Halfords Group plc
FY21 Preliminary Results

Thursday, 17th June 2021

Transcript produced by Global Lingo
London - 020 7870 7100

www.global-lingo.com

Graham Stapleton (Chief Executive Officer, Halfords Group plc):

Good morning everyone, and welcome to the Halfords Group Preliminary results for the 52 weeks ending the 2nd of April 2021. I'm Graham Stapleton, CEO of Halfords, and I am joined this morning by Loraine Woodhouse, our CFO.

I would like to start by expressing my sincere gratitude to all of the Halfords team - for their hard work, resilience, and determination during a year unlike any other. These are a fantastic set of results, produced under very challenging circumstances, and we would not have delivered this without our colleagues' energy and commitment. As you will see in a moment, we have achieved a lot in a very busy year – be that financially, operationally, or strategically. This sets us up very well for FY22 and beyond.

In terms of the structure for this morning:

Loraine will start by taking you through our financial performance, current trading and outlook.

I will then provide you with an update on our progress against last year's strategic priorities

Then I'll talk about FY22, and our focus for this year

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 financial performance.

Loraine Woodhouse (Chief Financial Officer, Halfords Group plc):

Good morning everybody and thank you for joining us.

Our last financial year started on the 4th April 2020, two weeks after the country went into full lockdown. The whole period since has been one of extreme volatility as we moved into and out of a series of restrictions. Whilst we were fortunate to be designated an 'essential' retailer, and therefore able to continue trading, the operational impact on our business was huge and we have spent the year trying to both optimise our opportunities and mitigate the challenges.

Through it all, our colleagues across the business have responded brilliantly and it is through their significant skill and effort that we have continued to operate through the pandemic and, ultimately, delivered what we believe to be a strong set of financial results.

Slide 4 – Group financial highlights

I'm going to start today on slide 4 with a short summary of our full year financial performance.

Before I begin, I should be clear that, unless stated otherwise, I will be talking about pre-IFRS16 numbers and comparing against our 52-week period last year, for ease of comparability.

Group revenue was up 13.1% or 13.9% on a LFL basis. Our growth accelerated in the second half of the year as the initial dampening effect of the first lockdown was less evident with subsequent restrictions.

Our Group gross margin was 50.8%, -34 basis points below last year. I'll cover this in more detail later in my presentation.

Costs were tightly controlled during the year, with underlying costs increasing by 5.6% and falling as a proportion of revenue by 3.1 percentage points.

Underlying profit before tax, pre IFRS16, was £96.3m, which is £40.4m above last year. If we strip out business rates relief and an estimation of the additional costs of Covid, our profit was £34.6m above last year.

Last, but not least, we ended the year with net cash of £58.1m, albeit, as I will explain later, some of the improvement was driven by working capital movements which will reverse in the current year.

Slide 5 – Group financial overview

Moving to slide 5, I cover most of these metrics in more detail later in the presentation, but I did want to touch briefly on our IFRS16 numbers and non-underlying items for the Group.

The impact of adopting IFRS16 was a £3.2m credit for FY21, more significant than the prior year. This largely reflects two things – the natural ageing of our estate and the fact that we had a larger number than usual of held-over leases at the year end. If we renew those leases in this financial year, the associated depreciation and interest charges will increase year on year.

Non-underlying costs, as flagged earlier in the year, were £35.0m post IFRS16. The principal element was £28.5m relating to the previously announced closure of stores and garages during the year. This element of the provision is largely non-cash. We have also provided for organisational restructuring costs of £5.9m, primarily in stores, where we have restructured the in-store teams. Finally, we have increased an existing provision by £2.9m for National Minimum Wage underpayments, reflecting the latest view from ongoing investigations, which are yet to conclude.

Slide 6 – Group PBT

Moving to slide 6, this is a difficult year to try to bridge the movement in profitability from FY20 to FY21 but, in this slide, we have tried to strip out business rates and identifiable Covid related costs from our 'underlying' performance.

You can see from this chart that the underlying Retail business contributed £21.7m of incremental profit, despite a heavy mix shift to cycling. This significant uplift reflects the work we have been doing over the last couple of years to optimise and improve our cycling margins and reduce our underlying costs. This has helped offset the large mix into cycling.

Autocentre profitability improved by over £5m, even more impressive when we think that the first 2 or 3 months of the year were materially disrupted as the Government deferred MOT requirements and, of course, we saw lower levels of traffic on the road all year round.

Finally, from a trading perspective, our Performance Cycling business, here reflected as Tredz and Cycle Republic, added £9.8m of profit year on year, reflecting a great performance from Tredz and reinforcing our decision to close Cycle Republic at the start of the year.

We have specifically drawn out Business Rates relief and Covid related costs on this chart. Included within Covid costs is £10.5m of furlough repayments, the cost of PPE, the cost of additional front-of-house colleagues in Retail to ensure social distancing, and investment in our colleagues to reward and support them during the pandemic. These costs were offset by the government electing not to levy business rates last year.

Slide 7 – Retail financial overview

Moving on to slide 7, to look at our Retail business in more detail. Retail revenue growth over the year was +9.4%, or +14.6% LFL. LFL is higher than total growth as it is adjusted for store closures in the year.

Gross margin rate was above the previous year, despite the significant mix into cycling.

Operating cost growth was managed well, with costs rising just 1.6%, despite the 9.4% growth in sales.

And, as a result, profit grew very strongly to £91.4m nearly 70% ahead of the previous year.

Slide 8 – Retail sales

Moving to slide 8, it is no surprise that we saw very divergent performances in our cycling and motoring businesses last year, with both heavily impacted by the trends coming out of the pandemic.

The other attribute worth highlighting on slide 8 is the enormous volatility in trading over the year. Within a period of just a few weeks, we saw sales go from a -10% decline to +40% growth. Operating the business with this variability in trade was extremely hard and it is testament to the skill and experience of our colleagues that they managed it as well as they did.

You can see that cycling delivered 54% LFL growth in the year, whilst motoring had a more challenging year at -12%.

