Halfords Group

FY26 Interim Results

27th November 2025

Transcript

Henry Birch, CEO

Good morning everyone, and welcome to the Halfords Group Interim Results for the 26 weeks ending the 26th of September 2025.

I am Henry Birch the Chief Executive of Halfords, and joining me today is Jo Hartley, our Chief Financial Officer.

I am very pleased to report a strong set of results for the first half of FY26. Against a backdrop of considerable cost inflation and consumer uncertainty, we have delivered L4L sales growth of 4.1%, underlying PBT of £21.2m, up slightly vs the prior year, and a strengthening balance sheet, with net cash up £8.5m since the year end, to £18.6m.

We have also made good progress on our strategic priorities and in a separate presentation, we will be sharing more detailed thoughts on the strategic direction for the Group and how we plan to deliver sustainable growth. At that presentation there will be an opportunity to ask questions both on our interim results and on our strategic direction.

Slide 2

In terms of this presentation, Jo will now take us through a review of HY26 financial performance and I will then briefly cover the strategic and operational progress we have made in the first part of the year, and our outlook for FY26.

For now, I will hand over to Jo.

Jo Hartley, CFO

Thank you, Henry, and good morning, everyone.

And I am pleased to be reporting another strong set of results for H1. Despite the very significant inflation arising from minimum wage and National Insurance changes that were effective from the start of the year, we have delivered H1 performance ahead of our own expectations.

Our performance has been supported by some recovery in the cycling market, and a tailwind from better FX rates, but we have also executed with discipline, delivering against our ambitious cost saving targets, winning in our markets, continuing to successfully roll out our Fusion program and fully recovering our Coventry warehouse operations following the implementation of a new Warehouse Management System.

We have also continued to manage working capital and cash carefully to further strengthen our balance sheet. Our strong first half performance gives us confidence that we can deliver for the full year.

Slide 4

So let's start with the highlights of our financial performance.

L4L sales grew by 4.1%. Pleasingly, once again, we saw growth across both Retail and Autocentres. Cycling was a standout in H1 performance, delivering 9.0% LfL sales growth.

Group gross margin grew 200bps, building on 160bps of growth seen in the first half of FY25, to bring gross margin to 51.4%, the highest level in 3 years.

Operating costs as a percentage of revenue grew as anticipated, reflecting cost inflation and selective investments in leadership, Fusion roll out and our digital platform, planned at the start of the year.

All of which meant that underlying PBT of £21.2m was up £0.2m or 1% year on year, slightly ahead of our expectations driven by pleasing sales performance.

And as already noted, our cash and working capital performance was again strong, resulting in £18.6m net cash on the balance sheet at the end of the reporting period, up £17.3m vs this time last year and up £8.5m vs the year end position.

Slide 5

This next slide bridges the underlying profit movement between H1 last year and H1 this year.

The first bar on the bridge shows the very material impact of cost inflation. This was predominantly driven by the changes to National Insurance and Minimum Wage and the knock-on impact to labour costs across the wider workforce and on managed services such as maintenance, cleaning and technology. We also saw inflation in property costs and from the new packaging tax, meaning that in total cost inflation was a very sizeable headwind.

As the bridge goes on to show, this was more than offset by our trading performance, including successful pricing pass-through particularly in services; the continued success of our Better Buying programme; a continued focus on reducing operating costs; and benefits from Fusion and the small number of garage closures we announced back in June. We also benefited from an FX tailwind as improved hedged rates on USD purchases came through cost of goods sold.

The final point to pull out on this bridge is that our successful trading and cost control enabled us to continue to invest in priority areas including Fusion, leadership, and our digital platform.

Slide 6

Given the significant gross margin progression, I thought it would be useful to pull out the key drivers.

As you can see, the majority of our gross margin growth came from Better Buying, contributing 100bps of margin accretion with notable gains from the successful retendering of our own label products and strengthened partnerships with our branded suppliers, who recognise the unique value of our physical estate and skilled colleagues in showcasing product and delivering solutions for customers in a way that no other business can.

The chart also shows our continued success in optimising pricing, particularly in services where a significant proportion of the sales price reflects labour costs.

And finally, FX, as already noted, was a tailwind for us in the period. We purchase around 200m dollars of USD denominated product each year, and the hedged FX rate coming through in cost of goods sold improved from $1.24 in HY25 to $1.28 in HY26.

Overall, a very strong margin performance in H1 which we expect to sustain in H2.

Slide 7

This next slide serves to bring together the key metrics we have discussed in a summary table, which I won't dwell on.

