Halfords Group plc - FY21 Interim Results

Wednesday, 18th November 2020

Transcript produced by Global Lingo
London - 020 7870 7100
www.global-lingo.com

Introduction

Graham Stapleton

CEO, Halfords Group plc

Welcome

Good morning, everyone, and welcome to the Halfords Group Interim Results for the 26 weeks ending 2nd October 2020. I am Graham Stapleton, CEO of Halfords, and I am joined this morning by Loraine Woodhouse, our CFO.

As I am sure you are all aware, unfortunately, under the current circumstances we are having to continue to hold these updates remotely. We are however embracing the technology available to us. Therefore, the first section of today's presentation is a pre-recorded webcast. We will then move onto a live Q&A to close the session.

Agenda

In terms of the structure for this morning, Loraine will start by taking you through our financial performance over the first half. I will then provide you with a quick recap of our strategy, followed by an update on our progress against this year's strategic priorities. Finally, I will conclude with a quick update on recent trading. You will then have the opportunity to ask questions at the end.

So to begin today's presentation, I will now hand you over to Loraine to talk you through our first half performance.

FY21 H1 Financial Performance

Loraine Woodhouse

CFO, Halfords Groups plc

H1 Group Financial Highlights

Thank you, Graham. Good morning, everybody. Thank you for joining us. I am going to start today on slide four, with a short summary of our first half financial performance.

The period since March has been the most challenging that many of us can remember. The operational impact of COVID on our business has been significant. And naturally, this has impacted our financial performance. Over the next few minutes, I will highlight some of the key financial trends we have seen over the last six months.

Our new financial year started on 4th April, nearly two weeks after the country went into full lockdown. As you would expect, it was a very difficult start to the year, with a number of stores and garages initially closed for a period of time. However, as time went on, as we adapted to the situation and reopened our estate, our trading improved materially and, ultimately, over the course of the full six months, we delivered what we believe to be a very strong financial performance.

Group revenue was up 9.6% or 6.7% on a like-for-like basis. Growth accelerated quickly throughout quarter one, stabilising in Q2 at double-digit rates of like-for-like growth. Autocentre revenue growth was particularly strong at nearly 39%, reflecting the acquisitions of McConechy's and Tyres on the Drive.

Underlying profit before tax, pre IFRS 16, was £56 million, which is £30 million better than last year. If we strip out the business rates relief and furlough income, and we adjust for the additional costs of COVID, our profit was just over £15 million ahead of last year.

Our Group gross profit margin was 49.4%, 63 basis points behind last year, with cycling mix inevitably having a very significant impact. Costs were £7.8 million, or nearly 3% below last year, with our own cost saving initiatives, alongside the business rates relief and furlough income, offsetting the incremental costs of operating in a COVID world.

And finally, we closed the period with £98 million of cash, £160 million better than the same period last year.

Group Financial Overview

Moving to slide five. I cover most of these metrics in more detail later in the presentation, but I did want to briefly touch upon the post IFRS 16 numbers, the profit figure of £55.4 million and non-underlying items. It is worth saying at this point that unless I say otherwise, most of the presentation will reference underlying profit pre-IFRS 16.

There is no net impact profit from IFRS 16 in the first half. A small profit upside from lower rents and holding over our leases was exactly offset by the increased liability of a switch to monthly rents. Non-underlying costs this period were £0.6 million, and primarily reflect restructuring costs as we have sought to ensure that every area of our business is operating efficiently.

Whilst fairly small in the first half, we do expect this number to increase in the second half of the year as we make further organisational changes.

FY21 H1 Group PBT

Given the number of moving parts in our numbers for the first half, in slide six, I thought it would be helpful to provide a simple bridge of our year-on-year profit. Trying to give you really clear insight this year proved difficult, so in the interests of transparency, I have bridged profit in two different ways.

In the first bridge, slide six, I have included the furlough income in the business to which it relates because the sales impact of lockdown and the incremental costs of COVID are also included within that business. So, for example, within the Retail block here, the only thing I have stripped out is business rates, which you can see highlighted separately on the bridge.

On the back of strong sales, the Retail business contributed over £9 million of incremental profit, despite a heavy mix shift to cycling and the additional operating costs, such as PPE. Perhaps even more pleasing is the fact that our performance cycling business added over £5 million of profit year-on-year, reinforcing our decision to close Cycle Republic at the start of the year.

Excluding business rates, Autocentre profitability dipped year-on-year, reflecting a very difficult first couple of months post lockdown when volumes were significantly impacted. Sales and profitability have recovered sharply since that point.

Financing costs were higher year-on-year as we drew down our RCF at the start of the pandemic and also incurred small costs associated with securing a CLBILS facility and amending covenants.

The obvious flag on this chart is that business rates relief is a significant boost to year-on-year profitability. The second half impact will be a little lower than the £19 million seen here, as in the first half of the year, we were also able to take some additional relief from the Retail, Hospitality and Leisure Grant Fund.

FY21 H1 Group PBT Impacts of COVID-19

This next slide, slide seven, breaks the performance down slightly differently, identifying the constituent impacts on profit that we have seen from COVID-19, both positive and negative. Our trading performance, excluding furlough and business rates, was ahead year-on-year by about £17 million. We incurred just under £15 million of either costs or lost rebates relating to COVID.

