

27 September 2018

Halfords Group plc
Capital Markets Day

“to inspire and support a lifetime of motoring and cycling”

Halfords Group plc today hosts a capital markets day, during which Graham Stapleton (CEO) and several of his leadership team will set out the Group’s plans for the next few years. A copy of the presentation will be made available on www.halfordscompany.com later today.

This announcement sets out key points from the presentation, along with a summarised explanation of the Group’s strategy.

Key Points

- Halfords is already a good business with many existing strengths, which have supported the Group’s robust trading performance over the last two years and also provide a solid foundation on which to build
- Today, the Group sets out a long-term strategy to build upon those strengths to become a truly differentiated, service-led super specialist, well placed to thrive within a rapidly changing retail environment
- We have set out a new customer strategy for the business focused on *supporting and inspiring a lifetime of motoring and cycling*. This will focus on the following strategic priorities:
 - Inspiring our customers through a differentiated, super specialist shopping experience
 - Supporting our customers through an integrated, unique and more convenient services offer
 - Enabling a lifetime of motoring and cycling
- We will support this with an accelerated programme of investment. Capital expenditure will increase from the prevailing guidance of c. £40m per year to up to £60m per year over the medium term, with significant investment in our stores, garages, and digital platforms
- Alongside this we have commenced a wide-reaching cost and capital efficiencies programme, which will enable us to fund the increase in capital expenditure from cash released from within the business over the life of the plan. Despite incremental investment in operating expenditure as we implement our long-term strategy, we anticipate FY20 Profit Before Tax to be broadly flat on FY19, with mid-single-digit percentage annual growth anticipated thereafter as the plans take effect
- Our existing debt target and capital allocation priorities remain unchanged, other than a new commitment to preserve the ordinary dividend along with continuing to target to grow it every year. We also add a new financial target to increase Free Cash Flow

Graham Stapleton, Chief Executive Officer, commented:

“We are a strong and growing business, that benefits from a solid financial platform and highly experienced and capable colleagues. However, customer behaviours and the competitive environment are changing and we face an increasing number of headwinds. Our new long term strategy means we will become far more focussed on the categories we are best known for, motoring and cycling. We will have a more convenient, easy to shop and scaled services business, offering a thousand service locations. Customers will also benefit from unique product, services and shopping experiences all underpinned by integrating the separate businesses within the group. We have an exciting future ahead and I am confident that we will become even more relevant to motoring and cycling customers in the future”

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Forthcoming Newsflow

On 8th November 2018 we will report on the interim results for the 26 weeks ending 28th September 2018.

Notes to Editors

www.halfords.com

www.halfordscompany.com

www.halfordsautocentres.com

www.cyclerepublic.com

www.boardmanbikes.com

www.tredz.co.uk

Halfords is the UK's leading provider of motoring and cycling products and services. Customers shop at 452 Halfords stores, 24 Cycle Republic stores, 3 Tredz stores and 315 garages in the UK and Republic of Ireland. Customers can also shop at halfords.com, cyclerepublic.com and tredz.co.uk for pick-up at their local store or direct home delivery, as well as booking garage services online at halfordsautocentres.com.

Cautionary Statement

This report contains certain forward-looking statements with respect to the financial condition, results of operations, and businesses of Halfords Group plc. These statements and forecasts involve risk, uncertainty and assumptions because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. These forward-looking statements are made only as at the date of this announcement. Nothing in this announcement should be construed as a profit forecast. Except as required by law, Halfords Group plc has no obligation to update the forward-looking statements or to correct any inaccuracies therein.

Overview of the Group's strategy

Introduction

Halfords is already a good business with many existing strengths, including its highly-engaged colleagues, a sizeable and growing services business, leading positions in attractive markets, and a prudent capital structure and strong balance sheet.

These strengths also provide a solid foundation on which to build, but are not sufficient in isolation to provide a long-term, sustainable and profitable business nor counter some of the significant headwinds we face going forwards. The retail environment is ever-changing, with increasing competitive threats and more demanding customer expectations. After a detailed strategic review process we are clear that standing still is not a long term option.

We have chosen to accelerate investment in the business to become a much more differentiated, super specialist with an integrated, unique and more convenient services offer, and to focus on retaining customers for a lifetime. By doing so we will develop a business with long-term, sustainable growth prospects.

Customer, market and competitor insight

We conducted an in-depth strategic review over the last 6 months, including comprehensive customer, colleague, market and competitor research, supported by external input. For the first time we were able to use powerful insights from our single customer view. A detailed overview of this is contained within our capital markets day presentation, of which a few summarised points are noted below.

Halfords operates in the motoring and cycling markets, both of which have good long-term growth prospects, but which are also characterised by generalists becoming more sophisticated and encroaching on the space previously occupied by specialists. Halfords has leading market shares in some areas; whilst also having significant headroom to grow further.

We know that there is increasing demand from customers who want someone to "do it for me", but customers do not find us convenient enough. There are also significant opportunities to improve cross shop (currently only 2% of our Retail customers also shop at Autocentres) and customer retention (for example, 1 in 3 of our known customers haven't shopped with us for two years). Finally, cars and bikes are becoming more complex, particularly as electric vehicle popularity increases. There are opportunities for scaled, specialist service providers to lead in this market.

Our new customer strategy

Halfords' role is to *inspire and support a lifetime of motoring and cycling*.