Despite the much-publicised supply challenges driving some of the volatility that I talked about earlier, cycling performed very strongly throughout the year. All mainstream product categories saw strong growth, as did our Performance Cycling business, Tredz. Whilst demand was strong, our performance was principally driven by the actions we took. We were agile in securing stock, sourcing additional items from both new and existing suppliers, we improved the customer journey online, expanded our bike build capacity and refreshed over half of our adult bike ranges. We also quickly geared up in the bike servicing space and took a market-leading share of the Government's 'Fix your bike' scheme.

Motoring improved in the second half but, with almost continual restrictions, either regional or national, road traffic was inevitably much lower than normal, impacting our sales accordingly. Essential products such as Blades, Bulbs and Batteries outperformed traffic levels, whilst Touring, Car Cleaning and maintenance products all grew in absolute terms, demonstrating the attractiveness of our specialist ranges.

Slide 9 – Retail gross margin

Moving to slide 9. Retail gross margin was 48.3%, ahead of the prior year. Given that cycling is a lower margin category than motoring, we consider this to be a strong result.

As you can see on the chart, the mix impact of 220 basis points was more than compensated for by improvements in gross margin rate. The bulk of the rate improvement was driven by cycling, where gross margins improved by 680bps. The improvement represents a series of actions, notably rationalising componentry, improving buying terms and promoting less on the back of a significant amount of work on price elasticity.

The other two elements highlighted on the chart include the commissions we pay on Cycle 2 Work and other areas of B2B, both of which experienced very high growth in the year. In FX, where we saw an adverse impact, the shift year on year largely reflects the translation impact of stock and creditor balances at each year end.

Slide 10 – Retail Operating costs

On slide 10, our focus on efficiency and procurement saw Retail operating costs increase just 1.6% year on year. Adjusting for Covid costs and business rates relief increases this to 3.6%, still well below the level of sales increase.

We experienced a series of additional costs during the year, many of which were necessary to keep both customers and colleagues safe. We also saw underlying costs increase as a result of the shift to cycling sales, as these are bulkier products to move and typically more expensive to sell.

To help mitigate the impact of the additional costs, we worked hard to improve our efficiency. During the year, the closure of Cycle Republic saved £9.6m of cost. We saved an additional £7m through better procurement of goods not for resale. At the end of the year, we closed an additional 42 retail stores, a programme we believe will improve overall annual profitability going forward by £6m. There will also be further gains to be had through renegotiating rents. During the year we renewed 19 leases with an average rental reduction of 30%. We plan to go faster in this area in FY22.

It is worth highlighting that, in FY21, we paused much of our strategic investment and, as a result, we only saw strategic operating cost increases of £7.5m. Much of this additional cost reflects the centralisation of customer contact into specialist remote teams.

We will return to our strategic programme in FY22 and are likely to see operating costs increase as we resource our Transformation. Graham will talk more about this in his section shortly.

Slide 11 – Autocentres financial overview

Moving now to slide 11, and our Autocentres business. Like Retail Motoring, Autocentres was hit hard by the early stages of the pandemic and the overall financial performance for the year was very distorted by the first two months in which we experienced a significant LFL sales decline and incurred losses as a result.

After the first quarter, however, the business grew strongly, and we have no doubt that we grew market share materially over this period.

Total revenue was ahead by just under 32%, with like for like growth of 9.7%. Total revenue benefited from the annualization of our prior year acquisitions, but we also expanded our

Halfords Mobile Expert business as the pandemic conditions perfectly suited the customer proposition. In FY22 we will see the full benefit of our acquisition of Universal Tyres.

Slide 12 – Autocentre margin

On slide 12, I thought it worth focusing on Autocentre margin. Gross margin declined by 440bps across the year. This is entirely reflective of our two prior year acquisitions as both new businesses are weighted more towards tyres than our existing Autocentres.

There are two important aspects, however. The first is that, within each business, gross margin rate improved year on year – the dilutive effect that you see is driven by mix. The second is that, whilst the gross margin percentage may have dipped for Autocentres overall, the cash margin per worked hour, which is important in a service business, is strong and improved by over 10% in year. The businesses we have acquired have a different business model to our existing garage business. Our objective remains to improve margin productivity in each business, and we are making good progress in this regard.

Slide 13 – Autocentres costs

In slide 13, you can see that the underlying cost growth in Autocentres, excluding acquisitions, and adjusting for covid costs and business rates, was just 4.8%, again, demonstrating a good increase in productivity. The bulk of the cost increase year on year reflects the annualization of the acquisitions made in FY20. Business rates relief of £6m compensated for Covid costs incurred of £5.3m.

Slide 14 – Autocentre summary slide flashed up again

Overall, the Autocentre business made EBIT of £12.7m, nearly 90% better than the prior year. Adjusting for Covid costs and business rates, this reduces to £12.0m which is almost 80% higher than FY20. Given the challenging first quarter, we are really pleased with the performance, which we believe demonstrates the resilience of a services-led business.

Slide 15 – Group gross margin

That concludes the Retail and Autocentre story. Given the complexity of our total margin evolution, I thought it would be worth, on slide 15, bringing together our Group gross margin position.

Overall, our Group margin was down 34 basis points on FY20. This was an improvement on the position at the half-year, when margin was down by 63 bps.

Year on year, we have lost 248 basis points due to mix across the business – either mix within the motoring category, mix into cycling sales or mix into new businesses in Autocentres that have naturally lower levels of gross margin. However, we broadly compensated for the adverse mix effect by improving the margins within our categories – most notably Cycling, which has had the biggest positive impact.

Slide 16 – cash flow and net debt

Moving now to slide 16, and to cash. Cash flow has been very strong this year, with free cash flow generated of £145.3m, leading to a net cash position of £58.1m at year-end.

Whilst our underlying profit has been strong, there are some unusual movements in working capital that have inflated the year end cash position.

The first is stock. Our Retail stock levels have declined by £34m year on year. Around £20m of this was deliberate, through the targeting of a better stock turn across all categories. However, we have continued to see stock availability challenges in our retail business, particularly within the cycling category, and our stock levels are still sub-optimal. We estimate the gap to an optimal stock level to be at least £15m at the year end and we would hope to see this recover throughout the current year.

The year-end creditor balance is also higher than normal. We paid back our VAT creditor from earlier in the year just after our year end and this, plus other normal timing differences, means we also believe our creditor position to be inflated.

Taking these two things together, we believe the year end working capital position was flattered by around £36m. This is likely to reverse in FY22 and, accordingly, we expect to see a working capital cash outflow this year.