We received £10.2 million of furlough income from the government, related of course to the period in which stores and garages were either closed or partially closed.

And then, finally, as on the previous slide, you can see the business rates relief. Neither representation on these last two charts is perfect as the COVID situation is so complex. However, I hope we have at least been transparent in how our year-on-year underlying profit has moved.

FY21 H1 Retail Financial Overview

Moving to slide eight to look at our Retail business in more detail. As you know, we saw very divergent performance in our cycling and motoring segments, with both heavily impacted by lockdown and beyond.

Retail revenue growth over the first half was 4.8% or 8.1% on a like-for-like basis. Like-for-like is higher than total growth, as it is adjusted for the closure of Cycle Republic. As we moved through half one, our performance improved markedly within motoring as the effects of the initial lockdown eased, and you can see that illustrated in the chart on the right-hand side.

Cycling revenue was 54.4% like-for-like and remained strong throughout half one, with all categories in growth. Our market-leading position and our agile approach, allowed us to secure more stock from existing suppliers, as well as source from new countries and new brands. Motoring revenue was minus 23.7% like-for-like but it saw a sharply improving trend across the half as lockdown eased and journeys increased.

Q2 sales were plus 3.2% with Staycation products and 3Bs in strong growth. Towards the end of Q2, pent up demand saw motoring sales improve generally, but the demand for big ticket, discretionary items did remain subdued.

FY21 H1 Retail Gross Margin

Moving now to slide nine. Retail gross margin for the six months was 47%, which was flat against the prior year. You might see this as disappointing given the momentum we have had in this space, but we consider this to be a very strong result in light of the significant mix to cycling that we have experienced.

As you can see from this chart, the mix impact of over 200 basis points was entirely compensated for by improvements in category gross margins. This was particularly true in cycling where we have seen a very material improvement in margin. And Graham will talk more about this in his section.

It reflects a series of strategic actions designed to improve the overall profitability of cycling. Most significant over the six months was a much more scientific approach to promotional activity. The other line here largely represents the commissions we pay, including those of Cycle to Work and B2B sales, both of which have experienced very high growth over the first half.

FY21 H1 Retail Operating Costs

On slide 10, I have tried to break down the key drivers of the year-on-year cost reduction in Retail. You can see that operating costs in this half year have inevitably been heavily impacted by COVID and this does make an underlying trend quite hard to read. However, what is clear from this graph that our underlying costs have been very well managed as revenue growth of 4.8% has been achieved with a reduction in underlying costs of over £7.5 million.

We have initiated savings programmes in all cost areas, and this has more than offset the cost of delivering increased volume through the cycling category, alongside the shift to online sales and the inevitable inflationary impacts, such as National Minimum Wage.

Some good examples of underlying cost savings include:

- GNFR savings (goods not for resale), which we estimate to be £5 million on an annualised basis;
- Lower marketing spend year-on-year; and
- Also the generation of sublet income within our distribution centres.

Given the material uncertainty in the first half, our investment in strategic initiatives was light at £0.8 million. We do expect to increase our investment in the second half as we accelerate some investment designed to improve the operating platform of our business for the future. Graham will talk a little bit more about that in his section.

FY21 H1 Autocentres Financial Overview

Moving now to slide 11 and our Autocentres business. As I mentioned earlier, Autocentres was hit hard by the March lockdown and the overall financial performance for the half is very distorted by the first two months of the year, in which we were loss-making and experienced significant like-for-like declines.

Since then, as you can see from the chart on the right-hand side, we have grown profit every period. Total revenue growth for the six months was just under 39%, with our acquisitions of McConechy's and Tyres on the Drive contributing significantly.

On a like-for-like basis, sales were minus 2%, but performance improved sharply over the period, with double-digit like-for-like growth from the start of August, as we benefited from increased customer traffic from our Group web platform. Margin was diluted versus last year, but as I explained in July, this is entirely reflective of the impact of the two acquisitions, with both businesses currently weighted more towards tyres than our existing garage business.

The underlying Autocentre business grew gross margin in the period, which is very encouraging progress on the back of the implementation of the second phase of our operating platform.

Like Retail, underlying operating costs were tightly managed. The biggest driver of the 22% operating cost increase that you see on this slide is the acquisition of McConechy's and Tyres on the Drive, they added £13.4 million to the cost base versus last year. This year-on-year impact will moderate in the second half as we anniversary the acquisitions.

Including business rates relief and furlough income, the Autocentre business made EBIT of £4.1 million, a 28% improvement. Without business rates relief, this drops to £1.2 million, a decline of £2.1 million versus last year, albeit, as I mentioned, this entirely reflects the losses in the first two months of the year. Since then, profit growth has been strong. And importantly, both McConechy's and Tyres on the Drive are already either at breakeven or better.

FY21 H1 Group Gross Margin

Given the complexity of our margin story within both Retail and Autocentres, I thought it would be useful, on slide 12, to show you our Group margin position, along with the key drivers. This chart brings together the points I have made on previous slides.

Overall, Group gross margin was down 63 basis points on last year. And as you can see from this slide, the biggest driver of the rates dilution is product mix with a 220 basis points impact. We have managed to partially offset this with an overall margin rate improvement in Halfords Retail of 150 basis points, despite losing significant volume related rebates in motoring. The improvement in cycling gross margin was the key driver of the rate improvement.

