



**halfords**

**Nationwide  
Autocentre**

***Acquisition expands Halfords  
into car servicing and repair***



**David Wild**

**Chief Executive  
Halfords Group plc**



## *Halfords expands into car servicing and repair*

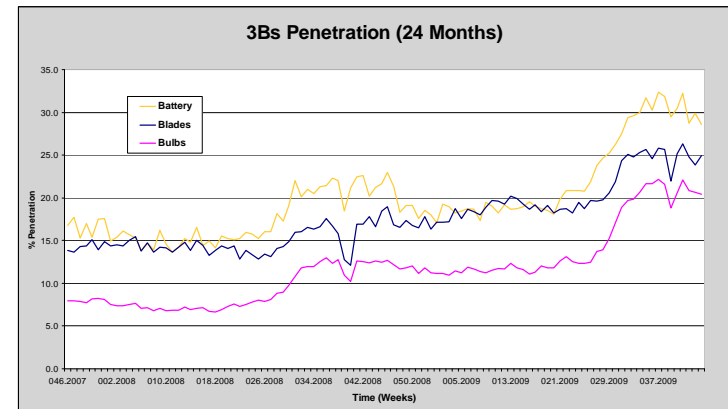
- Nationwide Autocentres: Acquisition Summary & Rationale  
David Wild  
CEO, Halfords
- Nationwide Business Overview  
Duncan Wilkes  
CEO, Nationwide Autocentres
- Financials and Growth Opportunity  
Nick Wharton  
Finance Director, Halfords
- Summary  
David Wild
- Questions and Answers

# Acquisition Summary



## Acquisition builds on Halfords position in car maintenance

- £73.2m acquisition of Nationwide funded from existing resources
- Nationwide Autocentres
  - ◆ Market leader
  - ◆ Clear cost advantage
  - ◆ Strong track record
  - ◆ Management retained
- Car service and repair sector attractive
  - ◆ Market growth
  - ◆ Needs based
  - ◆ Fragmented
- Platform for growth at good returns
  - ◆ Centre roll-out programme
  - ◆ c.6% EPS accretion in FY11
  - ◆ Planned c.£20m EBIT in FY13



# Nationwide Autocentres



## *Unique UK Position: Quality independent with national presence*

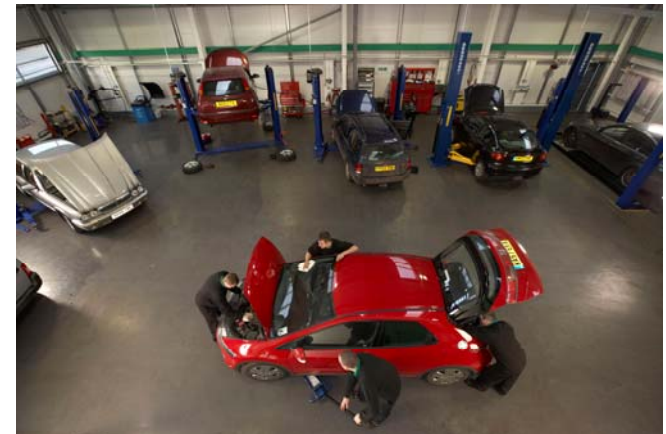
- Leading UK provider of MOT and car servicing
- Significant presence in highly fragmented market
- Operates 224 centres nationally
- Customer centric operation
- Established internet capability
- Major provider to fleet sector



# Acquisition Rationale



- Complementary business meeting acquisition criteria
  - ◆ Quality
  - ◆ Domestic
  - ◆ Brand/capability adjacency
- Proven business model. Advantaged cost to serve
  - ◆ Property costs
  - ◆ Labour utilisation
  - ◆ Purchasing quantities
- Logical extension for Halfords
  - ◆ Car maintenance is core category
  - ◆ Trusted brand in automotive
  - ◆ Integrated re-branding plan
- Identified growth opportunities
  - ◆ Significant portfolio growth potential
  - ◆ Re-branding enhances revenue opportunity
  - ◆ Customer cross-marketing
  - ◆ Buying/cost efficiencies



