

halfords

for life's journeys

FY18 Preliminary Results

Introduction

Graham Stapleton – CEO

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Jonny Mason – CFO

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Graham Stapleton – CEO

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Graham Stapleton – CEO

Jonny Mason – CFO

FY18 Operational highlights & financial results

Jonny Mason

FY18 overview

- Pleased with performance in a challenging retail environment; Motoring and Cycling sales growth
- Further progress on growing services, customer relationships and online sales
- FX mitigation plans worked well against c.£25m in-year headwind
- FY18 Group PBT of £71.6m in line with market consensus
- Continued operational improvements
- Good cash generation with Free Cash Flow up year-on-year



Operational highlights

- Improved customer relationship metrics
- Enhanced colleague training; target 'Gears' proportions maintained; steady colleague turnover
- 9th place in 'Sunday Times Best Big Companies To Work For'
- Own-brand range roll-outs across both Motoring and Cycling
- Autocentres operational review delivering signs of encouraging early progress
- Improved Autocentre colleague KPIs



Group financial highlights

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Revenue:	£1,135.1m	↑	+3.7% +2.0% LFL	+£40.1m
Underlying EBITDA:	£109.5m	↑	+0.7%	+£0.8m
Underlying PBT:	£71.6m	↓	-5.0%	-£3.8m
Basic Underlying EPS:	29.6p	↓	-2.3%	-0.7p
Free Cash Flow:	£41.5m	↑	+10.1%	+£3.8m
Full year Dividend*:	18.03p	↑	+3.0%	+0.52p