The only point we have not yet discussed is non-underlying items.

In H1, our non-underlying charge was £4.0m of which £3.1m related to non-recurring costs associated with the implementation of a new warehouse management system in our Coventry Distribution Centre. As we described in June, we saw issues with system stability and productivity immediately following the implementation. We therefore invested in additional resources to preserve stock availability in our retail business.

I am pleased to report these issues are now resolved and the non-recurring cost was at the lower end of the range we indicated at the prelims. Warehouse productivity, store stock levels and customer home delivery propositions are now back to normal, as are our warehousing and distribution costs. We do not expect any further non-underlying costs associated with challenges relating to the warehouse management system implementation in H2.

Slide 8

Moving now to our retail business, which saw a strong first half of the year, with L4L sales growth of 4% being the strongest performance we have reported since FY21.

Here, cycling sales were particularly strong at +9% L4L, with our premium cycling fascia Tredz delivering double digit L4Ls. In a stronger market supported by a warmer summer, we won share in all segments of our cycling proposition, through range extensions across our Boardman and Voodoo brands and in premium e-bikes, supported by pricing discipline, and service and advice from our expert cycling colleagues. Henry will cover the detail on this shortly.

Motoring L4L sales were more muted but pleasingly in growth at +1.1%. Sales volumes were slightly supressed by some deliberate range review actions to improve margins and profitability.

Margin growth was strong, with 150bps of improvement year on year. This was driven by Better Buying and the FX tailwinds already described coming through and more than offsetting the negative impact of mix into cycling sales year on year.

Sales growth and margin accretion helped mitigate against the inflationary headwinds and investments already described, to result in underlying EBIT down slightly year on year to £20.6m.

Slide 9

Moving now to the Autocentres segment which as a reminder includes:

- Consumer garages and vans;
- Our Commercial Fleet Services business which supports larger lorries and other commercial vehicles;
- And Avayler, our software as a service business.

As usual, Avayler is shown separately and all the numbers which follow are for Autocentres excluding Avayler.

The Autocentres segment saw L4L growth of +4.3% with total growth a little lower at +3.4% as a result of the small number of garage closures announced at the prelims.

Within this, the consumer garage and mobile business saw considerably stronger revenue growth of around 8% reflecting continued share gains in what is a highly fragmented and growing service, maintenance and repair market while the tyres market continued to be weak. Sales growth in Autocentres was also supported by pass-through of labour cost inflation in an offering which is heavily weighted towards services. Revenue growth in our commercial fleet business was lower as we reprioritised our resources to focus on higher margin services and more profitable tyre options with a corresponding gross margin benefit.

Margin growth was particularly strong with 270bps of margin accretion year on year. As elsewhere in the Group, Better Buying and our pricing strategy were key contributors, supported by improvements in the tyre margin as a result of focus on sales of high-margin add-ons such as tyre alignments and warranties, and a sales mix into SMR.

This margin accretion helped to offset the inflationary dynamics already discussed, alongside further operating cost efficiencies as well as the benefits from Fusion and the site closures already mentioned. This resulted in operating profit growth of nearly 8% year on year.

Finally on this slide, in Avayler we saw losses widen as anticipated given the loss of revenue from ATD, a US client which entered chapter 11 last year.

Slide 10

Moving now to our balance sheet, where we have seen another strong period of cash generation, closing the half year with net cash of £18.6m, up £17.3m vs H1 last year.

A key contributor to the strong cash performance was working capital management, noting that the figure on the chart is net of the payment of the reintroduced FY25 colleague bonus detailed in June. Inventory management was particularly strong, with stock down nearly £9m vs the same period in the prior year, with reductions across both retail and autocentres.

This strong working capital management means that net cash has grown by £8.5m vs the year-end despite £8m cash capex on Fusion, £9m of colleague bonus payout and a £13m dividend payment – reflecting the strong cash generation of the business.

From a lease debt perspective, we have continued to retain significant flexibility in our property portfolio, with average retail lease lengths now at 2.6 years, and average garage lease lengths now at 4.9 years. Net debt including lease debt was £232.7m at the balance sheet date, down £43.8m vs H1 last year driven by the higher cash balance already described and a reduction in lease debt. As such, leverage including IFRS16 lease debt is 1.3x EBITDA on a 12-month basis.

As a final point, we successfully executed a 1-year extension option within our RCF in August this year, such that debt facilities now mature in April 2029.

