

**halfords**

## Interim Results

26 Weeks to 26 September 2008

City Presentation Centre

20 November 2008

**halfords**

David Wild  
Chief Executive Officer

# Introduction



- Strong, well managed business
- Resilient, but not immune to economic cycle
- Focus on ensuring cost base is appropriate
- Creating platform for future growth

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Nick Wharton  
Finance Director

# Financial Highlights



- Sales £407.1m +1.6%
- Like-for-like sales -1.1% (Easter adjusted -0.5%)
- Operating profit £55.0m +4.6%
- Profit before tax £49.1m +3.2%
- Basic EPS 16.7 pence +9.2%
- During the period 4.7m shares bought back at a cost of £13.0m
- Net Debt £174m, continued strong cash generation
- Interim dividend up 5.3% to 5.00 pence

# Profit and Loss Account



	2008/09 H1 £m	2007/08 H1 £m	Growth %
Revenue	407.1	400.7	+1.6%
Gross profit	210.0	204.0	+2.9%
Net operating expenses	(155.0)	(151.4)	+2.4%
Operating profit	55.0	52.6	+4.6%
<i>Operating profit %</i>	13.5%	13.1%	
Net finance costs	(5.9)	(5.0)	+18.0%
Profit before tax	49.1	47.6	+3.2%
Basic EPS (pence)	16.7p	15.3p	+9.2%
Weighted average number of shares	210.4m	219.3m	
Actual Tax Rate	28.3%	29.4%	

# Sales Growth and Margin %



	2008/09	2007/08
	H1	H1
	%	%
Underlying like-for-like sales growth	-0.5	+5.5
Easter adjustment	-0.6	0.0
Like-for-like sales growth	-1.1	+5.5
Net new space	+2.7	+3.0
<b>Total sales growth</b>	<b>+1.6</b>	<b>+8.5</b>

	2008/09	2007/08		
	H1	H1	H2	Full Year
Like-for-like comparatives <sup>1</sup>	-0.5%	5.5%	2.5%	4.0%
Gross profit percentage	51.6%	50.9%	50.1%	50.5%
Note: 1. Easter adjusted				

# Active Margin Management



## H1 Performance

- Margin accretion of 70bps:
  - ◆ Mix benefit
  - ◆ Active margin management in all categories
  - ◆ Ongoing sourcing benefits

## Macro Factors

- Currency headwind
- Moderating inflation at source
- Duty environment improving
- Freight rates reduced

## Halfords Factors

- Mix towards higher margin categories
- Price architecture & progression
- Higher margin accessory attachment
- Active resourcing
- Specification changes



# Net Operating Expenses



**Operating expenses growth 2.4%, revenue ratio 38.1% (2007: 37.8%)**

## Macro Drivers

- Store rent inflation moderating
- Utility / environmental cost pressure

## Halfords Factors

- New store system depreciation
- Increased advertising investment
- Comparable level of landlord contributions

Key Ratios (% Revenue):	2008/09 H1	2007/08 H1	YOY cost (£) growth
Store Payroll	11.2%	11.3%	0.7%
Store Rent & Rates	11.5%	11.0%	5.7%
Advertising & Promotions	2.8%	2.6%	8.5%
Landlord Contributions	£1.0m	£1.6m	-

# Operating Cost Efficiency



- Ongoing focus on operating costs
- Reorganisation activity currently in progress
  - H2 cost c.£2.0m with 6 - 8 month payback
- New store systems benefits:
  - Cash / inventory reconciliation improvements – part time role eliminated
  - Rota capability eliminates staff hours or better allocates resource and skill to match footfall
- Head Office rationalisation:
  - 50 roles to be removed – c. 12% of complement
  - Further savings from vacancy management & discretionary expenditure