And very positively, the dilution driven by the lower gross margin acquisitions within Autocentres was offset by the closure of Cycle Republic.

FY21 H1 Group Cash Flow

Moving now to slide 13. Cash flow has been extremely strong this year with free cash flow generated of £169 million. Improved profitability has played a significant role, but it is the working capital improvement of £98 million that has driven our cash position. The working capital inflow for the period is inevitably inflated as we have nearly £40 million less stock than at this point last year, and we also have higher than average creditors with at least £14 million of VAT deferred to the end of the year.

We expect stock to further recover by the year-end and the creditor position will also be lower as we pay the outstanding VAT. Notwithstanding that, even when these positions do equalise, I still expect net debt to end the year lower than last year.

Net Cash and Dividend

Slide 14, my last slide, confirms our net cash position. As I have already highlighted, we ended the half with £98 million of cash, £160 million better than the same point last year. We consider this to be a very strong position going into the second half of the year.

Finally, as you are already aware, in light of the ongoing COVID uncertainty, the Board has not declared an interim dividend this year.

That is all I have to say on the financial summary of the half. Given the extraordinary circumstances we faced, we are pleased with our performance this year. Thank you. I will now hand back to Graham.

Strategy Update

Graham Stapleton

CEO, Halfords Group plc

Summary of FY21 H1

Thanks, Loraine. As Loraine said, we are very pleased with the performance in the first half, especially given the very challenging backdrop we have traded through. We have shown operational agility and resilience in our business, allowing us to fully capitalise on the tailwinds, and also mitigate some of the short-term headwinds.

We have delivered a good performance on both sales and margin, and we have lowered costs as a percentage of sales. We have already made significant progress against our vision and the strategic plan we set out in July. This has helped us navigate the current trading environment whilst also setting us up for success in FY22. And our customers are responding positively, with more customers now recommending Halfords than last year.

Clearly, the speed and magnitude of the pandemic caught everyone off guard, but our recent major investments were well placed to deal with the huge changes we have seen. This has allowed us to focus on keeping our colleagues and customers safe, whilst making the most of the opportunities we have been presented with.

Our strategy is more relevant than ever given changes in customer behaviour

So what were some of the changes that we experienced? Firstly, under lockdown we saw an accelerated shift to online and home delivery. Over half one, almost 50% of customer journeys began online, with customers wanting to shop our products and services from the safety of their home.

Our Group web platform, which launched in February, was invaluable in helping us both cope with these record levels of online traffic, and also significantly improve the online customer experience.

We also saw exceptional demand for mobile motoring services and therefore demand for our Halfords Mobile Expert business, which provides motoring services to customers wherever they need them. Our recent acquisition of Tyres on the Drive, coupled with our organic growth, allowed us to offer more services to more customers in the safety and convenience of their own home.

Finally, during lockdown we experienced unprecedented demand for our Cycling business, where we were able to optimise returns through our cycling profitability improvements. As customers looked to cycling as a safer alternative to public transport, and as means to exercise during lockdown, we saw growth across all categories, but most notably in e-mobility, with sales of e-bikes and e-scooters up more than 180% in the first half.

Our market leading proposition here now offers customers new ranges across more than half of our own brand adult bikes. Our B2B business has also benefited from an increased demand in Cycling, with huge growth in our Cycle2Work business across the period.

To Inspire and Support a Lifetime of motoring and cycling

There is no doubt that some of the recent changes we have seen will remain, and we are confident that, if this is the case, our strategy is absolutely the right direction for the business. Our long-term vision therefore remains unchanged, and the same as we outlined at the Capital Markets Day back in 2018. That is for customers, we will aim to Inspire and support a lifetime of motoring and cycling.

Strategic Pillars

The three key strategic goals that we set out to help us deliver against our plan are also entirely unchanged, as you can see here on the slide.

Firstly, we will inspire our customers through a differentiated, super-specialist shopping experience. Secondly, we will support our customers through an integrated, unique and more convenient services offer. And thirdly, we will build relationships with customers aimed at enabling them to get the most from a lifetime of motoring and cycling.

These goals are underpinned by a relentless focus on improving cost and efficiency within the business, and investment in our colleagues in order to ensure we continue to offer our customers industry-leading levels of service, expertise and know-how.

Reminder of our accelerated strategy

You will recall that last November we presented our intention to accelerate certain aspects of our strategy, which should be seen as a shift in emphasis rather than a change in direction. Put simply, this shift could be best summarised as a commitment to accelerate the speed with which we evolve into a consumer and B2B services-focused business, with a greater emphasis on motoring, and one which generates higher and more sustainable financial returns.

Our strategic focus for FY21

However, as we noted back at our preliminary results in July, we are of course alive to the uncertainty of the current trading environment and the challenges that still remain as a result of COVID-19. We therefore re-prioritised some of the activities within our strategy to respond to emerging trends and ultimately set the business up for a fast start to FY22.

A reminder of our FY21 priorities

The priorities we set out in July were therefore as follows:

- There would be an even greater focus on cost and efficiency, creating a leaner and more profitable business;
- We would continue to build a unique and market-leading position for motoring services;
- We would further enhance our Group web platform and digital customer experience to create an even more differentiated and specialist proposition; And

- Finally, we would double the number of customers shopping across the Group through further development of our CRM capabilities and cross-shop opportunities.