Group PBT in line with expectations; FX mitigation plans delivered well

* Recommended Ordinary Dividend

Retail like-for-like sales

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Motoring

+1.9%

Car Maintenance

+3.7%

Car Enhancement

-2.2%

Travel Solutions

+3.6%

Cycling

+2.9%

**Service
related
Retail
sales
+14.2%**

**Online
sales
+6.0%**

**c.85% of
Halfords.com
orders collected
in store**

Retail financial highlights

Revenue: £977.2m

+4.1%
+2.3% LFL

Gross Margin: 47.4%

-123 bps

Operating costs: £391.0m

+2.9%

Underlying EBIT: £72.6m

-5.5%

Underlying EBITDA: £99.0m

-2.1%



Store Colleague costs

+3.9%

Store Occupancy costs

+2.7%

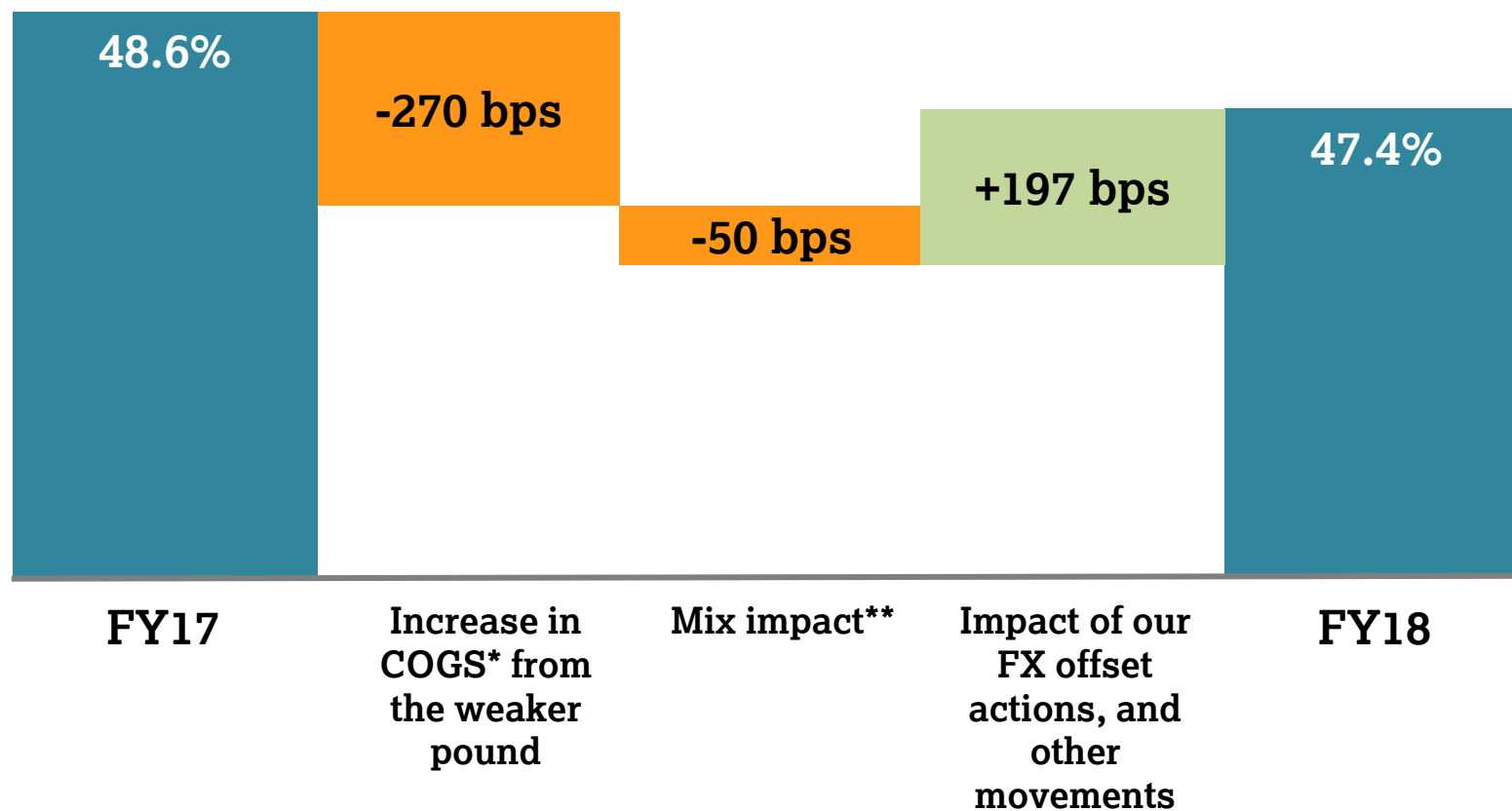
Warehouse &
Distribution costs

+5.5%

Support costs

+0.5%

Retail gross margin



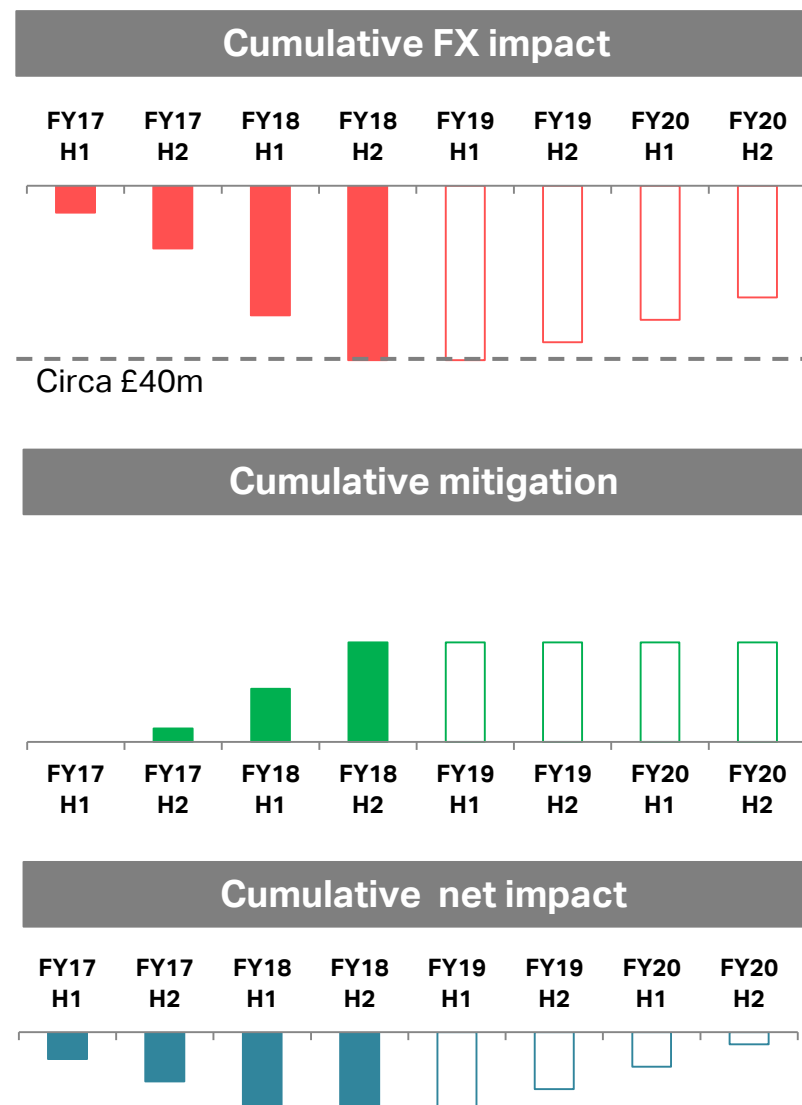
*COGS refers to 'cost of goods sold'.

