

A photograph of two children sitting in the back of a car. The child on the left, a girl with braided hair, is wearing a yellow hoodie and purple earbuds. She is holding a tablet. The child on the right, a boy, is wearing a blue shirt and large blue and red headphones. He has his hand raised towards the tablet. The car window shows a blurred view of greenery and purple flowers outside.

**FY16 INTERIM RESULTS
AND STRATEGY UPDATE**

Introduction

Jill McDonald

H1 Performance

Jonny Mason

Business Review and Strategy Update

Jill McDonald

Financial Considerations

Jonny Mason

Questions

H1 Performance Summary

In-store service income



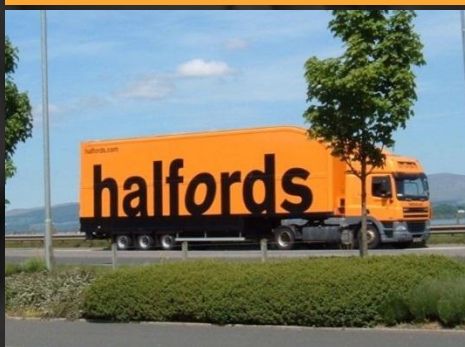
Car Parts



Connectivity and dash cams



Transition to
3-day-a-week deliveries



Cycling



H1 Performance

Jonny Mason

Chief Financial Officer

Group Income Statement

	H1 FY16 £m	H1 FY15 £m	Change
Revenue	533.5	524.1	+1.8%
Gross Profit	279.2	274.7	+1.6%
Operating Costs	(231.2)	(223.5)	+3.5%
EBIT	47.9	51.2	-6.4%
EBIT Margin %	9.0%	9.8%	
EBITDA	62.3	63.6	-1.9%
EBITDA Margin %	11.7%	12.1%	
Net Finance Costs	(1.5)	(1.8)	
PROFIT BEFORE TAX	46.4	49.4	-6.3%
Basic Earnings Per Share	19.2p	20.1p	-4.5%
Effective Tax Rate	19.5%	21.0%	

Notes: All numbers are presented before non-recurring income of £0.2m in H1 FY15

Retail Income Statement

	H1 FY16 £m	H1 FY15 £m	Change
Revenue	458.0	451.9	+1.3%
Gross Profit	230.4	228.6	+0.8%
Gross Margin	50.3%	50.6%	-29 bps
Operating Costs	(183.5)	(178.4)	+2.8%
EBIT	46.9	50.2	-6.6%
EBIT Margin	10.2%	11.1%	
EBITDA	58.4	60.2	-2.7%
EBITDA Margin	12.8%	13.3%	

Notes: All numbers are presented before non-recurring income of £0.2m in H1 FY15

H1 FY16 Retail Revenues

Total Retail	Q1 LFL %	Q2 LFL %	H1 LFL %
Cycling	+2.0	-7.6	-2.9
Car Maintenance	+5.9	+7.1	+6.5
Car Enhancement	-0.3	+1.5	+0.6
Travel Solutions	+9.2	+1.1	+4.7
Total	+3.5	-0.6	+1.4