It is also worth pointing out that, within FY21, we suspended our dividend and reduced our capital expenditure. This year we will accelerate our strategic programme once more and our capex will increase as a result.

Slide 17 – Dividend

Moving now to the dividend on slide 17. We suspended our dividend last year in light of the considerable uncertainty that we faced. However, we performed much more strongly than we could have anticipated at the time and in recognition of the performance, the Directors are proposing a final FY21 dividend of 5p per share, which would be payable in September 2021.

At the same time, we have also taken the opportunity to review our dividend and capital allocation policies for the years ahead. Our strategic opportunities, alongside our considerable financial strength, is encouraging us to continue to invest in our transformation plan, positioning the business for long-term success.

Considering the opportunity, we have updated our capital allocation priorities, elevating targeted M&A, recognising that the economic environment we now find ourselves in could lead to some exciting opportunities.

Outside of M&A, we intend to revert to a capital expenditure programme of between £50-60m per annum, as previously communicated.

In reviewing our capital allocation, we considered the views of our investors as we do understand the importance of the ordinary dividend. Given that importance, we propose to reinstate the ordinary dividend from FY22 at 9 pence per share, intending this to be progressive. If surplus cash remains in the business that we feel we cannot deploy with good rates of return, we will return this to shareholders in the most appropriate way.

Slide 18 – Current trading and Outlook

In my final slide, slide 18, I turn to current trading and the outlook for FY22.

There is no doubt, even as we re-emerge from lockdown, that this year remains extremely uncertain. We all hope that vaccination will be the way out of this pandemic, but we will be vulnerable to new variants for some time. Equally, it will also take time until we see consumer trends settle.

The demand side of our business is demonstrably uncertain, but we also know that we will likely face supply challenges for some time. Covid continues to disrupt the supply chain, particularly in Asia and, if this persists, it could result in greater stock shortages than we currently anticipate.

Notwithstanding the uncertainty, however, we remain cautiously optimistic. Although still volatile, our Group L4L sales growth year to date is 17.9% on a 2-year basis, a positive start to the year.

Knowing what we know today, we are targeting FY22 profit before tax, post IFRS16, of above £75m, including business rates relief of £11m. We have a clearer view of the first half of the year, and we believe that the restrictions on foreign travel will continue to support our motoring and cycling businesses. The second half of the year is less clear albeit, if we are still in a world of lower restrictions, we would expect to see an underlying improvement in our motoring business as traffic levels recover. The guidance of £75m includes our planned investment in motoring pricing and other strategic operating cost investment. Capex is planned to be between £50m-£60m and there will also be a working capital outflow as I mentioned earlier.

As I said, the outlook does remain uncertain and we therefore look forward to updating you throughout the year as some of the trends I've described will hopefully become clearer.

Thank you very much.

I'll now hand back to Graham who will cover the Strategy update.

Graham Stapleton (Chief Executive Officer, Halfords Group plc):

Thanks Loraine.

So, you can see from Loraine's summary that our FY21 performance was very strong, particularly given the extremely challenging backdrop we've traded through.

Slide 20

And our delivery last year is clear evidence that our strategy is working. We are very much evolving into a consumer and B2B services-focused business, with a greater emphasis on motoring, generating higher financial returns.

Slide 21

We can see examples of strategic progress in the key priority areas of B2B, Services and Online.

All three saw record sales and increased their proportion of Group revenue. B2B sales grew 40%, Services 23% and online 110%. Each one of these business areas benefitted in-year from developments to attract new customers, an enhanced proposition, or the launch of new services.

Slide 22

So with visible and substantial progress being made, our long-term vision remains unchanged, and the same as we outlined at the Capital Markets Day back in 2018.

That is, for our customers, we will aim "to Inspire and support a lifetime of motoring and cycling".

Slide 23

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.

Slide 24

If we look back to the beginning of FY21, the speed with which the pandemic hit caught everyone off guard, and with that came a high degree of uncertainty which overshadowed much of the year.

In July 2020, we therefore re-prioritised our plans, dialling back the full transformation, and instead focusing on 4 specific areas.

We said we would:

Continue to transform and build a unique and market-leading position in motoring services.

We would also enhance our Group web platform and digital customer experience, to create an even more differentiated and specialist proposition.

We would continue to focus on cost and efficiency, creating an even leaner and more profitable business.

And finally, that we would invest in our Colleagues' welfare, engagement and development.

So, how did we deliver against these priorities?

Slide 25 – Motoring services

Let's look first at how we are continuing to transform and build a unique and market-leading position in motoring services. Here, we can see some of the most tangible and visible strategic progress made last year.

Our HME business tripled in size as the convenience, safety and expertise of this service really resonated with both new and existing customers. We added 68 vans in the year to create a fleet of over 140, and we doubled the number of hubs to 14, now employing over 250 technicians.

We acquired our third garage business, Universal Tyres, which consisted of 20 garages and 89 commercial vans. This, alongside McConechys, is good progress towards scaling up our Commercial business giving us a fleet of now over 180 Commercial vans.

We also continued to invest in the technology that provides the backbone to our garage business. We have rolled out our upgraded in-garage digital operating system (PACE2) to all of our garages including our recently acquired McConechy's sites.

Tyres on the Drive was fully-integrated into our Group website and we launched our WeCheck app in Retail. This app enables colleagues to digitally record the vehicle checks undertaken, and then recommend actions for customers to keep their cars safe.

Finally, we brought all this together by launching our first ever Group motoring services marketing campaign. This was a huge success with our TV advert seen by more than 34 million viewers or just over 70% of UK adults, resulting in a 28% uplift in customers considering our Motoring Services offer.

For those of you who haven't yet seen it, let's take a moment to play the ad…..

[TV AD PLAYS]

I hope you agree, the advert really brings to life the scale and coverage of our developing motoring services offer.

And before we move on, we shouldn't forget the growth in Cycling Services of over 50% last year. Our national network of super-specialist technicians undertook over 1 million cycle repair and services jobs, taking a market leading share of the Government fix your bike voucher scheme.

Slide 26

Secondly, let's look at how we are transforming our digital customer experience.

Here, our focus has been to optimise and enhance our offer, investing more than £11 million pounds in this space across the last two years.

