



HALFORDS GROUP PLC
INVESTMENT CASE
SEPTEMBER 2020

halfords



Market-leading business

We are the UK's largest retailer of motoring and cycling products and services, allowing us to drive benefits in procurement, innovation and customer offering. In car servicing, the market is highly fragmented with no clear leader – with 2% share we have significant opportunity for growth.

Building a services-focused business

In the medium-term, half of our business will be in Services – which are essential in their nature – meaning we are a more resilient business with higher customer retention, lower risk profile and stronger and more sustainable returns on capital.

Value-creating opportunities

Our strategy will see us develop into areas with good long-term growth prospects such as motoring services, B2B and electric mobility. We also have opportunities to significantly improve ROIC.

Cash generative business

The Group has always maintained a strong balance sheet and benefits from a cash generative business model, with good Free Cash Flow enabling investment in our plan and returns to shareholders.

Dividend returns

Until the COVID-19 pandemic we have consistently paid a dividend, supported by strong levels of free cash flow. In normal times we remain committed to returning cash to shareholders through an ordinary dividend.

Unique and differentiated products and services

Wide range of unique and differentiated products, with exclusive ranges and customer-led innovative products. Much of our Services proposition is also unique including, for example, on-demand fitting.

Convenient services proposition delivered in c.900 locations

We are the only business in the UK who can offer Motoring Services in a retail store, a garage, at home or at work, providing customers with unparalleled choice and convenience.

Strong omnichannel capabilities

Our business has a strong omnichannel customer proposition with high levels of Click & Collect driving footfall into stores and providing a unique advantage over online competitors.

Unique, technology driven proposition in our physical estate

Utilising market-leading and unique proprietary technology in our stores, garages and mobile vans, enabling our colleagues to deliver a best-in-class proposition.

Super-specialist expertise as a key differentiator

As a super-specialist, we have unmatched product and services expertise across both motoring and cycling, creating a significant barrier to entry for our generalist competitors, both online and offline.

Increase in motoring and cycling journeys

Continued avoidance of public transport will result in a larger number of consumers resorting to individual journeys by bike, car or scooter. The ongoing benefit of higher levels of ownership are accelerated by lockdown, particularly bikes

An ageing UK car parc

Recessionary environment will lead to consumers holding onto cars for longer. Combining this with an aversion to public transport, demand for car servicing for cars over 3 years old will increase.

Healthy living and climate change

An increased focus on healthy living and a greater conviction to tackle climate change will drive higher demand in bikes and electric modes of transport. Aversion to foreign travel and lower discretionary spend will mean a rise in staycations.

Opportunity to accelerate reduction of property debt

Online, click and collect and HWD growth will accelerate reshaping of store portfolio, reducing expensive retail estate.

Further consolidation of our competitor set

With the financial challenges many businesses have been confronted with as a result of COVID-19, it is possible that there will be further consolidation of our competitor set.

Who we are

- UK and Ireland's leading retailer of motoring and cycling products and services
- Trusted brand with over 125 years of heritage
- Market leading brand awareness in our retail business
- Over 20 million customers visit us each year
- A large and growing Services and B2B business

FY20 financial highlights¹**£1.1bn**

Revenue

£55.9mProfit Before Tax²**+0.3%**

FY20 revenue growth

6.18p

Full-year dividend

26%Total Group sales
which are service-
related**24%**Group revenue from
online sales

1. On a 52-week basis; 2. Underlying profit before tax, pre-IFRS 16 adjustments

halfords
autocentre

367

Garages

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halfords
» Mobile Expert »