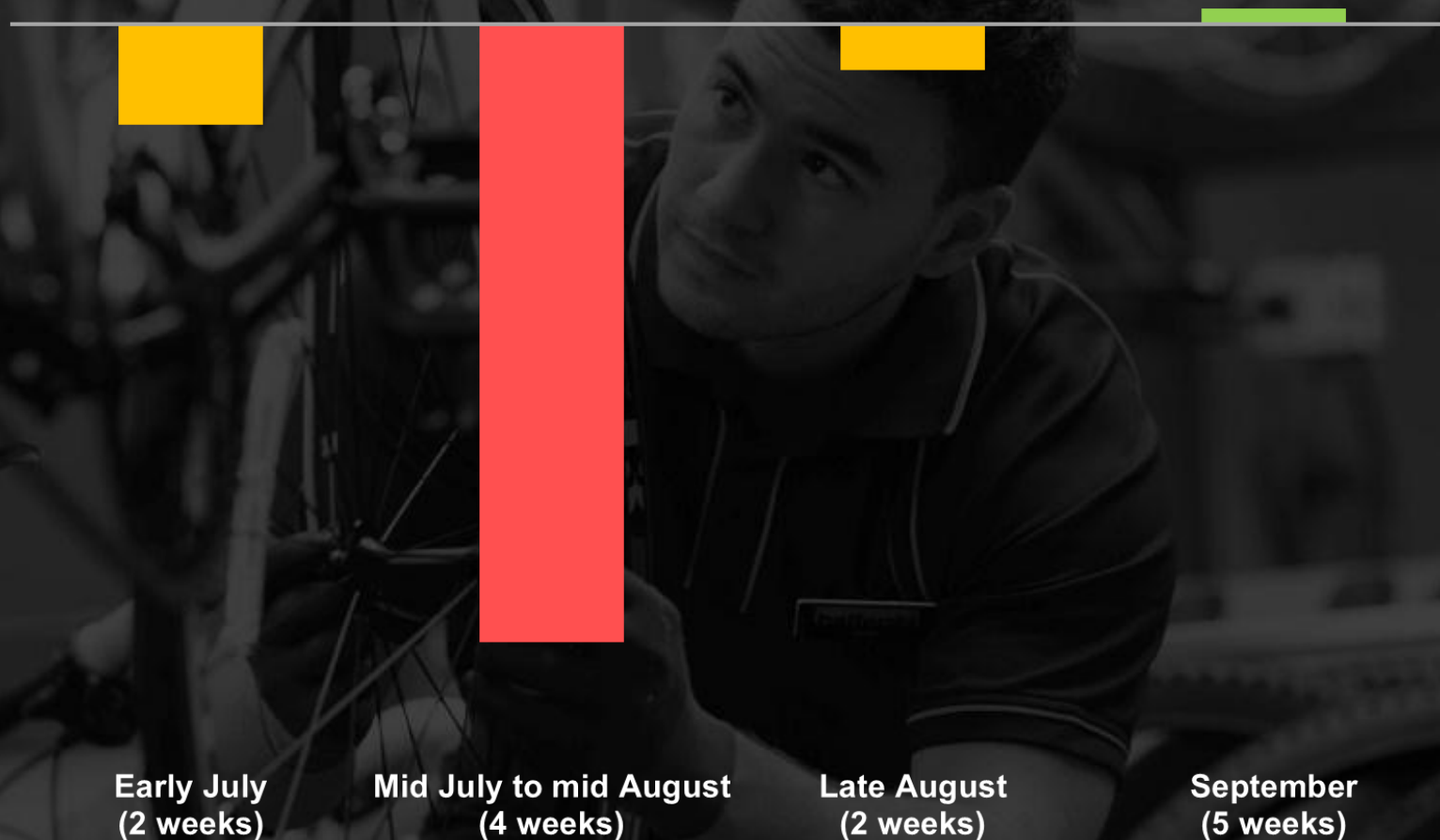
Online Retail sales grew by 0.9% and represented 12.1% of sales. 90% of sales were collected in store with Click & Collect sales down 1.8% and Home Delivery sales up 33.9%

Notes:

1. Like-for-like sales growth is calculated at constant currency rates
2. Revenue from non-LFL stores amounted to £3.8m in H1 FY16

Cycling sales in Q2

Q2 Cycling sales value year-on-year FY16 vs FY15



Gross Margin % Influences



Strong Car Maintenance sales

In-store services

Cycling promotional activity and discounts

Third-party brands

Premium Bikes



Retail Operating Costs

	H1 FY16 £m	H1 FY15 £m	Change
Store Staffing	52.1	49.2	+5.8%
Store Occupancy	69.8	68.6	+1.7%
Warehouse & Distribution	24.5	19.7	+24.4%
Support Costs	37.1	40.9	-9.3%
Total	183.5	178.4	+2.8%
Depreciation / Amortisation	11.5	10.0	+15.0%
Rent*	42.9	42.9	-

*Net of sublet income

Autocentres Income Statement

	H1 FY16 £m	H1 FY15 £m	Change
Revenue	75.5	72.2	+4.6%
LFL%			+3.3%
Gross Profit	48.8	46.1	+5.9%
Gross Margin	64.6%	63.8%	+76 bps
Operating Costs	(47.2)	(44.5)	+6.0%
EBIT	1.6	1.6	+0.5%
EBIT Margin	2.1%	2.2%	
EBITDA	3.9	3.4	+12.1%
EBITDA Margin	5.2%	4.7%	

Cashflow and Net Debt

Operating Cashflow	£m	Free Cashflow	£m	Net Debt	£m
EBIT	47.9	Operating Cashflow	47.4	Opening Net Debt	(61.8)
Depreciation/ Amortisation/ Loss On Disposal	14.5	Capital Expenditure	(17.5)	Free Cashflow	19.5
Employee Share Scheme	1.1	Net Finance Costs	(0.8)	Dividends	(21.4)
Working Capital	(14.7)	Taxation	(9.9)	Lease/Other	(1.3)
Provisions/Other	(1.4)	Other	0.3	Purchase of own shares	2.6
Operating Cashflow	47.4	Free Cashflow	19.5	Closing Net Debt	(62.4)