**This comprises:

- a) Circa 30 bps from the net of the adverse mix impact of faster cycling sales, partially offset by the accretive mix impact of higher service-related Retail sales and lower sat nav sales; and
- b) Circa 20 bps from the first-time inclusion of Tredz and Wheelies for the period prior to the annualisation of the acquisition.

Retail gross margin

- We have now had circa £40m of FX headwind cumulatively since FY16
- We have mitigated over half of this. We do not anticipate further price rises in the cycling market this year
- At current exchange rates the gross headwind will unwind over the next two years, principally in FY20 due to our hedging
- We therefore anticipate, at current exchange rates, for the FX impact to be almost fully recovered by the end of FY20 without the need for further mitigation actions



Autocentres financial highlights

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Revenue:

£157.9m

+0.8%
+0.2% LFL

Gross Margin:

67.5%

+238 bps

Operating costs:

£102.5m

+2.7%

Underlying EBIT:

£4.1m

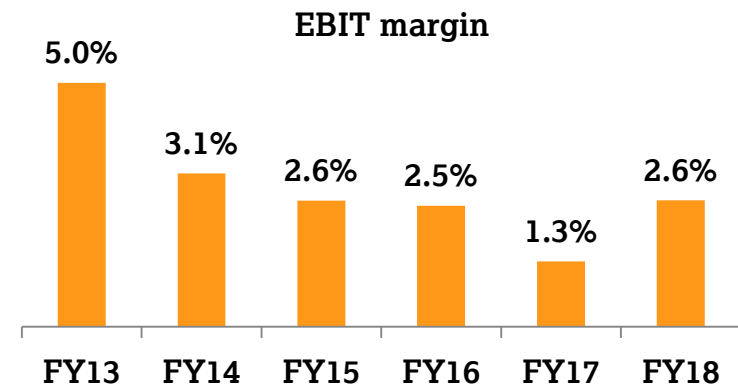
+86.4%

Underlying EBITDA:

£10.5m

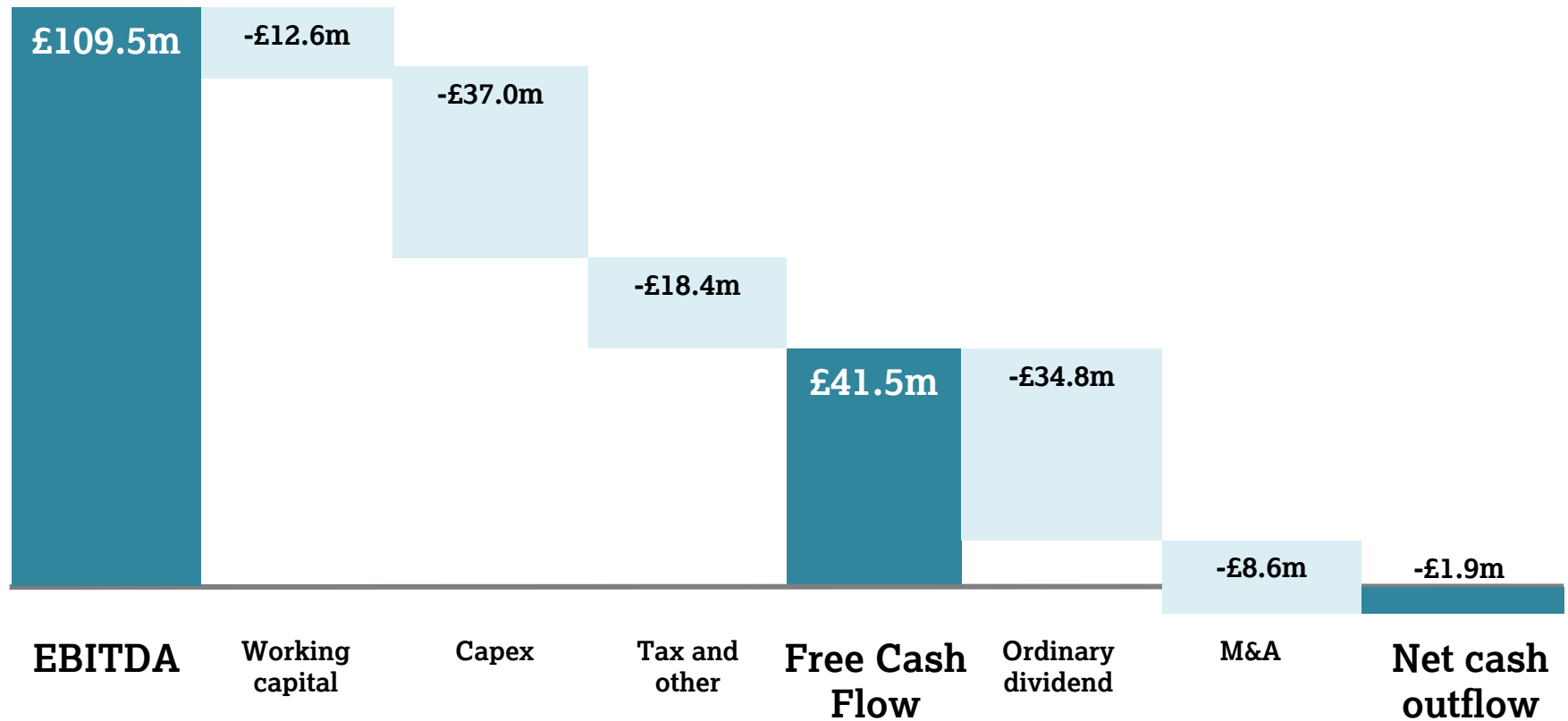
+38.2%

- Good opportunities for profit improvement across estate
- Implementation of better systems to improve oversight
- More consistent application of best practices across garages
- Early progress is encouraging
- Hybrid / electric trained technicians
- Improved colleague turnover



Cash flow

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Net Debt
to
EBITDA
0.8 times