91

Vans

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retail









444

Retail Stores

www.halfords.com

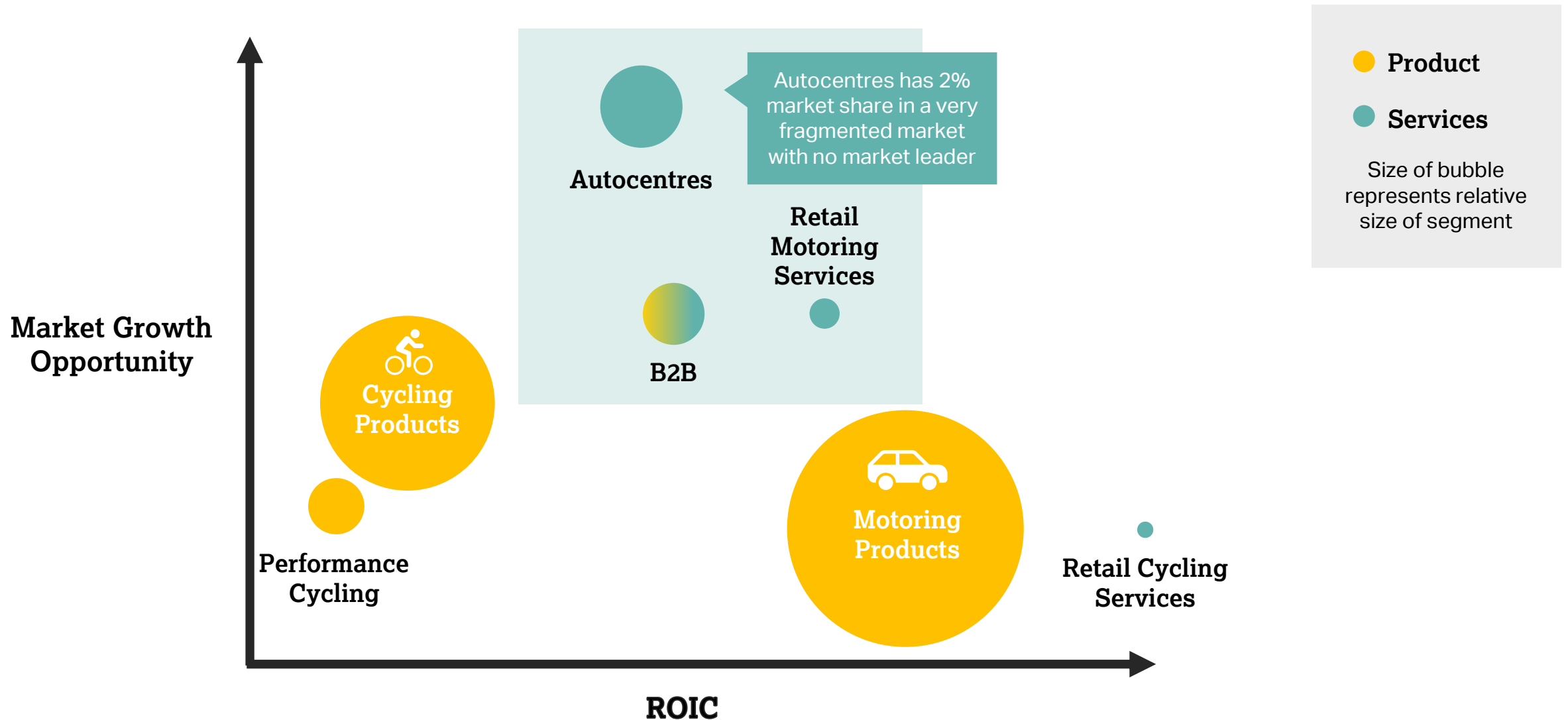
tredz[®]