Net debt to EBITDA at 0.6x versus 0.7x at H1 FY15

Interim dividend up 2.9% to 5.66p

FY16 Full Year Guidance

	Updated	Previous
Cycle Republic share of Retail sales growth*	c. 0.5 %	c. 1%
Retail Gross Margin	A decline of 25-75bps	A decline of 25-75bps
Retail Operating Costs	2.5 – 3.5%	4-5%
Retail Capital Expenditure	c. £40m	c. £45m
Autocentres EBITDA	Low double-digit % increase on FY15	Low double-digit % increase on FY15
Autocentres Capital Expenditure	c. £8m	c. £8m
Group depreciation charge	c. £30m	c. £30m
Net Finance Costs	c. £3m	c. £3m
Effective Tax Rate	c. 20%	c. 20%

*This represents the impact of the non-LFL Cycle Republic sales on the total Retail sales growth

Strategy Update

Jill McDonald
Chief Executive

Introduction



What I'll cover today

- Market context
- Business Review
- “Moving Up a Gear”
- The 5 Strategic Pillars
- Summary

Halfords' Revenue Split

Car
Maintenance



Car
Enhancement



Travel
Solutions



Autocentres



Cycling



55%

15%

70%
motoring

30%
cycling

Market context - motoring

**Car parts,
accessories,
consumables
and technology**

c. £7bn

**3% annual
growth
over last 3 years**

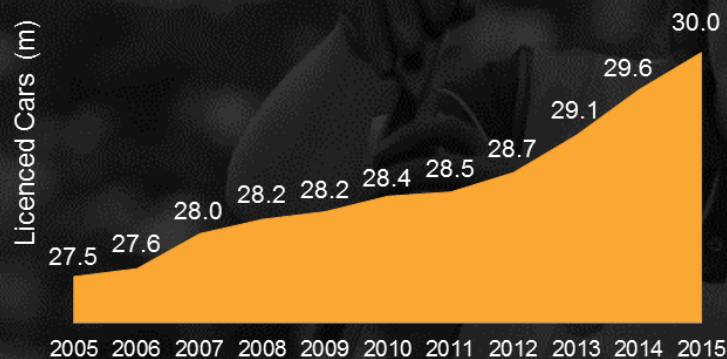
**Car servicing &
aftercare**

c. £9bn

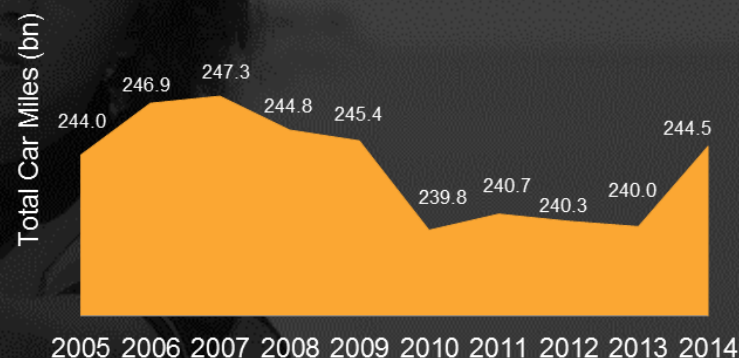
**2% annual
growth
over last 3 years**

Market context - motoring

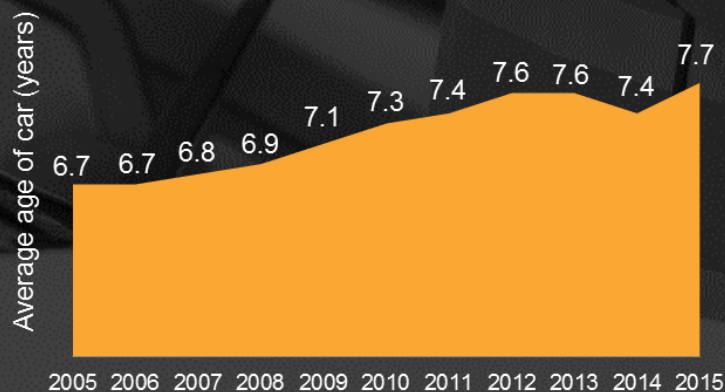
More cars...



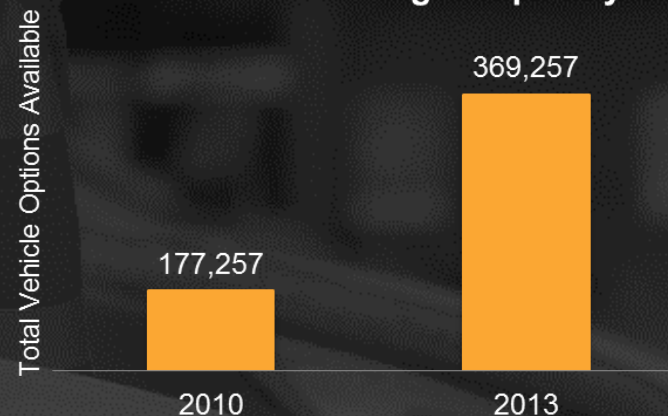
...starting to be driven more



Average age of around 7.5 years...