So how are we doing in delivering against these priorities? Well, I am pleased to say, even though we are only halfway through this year, we have made some very good progress against all of these objectives, and you can really see the tangible benefits each have brought to the business.

Focus on cost and efficiency

Let us look at each of those now in more detail. What have we done so far to create a more efficient and profitable business? Well, there are three key areas of progress here.

One of our key priorities was to improve the profitability of our cycling business, and we set ourselves a target of a 300 basis points improvement year-on-year. I can confirm we have made great progress against this target and are on track to deliver this over the full year. This improved performance has been made possible through a variety of initiatives, some of which started over a year ago now.

Secondly, we have continued to focus on improved procurement practices, where we have made substantial savings of £5 million in GNFR costs on an annualised basis. These savings have been realised across multiple areas of the business, including telephony systems and contracts, warehousing and distribution and marketing costs.

Last but not least, we have also placed further emphasis on our property costs where we continue to target rent reductions through our lease renewal programme, which in retail is seeing an average reduction of 30% per lease. We also continue to move forward towards closing up to 10% of our sites in FY21. We have already closed 33 sub-optimal locations, and progress towards the more scaled programme is going well.

Combined, these actions on cost and efficiency across the business have already resulted in significant savings this year.

Motoring Services

Moving on to our progress towards building a unique and market-leading position for motoring services. I am really pleased with the results here. And I would like to summarise just some of the key deliverables so far.

We said we would increase the number of vans within our Halfords Mobile Expert business to 125 by the end of the year. Due to the exceptional demand for this service, we are already at 107 versus eight last year, and we are now targeting over 125 vans by the end of FY21.

We have rolled out our upgraded in-garage digital operating system, PACE2, to all of our garages including our recently acquired McConechy's sites. As you can see here on the slide, this piece of software really does transform the way our garages operate, enhancing the customer experience whilst simultaneously increasing the utilisation, capacity, and margins of our garages.

All of our motoring services, whether it is those of our Mobile Experts, Autocentres, or in Retail, are now available through our Group website, and they can be booked at any one of over 800 physical locations or 107 mobile vans.

Finally, due to the high demand for services across all our garages and retail sites, we have increased capacity by opening almost 100 Autocentres on Sundays, as well as announcing a nationwide recruitment drive for more MOT testers, and technicians including those with hybrid and electric skills. This is particularly important given the increasing numbers of hybrid and electric vehicles entering our garages, now more than double the proportion of the UK car park.

Digital Customer Experience

Moving on to how we are transforming our digital customer experience. We launched our group web platform in February, and our focus since then has been to optimise and enhance the customer experience, to create an even more differentiated and unique proposition. Some of the highlights here include: introducing new functionality that enables customers to sign up for an email me when back in stock message. And also giving customers the ability to register their interest against new ranges in stores and online.

Not only has this improved customer experience, it has also given us more data to help plan stock and supply chain more effectively. This is particularly important with long lead time products like bikes.

We have also enhanced 'frequently bought with' on our website. This has resulted in additional items added to 20% of baskets online, increasing average basket transaction size and ensuring customers get everything they want every time they shop with us.

One of the biggest trends we have seen coming out of the pandemic has been a greater level of customer engagement and contact. To mitigate the extra cost of this and to improve the customer experience, we launched a self-service portal and chatbots on our website, allowing customers to get easy answers to some of the more generic questions.

We have also launched Bookable Bike Collection Slots to further improve the cycling customer journey. This new functionality provides a guaranteed collection slot, with useful SMS reminders in the run up to collection, and a more efficient hand over time. Importantly, it also helps to eliminate queues and give customers the confidence to visit our stores safely. So a real step change for our customer proposition.

Combined, all of these changes to our digital customer experience have led to a significantly reduced amount of contact into the business. In fact, by mid-October we saw lower levels of contact into the business than those prior to the pandemic, which is an incredible result given the current trading environment. In addition, we have seen an improved online conversion for Retail of plus 47% year-on-year.

Perhaps most pleasing of all for me is the impact this focus on investment has had on the overall Halfords customer experience, measured by our Net Promoter Scores or NPS. Despite the COVID crisis, difficult trading conditions and the significant operational challenges for both customers and colleagues, we are seeing more customers promoting Halfords as a place to shop than we did this time last year.

At the beginning of November, NPS was plus 4 points ahead of last year in Retail, and plus 7 points ahead in Autocentres.

CRM capabilities and cross-shop opportunities

And finally, we move to the last priority. We said we would double the number of customers shopping across the Group through further development of our CRM capabilities and cross-shop opportunities. Clearly offering all of our products and services from all locations, whether fixed or mobile, through our Group website, is helping to enable this.

Since our last update in July, we also launched the new WeCheck App. The App makes our motoring services even easier and more convenient for customers to access, with a digitally led customer journey which helps drive cross-shop. Since launch in mid-October, more than 30,000 WeChecks have been completed using the App.

The data capture gives our customers a record of their check and enables us to increase the opt-in rate to contact customers regarding products and services, whilst also driving cross-group job referrals for any work needed.

So, I think you will agree, there has been some really strong progress towards the priorities we set out in July.