# Balance Sheet



	H1 2008/09 £m	H1 2007/08 £m	Growth %	FY 2007/08 £m
Goodwill and intangible assets	258.8	258.2	0.2%	256.8
Property, plant and equipment	112.2	110.5	+1.5%	116.2
Derivative financial instruments <sup>2</sup>	5.9	(1.8)		1.6
Net working capital <sup>1</sup>	51.4	46.6	+10.3%	57.6
Cash and financial instruments	(174.0)	(173.0)	+0.6%	(181.7)
Creditors	(27.3)	(27.2)	-0.4%	(28.8)
<b>Net assets</b>	<b>227.0</b>	<b>213.3</b>	<b>+6.0%</b>	<b>221.7</b>

Note: 1. Includes capital and interest creditors

2. Foreign currency contracts and interest rate swaps

# Capital Expenditure Summary



	H1 2008/09 £m	H1 2007/08 £m	FY 2007/08 £m
New stores and re-sites	3.7	5.5	12.1
Store conversions	1.6	0.8	1.8
Czech Republic (incl. Systems development)	1.0	1.0	1.5
<b>Total portfolio</b>	<b>6.3</b>	<b>7.3</b>	<b>15.4</b>
Head office systems	1.5	0.4	5.5
Store systems	0.4	4.1	6.3
Supply chain	0.1	0.6	0.7
Other	1.5	1.4	1.6
<b>Total capital expenditure</b>	<b>9.8</b>	<b>13.8</b>	<b>29.5</b>

# Cash Flow and Net Debt



Operating cash flow		Free cash flow		Net debt <sup>1</sup>	
	£m		£m		£m
Operating profit	55.0	Op. cash flow	72.6	Net debt 28.03.08	(181.7)
Depreciation/Amortisation	11.5	Net finance costs	(5.6)	Free cash flow	31.1
Employee share scheme	0.7	Taxation	(12.9)	Share buy back	(12.5)
Fixed asset write-off	0.3	Dividends	(21.8)	Finance lease	(0.1)
Fair value loss	(1.7)				
Working capital	6.8	Capex <sup>2</sup> Maintenance	(1.2)	Capex <sup>2</sup> Investment	(10.8)
<b>Operating cash flow</b>	<b>72.6</b>	<b>Free cash flow</b>	<b>31.1</b>	<b>Net debt 26.09.08</b>	<b>(174.0)</b>

## Notes

1. Including Head Office finance lease £12.4m (2007: £12.5m)
2. Capex spend £12.0m includes £2.2 capital accrual movement

***Halfords remains strongly cash generative***

# Balance Sheet Efficiency



## Debt : Structure & Profile

- £180m term loan, repayment July 2011
- £120m revolving credit facility
- Coterminous £70m interest rate swap
- Statutory full/half year represents peak borrowing requirement

## Key Metrics

- Adjusted net debt/EBITDAR - 3.8x (FY08 – 3.9x)
- Fixed charge cover - 2.31x (FY08 – 2.34x)

## Share Buy-Back

- 23.1m shares acquired at a cost of £73.1m since June 2006

### Basis of calculation

- |     |   |                           |                      |
|-----|---|---------------------------|----------------------|
| (1) | Adjusted Net Debt = Net Debt + Capitalised Rent | EBITDAR = (EBITDA + rent) | Target > 3.9x        |
| (2) | EBITDAR / (Interest + Operating Lease Expense)  |                           | Target 2.25x – 2.30x |

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David Wild  
Chief Executive Officer

# Agenda



- Overview
- Strategic Growth Plan
- Outlook
- Summary





# Overview



## *Results demonstrate unique strength of Halfords*

- Needs-driven Car Maintenance and growth in Cycles underpins sales resilience in tougher environment
- Core category differentiation and competitive advantage through range, scale, and service
- Market leadership positions enable margin leverage
- Flexible sourcing provides protection through changing environment
- Increasing focus on costs and returns from capital investment
- Strategic growth plan continues to gather momentum
- Well structured Balance Sheet and strong cash flow generation.
- Progressive dividend maintained in line with policy