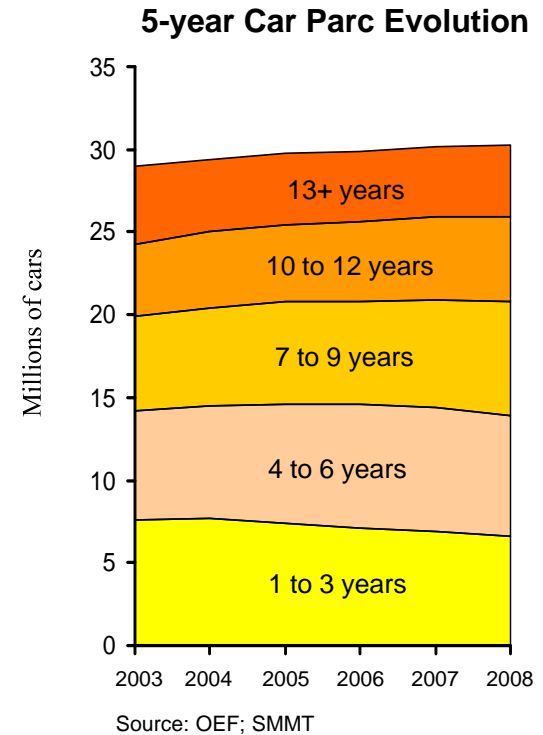
***Natural extension of Halfords business model***

# UK Service Market Overview



## *Substantial £9bn market with positive market drivers*

- Expanding market with fastest growth in older vehicles
- Core market drivers
  - ✓ Size / growth / age of car parc
  - ✓ Average servicing / parts costs
  - ✓ Innovation (brake fluid replacement)
  - ✗ Parts reliability and service intervals
- Block exemption widens choice for customers
- Consolidating market with barriers to entry
  - ◆ Franchised dealers
  - ◆ Independent garages in decline
  - ◆ Internet participation



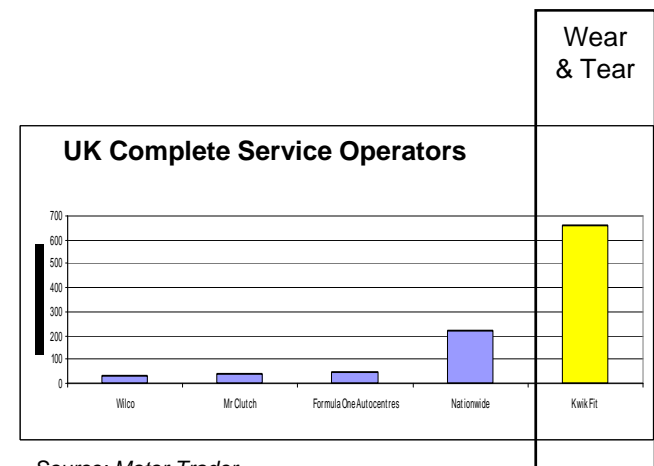
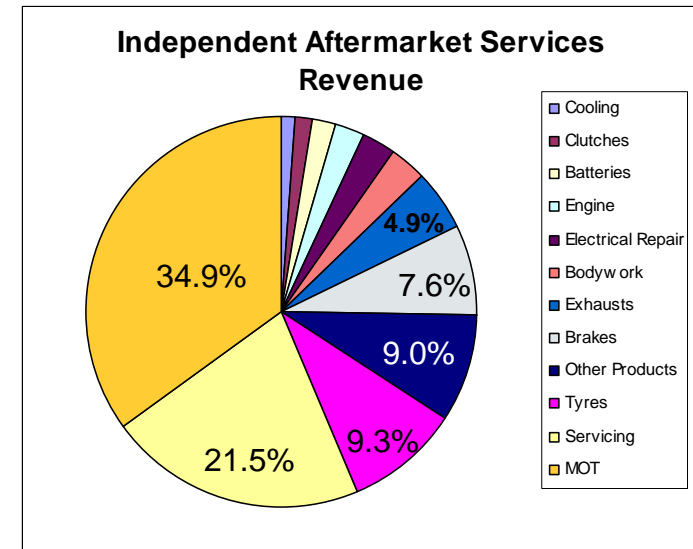
*Significant potential for growth*

# UK Service Market Overview



*A substantial and fragmented market that is now consolidating*

Market Segment	Market Structure and Drivers
<b>1. Basic Consumables</b>	<ul style="list-style-type: none"> <li>● Replacement of consumable products e.g, Bulbs, Blades, Batteries</li> <li>● More complex car technology reduces DIY accessibility</li> <li>● Halfords <i>wefit</i> growing strongly</li> <li>● Independents provide value alternative</li> </ul>
<b>2. Wear and Tear</b>	<ul style="list-style-type: none"> <li>● Tyre fitting, Brakes and Exhausts</li> <li>● Non-franchised chains e.g. Kwik Fit, ATS</li> <li>● Widening offer. MOT - but not complex repairs</li> <li>● Increasingly not “fast fit” – SKU proliferation</li> </ul>
<b>3. Complete Service</b>	<ul style="list-style-type: none"> <li>● Service, MOT and Repairs</li> <li>● Dealers (new cars), Independents (older cars)</li> <li>● Block exemption has strengthened non-franchised operators</li> <li>● Number of independents contracting</li> </ul>