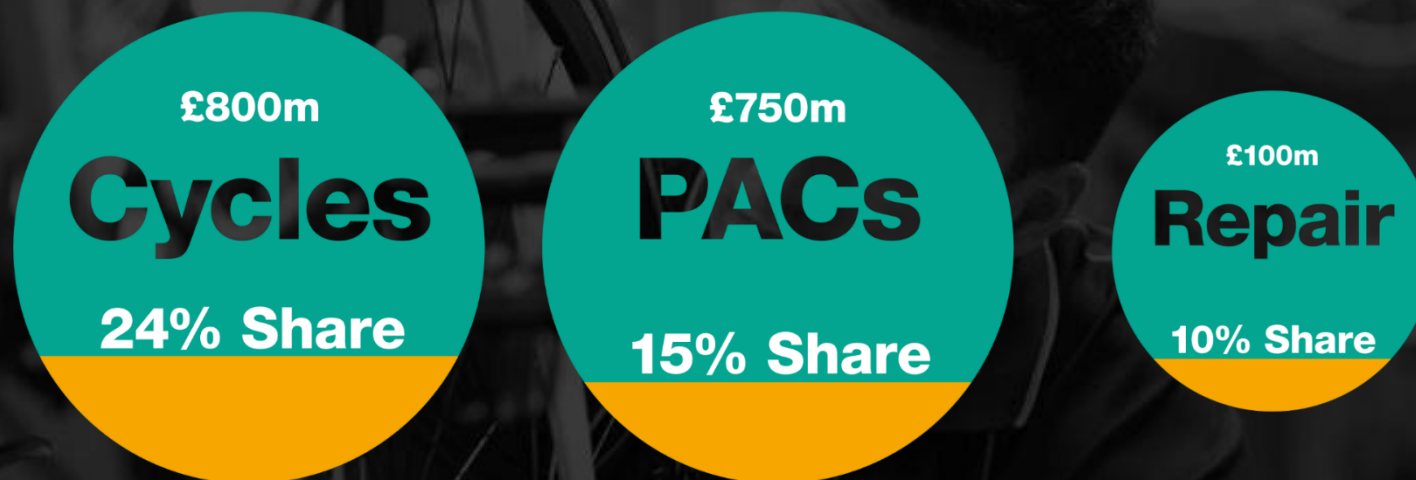
...and increasing complexity



Market context - motoring



Market context - cycling



Note: Market size figures are annual market sales including VAT
Source: Halfords estimates

Market context - Cycling

Two years of exceptional growth due to:

- Recovery in disposable income
- Rising awareness
- Government infrastructure
- Cycle to Work scheme
- Warm, sunny summers

Market context - cycling



Leisure

c. 50%
of participants



Commuting

c. 25%
of participants



Fitness / competitor

c. 25%
of participants

Market context - Cycling

Future growth drivers:

- Increased pool of cyclists
- Higher engagement levels
- Participation still low:
large scope for new entrants
- Increased government spend
on infrastructure
- Female participation

halfords

Business review: Strengths

- Well-known brand
- Reputation for quality
- Market leaders
- High motoring and cycling cross shop
- Specialist retailer
- Service proposition
- Stores are an asset

Business review: Market opportunities

- Market share headroom in cycling and motoring
- More cars, increasing complexity and new technology
- Unfulfilled potential in PACs

Business review: Customer opportunities

% of transactions matched to a customer

Online-only
retailer

100%

Supermarkets with
loyalty schemes

c. 80%

Similar specialist
retailer

c. 50%

halfords

3%

Opportunity to improve lifetime customer value

Business review: Customer opportunities

- Awareness of the categories we serve
- Consideration amongst younger customers
- Increasing conversion to purchase
- Innovation and newness