FY21 Additional Investments

The progress we have made, and the resulting improved performance has given us confidence to further invest in the second half, with the aim to put us in an even better position ahead of FY22. We therefore plan to increase investment, focusing specifically on priorities we had put on hold at the start of the financial year.

These include Fusion, our transformation programme to deliver new store and garage formats, aligning physical locations with our mobile capability, and digital experience. The aim being to join up the Halfords omni-channel shopping experience across a single town, so the customer sees the Halfords brand in a more seamless way.

Secondly, lifetime, developing a loyalty programme to drive relevance around existing and new products, services and the brand. And finally, contact strategy. This investment will specifically enhance our digital experience to reduce contact, whilst centralising and outsourcing some of the remaining communication we have.

Investment in our Colleagues

We also continue to invest in our greatest asset, our highly skilled colleagues. In line with our aim to become a services-focused business, we have an ongoing recruitment programme underway to fill 1,000 services roles across our Stores, Autocentres and Mobile Expert vans in FY21. We will also be investing £1.4 million in training over 6,000 store colleagues in motoring and cycling services skills.

2,000 of these will be specific to e-bike servicing. This will mean every single store colleague has the capability to carry out varying levels of cycling and motoring checks, together with repairs. The upskilling programme will result in our employee skills base, and by that we mean the number of skills per colleague, more than doubling from 17,000 skills to 40,000.

In our Autocentres, we continue to train more MOT technicians in order to meet the current levels of demand. In fact, in the first half, we have trained almost as many MOT technicians as we did in the whole of FY20. However, the investment in colleagues is not just focused on recruitment and training. Throughout the first half, we have placed huge importance on colleague safety continuing to invest heavily in PPE and supporting our colleagues through this very difficult time.

We set up the Frontline Colleague Support Fund, investing £2.3 million over 12 weeks at the peak of the crisis to reward our colleagues working on the frontline of the business in very tough circumstances. More recently, we have launched the Halfords Here to Help fund, investing a further £1.5 million into a fund to provide assistance to colleagues experiencing a financial crisis as a result of COVID.

We are committed to ensuring this level of support will continue as the crisis unfolds, with renewed focus on colleague wellbeing support, a flu vaccination programme, and extra support for remote working through the winter.

Current Trading

The final part of this update is to cover recent trading. Our 26-week first half ended on Friday 3rd October. Since then, the last six weeks have been dominated by increasing COVID restrictions across the UK, culminating in the national lockdown in England from Thursday 5th November until 2nd December. As an essential retailer, we remained open, and trading for the first five weeks to 5th November continued to be relatively strong, with good growth and increased market share in cycling, together with resilience in our motoring products and services across the Group.

Since 5th of November, we have seen some impacts on trading, in line with expectations. Cycling has continued to grow with a combination of customers purchasing bikes for lockdown and shopping early for Christmas. We also saw an immediate upturn in our Mobile Expert business as customers once again look to access our services safely from home. And we have seen another shift towards our digital channel and home delivery proposition.

However, sales of motoring products have been impacted. We know this is a result of fewer cars on the road with current government data showing traffic down to minus 70% of pre-COVID levels over the last week. Unlike the previous lockdown, we have been able to plan and mitigate against some of this risk early. So a good performance over the first five weeks, and since lockdown trading is in line with expectations.

Summary of FY21 H1

To conclude, we are very pleased with our performance in the first half. The business has demonstrated the operational agility and resilience it needed to fully capitalise on the tailwinds, and also mitigate some short-term headwinds.

We have delivered a good performance on sales, margin, costs and cash, and we have already made significant progress against our vision and the strategic plan we set out in July. This has helped us navigate the current trading environment whilst also setting us up for success in FY22. Our customers are responding positively, with more customers now recommending Halfords than last year.

Finally, I am immensely proud of our fantastic colleagues and the resilience and determination they have shown through this very difficult period. We have managed to keep colleagues safe, supported and engaged throughout the crisis, and there is no doubt that we could not have achieved all of this without their hard work and dedication.

That concludes today's presentation. Thank you for listening. There will now be a short pause while we register your questions on the webcast. Please stay with us and the live Q&A will begin shortly.

Q&A

Neil Ferris: Good morning, everyone. Thank you for joining the webcast today. We do have a few questions that have been submitted. So we will make a start. First question from Matthew McEachran, N+1 Singer. So we have a few here.

Firstly, how long does it take a mobile service fan to reach maturity and profitability? Is this channel trending to be more or less profitable than the core business in terms of EBITDA margin?

Second question, please can you quantify total cash flow deferrals including the £14 million of VAT?

Next question, can you elaborate on supply chain performance and stock replenishment in Cycling? What is the view on December/Christmas gifting availability?

And then finally, what has been the recent trend in lease negotiations and rental reductions over the half? So, Loraine, shall we start with you?

Loraine Woodhouse: Thanks, Neil. Good morning, Matthew. I will take the mobile service van first. So in terms of growing that business, obviously, it has taken us a little while to reach a point where we are closer to maturity. We started with a small handful of vans. And when we bought the Tyres on the Drive business, we obviously immediately bought ourselves some scale. And it is scale and marketing visibility or brand awareness that really drives the profitability of that business.

So I am pleased to say that we have turned around the losses of the business that we bought and we are now at a breakeven point. But with further to go obviously.

