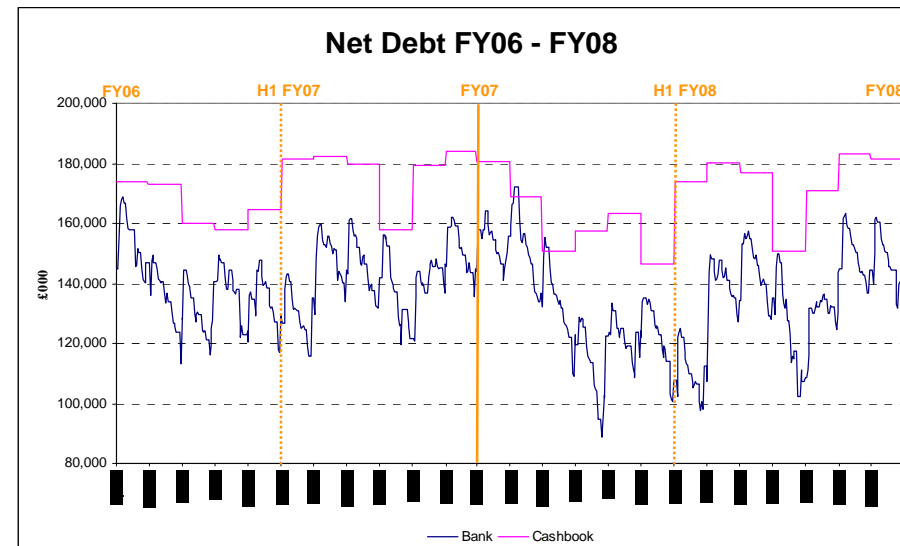
- Statutory half / full year represents peak borrowing requirement.
- Average net cash book debt £167m

## Key metrics

- Adjusted Net Debt/EBITDAR<sup>1</sup> 3.90x
- Fixed charge cover<sup>2</sup> 2.34x

Basis of calculation:

1. Adjusted net debt = Net debt + Capitalised rent EBITDAR = (EBITDA + rent)
2. EBITDAR/(Interest + Operating Lease expense)



Target >3.9x  
Target 2.25x- 2.30x

# Overview



## Halfords' platform for future growth

### Trading Momentum Maintained

- Sales and market share growth in each category
- Resilient business model evidenced
- Scale and service advantage
- Gross and Operating Margins maintained

### Execute Strategic growth plan

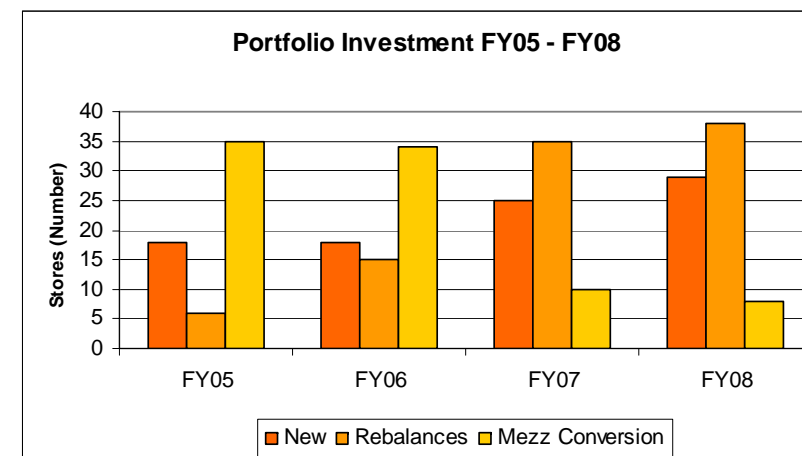
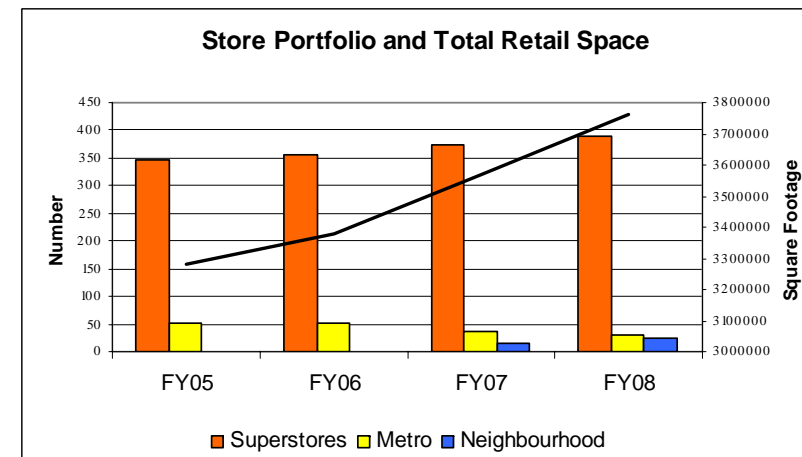
- ◆ Investing in the store portfolio
- ◆ Leveraging the Halfords' brand
- ◆ Marketing the Halfords' service proposition
- ◆ Improving the supply chain