We will do this through the following strategic priorities:

1. Inspiring our customers through a differentiated, super specialist shopping experience
2. Supporting our customers through an integrated, unique and more convenient services offer
3. Enabling a lifetime of motoring and cycling

1. Inspiring our customers through a differentiated, super specialist shopping experience

Halfords will become a business more focused on what it is really known for - its core motoring and cycling offer. Customers will be able to buy products and services with features and benefits that they not only want or need, but are only available at Halfords. These products and service will be available from a more innovative and personalised online site together with a complementary and inspiring store environment. Customers and colleagues will also be supported by a unique in-store tablet, digital screen and mobile experience.

On average it is 11 years since our stores had investment and as such most stores were designed before a scaled online and services business existed. We will be accelerating investment in both our stores and garages in order to address that.

2. Supporting our customers through an integrated, unique and more convenient services offer

Customers will be able to access a broader range of services more easily from one single integrated web site, combining the separate Retail and Autocentres websites that exist today. Through making more services available across both stores and garages, and a roll out of more garages, we will significantly reduce the average drive time for our customers to reach one of our service locations. In addition, we will roll out mobile services vans to give customers in major

conurbations the option of us coming to them. Collectively this will create a more convenient network of circa 1,000 service delivery locations across the UK and Ireland. Halfords will also be the nationwide go-to provider for Electric bike and car servicing.

3. Enabling a lifetime of motoring and cycling

Finally we will place equal focus on retaining customers as well as acquiring new ones. Customers will enjoy building relationships with Halfords for the long term as they are encouraged to explore and benefit from all that we do in both motoring and cycling over their lifetime. We will achieve this through more sophisticated use of our customer data and CRM capabilities, launching loyalty mechanics, and improving the cross shop between our businesses.

Infrastructure

This customer strategy is underpinned by continued development of our infrastructure, particularly IT and property.

IT

The IT investments in recent years have already given us a good platform on which to improve our customer experience. We will continue to invest in customer-facing improvements, including our new in-store software and tablets, a new car parts database, and the customer journey enhancements as set out above, along with a re-platform of all our group websites. We will also be implementing systems to improve efficiencies, such as a new forecasting and replenishment tool.

Property

We currently have a physical estate of 452 Halfords store, 24 Performance Cycling stores (mainly branded as Cycle Republic), 315 garages and 3 mobile vans. The property portfolio is relatively flexible, with an average 6 years remaining lease length, enabling us to continually monitor and adjust to our requirements.

Over the medium term we anticipate the following changes to our physical estate:

- open 100+ garages, increasing the estate by at least a third;
- a target to double the Performance Cycling store numbers from 24 to 50+;
- closing some Retail stores (at a similar run rate; we have closed 6 in the last 12 months);
- continue to relocate and/or "right size" Halfords stores each year; and,
- rolling out mobile vans, targeting the the major conurbations.

We will also be accelerating investment in refurbishments. We anticipate refreshing up to 90 stores and up to 50 garages a year over the medium term.

Operational efficiencies

As well as focusing on our customer strategy to create a more unique and differentiated, super specialist business, we will be equally focused on ensuring we have an efficient, cost effective and cash generative business. We will be targeting cost savings and cash efficiencies from property, product, supply chain and in-garage processes, along with synergies from greater integration of our businesses across the Group.

These operational efficiencies will be re-invested into:

- accelerated capital expenditure;
- strategic investments in operating costs; and
- investing in price as and when required to respond to competitive threats over the medium term.

Summary financial guidance

Our new customer strategy requires investment in both capital and operating expenditure. We will fund the increased capital expenditure requirements over the life of the plan through the cost and cash efficiencies explained above. In addition we will continue to apply our "test and learn" approach to investments, with clear "gating", such that we will change or stop investments that do not pay back in line with our expectations.

The summary financial guidance elements are set out below:

- FY20 Profit Before Tax to be broadly flat on FY19, with mid-single-digit percentage growth annually thereafter for the medium term.

- Capital expenditure will increase from the prevailing guidance of c. £40m per year to up to £60m per year over the medium term. As explained above, this increase will be self funded over the life of the plan through cash efficiencies.

All of our financial guidance, and our financial targets set out in the next section, assume an orderly Brexit scenario.

Going forward we will change how we report our trading and results. From FY20 onwards we will no longer separately disclose results for the Retail and Autocentres businesses, as we bring them together to create one services businesses in both the eyes of the customer and in how we operate them. Additionally we will streamline our "like-for-like" categories; from FY20 these will comprise: Motoring, Cycling and Group.

Financial targets and capital allocation priorities

Over the medium term we aim to achieve four key financial targets, which are similar to the framework that was previously in place:

1. Grow sales faster than the markets in which we operate. We anticipate that the motoring market will grow at an average rate of 2+% per annum and the cycling market at an average rate of 3+% per annum over the medium term. We will aim to beat whatever those growth rates are
2. Increase Free Cash Flow. Specifically, over the three year period from FY19 to FY21 we target Free Cash Flow to be greater than in the preceding three year period of FY16 to FY18.
3. Grow the dividend per share every year. We continue to target a long term coverage of around 2 times underlying earnings on average, although this will be lower in the medium term.
4. Net debt to EBITDA of 1 times, with a range up to 1.5 times for appropriate M&A; we are currently at circa 0.7x.

Our capital allocation priorities remain unchanged other than an enhanced commitment on the ordinary dividend. Our priorities are as follows:

1. Maintaining a strong balance sheet and preserving the ordinary dividend.
2. Investing to grow the business.
3. Growing the dividend.
4. Investing in appropriate M&A.
5. Distributing any surplus cash to shareholders.

Halfords Group plc's LEI code is 54930086FKBWWJIOB17