In FY21 we made more than 160 customer enhancements to our Group website, these included:

A cycling industry first with the introduction of 'email me when back in stock' functionality. This not only assisted in optimising our restricted stock of bikes, but has helped plan stock and supply chain more effectively.

In addition, we increased convenience for customer with 'Bookable Bike Collection Slots' and enhanced 'frequently bought with' on our website. This has resulted in additional items added to 20% of baskets online, increasing average transaction size and ensuring customers get everything they want, every time they shop.

During the pandemic we saw a much 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. This allowed customers to get easy answers to some of the more generic questions.

Lastly, we launched the Halfords Electric Hub – bringing everything electric together for our customers, in one place, highlighting our products and services alongside expert advice and guidance.

Combined, these enhancements resulted in a really strong online performance with online conversion for Retail up a huge 37% year-on-year.

Whilst not a digital initiative, it is worth taking a moment to explain one of the biggest changes undertaken last year. This was to centralise all customer contact from our 404 retail stores. Against a backdrop of a 4-fold increase in customer contact during the pandemic, we have reached a call answer rate now of over 95%. This represents a huge improvement from our baseline position at the height of the pandemic, and is now significantly better than pre-Covid.

Perhaps one of the most pleasing aspects of our performance is in FY21 is the impact this focus on digital and contact centre investment has had on the overall Halfords customer experience - measured by our Net Promoter Scores or NPS. Despite the difficult trading and shopping conditions, we are seeing more customers promoting Halfords as a place to shop than we did this time last year. By year end, NPS was 2 points ahead of last year in Retail, and 4 points ahead in Autocentres.

Slide 27

Moving on to our third priority, which was to further increase our focus on cost and efficiency.

We really have left no stone unturned in our ambition to make the business more profitable and more efficient, as you can see here on the slide. Loraine has already talked about quite a few of these, but I would like to just touch on two key parts of this programme.

Firstly, the work undertaken to make our cycling business more profitable.

We embarked on this journey almost 2 years ago and announced our intentions here in November 2019. A combination of better ranging, value engineering, more effective promotional planning, and a continued growth in our own brand business, has resulted in a 680 basis points increase in gross margin. These changes, coupled with the successful restructuring of our performance cycling business, provide us with a greater level of trading optionality moving forward.

Secondly, we have placed great focus on our property portfolio. Here, we concluded our store closures programme, seeing 58 stores and garages close on top of the 22 Cycle Republic stores we announced at the end of FY20. Therefore, in total we’ve closed 80 stores and garages leading to a £12million annualised increase in profits. We do, however, still have a high degree of flexibility across our portfolio.

Slide 28

Finally I’d like to turn to our colleagues and our investment in their welfare, engagement and development.

From the onset of the pandemic, we placed huge importance on colleague and customer safety.

As Loraine said, we invested heavily to maintain a covid secure environment for colleagues across the business.

We also provided industry-leading levels of financial support for colleagues, including a Frontline Colleague Support fund to reward those working on the frontline of our business. We set up the Halfords Here to Help Fund to provide assistance to any colleague suffering financial hardship due to the impact of Covid; and we offered a remote working subsidy for colleagues working from home through the winter period. Combined, these support schemes represent a total investment of circa £4m.

And finally, we have continued to invest in training and recruitment, spending £1.7million pounds on colleague skills.

Slide 29

So how does this progress over the last year come together?

I mentioned earlier that the change in focus for FY21 was to create strong foundations from which to transform in FY22, and I think this is exactly what we have achieved.

We have improved the economics of our business

We have reshaped our property portfolio and continued to deliver significant GNFR savings

Despite the pandemic, we have delivered a significantly improved customer experience, with more people recommending Halfords than ever before

And we have made great strides to make Halfords the biggest Motoring services provider in the UK through acquisition, growth of our motoring services proposition, and technology.

Slide 30

Moving on now to FY22 and where we focus our resources this coming year.

Slide 31

Having achieved our goals in FY21, this year we will accelerate our transformation – further scaling up our services business and improving the customer experience across multiple channels.

So that by the end of FY22, customers will begin to see a different business emerge.

Slide 32

So, how will we continue to inspire our customers?

Work is now well underway on Project Fusion, which remains a really exciting opportunity. We think of Fusion as 'a customer experience seamlessly, consistently, & conveniently executed across all of our assets in a town'. And we will trial this in two or three towns in FY22.

It will encompass a destination retail store, an updated Autocentres garage, and a Halfords Mobile Expert offer, all operating together in conjunction with centralised customer support channels, and an online and home delivery proposition.

Focussed primarily on improving the customer experience and understanding the potential of combining all Halfords services in the most compelling way, the trial will also test whether a reinvigorated in-store and garage design, focused more heavily on the delivery of services, can further stimulate sales across the Group.

In addition to Fusion, we will also continue to enhance our digital proposition. We made really good progress in this area last year but there is still lots more to do, using the data we have to personalise content and drive cross-shop across the group.

Lastly, our programme to optimise cycling space and range in our retail stores continues, with the rollout of Peloton 2, which focuses specifically on Parts, accessories and clothing ranges.

Slide 33

Moving on to the Support pillar of our strategy. This is where we will place the greatest emphasis - creating scale, convenience and additional services for our customers.

This year is about making significant strides to becoming the biggest independent garage services provider in the UK through acquisition, growth of our motoring services proposition, and investment in technology.

This will be done by:

Continuing to scale our HME business through having more vans and a greater range of services. By the end of FY22 we will have over 200 vans within our HME business, achieving a UK coverage of 80%

Secondly, we will increase the number of garages bringing us close to our medium-term target of 550

Thirdly, we will leverage our acquisitions - McConechy's and Universal tyres - and their 192 vans to grow our B2B commercial business

And finally, we will position Halfords as the leading voice in e-mobility, through launching new products and services, and continuing to invest in training and technology.

Slide 34

Our final area of strategic focus for FY22 is centred around forming lifetime relationships with our customers across the Group.

Towards the end of this financial year, we will launch a unique and market leading motoring services club, rewarding loyal customers with preferential terms and offers.

We will also continue to grow the number of customers who shop across our Group products and services, with increased scale in our business, alongside enhanced digital personalisation.