3Performance
Cycling Storeswww.tredz.co.uk

	<div>  </div> <div>Retail Motoring</div>		<div>  </div> <div>Autocentres</div>	<div>  </div> <div>Cycling</div>	
	Product	Services (retail)	Services	Product	Services
Market size*	£3.5bn	Significant**	£9.0bn	£2.0bn	£150m
Halfords' market share*	20-25%	High	2%	20-25%	8%
Market growth expectations	<div>  </div>	<div>  </div>	<div>  </div>	<div>  </div>	<div>  </div>
	With traditional markets in long-term decline, significant opportunity for innovative and differentiated products to be brought to market.	Halfords is a clear market leader in this market with no scaled competition and we expect this area to grow significantly alongside growth in the DIFM customer segment.	Increasing car complexity, accelerated by electric, is expected to drive growth in the services market, which remains highly fragmented with no clear market leader.	Growth of e-bikes and potentially e-scooters, has been, and will continue to be, a key market growth driver.	Higher bike ownership and the rise of electric mobility could rapidly accelerate growth in this market over the next few years, with Halfords well placed to lead this market.

* Halfords estimates based on all accessible market information, e.g. SMMT, Mintel, Supplier data

** Data on exact size of market is not available



Note: This graph is indicative only and bubbles are relative to each other

Source: Internal analysis, Companies House, Society of Motor Manufacturers and Trading

Macro trends

- **Global economic, political and health crises** leading to low levels of consumer confidence
- **Compliance driven cost inflation** – minimum wage increases, business rates, utilities
- **FX** – stark decline in GBP:USD rate since 2016 leading to a significant increase in the cost of imported products
- **Increase in online competition**, from both generalists (Amazon, eBay) and specialists (Euro Car Parts, Wiggle)
- **Climate change** driving more extreme and variable weather conditions

Consumer trends

- DIY to DIFM
- Convenience
- Experiences > Product
- Sustainability
- Omnichannel shopping
- Less brand loyalty
- Personalisation
- From Owning to Using
- Healthy living and exercise
- Social distancing

Industry trends

- Cars and parts lasting longer and becoming more complex
- E-mobility
- PCP participation increasing
- Connectivity of cars and bikes
- Increase in car and bike sharing schemes

1 Inspire our customers through a differentiated, super-specialist shopping experience



2 Support our customers through an integrated, unique and more convenient services offer



3 Enable a **lifetime** of motoring and cycling



“Evolve into a consumer and B2B services-focused business, with a greater emphasis on motoring, generating higher and more sustainable financial returns.”

1

Inspire our customers through a differentiated, super-specialist shopping experience

- A business more focused on what it is really known for – its core motoring and cycling offer
- Products and services with features and benefits that are only available at Halfords
- A more innovative online site, complementary and inspiring store environment and in-store tablet, screen and mobile experience

2

Support our customers through an integrated, unique and more convenient services offer

- A broader range of services, more easily accessed from one single website
- 1,000 convenient service locations via a mix of mobile vans, stores, garages or new formats, with less emphasis placed on the traditional large retail store format
- A market leader in electric bike and car servicing
- Increased awareness by leveraging the Halfords brand

3

Enable a **lifetime** of motoring and cycling

- A more focused and targeted approach to loyalty at Group level
- Accelerating the development of our CRM programme
- Fully leveraging our Single Customer View and increasing the investment in customer data management

Underpinned by:

Focus on **Cost and Efficiency**

- Grow the profitability and returns of our core categories, particularly Cycling
- Close up to 10% of our property estate
- Strategic review of our supply chain and procurement costs

Investment in our **Colleagues**

- Continue to invest in the engagement and development of our colleagues, e.g. training colleagues to service electric vehicles, E-bikes and E-scooters

1

Inspire our customers through a differentiated, super-specialist shopping experience

- Fully integrated Group web platform, delivering best-in-class customer experience
- Optimisation of cycling space in all Retail stores
- Sales growth of own brand and exclusive products was ahead of proprietary brands
- Strategically reviewed our Cycling business to better leverage the strength of Tredz and Halfords Retail

2

Support our customers through an integrated, unique and more convenient services offer