# Investing in the Store Portfolio



- 450 stores now trading:
  - 390 superstores      31 metros
  - 24 neighbourhoods      5 Bikehuts
- Format options in place to address catchment needs
- Potential for over 100 further stores<sup>1</sup> c.23% space
- Intention to open 15 – 20 new UK and ROI stores<sup>1</sup> p.a:
  - FY08: 18
  - FY07: 16
- Ongoing refresh programme to ensure store contemporary (2007: 38 stores)

Note 1: Excluding Bikehut and Central European expansion



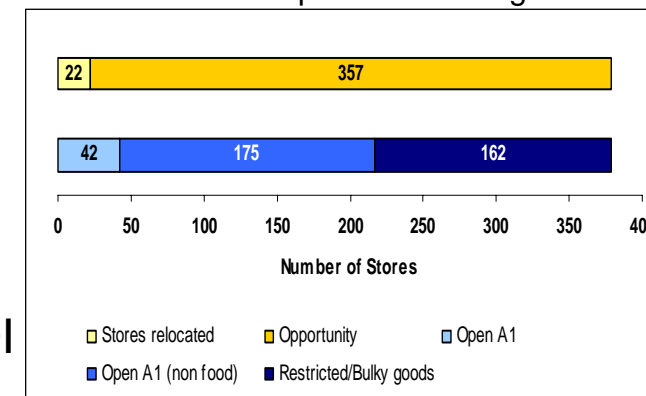
# Investing in the Store Portfolio



## Superstores

- Format of choice
- 390 stores, 231 with mezzanine
- Premium location (217 on A1 parks) presents portfolio opportunity
- Opportunity for over 50 more stores in UK and ROI

Retail Park Participation: Planning Consent



## Neighbourhood

- 24 stores trading from initial concept in FY06
- Comprehensive product and service offer
- Catchment expertise optimises site selection
- Return on investment in line with superstores
- Potential for over 50 more stores in UK



Longford (ROI) neighbourhood store

## Republic of Ireland

- 17 stores now trading including first neighbourhood



# Investing in the Store Portfolio



## Central European Development

- Initial three store pilot on track
- Encouraging performance
  - ◆ Strong consumer acceptance
  - ◆ Sales levels and mix positive
    - Cycling/Car Maintenance performing strongly
    - Garage utilisation ahead of expectation
    - Technology participation accelerating
  - ◆ Operating margins in line with expectations
- Refine store footprint – expand Czech operation to pilot scale
- Accelerate low infrastructure Polish market entry





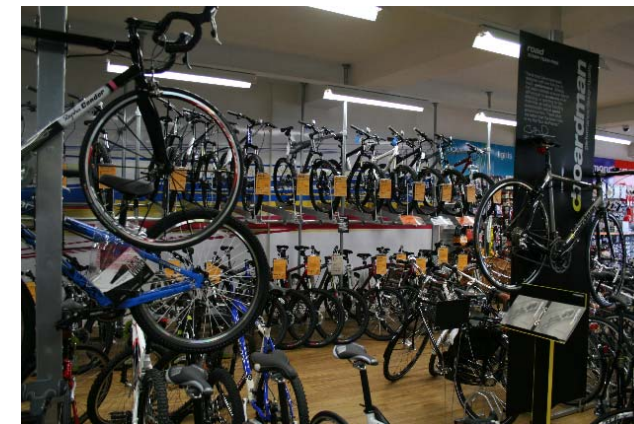
# Investing in the Store Portfolio



## Stand Alone Bikehut

- Pilot scale achieved
- Growing credibility/reputation
  - ◆ Exclusive products; Condor, Rocky Mountain, Boardman and Animal
  - ◆ Service/repair offer taking local market share
  - ◆ Strong accessories mix
- Operating performance in line, with no superstore cannibalisation
- Offer reviewed to improve customer experience and operating economics
- 2008 – extended national pilot to 10 stores plus dedicated web site
- Potential for at least 50 stores

Second Bikehut: Putney



Fifth Bikehut: Rickmansworth

**halfords**

Paul McClenaghan  
Director of Trading

# Overview



## Halfords' platform for future growth

### Trading Momentum

- Sales and market share growth in each category
- Resilient business model evidenced
- Scale and service advantage
- Financially strong: Gross and Operating Margins maintained

### Execute Strategic growth plan

- ◆ Investing in the store portfolio
- ◆ Leveraging the Halfords' brand
- ◆ Marketing the Halfords' service proposition
- ◆ Improving the supply chain