And lastly within lifetime, we will accelerate our ESG programme, focussed on four priorities where we feel Halfords can make a real difference, these are:

Electrification - where we aim to be the leading name in electric mobility services, giving customers the confidence to switch to electric forms of travel and drive the UK to a more sustainable future

Our Net Zero commitment - in which we are targeting a reduction in our Scope 1 and 2 emissions by at least 42% before 2030

Then, Diversity and Inclusion

And finally, Product, Packaging and Waste management

Slide 35

Finally, and most importantly, we will continue to invest in our colleagues.

Our frontline colleagues will benefit from the biggest investment in skills to-date, with nearly three million-pounds going towards further enhancing our super-specialist expertise.

By the close of half two we will have completed the skills intervention programme that we started late last year, investing in training to bring our colleague skills base from 16,000 to over 40,000 skills across the business. This will ensure that every single colleague in our Retail business can work across both motoring and cycling, and that they are trained to deliver all of our core services.

Slide 36

Of course, each area of strategic focus will continue to be underpinned by improvements to the efficiency of the business.

Cost and efficiency will remain a priority and although we do not foresee any further large-scale property closures in the near-term, we will seek to negotiate further rental savings and take advantage of any opportunities.

In addition, our already well established workstreams will continue to target maximum efficiency and reduced costs across the business.

Slide 37 – strategy summary

To conclude;

We are very pleased with our performance in FY21.

Under unprecedented trading conditions, and against extreme uncertainty, we made some changes to our short-term plans to help us build the foundations from which to transform.

This re-prioritisation allowed us to successfully transform the economics of our business, through both cost and efficiency savings, and profitability improvements. We strengthened our balance sheet, ending the year with a strong cash position, and we made great progress in enhancing our customer experience.

We also made huge strides against our strategic ambition to build a market leading motoring services business and we brought this to more customers than ever before through a targeted group marketing campaign.

All of this puts us in a great position to continue to accelerate our transformation this year, across each area of our Inspire, Support, Lifetime strategy.

By the end of FY22 customers, colleagues and shareholders will see a different Halfords emerging – one that really harnesses the strengths of our unique business.

That concludes today's presentation - thank you for listening.

There will be a short pause now whilst we move across to the live Q&A, where Loraine and I will be happy to take your questions.

Q&A

Jonathan Pritchard (Peel Hunt): Morning all, the standard three for me, if I may. On cycling, obviously a great gross margin performance, can I be a bit greedy and ask if there is more in the pipeline? 680 basis points this year, anything behind that? On CRM, I suppose you can call it, how will I notice these changes? Will my emails get more personalised? What things would I expect over the next 12 months as well as perhaps notice of the Loyalty Club? Then M&A, any feel that there are more incoming calls on that basis?

Loraine Woodhouse (Chief Financial Officer, Halfords Group plc): Morning Jonathan. cycling, we have had an incredibly strong 12 months clearly, long in the planning. I do not foresee significant movement forward in the gross margin. I think we have made quite a lot of the strides that we have had planned. That said, we will this year re-lay our stores for Peloton 2, which is focused much more on accessories rather than bikes. Our hope on the back of that is that we see a better performance from our accessories business, which typically is higher margin. There could be a little bit more to come through mix. I do not think personally there is significantly more to come through bikes.

Graham Stapleton (Chief Executive Officer, Halfords Group plc): Morning Jonathan. In terms of CRM you are right, we are going to make some further enhancements to the current CRM approach that we have. It will mean a more personalised CRM strategy and plan for this financial year. The biggest move though is very much the Motoring Services Club that we plan to launch later in the year, as that really will start to tie all the assets that we have got together for customers and there will be able to see all the opportunities across the Group. We are well ahead in designing the proposition there. It is more now the infrastructure that we have to put in to enable that.

In terms of your last question around M&A we have already said that our focus very much is on building a motoring services business and acquisitions in that space. We have also said today that we intend this year to move further towards our mid-term target of 550 garages. Along those lines, we are looking at the right opportunities there. Obviously, they will have to have the right business case but we think there could be opportunities open to us during the course of this financial year.

Jonathan Pritchard: Perfect, thanks a lot.

Tony Shiret (Panmure Gordon): Hi guys, fantastic performance. First of all, you have given us a load of detail on both sides of the business. I wondered in Retail a couple of things. First of all, which particular areas do you think there is still major work to do instore? Secondly the comments about no further property closures, should we assume by that that you think that there is no cannibalisation between your online sales and your instore sales? Just a small last question, I wondered if you could let us know what your marketing spend as a percentage of sales was and is likely to be going forward? Thank you.

Graham Stapleton: Morning Tony, shall I start with the first question in terms of Retail and the plans there? We have had a very good year on Retail and we have actually started this financial year in a really good position on both cycling and motoring in Retail compared to FY20 pre-Covid. There is though still a lot more we can do. Obviously the fusion trials that we are going to introduce later this year will start to bring that to life. In terms of the offer within the Retail business, I think probably one of the biggest opportunities we have got is to really bring out more effectively the services proposition that we have. At the moment in most of our stores what we do on servicing is quite disparate and hidden to some extent. We want to really bring that alive and we also want to make more of the more inspirational, engaging parts of our offer, be that a cycling showroom or bringing the technology alive for the motoring area. There is a lot we can do to showcase the proposition in Retail better.

In terms of ranging, albeit we do not want to run too many products and our job I think as a specialist is to curate the range of products for customers. We still think there is opportunities for extended range online to ensure that our super specialism is seen in every channel. We will also be looking at an extended range online, particularly in the motoring part of our business during the course of this year.

Loraine Woodhouse: Morning Tony. I will cover the property closures and marketing spend. You will have seen from the statement that we have closed a number of stores and indeed Graham in his presentation talked about the fact that we have closed 100 stores over the last three years. We have been doing quite a bit of surgery to the estate. The most recent store closures, the stores were actually profitable, certainly a number of them, but they were low returning. We felt we had got an opportunity to improve the return of the business overall by moving some of those sales, transferring some of the sales to nearby stores. We have actually now managed to get ourselves into the position where the store estate that remains is really quite profitable.