- Accelerated growth in Autocentres through the acquisition of McConechy's Tyre Service
- Developed our Halfords Mobile Expert proposition via organic growth and the acquisition of Tyres on the Drive
- Completed the upgrade of 'PACE', our in-garage digital operating platform, in all Autocentres
- Rolled out new services in Retail, including WeCheck Free and Premium motoring services and new Cycle Care services

3

Enable a **lifetime** of motoring and cycling

- Improved financial services offer implemented across the Group, giving us strong growth and access to a new customer demographic
- Targeted CRM programme is now more relevant to customers – more customers are opening our emails and fewer are unsubscribing

Underpinned by:

Focus on **Cost and Efficiency**

- Agreed strategic buying alliance with Mobivia
- Improved returns in mainstream and performance cycling
- Reduced working capital by £11m on average in FY20
- Average rent reductions of 15% on leases completed in FY20.

Investment in our **Colleagues**

- Included in Top 25 employer by the Sunday Times
- Gained approval to deliver Hybrid and Electric vehicle level 3 training

***Growth in
Services and
B2B***

To become the UK's largest independent provider of automotive services, maintenance and repairs, whilst also capitalising on the growth opportunity in B2B

***Increasing
customer
lifetime
value***

Integrating online, garages, retail stores and vans to drive customer cross-shop, retention and higher basket size, supported by an attractive loyalty mechanic

***Invest in our
product
business***

Increasing the number and proportion of innovative, unique and differentiated products that we bring to market

***Reduced
operating
leverage***

Reduce fixed cost in our business through property and supply chain efficiencies, and improving the profitability of our cycling business

***Market leader
for electric
products and
services***

Lead the markets in delivering products and services for all electric modes of transport

***Reduced
working
capital***

End-to-end review of our supply chain to further reduce stock and working capital

Unlocking value within our property estate

- Opportunity to dramatically reshape our retail business through changes to the physical estate, by:
 - Closing uneconomic stores
 - Lower rentals on existing store estate
 - Trialling new store formats

Opportunity across end-to-end supply chain

- Significant opportunity to operate with less working capital
- Operate with greater cost efficiency across the end-to-end supply chain
- Investment in the operating model to provide market leading omni-channel convenience

Further optimisation across the Group

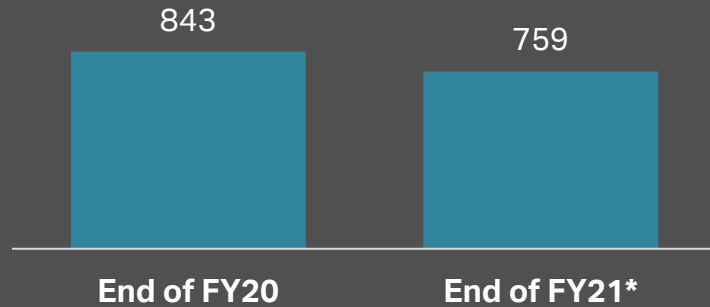
- Continued focus on reducing Group-wide GNFR spend by optimising deals across the Group
- Redesign of the staffing model in both stores and support centre

Closing uneconomic locations

This year

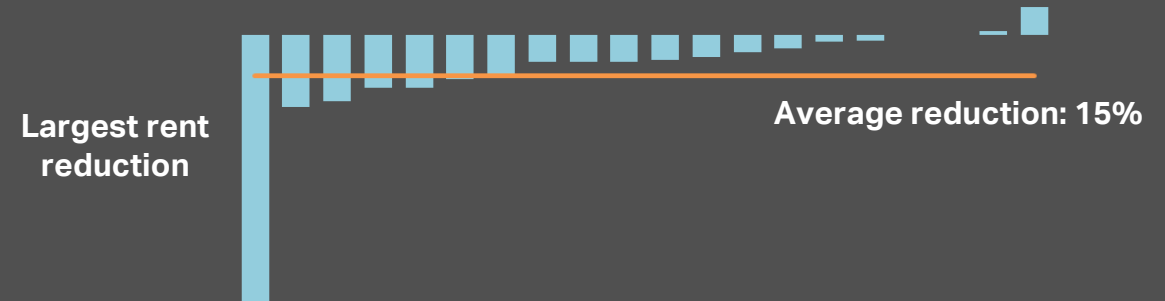
Lower rentals on existing estate

We expect to close up to 10% of the Group's physical estate during FY21, which includes the 22 Cycle Republic stores we have already exited.