Slide 11

So to summarise, we are pleased with performance in the first half of the year. We have delivered sales growth, gross margin expansion and profit ahead of our expectations, successfully implementing cost savings to mitigate considerable inflationary pressures.

And we have strengthened our balance sheet, closing with a higher net cash position than we had either this time last year or at the end of FY25. Overall, our first half results and our balance sheet strength enable us to move forward with confidence.

Finally, I am pleased to report that the board have declared an interim dividend of 3p per share, in line with the interim dividend paid last year.

I will now pass you back to Henry who will cover some of the strategic and operational highlights from H1 and our outlook for the balance of the year.

Henry Birch, CEO

Thank you, Jo.

Slide 13

As Jo mentioned H1 saw a really strong performance in cycling, which grew 9% LfL after a multi-year period of weaker demand post-pandemic, and I wanted to talk a little more about our leading position in that market.

Our national network of stores make us unique, acting as cycling showrooms while also offering specialist service and advice to our customers. We are a clear category leader – and as just one example, we sell two thirds of all children's bikes in the UK.

In the core Halfords business, we sell bikes under award winning brands we have developed ourselves – such as Carrera, the leading mainstream cycling brand in the UK by value, Apollo, the largest brand by volume, and Boardman, offering outstanding quality at an unrivalled price point for enthusiasts in the know.

Our proprietary brands enable us to offer leading design and quality, at brilliant value prices to customers, while also delivering strong margins through our strategic partnerships with suppliers and our global sourcing office in Asia.

And through Tredz, we also operate in the premium, branded bike market online.

Following a spike in demand during Covid, weakness ever since has driven significant market consolidation, with numerous independent retailers and some smaller chains and wholesalers disappearing from the market. While this period was challenging for Halfords too, we have grown both market share and margin while continuing to invest in our product ranges. And we are cautiously optimistic about the future, planning our intake accordingly with inventory levels expected to increase in the second half of the year ahead of next summer's peak season.

Slide 14

I am very pleased to say that we have made good progress in our two ongoing strategic priorities, namely Fusion and Halfords Motoring Club.

With respect to Fusion we now have 79 garages converted to the Fusion model. As a brief reminder a Fusion conversion will typically double garage profitability within 2 years and the average amount of capex spent on each of these conversions is approximately £200k.

By the end of the year, we are on track to have converted more than 100 garages with the remainder of the 150 planned in total to follow in FY27. Fusion provides a more modern, customer friendly garage environment incorporating dedicated front of house customer service advisers. And it works hand in hand with our retail business, driving customers from local stores into our less well-known garage services offering.

Slide 15

Meanwhile Halfords Motoring Club has continued to prove popular with customers. Our membership has now reached around 6 million members, who are able to access attractive discounts and benefits while providing us with valuable data and marketing permissions.

Perhaps more excitingly, we have more than 400k premium members who effectively pay an annual subscription for their MOT and in doing so gain access to a range of enhanced benefits across retail stores and autocentres. Club remains an important part of our business, delivering higher rates of cross-shop, customer engagement and average spend.

There is much more we can and will do with Club and it is a key part of our plan for the future.

As mentioned previously, later today we will be detailing our strategic plans for Halfords and I will say more about our direction in these and other key areas.

Slide 16

So moving now to our outlook for the balance of the year, which in FY26 is a 53 week reporting period.

Slide 17

As already described, we saw strong trading in H1, helping us to deliver results that exceeded our expectations in the six months to September. While our performance was helped by a more supportive market backdrop, specifically in cycling where the warm summer weather may have pulled some sales forward from later in the year, there is also plenty of self-help at play in delivering an excellent first half performance across the Group. We are building our stock position ahead of next summer's peak period through the second half.

We look ahead to the remainder of the year with confidence. We move forward with a talented new leadership team in place, including our latest appointment of Sarah Haywood as our new CIO, a clear plan (more on which in our separate strategy update presentation), and a very strong balance sheet. These factors enable us to invest in our brand and digital experience at the same time as delivering underlying PBT for the full year in line with consensus.

Slide 18

So I want to close this morning by saying a huge thank you to the more than 12,000 Halfords colleagues who have made these excellent results possible, as well as to our outgoing Chair, Keith Williams, who will be departing before our next AGM having served 9 years on the Halfords Board. I know I speak for many in the organisation when I say that his experience and wisdom have been invaluable through that period.

That concludes our interims presentation.

We will be taking related questions at our strategy presentation for analysts.

And at a webcast for retail investors hosted by Engage Investor, details of which can be found in our results announcement published this morning.

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