From an online perspective, obviously online reached 45% of sales last year so it was really significant. It has stepped back in the first nine weeks of the year, as you would expect, as customers start to shop more normally. However, what is really interesting is our click & collect percentage, the number of sales that were then collected in a store and now in a garage actually, remained at 80% throughout. It never dipped. Our home delivery really moved from a £s perspective but from a percentage perspective really did not move very much throughout the whole of the pandemic. We believe that the store and indeed a garage is a really pivotal point of our offering. It is very important for customers to be able to go in, to get advice, perhaps to pick up a supplementary product. We offer on-sell or upsell when a customer goes into store to pick something up. The whole thing really is connected and we think we have got an opportunity to drive that further through a fusion. No planned further store closures right now. Obviously, we monitor every store. We monitor the position of the store and we look at every store as though it is a new store when it comes up for renewal. I think we are in a good position with the estate as it stands at the moment.

On to marketing, we have never given, to my knowledge, marketing as a percent of sales. It is quite sensitive, obviously. What I would say is that certainly with what I have seen from retail businesses, our spend as a percent of sales is quite low and it was very low last year because there were periods of time where we switched marketing off almost completely, certainly in the early parts of the pandemic. I would expect us to spend more this year. It will be very targeted spend so very focused around motoring and motoring services. Focused hopefully around the loyalty programme as we get towards the end of the year. It will be very targeted but I believe we probably need to put more into this area in the year we are in because we probably underspent last year, I would say.

Tony Shiret: Okay, thanks.

Kate Calvert (Investec): Morning everyone. I think this is probably for me with all my questions being motor-related. The first question is on the planned investments in motoring pricing you talked about. Can you talk through which areas this investment is particularly being made in and who typically are you benchmarking against? My second question is what level of sustainable, long-term margin is realistic for the Autocentres division going forward? The third one is on Halfords Mobile Experts. Did that break even in the current year and what are your expectations for the year ahead? Thank you.

Graham Stapleton: Hi Kate. In terms of motoring pricing we are not necessarily targeting one specific area. We are looking at the whole offer and we are ensuring that that offer is competitive and we are in a position to take more share over the coming year. We have historically been much more promotionally-led so we have in effect engaged in promotional activities at seasonal peaks and during the year. What we believe, particularly with customers in the position they are in as government support rolls off, what we need to do is make sure we are competitive all the time. That is what we are planning to do. It is not any specific area. It is across the piece that we are looking at. In terms of competitive set, it is the competitors you would expect. It is the bricks and mortar retailers we compete with and the online players that we compete with. We have to look at the way customers research and shop and make sure we are competitive against that. That would be my answer there.

Loraine Woodhouse: Morning Kate. In terms of Autocentre margin, I assume you are talking operating margin rather than gross margin. Autocentres achieved just under 5% last year if you strip out Covid costs, business rates, etc. We think 6% or 7% is a sensible medium-term target so we have got some way to go still but we see no reason why we should be lower than some of the key competitors. I think we have made really good productivity progress over the last year, which is positive.

In terms of HME, the hubs that are established, i.e. they are well set up already, are already profitable. I guess the extent to which the whole business is breakeven depends really on how fast we go with the expansion. Typically as you move into a new area and you put in new vans, you have to live with a degree of under-utilisation for a period of time and then as you mature it becomes much, much easier to generate profitability. What I would say on HME is we have got there much faster than we would have believed and much, much faster than I might have believed. I think we have made great progress and customers really love the proposition.

Kate Calvert: Great. Could I just follow up on one thing? On the Autocentres side, is there something structural that could stop you getting McConechy's and Universal Tyres' gross margin up to Autocentres levels?

Loraine Woodhouse: They are I think a little bit more challenged by the fact that they are predominantly tyre-related but from an operating margin point of view there should not be anything structural. I do think we have got some investment to make in those businesses and I do think, particularly McConechy's, had a more challenging year because of the pandemic. However, fundamentally over the longer-term operating margin they should also be able to get there. I just think we have got a little bit more work to do than our own business, which is well-invested and more mature.

Graham Stapleton: Yes, we also delayed some of the investment that we were going to make to reposition, for example, McConechy's as a Halfords business. Be that signage, branding, etc. That we started to roll out the back end of last financial year. The full benefits of rolling into the Group are still to be realised.

Kate Calvert: Great. Thanks very much for your help. Thank you.

Matthew McEachran (N+1 Singer): Morning guys, a couple of questions from me. Can I go back to the motoring price investment question and maybe ask it a slightly different way? What is the magnitude of the investment you are looking to make and is this a one-year reset or is it part of a two-year programme to get to a more competitive position?

Graham Stapleton: Morning Matthew. In terms of the motoring pricing, we are doing it in phases. It is not possible to give you a full number. We are starting the pricing repositioning in July, which is phase one, and we will then learn and develop our thinking and plans following that first phase. That is as much detail as I think we can share with you today. In terms of is it a one-year reset, obviously it is difficult to answer that entirely because we obviously do not know how the market is going to develop following what we do and what others do this year. We will just have to keep agile and ensure we are competitive in each year. It is really important if we want to grow our market share and maintain our leadership position, that we are competitive on price and not just through a promotional campaign. That is where we want to be. It is important we are good value, not necessarily the cheapest but good value on products, to grow a very significant motoring services business off the back of it. The two are very interdependently linked.

Loraine Woodhouse: One thing I might just add, Matthew, is you will see this from the statement but also in what we have said about cycling. We have done a huge on price elasticity across cycling and motoring. The two categories behave quite differently and subcategories behave quite differently. From a finance perspective, you can imagine I am looking hard at this, we are also able to be really clear where we make some investment, what we think might happen to volume as a result. We are really confident that there is market share for us to take here and we are a lot more confident in the behaviour of customers and how we might take that share. There is quite a bit of analytics that sit behind this that we probably did not have 18 months to two years ago.

Graham Stapleton: Yes. The other build as well I would put onto that is that there are two other factors in our plans that help here. One is our focus on solution selling. We have got a very significant focus and training around selling through service. When a customer comes in to buy the bulb or battery or whatever it is, they are making sure the service is attached, financial services or any other wrapper with it. We are looking at this as a solution sale rather than an individual product decision. Then obviously later in the year we bring in the Motoring Services Club and what that will enable us to do is to make much more granular decisions around pricing, in effect to a customer level. What investment do we want to make on a lifetime value basis for this particular customer? I think that will mean an even more scientific approach to what we do with motoring pricing when we get into next financial year. It is a journey that we are on and this is the first phase of it.