* modelled after closure of the maximum 10%

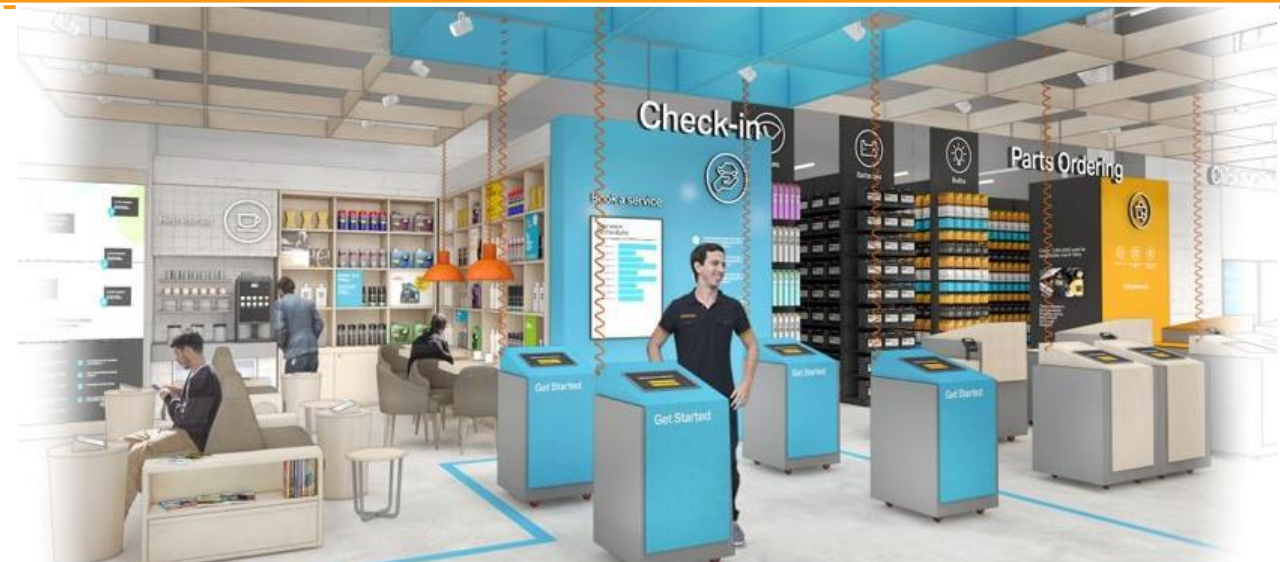
Of the 20 completed Retail lease agreements in FY20, 16 have resulted in downward adjustments to rent, with the average reduction 15%. The impacts of COVID-19 are likely to accelerate this trend.