Business review: Infrastructure opportunities



Business review: Watch outs

- Competitors
 - Fulfilment
 - Price
- Changing customer expectations



halfords

MOVING UP a gear

5 Strategic Pillars for Retail



**Putting Customers
in the Driving Seat**



**Service in
our DNA**



**Building on
our Uniqueness**



**Better Shopping
Experience**



**Fit for Future
Infrastructure**



Putting Customers in the Driving Seat

GOAL

First choice for customers' life on the move

PURPOSE

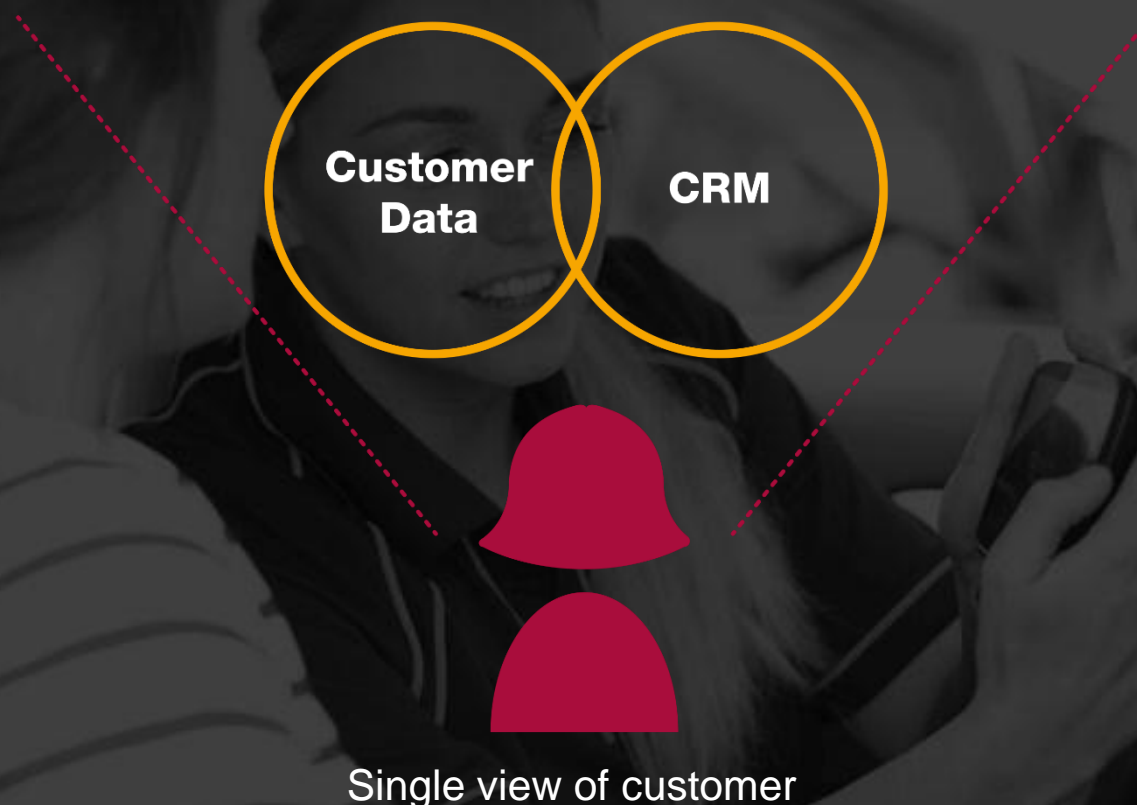
Committed to making our customers' journeys better