Matthew McEachran: Yes. I am sure in the back of your mind you have got a fair idea as to how much you are going to invest in price this year, but maybe if we take it up a level. You are obviously uncomfortable to give more detail but overall I think in the prior year in retail you made about £7.5 million of strategic of investment in the P&L. What do you think the equivalent number will be in the current year, including motoring price?

Loraine Woodhouse: Matthew, I would say it will be more than double that. I am not going to give you a precise sum because I will end up cornering myself but the £7.5 million was naturally very depressed last year. I would expect it to be more than twice that.

Matthew McEachran: Okay, thank you. A couple of other questions. Could you talk a little bit more about fusion? I know that this has been brewing for a long while and the jigsaw pieces are starting to come together but technically you already have the assets, local town. How are you going to operate them differently and what are the effects here other than trying to capture more market share? Can you reduce the occupancy costs and the cost-to-serve in those particular catchments? Can you just walk us through the future of that?

Graham Stapleton: Let us start with the customer first. What fusion is intending to do is to make it much easier for a customer to shop across all the assets of Halfords in that town. In other words, bringing together for the customer the garage, the van, the store, the contact centre and the home delivery options, making it much easier for them to understand what is available for them and how they shop across it. Obviously one aim of fusion therefore is to increase the average transaction value from a customer because they are just better able to shop that town and everything that Halfords has in it. That is the first thing.

The second piece is around capability. This is not just a store format programme. In fact, it is only a very small part of what we are doing. We are also reviewing the operational and selling model for the store. We are increasing the training, the skills and really, really making this a town of excellence, if you like, for selling where we are training our colleagues to sell through service much more effectively, again giving customers the right solutions, increasing average basket value. Then there is an opportunity too on cost, not just by operating the store more efficiently and effectively through fusion but also reviewing how we manage an area or a town. For example, do we need a manager for an autocentre, a store and the vans or can we actually consolidate that leadership into one town? There are a lot of different facets.

The format itself is also quite different. You will see in the destination retail store to a large extent, less so in the garage, a very different shopping experience coming out. Certainly one that shows our services offer much more effectively but also there are differences in the way we sell motoring products in the store and also showcase our cycling area to make it more inspirational. Part of the reason this has taken time is because it is such a big change to the way we want to operate a town and we want to make sure obviously we give it the best shot that we can and test and learn effectively at pace. It is also not something we could have done through a pandemic. Very, very difficult to deliver a fusion programme with that going on in the background.

Matthew McEachran: Yes, okay, that is helpful. Thank you very much. Then just one final one in relation to the comments about targeted M&A. Potentially a lot of opportunities arising in the current climate. Could you give us a flavour as to whether this is channel, service or product market? Where are you interested in bolting on accretive businesses?

Graham Stapleton: We have already successfully bought and integrated McConechy's, Tyres on the Drive and more recently, Universal. We think there are more opportunities in that space to add businesses to the Group because of the synergies that they bring, the scale benefits obviously and the opportunities in the market. There is no doubt that the MOT deferral last year will make it quite challenging for some businesses as we go into this financial year because there will be less MOTs to do and therefore less servicing coming off the back of it. It is a good time to look at those opportunities now.

Matthew McEachran: Yes. Brilliant, that is great. Thank you very much. Cheers guys.

David Green (Boldhaven): Hi Graham, hi Loraine, how are you doing?

Loraine Woodhouse: Morning.

Graham Stapleton: Morning.

David Green: Morning. I wanted to touch base first of all on the supply chain. It is something you have had flagged continually throughout last year, specifically the supply chain disruption to cycling. I am wondering, are you seeing any further deterioration here or is it status quo? On that specifically, you have also mentioned that demand is outstripping the supply on that basis. It would be really helpful to get a feel for what you see the fill rate as. That is my first question.

Loraine Woodhouse: I am not sure I would say we have seen further deterioration, David, but we definitely have not seen any improvement. I guess what has happened over the supply chain is the problems are constant but the nature of them tends to change. We had a big problem with containers. At a point in time containers were in the wrong place. We had a big problem with port congestion. Very early in the pandemic we had a significant problem with Covid in Asia. We have had Brexit where getting product into Ireland frankly is still incredibly hard to do. The problems have moved over time. What we are seeing again now is Covid re-emerging in Asia. I am very much hoping this is not the cycle repeating itself. I do not think I would say we have seen a significant deterioration but whereas we might have hoped we would have seen an improvement we certainly have not seen that. It will be interesting to see how that progresses as we go through this year. Sorry, I did not hear the last little bit of your question. Could you just repeat the last bit please?

David Green: Yes, it was what are the fill rates? It is used by some retailers in a similar situation where there are constraints. It is basically what percentage of the total demand are you able to sell at the moment?

Loraine Woodhouse: Okay. We have not talked about that but I can tell you that we have got significant gaps across the range. We have got built-up demand. We have got a service whereby you can email if you are interested in a particular item. We have got a significant amount of demand built up through that service and we are also able to see through Google search that customers are still searching bikes. There is also quite a lot of research data out there that tells us that customers are thinking about buying a bike. We know there is more demand than there is supply at the moment. We have not given a figure on what we think that gap is. Stock is flowing in, it is just flowing in, in a rather spiky fashion. We are confident that as that stock flows in the demand will be there.

Graham Stapleton: Yes. Just building on that point, we did see quite early in the pandemic what was coming here with the research, insight, Google data, etc. What we have done is leverage the scale of our business and the relationships we have. We 85% of our range own-brand, it means we are very aware of what is going on in Asia and around the world here. Therefore I am confident that in terms of share of what is available we are in a good place going into this year. Will we meet full demand? Certainly not in the first half because the demand is still very, very high. From our research data, just picking that point from Loraine, 37% according to our research of UK adults are looking to buy a bike within the next six months. That is after the demand and sales that we have already seen over the last 18 months.

Loraine Woodhouse: What I would add, David, is I think there are two things that give me some confidence that to the extent the product is there we will be able to get it. We have a really experienced bike buying team. They really do understand cycling inside out and they are very innovative when it comes to thinking about new ways in which they can build a bike, get componentry, etc. The second thing we have is a very experienced shipping agent who has worked with us for a long time. We know the shipping lines well and we have good relationships which means that we are able to move product very successfully. I think those two things, whilst they are challenging and they are taking more time than you might hope, they do also give us quite a strategic advantage at the moment.