If we added in a van now into a more mature state, we would get to a point of profitability quickly as long as we are introducing vans into areas where there is good population density. But obviously, when you start, if you have not got population density, it is much harder to create a profitable business out of a mobile van service. But we are at the point of good scale now. And as you have seen from the statement, we plan to grow that business further. So I am confident we will get to good profitability.

Will it be less profitable from an EBITDA margin point of view? Probably. It will be likely, I think, to be lower margin than, for example, a standard garage, but it is incredibly low capital. So the return on invested capital of the mobile business is actually very strong. And therefore, the payback, once you have got the scale, is very quick. So it is a strong part of our portfolio and obviously it is very important to the customer base.

If I move onto total cash flow deferrals, the two biggest things likely to reverse in the second half is stock. As you can see from statements in my slides, we are 40 million to 45 million below where we were last year on stock. And I would imagine that a lot of that will reverse in the second half because we are evidently trying to rebuild our stock levels to make sure that we are strong going into next year. So I expect quite a chunk of that to reverse.

And then from a creditor point of view, the £14 million VAT deferral is the biggest part of that, with no notable other large deferrals from a creditor perspective that are worth noting on this call. We have, however, switched from quarterly rents in advance to monthly rents. So that does make a difference overall to prepayments.

And then your last question for me, I think, recent trend in lease negotiations or rental reductions. We have only done a handful. I think it is about 13 retail rent renewals over the course of the first half. We have seen very good results. So last year, we saw 15% rental reduction. This year we have seen about 30%. So obviously that is encouraging. We will do a few more renewals in the second half and then again a few more in the first half next year.

We have been waiting because actually we have seen stronger results as we have held back and then gone into subsequent leaseholder negotiations with the landlords. So we are pleased with the outcome of that. Obviously, that will have a big longer-term impact on fixed costs for Halfords. Graham?

Graham Stapleton: Good morning, everybody. Good morning, Matthew. So I will pick up the question that you have got on cycling stock and also how we are prepared for Christmas gifting.

In terms of bike stock, it would be fair to say it has been quite challenging. I think the market overall has been short of bike stock with the unprecedented demand we have seen. I think we are in a better position the most because we opened earlier than our competitors did. We are able to see therefore the trend to greater bike sales and we got back into ordering more stock.

We also ensured that we focus very much on the biggest selling lines, so buying big narrow and deep on those products, which has certainly served us well all the way through to summer into the autumn.

We think also that some of our competitors more recently have struggled with stock. They have started to sell out, have not got their stock back in. And we think, as a consequence, we have probably taken some share more recently as a consequence of being in supply.

We have got stock come through each week, tens of thousands of bikes pretty much every week. And it has our bikes where we need the biggest replenishment along within that electric.

Kids bikes, so moving into gifting. Obviously, kids bikes are bigger in the gifting season and we did not see the growth in kids bikes over the first half that we did in adult. So we are actually in a better position on kids bikes just generally from a stock position. And we are in good shape on kids.

In fact, we are well-stocked in store as well as the distribution supply chain piece. So I think on cycling we are in a good position. On motoring for gifting, we have very few stock issues on motoring as obviously the motoring product parts of our business has not performed as well as cycling over the first half. So I think from a gifting perspective, we are in good shape.

Neil Ferris: Three questions from Jonathan Pritchard, Peel Hunt. So firstly, can you talk a bit about the competition? Do you think you have a stock advantage against other bike shops? And if some garages failed to reopen often lookdown one?

Second question, which bits of CRM need the most further attention?

And then third question, will marketing spend bounce back materially in the second half? Graham, I think that probably all yours.

Graham Stapleton: Yeah. I think building on the stock point that I have just talked about, I think we are in a better position certainly as far as our stock goes versus independents and some of the smaller businesses, because we buy an enormous amounts of stock, so we have a scaled stock plan. And we buy a lot direct from Asia with our own brand.

So 85% of our bikes sales are in brand. It means we have got very strong relationships in Asia, which we have for many, many years. And we are able to secure, I think, a better continuity of supply than perhaps smaller businesses that are just having to take what is there in the market with the brands that are there.

So I do think we are in a better place because of the way our range is planned and relationships we got with partners in Asia. We also develop, through the pandemic, a bigger supply of bikes coming out of Europe. So near sourcing, and we are going to introduce a new brand not just in bikes but in packs within our own brand range that we are sourcing from there too.

So we have got a broader range of suppliers across the world now to place our orders in. So I think we are in a good place there.

In terms of garages, as far as I am aware, most garages have slight open in the second lockdown, that was the question. I do not think we see as many closed as we did in the first lockdown period. Certainly, I do not have reports of big scale closures there. So I think we have a good a sort of similar competitive play that we would normally have.

In terms of CRM, what we need to do there? We spent a lot of time improving our CRM and that is certainly helping us with our sales for sure. The next step very much is looking at some form of membership card/loyalty programme. We were going to invest in that during the course of this year. That was one of the programmes we deferred as we went into the pandemic.

This is a programme that we are going to put back on the table to start working on in the next 4.5 months. It is part of the additional investment that we have said that we are going to look at now for the second half. So our aim is to start next financial year in a good place to build on that.

I think in terms of the last point, which is marketing, if I am right. We will upweight our market spend in the second half, specifically around the motoring services part of our business, because it is just strategically it is the right thing to do and we have seen some really great progress despite the pandemic in first half.