Source: Motor Trader





**Duncan Wilkes**  
Chief Executive  
Nationwide Autocentres

# Operational Overview



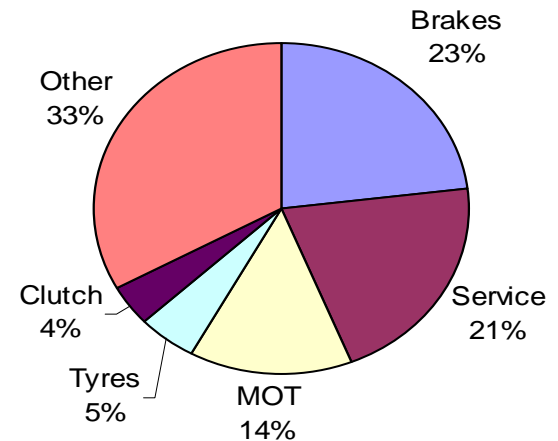
## *Unique UK position: Quality, independent scale operator*

- Differentiation Strategy
  - ◆ Dealer quality service at more affordable prices
  - ◆ Highly trained staff and latest diagnostic technology
  - ◆ National coverage provides further fleet opportunity
- Sales mix
  - ◆ Service and MOT 35%
  - ◆ Brakes 23%
- Sales channels
  - ◆ Business to consumer 78%
  - ◆ Fleet (B2B) 22%

### Top 5 Fleet Customers

Arval  
Carillion  
Hitachi  
Leaseplan  
Lex Autolease

### Nationwide Sales Mix



Source: Nationwide internal data. Financial year 2008

# Operational Overview



## *Service differentiation provides key competitive advantage*

- Unique customer proposition
- Sector leading customer service drives core operational KPI's
  - ◆ All centres audited quarterly
  - ◆ Staff trained and assessed on customer satisfaction
  - ◆ Best in class service level
  - ◆ Continuous improvement
- KPI progression through advanced data and customer management processes

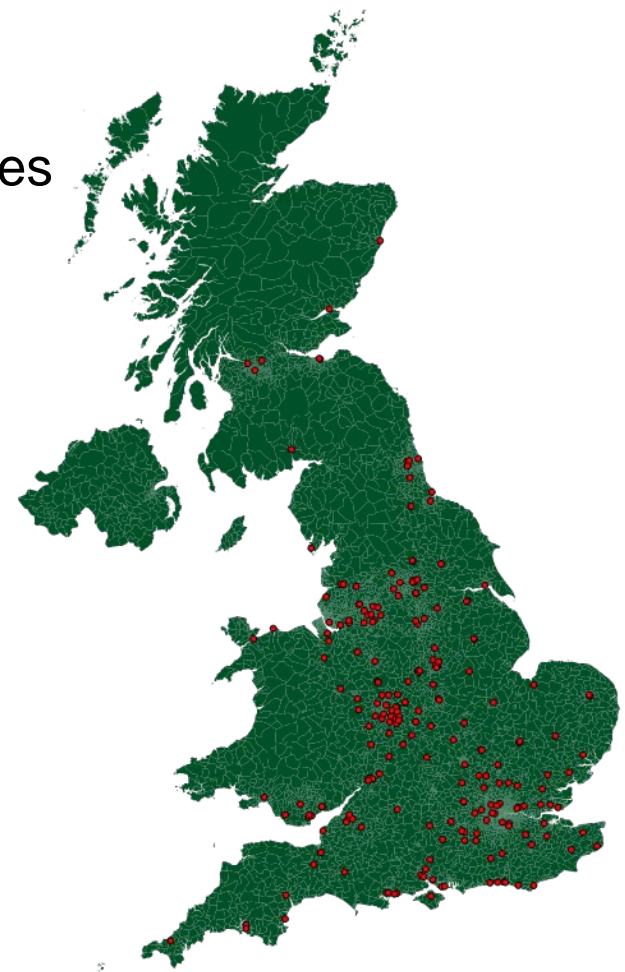


Key Performance Indicator	2005	2009	Growth
Customer Retention	43.0%	49.6%	+15.3%
Jobs per productive per wk	12.0	13.4	+11.7%
Average revenue per job	£139.70	£155.50	+11.3%
B2B/B2C Revenue %	20 / 80	22 / 78	-

# Halfords Opportunity



Nationwide National  
Footprint (2009)