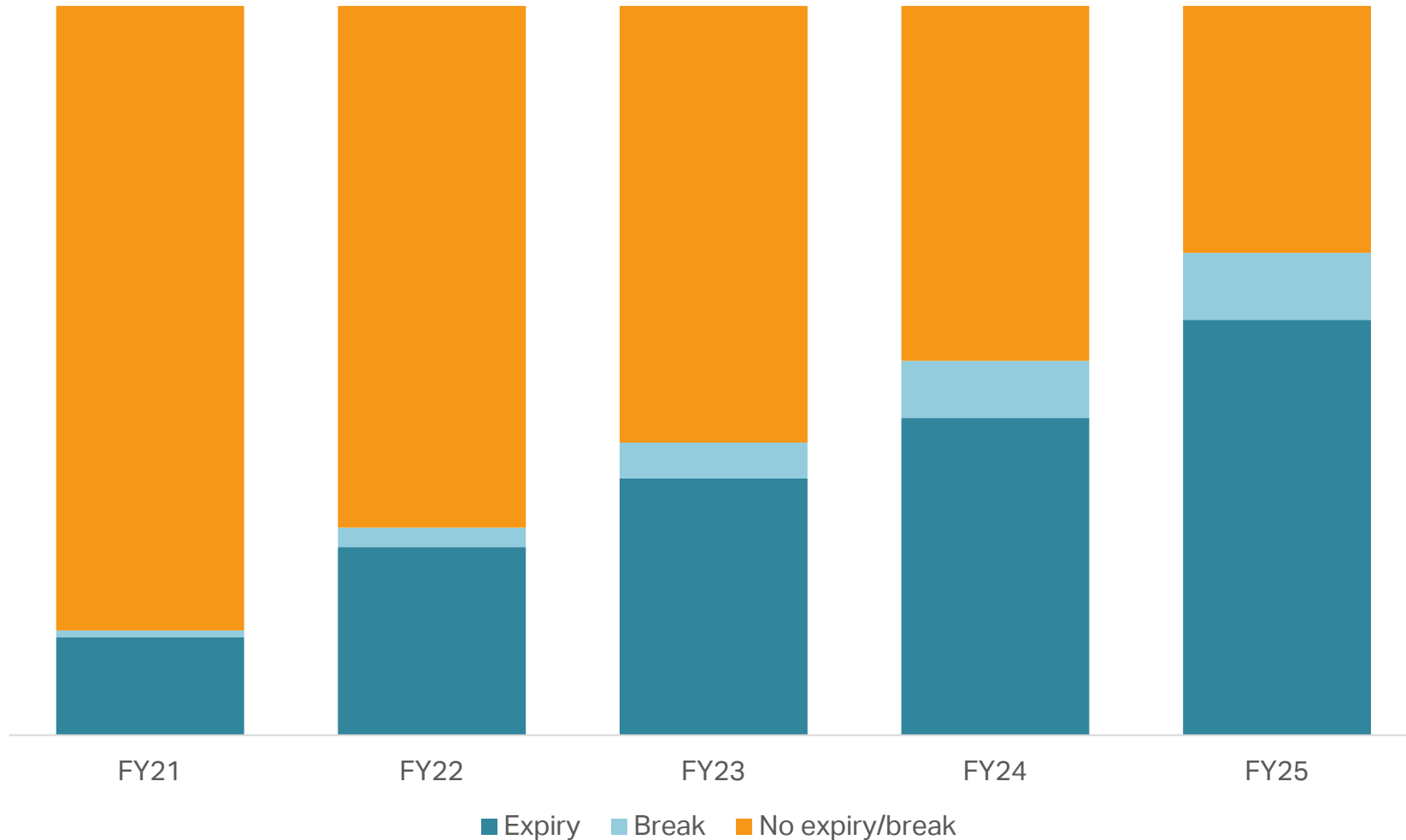
New Destination store format

Next year

New hybrid format



Physical retail estate lease expiry / breaks
cumulative number of stores










In Retail, we have a flexible lease portfolio, with two-thirds of leases having expiries or breaks in the next 5 years.

Note: These are indicative and relative to the Halfords average

	Product		Services	
	Motoring	Cycling	Retail	Autocentres
Medium-term growth prospects	Lower	Average - Higher	Higher	Higher
Gross margin (%)	Average	Lower	Higher	Higher
Opex as a % of sales	Lower	Higher	Average	Higher
ROIC	Higher	Lower	Higher	Higher