Neil Ferris: Great. Four questions from Adam Tomlinson, Liberum. First question, can you please talk about current stock levels coming into the months ahead/next year and any additional flexibility you have been able to work into your supply chain?

Second question, can you please provide thoughts on latest CapEx plans? Any indication of spend level and key areas of focus, including requirements to support your ambition around Autocentres and in particular long-term EV trends?

Question number three, in terms of your hiring intentions, what initial indications have you had regarding the availability of new hires and your need to pay up to recruit them?

Question number four, are you able to quantify underlying cross-shop improvement percentage of retail customers now using Autocentres? Those are the four questions from Adam. Loraine, can we start with you?

Loraine Woodhouse: Yeah, sure. Good morning, Adam. I have talked a little bit about stock levels, so as you are aware, we are running light on stock at the moment. I would say we are 40 million to 45 million below last year and we do intend to stock build throughout the balance of year. So you will see that start to reverse.

We try to focus on stock turn and improving stock turns. So to some extent, stock levels depend on sales. What we are constantly striving to do is to fasten that stock turn, if you like, and make sure we are turning our stock faster which we have been successful doing.

So stocking to next year very much depends on our lens on sales. But what I would say is because the supply chain for cycling is long, we have been placing orders to make sure that we get first sight, if you like, of any stock availability on cycling, so that we are in a strong position for next year, where we are of the view that we have got sufficient flexibility. It is not perfect, but sufficient flexibility in the supply chain that we can push stock back if we need to, to make sure that we are not over-stocked at any point in time, but it is better to be in the system with purchase orders than not.

So my sense is by the time we get to the end of the year, you will see the stock levels for where we are currently reverse back to closer to last year's levels and then into next year sales dependent but we would want to make sure that we are building stock to allow us to get a good start into next year particularly from a cycling perspective.

On CapEx, we are expecting to spend £30 million-ish this year. As you know, we pushed back some of our projects for this year as soon as lockdown hit. It was a very uncertain period. So we moved a series of projects into the first half of next year.

But having traded well throughout the first half of this year and being confident that our strategy is right for the longer term, we will start to refocus on some of these programmes with probably the most important being the hybrid as Graham talked about in his presentation and making sure that we are looking at so that is combination of store straight garage and also looking a little bit around the layout of the store to make sure it is fit-for-purpose in terms of our service offering particularly going forward.

So I think you will see next year's CapEx increase. We talked about a longer-term £50 million to £60 million average spend. I think it will increase towards that. But I also think you will see more CapEx starting to go into the physical estates next year.

Graham, shall I switch over to you?

Graham Stapleton: Yeah. Neil, could you just repeat the hiring question again, please?

Neil Ferris: Yeah, of course. So in terms of your hiring intentions, what initial indications have you had regarding the availability of new hires and your need to pay up to recruit them?

Graham Stapleton: Yeah. The majority of the new hires are services roles, in fact most of them are services roles. And the majority of those are in retail, not in our garage business. For the retail services roles, we are not struggling to recruit people in because we end up training people with those skills internally. So we are not going into a very skilled marketplace trying to attract people with the existing skills into our business and having to pay for that.

So the majority of the roles, I am confident we will recruit and not necessarily after premium to what we are already recruiting. The garage part of business, it is more competitive for skills. We have to there find technicians with skills elsewhere. But it is a relatively small number of roles that we are looking at there compared to retail. So the impact of anything there that we have to pay to get that one will be relatively small.

In terms of cross-shop, I think that was the next question, is there any evidence of cross-shop coming through to-date? The website obviously went live in February and it was sort of minimum viable product when it went live. We have been optimising that website over the last six months. And that is included how we look at cross-shop. A lot of the functionality to support cross-shop online has really only come into place over the last month or two. So it is still very early to see the results of cross-shop through the website at this stage.

We have seen, even now, some really good results on the Halfords Mobile Expert parts, so lot of customers selecting that option through the websites, some retail customers doing that too. And we have also introduced a new app in store, which is basically for our WeCheck App, which enables customers and us to record the digital data for any check that we make. And that very shortly will be able to be offered through our CRM system in terms of solutions we will be able to offer through our CRM system for any checks that we find and needs to be done, for example, in a garage after the check has been taking place in a store.

So it is early days. We have got some good initial results and we are expecting more progress on the cross-shop in the second half.

Neil Ferris: Thanks, Graham. Next question is from Kate Calvert, Investec. So firstly, number one, where are you with regards to profitability on McConechy's and Tyres on the Drive?

Second question, could you flush out more detail on the lifetime loyalty programme you mentioned?

And then third question, while it is still too early, but any focus on dividend at year-end, given likely to have no net debts or slight cash position?

So Loraine, probably two in there for you and then Graham will come back to you for lifetime, I think you have answered that a little bit but chance to add a bit more colour.

Loraine Woodhouse: Morning, Kate. Sorry about the hold music. We did not choose that I promise. On profitability on McConechy's and Tyres on the Drive, we made good progress actually. So I have already talked a little bit about Tyres on the Drive. When we bought that business, it was losing money and in a relatively short space of time we have got that to a point where it is breakeven.