David Green: I guess just following on, on cycling it was obviously a very, very strong year and it is probably going to be hard to sustain the same kind of level of growth. However, you do still have the multiple tailwinds like government initiatives. It will probably benefit I would have thought from staycations and you have obviously got the ongoing health and wellness trends as well. I appreciate it is going to be very difficult to predict but any thoughts on cycling growth levels for this year. Do you think you can do positive like-for-likes?

Loraine Woodhouse: Positive one-year like-for-like might be quite hard, David, although year-to-date we are not that far away interestingly and of course we are more stock constrained at the moment than we were a year ago. Personally, I think positive like-for-like on a one-year basis would be some result and I am not sure I am expecting that we get there. However, we are expecting very positive two-year like-for-like because we think all of the structural things that are in play at the moment for cycling, all of the trends you have just described will give us strong tailwinds throughout the course of this year. We are very positive on cycling. I just think maintaining a one-year like-for-like result might be tough. However, if we do that, happy days.

Graham Stapleton: I am in the same place as Loraine, maybe a little bit more positive about the cycling prospects. I think the thing to remember is the first nine weeks that we have reported for cycling includes a large period of time where the weather was very, very poor relative to last year and the year before. It might seem a long time ago now with lots of hot weather over the last few weeks but you will remember that the last parts of spring were torrential rain and quite cold, which is not great weather for cycling, certainly not leisure cycling. I think there is definitely still the demand there. If we do not hit the like-for-like in year one it will be because our supply is constrained, not because the customer demand is not there for the bikes.

David Green: On an ongoing basis, what do you see the market growing at and where do you think you can grow versus the market?

Graham Stapleton: Market share data on cycling is a bit patchy. We have started very recently to get some decent share data but we have not got the historical information to be able to give you a trended view. From talking to suppliers and looking at the data we have got we think that the market grew just over 40% against our 54% so we were growing ahead of the market but the market overall did grow over the last year. There is nothing to suggest that that market is not still growing now. That is the best data we can give you at this moment.

David Green: What do you see as the general market growth rate for cycling going forward?

Graham Stapleton: We have not actually suggested what that would be. We do not normally position that sort of number. It is very, very difficult to give a sense of what that could be. I think the best way of looking at it is to look at the first nine weeks' numbers that we have just shown. That gives you the latest picture. There is nothing to suggest that the growth in cycling is stopping yet, that we can see and we look at lots of data from Google search data to our insight and research to our own sales data. We cannot see that trend diminishing. There are a lot of new people in the market for cycling but the usage is also changing. We are seeing more people using bikes more often. Our data shows that 40% of people that are cycling are cycling now more than they were a year ago. A lot are making two journeys a week when they would not have done that before. Obviously, more people using bikes to get to work rather than public transport. We still see through our data that I think it is one in three members of the public are still not wanting to use public transport in the way that they used to. If you add that to all the challenges around climate and sustainability, the fact that more people are potentially staycationing, I cannot see that demand for cycling dropping significantly over the next 12 months.

David Green: Great. Apologies, a couple more, if that is okay. On the motoring side, it was a tough year for obvious reasons and I guess a large part of that is linked to car journeys. As those begin to normalise do we necessarily see more of a tailwind coming through and an improvement in like-for-likes coming?

Graham Stapleton: What I would say, honestly one of the most pleasing things about the results I think is the motoring products and motoring services performance last year. If you took the whole year there was on average 25% less traffic on the road. Our Autocentres business delivered a like-for-like growth of 9.7% up which is quite extraordinary if you think of those two numbers. Even the Retail products business at -12% was significantly better than the reduction in traffic that we saw on the road. If you look at the last nine weeks you will see that both Retail products and our Autocentres business delivered a 6.6% growth on FY20 pre-pandemic. I think we had a very good motoring year particularly on motoring services. Last year we definitely took share in the motoring services part of the market and we started very, very strongly this year. We were seeing a reduction in traffic for most of that nine weeks still at about 8% or 9% down traffic-wise on pre-Covid. It is only the last few weeks that we have seen traffic return to pre-Covid or just above levels. We are still not seeing the real opportunity that that brings to the motoring business for any length of time yet. We remain pretty positive about prospects on motoring this year.

David Green: My final question was on the guidance in terms of could you give us a feel for some of the assumptions behind the £75 million and any colour on the shape of H1 versus H2?

Loraine Woodhouse: I will cover the second point first because that is easy. The £11 million of business rates is only applicable for the first half of the year so you will see all of that come through. If you strip the £11 million off the £75 million and you divide the rest by two then at the moment we have got nothing better to give you by way of guidance. Clearly the shape will evolve as the year goes on. In terms of the overall guidance we are not giving sales margin cost assumptions but clearly, as I mentioned earlier, we would see more significant cost investment going in this year, particularly around the strategic investment, which is important that we return to that. We have talked about motoring pricing, which you can imagine may lead to some form of dip in gross margin but we will see how that pans out throughout the year. We have talked about still some confidence in our sales numbers and that is confidence year-on-year as well. Whilst cycling will have a harder job delivering last year, providing the restrictions do not descend once more, then motoring should have a much less tough comparative year-on-year. You would hope that would more than compensate. That is the best shape we can give you. You will notice the guidance is post-IFRS 16. IFRS 16 for us last year was a credit of small single £millions. Most of that was related to the fact that we have leases held over at the end of the year so as those leases settle, and I would expect a chunk of them to settle throughout the next year, then the IFRS 16 element of that charge will come into play. We will see higher right-of-use asset depreciation and higher interest on the liabilities. The £75 million takes that into account or at least it takes into account what we are able to see at the moment. It is quite hard to predict that until we see the leases. That is probably as much shape as I can give you. It remains incredibly uncertain as we sit here. Every time we update the market, we will be back in September, we will try to give you a slightly clearer picture of how the year is evolving.

David Green: Great, many thanks.

Graham Stapleton: Thanks very much indeed for joining us this morning and for your questions. I look forward to speaking again in September. Thank you.

Loraine Woodhouse: Thank you.

[END OF TRANSCRIPT]