END LINE

For life's journeys



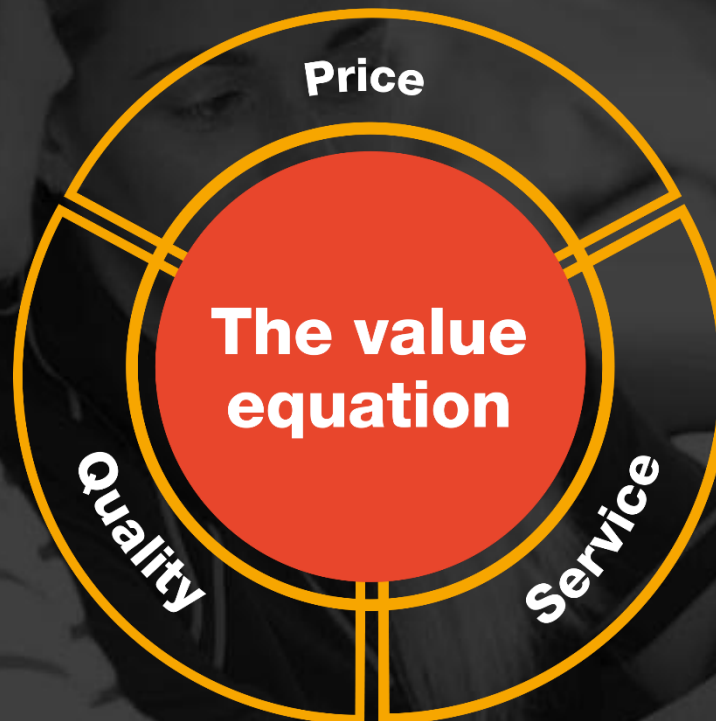
Putting Customers in the Driving Seat



Maximising lifetime customer value



Putting Customers in the Driving Seat





Service in our DNA





Service in our DNA

New joiner
(over 25)
**National
Living
Wage**

New joiner
(25 & under)
**Starting
rate**

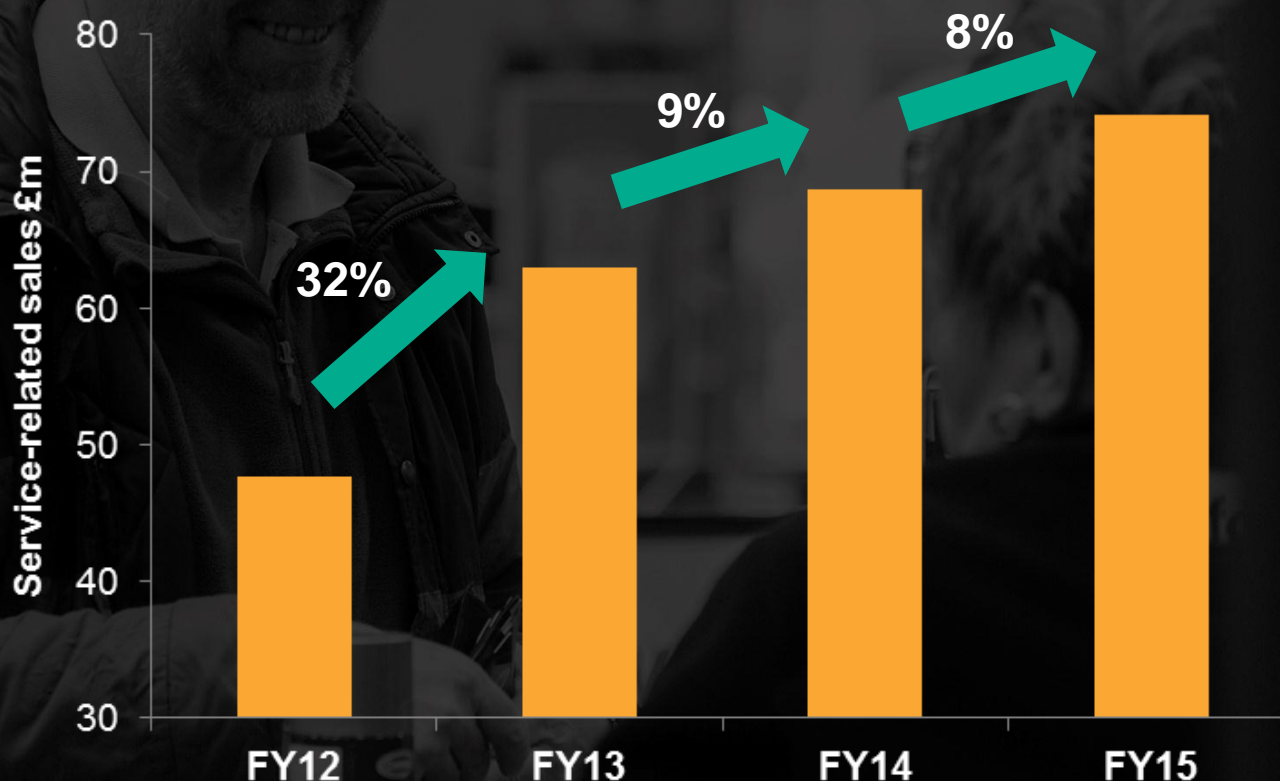
Gear 1
premium

Gear 2
premium

Gear 3
premium



Service in our DNA





Building on our Uniqueness





Building on our Uniqueness





Building on our Uniqueness





Building on our Uniqueness





Building on our Uniqueness





Building on our Uniqueness





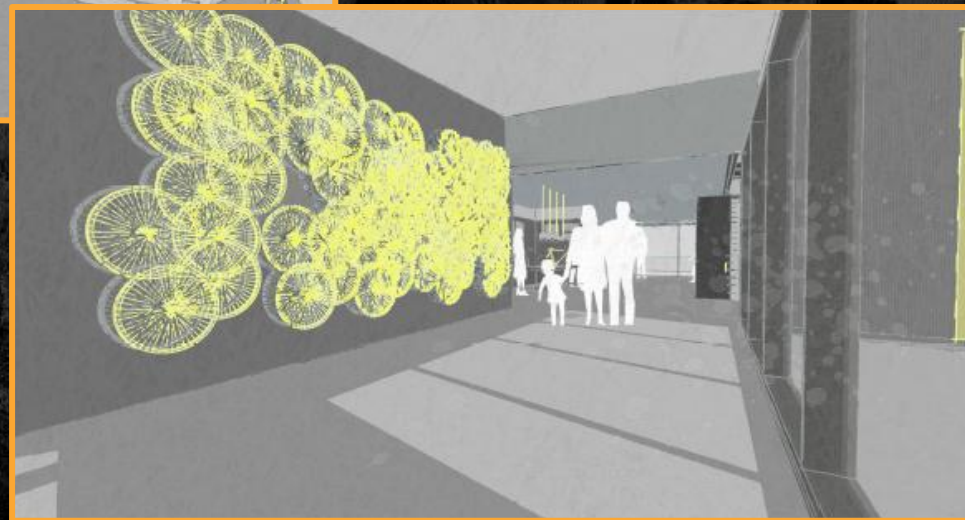
Building on our Uniqueness

BOARDMAN





Building on our Uniqueness





Building on our Uniqueness





Better Shopping Experience

Single view of stock

Improved fulfilment

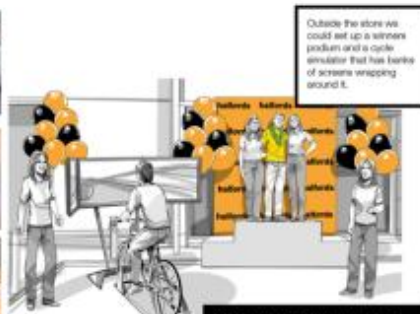


Action taken already:

- Delivery time slots
- Sunday deliveries
- 8pm cut off for orders



Better Shopping Experience



Outside the store we could set up a winners podium and a cycle simulator that has banks of screens wrapping around it.

Driving emotional engagement and football through events

Driving emotional engagement and dwell time



We show a scene of a comfy seating area with customers using iPads to look at the newest products.



ENVISAGING OUR STORE OF THE FUTURE

Driving emotional engagement and family friendly interaction



How we show a two person driving simulator in the auto section that children can use whilst the parents browse the store.



Driving emotional engagement and expertise



Here we show a wall of top trump cards behind the service counter, that shows each colleagues name, their experience and their past experience.





Better Shopping Experience





Better Shopping Experience



The medium term plan for PACs*:

- Transactional Cycle Republic website
- Range architecture
- Value proposition
- Fulfilment offer



Fit for Future Infrastructure

98%

98% of Halfords stores are profitable



Space reduction from right-sizes is equivalent to 18 stores since FY13

6.7

Average lease length remaining is 6.7 years