The big change going forward, I think, will be, as Graham has just mentioned, getting Tyres on the Drive onto Halfords website because that will, over time, eliminate the need for as much marketing activity into that particular business. And that again will move the profitability on. So that's very positive.

And then similarly on McConechy's, although we have yet to do much of the CapEx investment that we planned around McConechy's, that is still to come. Again, that business is now profitable, currently at a lower EBIT margin than the Halfords Autocentres business. But as I said, we have yet to make some of the investments. So we have made progress there as well. We are pleased with the integration of both of these businesses.

We obviously did not expect to be trying to integrate them through a global pandemic. And particularly the refurbishments investments in the McConechy's we put on hold. But we are seeing really interesting results out of both businesses. I guess, particularly with McConechy's in some of the commercial learnings that we are getting from that business, we do not have a big commercial tyre business elsewhere within Autocentres and we are seeing some really interesting metrics coming out of that, that is giving us food for thoughts on what we may be able to do with the broader business.

In terms of dividends at year-end, yes, it is too early. As you say, we are likely to end the year with lower net debt than last year. I think given where we are at the half year, that is very likely. We will probably January-February time, I would think, start to think through dividend, furlough, all of the areas where we know we have got to some choices to make potentially before the year-end.

We were not making any decisions until we are through that period of peak trading. It is uncertain. We are not really yet clear on how long the lockdown will persist or what any of the trends will look like as we go through the next few months. But there is no doubt that we are in a stronger balance sheet position than when we started the year. Over to you, Graham.

Graham Stapleton: Thanks, Loraine. So in terms of lifetime loyalty and what it means, as we know, it is a key part of our strategy, one of the three pillars of it. And at the moment, the way I'd describe Halfords and its relationship with customers, it is fairly transactional. We have a lot of CRM. We are good at acquiring customers, but we do not build very deep relationships with customers and our focus on retention is less than acquisition. We also do not really focus on customer lifetime value. It is the profit that we make or the value we make in the moment with the customer.

What we want to do with the lifetime loyalty programme is start to build really meaningful relationships with customers to get them highly engaged with the brand. And also then introduce to more effectively to all the services that we offer across the Halfords Group, because as we know we do not got a lot of cross-shop at the moment. So this is a big enabler of cross-shop.

With that aim, we are going to start with motoring services, so to create some form of monitoring services club, where you join the club. We then engage you in lots of different services and options and encourage you to sort of get involved with all of the things that we offer in motoring services space, be that on mobile service to your door, be it getting your car MOT, your service to one of our garages or buying an audio and getting it fitted or dash cam in a retail store.

So really starting to connect the dots for customers and get them into repeat visit. We have a real advantage slightly on motoring because we have a lot that we are able to capture a lot of data through the VRM and the number plate and details of that car. And so in a similar way, if you like, to pets at home, have created relationships with pets and their owners, we will be trying to do the same with cars and their owners in trying to build that membership and loyalty framework.

Incredibly exciting critically important I think for us to sustainably growing and it gives us a bit barrier versus someone like Amazon because we will have the opportunity, I think, to build much deeper, more knowledgeable relationships with customers than they would ever be able to do as generalists.

Neil Ferris: Thanks, Graham. Final question from Tony Shiret at Panmure. So first question was, can you provide some colour on the effects of having in-store advisors on e-vehicle sales?

Second question was regarding integrated websites. Can you give some KPIs, for example, conversion basket size, etc.? Loraine, should we start with you?

Loraine Woodhouse: Yeah. Morning, Tony. So on sort of interpreting the first question a little bit, but I think you are probably talking about having, for example, specialists cycling advisors helping customers with e-bikes. And we have seen a lot of success in that. We know from the tests that we been able to do that if you are able to give a customer a test ride, for example, on an e-bike, they are significantly more likely to buy.

So one of the things we are thinking about is how do we bring that sort of e-bike test journey, if you like, to more customers, because we know that once we get the opportunity to take a ride to try an e-bike that they are very likely to buy. So having real specialists in that space is very important. We also know that if we do manage to sell an e-bike, 50% of the customers will have some form of service or some form of sort of ongoing sales attached to it.

So the attachment rate for e-bikes is very, very strong. That is encouraging clearly, given the government's announcements recently talking about wanting to boost e-bike sales. So that is all good. On the integrated websites varied in the RNS, there are some KPIs around the website but we saw a 1% improvement in conversion. Basket size has gone up by 16% online and we have added one additional item on average into 20% of baskets.

I guess I would caution that a little bit in the sense that there has been a big cycling online boom. So we have seen very, very strong cycling sales. And that can distort the statistics a little bit, particularly things like AOV[?], etc. But we are really pleased with the website, given when that was launched and given as Graham says it was launched initially as a sort of minimum viable proposition. It has traded incredibly strongly. We hope we can build on that going forward.

Neil Ferris: Graham, anything to add to those two questions or is Loraine covered that off?

Graham Stapleton: No, I think Loraine has covered that off. Thank you.

Neil Ferris: Perfect. Okay. We have no further questions. So I will hand back to Graham to close out the webcast.

Graham Stapleton: Great. Thanks, Neil. Thanks everybody for joining. I hope the remote way we have done it has worked for everyone and we look forward to connecting again with you on 14th January. Thanks very much.

Loraine Woodhouse: Thank you.

[END OF TRANSCRIPT]