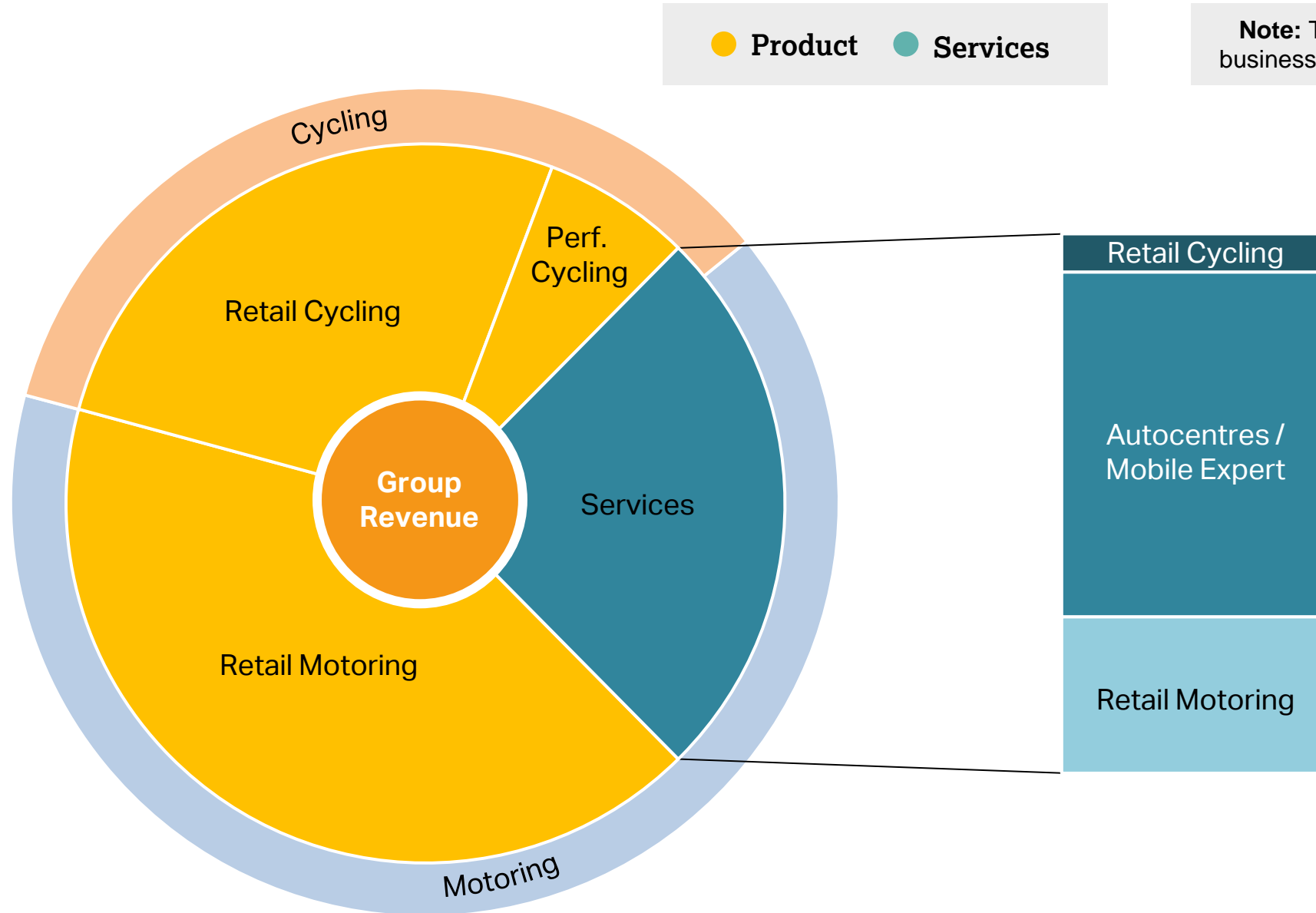
The financial dynamics of our Services segments are more attractive and offer the greatest opportunity for growth and returns