No significant change in Halfords store numbers in the medium term



Fit for Future Infrastructure





Fit for Future Infrastructure

Last 2 years

SAP upgrade

Halfords.com re-launch

System stabilisation and security

Car Parts Direct, eBay and
Marketplace

PCI accreditation



Looking forward

Labour management tool

Till hardware and software

CRM solutions

Improved fulfilment capability

Space planning

e-Gifting

Autocentres



5 Strategic Pillars for Retail



**Putting Customers
in the Driving Seat**



**Service in
our DNA**



**Building on
our Uniqueness**



**Better Shopping
Experience**



**Fit for Future
Infrastructure**

Operational measures

1

Proportion of trained colleagues

2

Service-related sales growth

3

Proportion of transactions matched to a customer

4

Store and centre openings and refreshes

5

Online sales as a proportion of total retail sales

6

Customer experience metric
(to be published in June 2016)

Financial Considerations

Jonny Mason

Chief Financial Officer



Capital Expenditure

Retail priorities:

- W&D
- IT
- Store of the Future
- Cycle Republic

Autocentres priorities:

- New centre openings
- Centre refresh programme
- Technology

Average annual capex £m	FY11-13	FY14-16	FY17-19
Retail	15	c. 33	c. 33
Autocentres	5	c. 7	c. 7
Total	20	c. 40	c. 40

Retail Operating Expenditure

Priorities:

- Training & rewarding colleagues
- Leveraging customer insight & data
- Meeting customer service & convenience expectations
- Brand repositioning

Impact of National Living Wage



Key assumptions:

- Gear 1 rises to 20 pence premium above Living Wage
- Increase Gear 2 and retain Gear 3 premiums
- Retain location premiums
- Increase lower band of management salaries
- Living wage increases evenly by 45p from April 2016, reaching £9.00 by 2020

* Calculated as the impact of the national living wage compared to a base scenario of 3% p.a. wage increase

Financial Targets

1

Grow sales faster than the market

2

Group EBITDA margin broadly flat
over the next few years

3

Grow the dividend every year
with 2 times cover on average over time

4

Debt framework
(to be published in June 2016)