# Leveraging the Halfords Brand



## Automotive

### Car Maintenance

- Remain the No. 1 retailer of car parts
- Fastest growing category in 2007/08
- High margin, needs driven product
- Promotional focus targets higher retail conversion
- Successful new ranging
- Car specific ranging supports our competitive advantage
- **wefit** underpinning success



# Leveraging the Halfords Brand



## Automotive

### Car Enhancement

- Remain No. 1 retailer of in-car technology
- Continued growth in own-brand electronics
- Sat-Nav remains positive
- Launched new Navsure in-dash Sat-Nav
- Underpinned by fitting capability
- Strong performance from MP3/iPod and mobile phone connectivity
- New car accessories drive aisle





# Leveraging the Halfords Brand



## Leisure

### Travel Solutions & Camping

- No.1 in Travel and Touring
- Our best ever Leisure season
- Successful sub-shop introduction
- Opportunity for further growth in camping
- New premium camping brand drives increased ATV



- New ranges and packaging improves sales and ATV
- Enhanced child seat position post legislation



# Leveraging the Halfords Brand



## Leisure

### Cycling



- No.1 retailer of cycles
- Apollo remains UK no.1 bike brand
- Carrera remains UK's no.1 premium bike brand - new ranges introduced including Carbon and Kids.
- New "safest ever" kids range and merchandising proved successful at Christmas
- Strong performance from Boardman - new carbon range to be launched this year
- Continued growth in cycle maintenance plan
- Strong growth in accessory attachment



# Multi-channel



- Strong year for multi-channel
- Visitors up over 60%, transactions up 250%
- Halfords ranked No.1 Sport and Fitness website<sup>1</sup>
- Reserve and Collect launched prior to Christmas and now nationwide – 200,000 orders to date
- 4 ways to shop – Catalogue introduction in 2008
- More sites to come on line, including bikehut.com

Note 1. Source: Retail Week





# Marketing the Service Advantage



## Unique Service Proposition

- **wefit** re-branding now complete
- Over 1.3m fitting jobs carried out
- Continued momentum in **wefit** and **werepair** jobs, +13% year on year
- Colleagues trained to high standard:
  - ◆ 800 trained in cycle repair
  - ◆ 2,000 accredited to fit child seats
  - ◆ 750 trained to hardwire technology in car
  - ◆ 1,500 deliver our unique Sat-Nav Set-up and Demo



# Marketing the Service Advantage



## Marketing

### In-store

- New environment implemented
  - ◆ Sub-shops created across the sales floor
  - ◆ Introduction of navigational signage
  - ◆ Promotional stand out improved
  - ◆ New seasonal space format successful



### Advertising

- “Ready to go” TV campaign successful
- Services idents on “Dave” digital channel proving popular



# Marketing the Service Advantage



## Key Sponsorship

### Cycling

- GB cycling - First Commercial Sponsor
- Team Halfords Bikehut ride Boardman bikes
- Tour de France ITV1 sponsorship

### Motoring

- British Touring cars team sponsor
- “Dave” motoring sponsorship





# Supply Chain Development



## Far East Direct Sourcing

- Penetration continues to improve
- Introduced additional buying office in Shanghai
- Strong Far East expertise in the UK
  - ◆ Camping over 90% Far East sourced
  - ◆ Cycles over 70% Far East sourced
- Own brand development in electronics proving successful:
  - ◆ Sendai / Ripspeed / Sonichi / Navsure



## Developing a Platform for Growth



### **Building Growth on a Solid and Robust Foundation**

- Resilient and defensive business model
- Margin stabilised
- Growth driven across product range
- Potential to exploit further growth opportunities
- Confidence in future prospects

# Appendix



- Portfolio by Store Type

# Portfolio By Store Type



Retail Space 3,767,828 ft <sup>2</sup>	Mezzanine SM/M	Flat F	Neighborhood N	Metro Me	Bikehut BH	Total
Opening Number	211	165	15	33	2	426
New Store	13	4	8	1	3	29
Closures	(1)	(2)		(2)		(5)
Conversions	8	(8)	1	(1)		0
Closing Number	231	159	24	31	5	450

07/08 store rollout	Q1	Q2	Q3	Q4
<b>New stores (29)</b>	Tallaght (SM) Ashford (SM) Cestlice (SM) Sheffield (SM) Cumbernauld (SM) Gainsborough (SM)	Dundalk (SM) Exmouth (SM) Havant (SM) Arbroath (N)	Letterkenny (SM) Letnany (F) Twickenham (BH) Dorking (BH) Kilkenny (F) Plzen (F) Northallerton (SM)	Stroud (N) Longford (ROI) (N) Maypole (N) Brynmawr (N) March (N) Ashbourne (N) Downpatrick (N) Rickmansworth (BH) Stoke Newington (Me) Irvine (SM) Ormskirk (F) Canterbury (SM)