	FY20 ¹	In 5 years
Sales CAGR	+0.3%	
Gross Margin %	51.1%	
Operating cost % of sales	46.0%	
ROIC²	40%	
Stock turn³	3.2	
Services % of group sales	26%	
Motoring product % of group sales	42%	

- By implementing our strategy we will evolve into a services-focused business, with an ambition to double our services revenue to 50% of Group sales.
- With a materially larger services business, alongside a more unique and differentiated products business, the Group will be more resilient to consumer sentiment, FX volatility and price inflation. As a less capital-intensive business, it will also earn higher returns on capital and generate more free cash flow.
- Finally, as a services-focused business, we will increase customer retention and recurring revenue streams, improving customer lifetime value and group cross-shop.

1**Maintaining a prudent balance sheet****2****Investment for growth****3****Maintain the ordinary dividend****4****Appropriate M&A****5****Surplus cash returned to shareholders**

APPENDIX



	FY20 Highlights	Focus for the year ahead
1 Inspire Championing the shift to electric smart travel through education, engagement and community support	<ul style="list-style-type: none"> Published a report on E-bikes to better educate consumers on the benefits of electric mobility. Trained 308 technicians in electric vehicles or E-bike servicing, bringing the total to 759. Contributed to an Parliamentary debate on micromobility and we discussed the matter with MPs 	<ul style="list-style-type: none"> Accelerate our investment in training and upskilling colleagues to better support customers Continue to invest in consumer research to understand how we can help people make the switch to electric Continue to engage with the Government and MPs for the law to change regarding the legalisation of private E-scooters
2 Support Help put the consumer in control, through products, services and solutions	<ul style="list-style-type: none"> Delivered 'Customer First' training to all colleagues providing a better consistency of customer support Distributed over 54,000 Cycle-to-Work vouchers during the year Helped over 11,000 key workers keep moving with free car and bike checks throughout lockdown 	<ul style="list-style-type: none"> Maintain pace with consumer trends as consumers look for alternative and 'Green' methods of commuting – accelerating our efforts to promote E-mobility
3 Lifetime Walk the walk: make our business carbon neutral by 2050	<ul style="list-style-type: none"> Set out and committed to the target of carbon neutrality by 2050 Rolled out energy-saving LED lighting across the entire estate Focused on initiatives for recycling of rubber products such as tyres and wiper blades 	<ul style="list-style-type: none"> Introduce Science-Based Targets, creating a road map to 2050 Continue to invest in our physical estate to further reduce our carbon footprint Work with suppliers to reduce waste and improve recycling Introducing Scope 3 reporting to cover all indirect emissions within our value chain

Developing our ‘Super-Specialist’ Proposition

These propositions demonstrate the key areas and customer take-outs that we need to achieve for us to be seen as super-specialists within our market

Inspire

Expertly Curated Range

An expertly curated range that has the breadth to show that we are experts; but a recommended focus to ensure customers can shop with ease.

Leadership and Purpose

We have a higher purpose role within our categories, providing a positive voice for the markets we operate in.

Support

Ultimate Accessibility

Despite being super-specialist, we can be found easily – always highly visible and super-convenient to get to and access.

Specialist Services

The easiest access to the best expertise in cars and bikes.

Trusted Advice & Extensive Knowledge

Our people are passionate, know their stuff and want to share it.

Lifetime

Customer-centric

Within our area of specialism, our scope is extremely broad and utterly focused on customer needs and wants.

Unbeatable Value

We offer an unbeatable combination of product quality, advice, service and aftercare

Any decisions that we make regarding our offering and our ultimate ‘Reasons To Believe’, should be measured against the above areas



Graham Stapleton
Chief Executive Officer



Loraine Woodhouse
Chief Financial Officer



Keith Jones
Chief Operating Officer



Karen Bellairs
Group Customer and
Commercial Director



Andy Randall
Managing Director –
Halfords Autocentres



Paul O'Hara
Group Property
Director



Neil Holden
Group IT Director



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