- Capital availability accelerates centre roll-out
- Halfords' brand resonates with relevant core values
- Complementary customer base
  - ◆ Customer recruitment & retention
  - ◆ Marketing activity
  - ◆ Database sharing
- Buying and operational scale



Nick Wharton

Finance Director  
Halfords Group plc

# Transaction Summary



## *Nationwide: exciting growth opportunity delivering attractive return*

- Halfords acquires the entire Nationwide issued share capital:

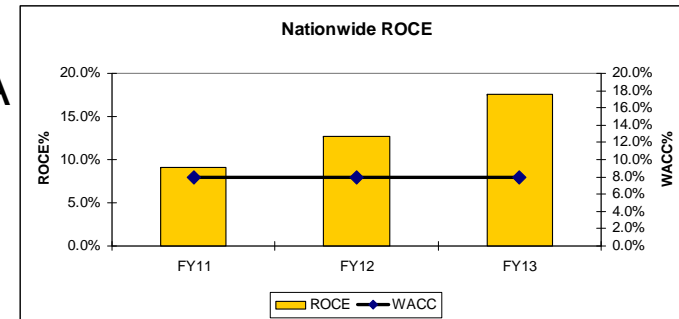
- ◆ Cash free, debt free basis
- ◆ Cash consideration £73.2m, 7.2x FY10 EBITDA
- ◆ Funded from existing resources
- ◆ Group year end net debt 1.1x EBITDA<sup>1</sup>

- Acquisition delivers:

- ◆ c.13% 3-year average return on capital employed<sup>2</sup>
- ◆ c.6% earnings per share accretion in FY11
- ◆ FY10: Post acquisition profits offset by integration costs
- ◆ Strong operating cash conversion

- Element of management consideration deferred for 2 years

- 100-day integration plan commences today



Note

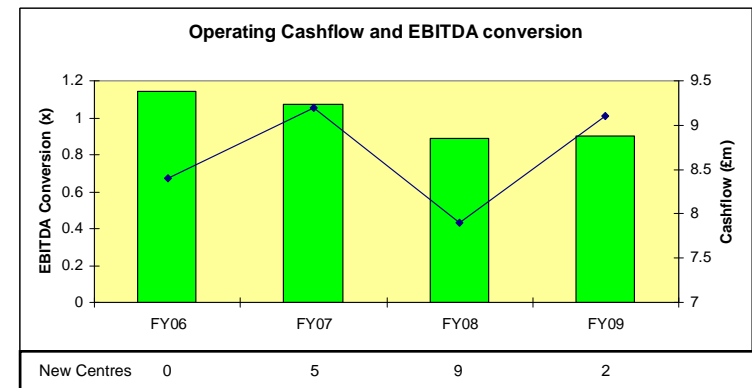
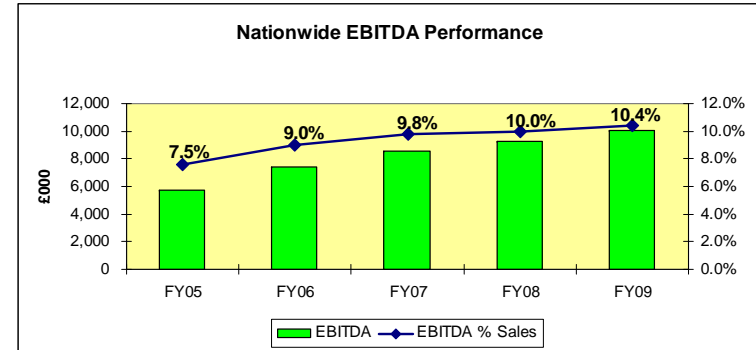
1. Group net debt ratio includes full year Nationwide earnings on a pro-forma basis. Group debt is anticipated to represent c. 1.2x EBITDA if only post acquisition earnings are recognised

2.  $ROCE = \frac{((EBIT + Interest\ Inc.) * (1 - Tax\ Rate)) + Goodwill\ Amortisation}{(Total\ Assets - Current\ Liabilities + ST\ Debt + Acc\ Goodwill\ Amortisation)}$

# Nationwide Financials



- Four year revenue growth 6% CAGR
- Gross profit consistent at 67%
- Productivity improvements increased operating returns by c.300 bps
- FY09 Operating Profit at £9.0m represents 9.2% of sales (FY05: 6.2%)
- Strong cash-flow characteristics;
  - ◆ Consumer based revenue and low inventory drives positive working capital
  - ◆ Limited seasonality
  - ◆ Low capital intensity
  - ◆ Operating cash conversion average 95%