*Platform for stability and future growth in challenging market conditions*

# Strategic Growth Plan



*Our strategic plan remains consistent, with revised emphasis*

- Investing in the Store Portfolio
- Extending range and service advantage
- Ongoing focus on cost control
- Leveraging the Halfords brand in multi-channel

# Investing in the Store Portfolio



## UNITED KINGDOM

### Superstores

- Format of choice on premium retail parks
- 372 stores, 234 with mezzanine
- Highly accessible, 90% consumers within 20 minutes
- Ongoing programme to ensure stores remain contemporary in look and offer
- Upcoming lease renewals provide opportunity



### Neighbourhood

- Comprehensive offer tailored to smaller catchment and therefore footprint
- 20 stores now trading, including Republic of Ireland
- Return on investment in line with Superstores



*Portfolio potential for up to further 70 stores*

# Investing in the Store Portfolio



## REPUBLIC OF IRELAND

- 19 Superstores now trading four years after market entry
- Development of Neighbourhood format to extend reach
- Market leadership achieved in core categories
- Returns ahead of UK equivalent investments
- Performance set-back in tough economic environment
- Continue to invest to increase scale and improve operating returns



# Investing in the Store Portfolio



## CENTRAL EUROPE

Macro Factors:

- Market characteristics remain attractive, with scale potential

Halfords Factors:

- Performance remains encouraging
  - ◆ Positive consumer acceptance
  - ◆ Growing own brand participation as awareness builds
  - ◆ Strong sales maturity with positive mix
    - Car maintenance performing strongly
    - Cycles hit mid-market “sweet spot” driving ATV
    - Technology share growing
- Operating margins in-line with expectation



Key Economic Statistics	UK	Czech Republic	Poland
Population (millions)	61	10	40
GDP Growth 2003 – 2007 (%)	2.8	5.5	5.1
Real GDP growth 2009-2012 (%)	1.3	4.4	4.3
GDP per capital 2007 (US\$)	39,600	13,900	12,700
Car Parc (millions)	32	4.7	14.4
Halfords Stores	425	4	-





# Investing in the Store Portfolio



## CENTRAL EUROPE – NEAR TERM PLAN

- Business model most effective at high market shares
- Low infrastructure opportunity to accelerate to scale in Poland / Czech Republic:
  - ◆ First store (Wroclaw) trading in December 2008
  - ◆ Multi-country / currency trading systems developed
  - ◆ Targeting 10-15 stores in FY10.
- Performance characteristics (at maturity)
  - ◆ Average sales intensity from smaller footprint
  - ◆ Gross margin discount to UK
  - ◆ Property and payroll costs compensate
- Adequate free cash flow to fund organic expansion



# Investing in the Store Portfolio



## STAND ALONE CYCLE STORES

- FY08 Focus
  - ◆ Establish offer credibility/reputation
  - ◆ Improve customer experience & operating economics from smaller footprint
  - ◆ Achieve pilot scale
- FY09 Objectives
  - ◆ Extend to national pilot
  - ◆ Optimise labour & repair model
  - ◆ Confirm performance maturity and absence of cannibalisation
  - ◆ Trial alternative brand – Cycle Republic
- Potential for at least 50 stores



# Extending range and service advantage



## CAR MAINTENANCE

- Destination store status through range authority, availability and increasingly wefit
- Needs driven product resilient through economic cycle with above average gross margins
- Ageing UK car parc positive for demand for key consumables
- Ranging improvements encourage trade-up
- wefit jobs increased by 20% year on year
- Unique vehicle registration look up improves customer service to DIY customer
- Incremental *Tradecard* proposition plays positively to cost conscious DIFM customer





# Extending range and service advantage



## CAR ENHANCEMENT

- Wide ranging category from resilient car cleaning staples to accessories & technology
- Clear market leader in in-car technology
- Market remains attractive, volume good but unit sales price in decline
- Dynamic category with divergent competitor set
- Range exclusivity and *Set up and Demo* proposition provide differentiation
- Accessory attachment increases average transaction value and margin