Capital Allocation Priorities

**Pre-conditions of maintaining a strong balance sheet
and operating in line with a debt target***

1

Investment for growth

2

Pay and grow the dividend

3

Surplus cash returned to shareholders

* Debt target to be published with the Preliminary results in June 2016

Summary

Jill McDonald

Chief Executive Officer

Questions

Appendices

Financial calendar

Today

Strategy
Update

**21 January
2016**

Q3 FY16
Trading Update

June 2016

FY16 Preliminary
Results plus
update on debt
framework, Store
of the Future, new
customer measure
and long-term
supply chain
review

July 2016

Q1 FY17
Trading Update

Nov 2016

FY17
Interim Results

Group Components

H1 FY16	Retail £m	Autocentres £m	Amortisation £m	Group £m
Revenue	458.0	75.5	-	533.5
Gross Profit	230.4	48.8	-	279.2
Operating Costs	(183.5)	(47.2)	(0.6)	(231.2)
EBIT	46.9	1.6	(0.6)	47.9
EBITDA	58.4	3.9	-	62.3

H1 FY15	Retail £m	Autocentres £m	Amortisation £m	Group £m
Revenue	451.9	72.2	-	524.1
Gross Profit	228.6	46.1	-	274.7
Operating Costs	(178.4)	(44.5)	(0.6)	(223.5)
EBIT	50.2	1.6	(0.6)	51.2
EBITDA	60.2	3.4	-	63.6

Note: All numbers are before non-recurring items

Group Balance Sheet

	H1 FY16 £m	H1 FY15 £m	YOY £m	Change
Goodwill and Intangible Assets	358.1	357.6	+0.5	+0.2%
Property, Plant & Equipment	107.5	93.2	+14.2	+15.3%
Derivative Financial Instruments	0.9	2.1	-1.2	-58.1%
Net Working Capital	36.9	27.3	+9.6	+35.1%
Net Debt	(62.4)	(70.3)	+8.0	+11.3%
Other Creditors	(54.5)	(59.3)	+4.8	+8.2%
Net Assets	386.5	350.6	+36.1	+10.3%
<i>Inventories</i>	<i>159.0</i>	<i>148.9</i>	<i>+10.1</i>	<i>+6.8%</i>

Retail¹ Portfolio – FY16 space

**Average
Lease-able
Space²
(sq.ft)**

9,121

**Average
Total Trading
Space, including
Mezzanine
(sq.ft)**

8,120

**Average
Ground Floor
Trading Space
(sq.ft)**

6,429

**Average
Mezzanine
Trading Space
(sq.ft)**

3,092

Notes:

- 1) Excluding Cycle Republic
- 2) Ground floor only, including back of house

Retail Portfolio – Lease Expiries

	Expiries
FY16 and earlier ¹	27
FY17	15
FY18	16
FY19	24
FY20	38
Total expiries by end FY20	120

Average remaining leases (total portfolio): 6.7 years

1) At 2 October 2015 there were 12 leases that expired earlier than FY16 that are yet to be renegotiated

Autocentres Portfolio

	Centres
Acquired	223
FY11	230
FY12	250
FY13	283
FY14	303
FY15	305
H1 FY16	307

Average remaining leases: 6.9 years

Management Incentives

	Annual Bonus	Performance Share Plan
Features	CEO – maximum award 150% base salary – 2/3 in cash with 1/3 deferred in shares for 3 years	Maximum core award 150% base salary
	Chief Financial Officer – 100% base salary – full bonus in cash	Performance multiplier of 1.5 x core award for exceptional performance (upper decile)
	Bonuses are non-pensionable	Vests over a three-year performance period (with a two-year retention period on multiplier activation)
Controls on the Executive	For FY16 80% of the annual bonus is dependent upon Profit Before Tax and 20% on a number of key non-financial metrics linked to the strategy and operation of the business	<p>75%: Group's EBITDA Threshold CAGR of 2.5% Multiplier CAGR of 6.5%</p> <p>25%: Group's revenue Threshold CAGR of 4.0% Multiplier CAGR of 8.0%</p> <p>Underpin of net debt to EBITDA ratio no greater than 1.5x over the three-year performance period</p>

Forward-Looking Statements

Included in this presentation are forward-looking management comments and other statements that reflect management's current outlook for future periods

These expectations are based on currently available competitive, financial, and economic data along with our current operating plans and are subject to risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements.

The forward-looking statements in this presentation should be read in conjunction with the risks and uncertainties discussed in the Halfords Annual Report and Accounts.

Contact and Newsflow

For further information, please go to
www.halfordscompany.com or contact

Adam Phillips

Head of Investor Relations

adam.phillips@halfords.co.uk

Landline: +44 (0)1527 513 113 Mobile: +44 (0)7703 890142

Next newsflow:

21 January 2016: Q3 trading update