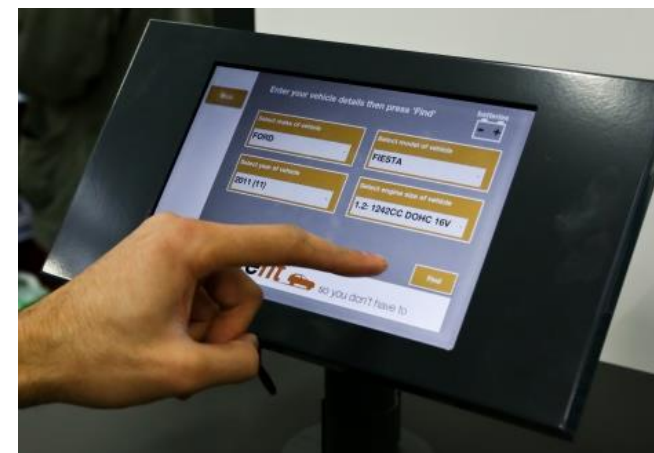
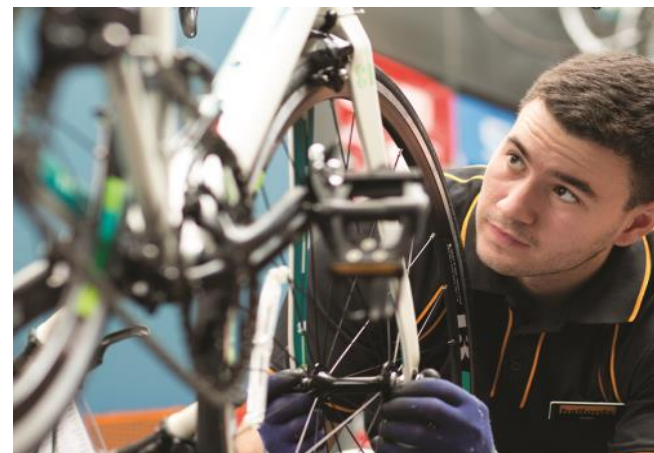
Full-year
ordinary
dividend
+3.0%

RCF
amended
and
extended

- Further operational improvements
- Financial performance in line with expectations
- Material FX headwind mitigated
- Consistent cash generation with higher Free Cash Flow year-on-year
- Increased Ordinary Dividend



- We will continue to develop our strong market positions in motoring and cycling
- Capital allocation priorities and dividend policy remain unchanged
- Remaining FX mitigation likely to come through in FY20
- Acceleration of investments in services and customer capabilities
- Therefore FY19 PBT currently anticipated to be broadly in line with FY18

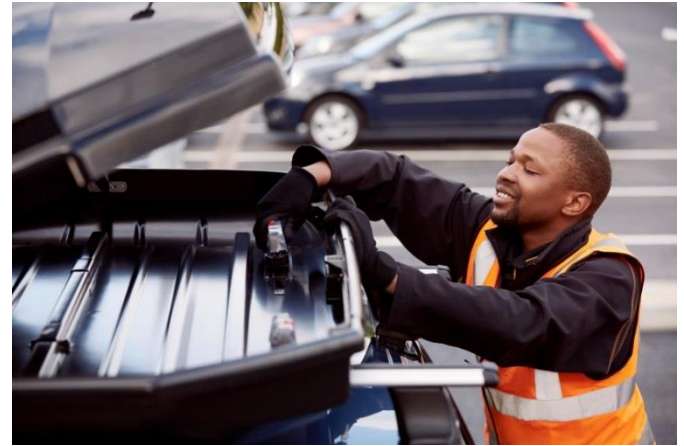


Initial thoughts on Halfords

Graham Stapleton

Progress of the last few years

- Focus on training, engagement and retention of colleagues
- Growing our services offering and services businesses
- Further building our customer relationships and insights
- Increased presence in the cycling market
- Continuing our infrastructure improvements



Key strengths

- A strong heritage and brand awareness
- Market leader in many categories
- Engaged colleagues with a “can do” attitude
- Cash generative
- Resilient financial position; low gearing, short leases and no pension deficit



Unrealised potential

- Increase awareness of our services businesses to fully leverage our unique positioning
- Optimise our Group-wide customer data and insight
- Build on an established and scaled B2B business

Many more opportunities identified:
to be presented in September



- Good business, strong foundations
- Unrealised potential to invest in
- Plans to be set out in September
- Exciting future ahead





Q&A

**Graham Stapleton
Jonny Mason**

Group income statement

	FY18 £m	FY17 £m	Change
Revenue	1,135.1	1,095.0	+3.7%
Gross Profit	570.2	558.6	+2.1%
Operating Costs	(495.6)	(481.5)	+2.9%
Underlying EBIT	74.6	77.1	-3.2%
EBIT Margin %	6.6%	7.0%	-
Underlying EBITDA	109.5	108.7	+0.7%
EBITDA Margin %	9.6%	9.9%	-
Net Finance Costs	(3.0)	(1.7)	-
Underlying Profit Before Tax	71.6	75.4	-5.0%
Basic Underlying Ordinary EPS	29.6p	30.3p	-2.3%
Effective Tax Rate	18.5%	21.0%	-