# Extending range and service advantage



## CYCLING

- Significant and growing market driven by economy, sustainability and well-being
- Destination store status with leadership brand through range, value and service
- Scale and agile sourcing model ensures lowest cost procurement
- Own and exclusive brand leadership in all segments, through Apollo, Carrera and Boardman
- Children's and premium provide growth opportunity
- Accessories and Repair / Warranty increase spend, margin and encourage return visits



**boardman**  
performance design quality



*carrera*

APOLLO



# Extending range and service advantage



## TRAVEL SOLUTIONS

- Travel Equipment
  - Sub shop credibility established
  - Adversely impacted by poor weather
  - UK domestic holidays provide opportunity



- Camping
  - Best ever camping season, opportunity to extend range
  - Still lowest market share



- Child seats
  - Growing customer awareness of Halfords offer
  - ROSPA fitting accreditation enhances credibility





# Ongoing Cost Control



*Continued focus ensures cost base appropriate for economic cycle*

- Ongoing programme complements interventions planned for H2 FY09
- Cost of Goods
  - Own label participation gives buying flexibility
  - Direct sourcing c. 25%, with further potential
  - Agile buying model to access least cost producers
- Payroll
  - eVolve enhances rota capability
  - Greater flexibility in colleague contracts
- Supply Chain
  - Greater open to buy and stock exit discipline
  - Logistics restructure (2010) provides further opportunity



*Efficiencies fund ongoing strategic investments*

# Multi Channel Development



## *halfords.com*

- Slow start by Halfords into new channel. Still low participation
- Key objective to drive customers to store
- Rapid growth especially since “Reserve and Collect” launch
- Margin now increasing
- New site launched October 2008 with strong KPI improvements
- 200 page catalogue and supporting call centre in trial
- Significant future upside:
  - Improved and extended ranges
  - Customer Relationship Management



# Strategic Growth Plan



- Investing in the Store Portfolio
- Extending range and service advantage
- Ongoing focus on cost control
- Leveraging the Halfords brand in multi-channel



# Outlook



## **FY09 H2:**

- Sales environment continues to be challenging
- Active margin management and cost focus key priority
- Switch in investment emphasis to outside UK
- Full year trading profits anticipated to be in line with expectation

# Summary



- Solid earnings progression in toughening environment
- Focus on protecting performance through economic uncertainty
- Prudent UK store portfolio expansion
- Acceleration of growth initiatives – Central Europe and Multi Channel





## Appendices

1. Portfolio by Store Type
2. Portfolio by Location

# Portfolio By Store Type



Retail Space 3,809,154 ft <sup>2</sup>	<b>Mezzanine</b>	<b>Flat</b>	<b>Neighbourhood</b>	<b>Metro</b>	<b>Bikehut</b>	<b>Total</b>
	SM/M	F	N	Me	BH	
<b>Opening Number</b>	231	159	24	31	5	450
<b>New Store</b>	2	4	1	0	1	8
<b>Closures</b>	0	(1)	0	(2)	0	(3)
<b>Conversions</b>	1	(1)	0	0	0	0
<b>Closing Number</b>	234	161	25	29	6	455

<b>08/09 store rollout</b>	<b>Q1</b>	<b>Q2</b>
<b>New stores (8)</b>	Rochdale (SM) (R) St Paul's (BH) Tiverton (SM)	Port Talbot (N) Ostrava CZ (F) Waterford RoI (F) Portlaoise RoI (F) Cavan RoI (F)

# Portfolio by Type and Location



	<b>UK</b>	<b>RoI</b>	<b>CZ</b>	<b>Total</b>
Superstore	372	19	4	395
Neighbourhood	24	1	0	25
Metro	29	0	0	29
Bikehut	6	0	0	6
<b>Total</b>	<b>431</b>	<b>20</b>	<b>4</b>	<b>455</b>