# Growth Opportunities



## *Value opportunity focused on growth centric benefits*

- Brand
  - ◆ Increased sales through leverage of resonant Halfords brand
  - ◆ Cross marketing between Group companies using extensive customer database
- Portfolio Expansion
  - ◆ Use of Halfords capability and financial resource to accelerate scale rollout
  - ◆ Third party demographic model prioritises 200 further locations
  - ◆ Broad property options to support roll out
- Efficiency opportunities
  - ◆ Utilise existing centre capacity
  - ◆ Leverage increased purchasing scale
  - ◆ Introduce focused retail proposition



# Service Centre Metrics



*Capex light growth model, delivers Group average return on investment*

## Investment

- New centre capital investment £135k, including initial fit out and equipment costs
- Small pre-opening revenue requirement
- Brand conversion at £15k per store in FY11

## Payback

- Four year discounted pre-tax payback

## Maturity Profile

- Net trading margin break even within first year
- EBITDA profitability during the second year
- Halfords brand leverage further enhances payback

	£000
Revenue	420.0
Gross Margin	281.4
	67.0%
Direct Labour	(130.2)
	31.0%
Rent	(32.0)
Rates	(12.8)
Other overheads	(40.2)
Centre Overheads	(85.0)
	20.2%
<b>EBITDA</b>	<b>66.2</b>

# Integration Plan



*Due diligence validates plan to double operating profit in three years*

- Financial, commercial, legal and environmental diligence completed
- Detailed 100 day plan accelerates synergies & addresses execution risk
- Integration plan focused on highest value opportunities

FY11	FY12	FY13
<p><b>Develop infrastructure to support growth ambition</b></p> <ul style="list-style-type: none"> <li>● 12-18 new centres</li> <li>● Migrate to Halfords branding</li> <li>● Secure joint sourcing benefits</li> <li>● Commence back office integration</li> <li>● Customer database integration</li> <li>● Develop cross selling opportunities</li> </ul>	<p><b>Accelerate scale rollout</b></p> <ul style="list-style-type: none"> <li>● 25-30 new centres</li> <li>● Implement integrated systems platform</li> <li>● Complete back office integration</li> <li>● Introduce focused retail concept</li> </ul>	<p><b>Develop further growth opportunities</b></p> <ul style="list-style-type: none"> <li>● 30 new centres</li> <li>● Evaluate additional revenue streams e.g. financial services proposition</li> </ul>
c. £9.5m		c. £20.0m
<b>EBIT Contribution</b>		



**David Wild**

**Chief Executive  
Halfords Group plc**

# Summary



## *Car servicing and repair provides an exciting growth opportunity*

- Quality business in attractive, adjacent market
- Financial performance, EBITDA 15% CAGR
- c.6% Earnings accretive in financial year 2011
- Management experience/expertise retained
- Clearly identified growth opportunity with low execution risk
- Plan to double EBIT to c.£20m in third year of ownership

## *Core retail business continues to trade strongly*



# Appendices

1. Nationwide Financials FY06 – FY08
2. Senior Management CV's

# Key Nationwide Financials FY06 - 08



<b>Nationwide Abridged Profit and Loss Account</b>					
£m	FY06	FY07	FY08	CAGR	FY09
Sales	82.4	87.2	92.6	6.6%	96.6
Gross Margin	54.9	58.2	61.9		64.3
Direct Labour	26.9	27.5	29.5		30.4
Contribution	28.0	30.7	32.4	5.0%	33.9
Overheads	21.8	23.1	24.2		24.9
EBITDA	7.4	8.6	9.2		10.1
EBIT	6.2	7.6	8.2		9.0

<b>Nationwide Cashflow</b>					
£m	FY06	FY07	FY08		FY09
EBITDA	7.4	8.6	8.8		10.1
Working Capital	2.2	1.8	0.4		0.4
CapEx	(1.2)	(1.2)	(1.3)		(1.4)
Operational Cashflow	8.4	9.2	7.9		9.1
EBITDA Conversion	1.14x	1.07x	0.89x		0.90x

Results are Nationwide financial years, financial year ended 31 December

# Senior Management CVs



## **Duncan Wilkes, Chief Executive Officer**

- Managing Director, RAC Business Solutions
- UK Managing Director then COO, 7C Limited
- Sales and Marketing Director then COO, Action Computer Supplies
- European Marketing Director, Wang Laboratories

## **Bill Duffy, Chief Operating Officer**

- Managing Director, RAC Auto Windscreens Ltd
- Managing Director, Lex Commercials Ltd
- Managing Director, TDG Vehicle Rental