Retail income statement

	FY18 £m	FY17 £m	Change
Revenue	977.2	938.4	+4.1%
Gross Profit	463.6	456.6	+1.5%
Gross Margin	47.4%	48.6%	-
Operating Costs	(391.0)	(379.8)	+2.9%
Underlying EBIT	72.6	76.8	-5.5%
EBIT Margin	7.4%	8.2%	-
Underlying EBITDA	99.0	101.1	-2.1%
EBITDA Margin	10.1%	10.8%	-

Group balance sheet

	FY18 £m	FY17 £m	YOY £m	% Change
Goodwill and Intangible Assets	393.9	394.1	-0.2	-0.1%
Property, Plant & Equipment	101.3	102.8	-1.5	-1.5%
Investments	8.1	8.1	-	-
Derivative Financial Instruments	(5.1)	3.7	-8.8	-237.8%
Net Working Capital	48.7	26.1	+22.6	+86.6%
Net Debt	(87.8)	(85.9)	+1.9	+2.2%
Other Creditors	(37.2)	(41.4)	-4.2	-10.1%
Net Assets	421.9	407.5	+14.4	+3.5%
<i>Inventories</i>	195.5	191.1	+4.4	+2.3%

Cash flow and net debt

Adjusted Operating Cashflow	£m	Free Cashflow	£m	Net Debt	£m
Underlying EBIT	74.6	Operating Cashflow	95.4	Opening Net Debt	(85.9)
Non-recurring operating expenses	(4.8)	Capital Expenditure	(37.0)	Free Cashflow	41.5
Depreciation, amortisation, impairment and loss on disposal	39.0	Net Finance Costs	(1.9)	Finance lease movements/loan fee amortisation	0.1
Employee Share Scheme	0.4	Taxation	(16.1)	Proceeds from issue of shares	(0.1)
Working Capital	(12.6)	Exchange rate movements	1.9	Dividends	(34.8)
Provisions & Other	(1.2)	Arrangement fees on loans	(0.8)	Acquisition of subsidiary	(5.1)
-	-	-	-	Purchase of investment	(3.5)
Adjusted Operating Cashflow	95.4	Free Cashflow	41.5	Closing Net Debt	(87.8)

Net debt to EBITDA at 0.8:1
Final dividend of 12.03p up 3.0%

Group cash flow

	FY18 £m	FY17 £m
Underlying EBITDA	109.5	108.7
Non-recurring operating expenses	(4.8)	(3.4)
Change in inventories	(4.4)	(33.2)
Change in receivables	2.4	2.3
Change in payables	(10.7)	14.6
Change in provisions	(1.4)	(0.2)
Loss on disposal of assets	4.2	0.2
Other	0.6	1.0
Adjusted Operating Cash Flow	95.4	90.0
Capital Expenditure	(37.0)	(34.4)
Finance costs, tax and other	(16.9)	(17.9)
Free Cash Flow	41.5	37.7
Acquisitions & Investments	(8.6)	(22.1)
Ordinary Dividends	(34.8)	(33.5)
Special Dividends	-	(20.0)
Other	-	(0.1)
Net cash inflow/(outflow)	(1.9)	(38.0)

Group components

FY18	Retail £m	Autocentres £m	Amortisation £m	Group £m
Revenue	977.2	157.9	-	1,135.1
Gross Profit	463.6	106.6	-	570.2
Operating Costs	(391.0)	(102.5)	(2.1)	(495.6)
EBIT	72.6	4.1	(2.1)	74.6
EBITDA	99.0	10.5	-	109.5

FY17	Retail £m	Autocentres £m	Amortisation £m	Group £m
Revenue	938.4	156.6	-	1,095.0
Gross Profit	456.6	101.9	-	558.6
Operating Costs	(379.8)	(99.8)	(1.9)	(481.5)
EBIT	76.8	2.1	(1.9)	77.1
EBITDA	101.1	7.6	-	108.7

Note: All numbers are before non-recurring items.