Halfords Group Plc
FY27 Interim Results

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Transcript
(Q&A)



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SLIDE 1

Good morning everyone, and welcome to the Halfords Group Interim Results for the 26 weeks ending the 2nd October 2026.

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

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I am pleased to be announcing a very strong set of results today.

We have seen fantastic progress across all of our key metrics, across both our divisions, with lfl sales up over 7%, margin accretion, customer growth, market share growth and excellent cash generation all culminating in 66% growth in underlying PBT.

We have had the positive benefit of an early and warm summer reflected in our trading, and we have tried to be as transparent as possible on this point throughout this presentation. But it is important to note, that as a business we were set up to succeed and capitalised on the opportunity and that, even without the weather benefit, we have made really positive underlying progress.

And it's the combination of that strong underlying progress and our expectations for the remainder of the year that give us the confidence to increase our earnings guidance for the year, to increase our interim dividend, and to move into the "Evolve" phase of our strategy, with a major investment in a new, national distribution centre for our Retail business.

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So turning to today's agenda, Jo will take us through the detail of our H1 performance, I will talk to our strategic progress and the start of our Evolve phase, followed by our outlook and then Q&A. So with that, I would like to hand over to Jo.

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Thank you, Henry, and good morning everyone.

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So starting with the headlines, I am very pleased with our performance in the first half.

We delivered like-for-like sales growth of 7.1%, with good growth across both Retail and Autocentres.

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Underlying operating margin increased by 140 basis points to 4.6%, underlying PBT increased by 66% to £39 million, and return on capital increased by 530 basis points to 18.9%.

We also generated strong free cash flow and ended the half with a materially increased net cash position.

So, a very strong set of financial results across the board.

As Henry mentioned, the early and warm summer clearly benefited our performance, and I'll now move on to separate the benefit of the weather from the underlying progress we've made.

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Our best estimate is that weather in the first half added approximately £8 million to underlying profit, although inevitably there is some judgement involved in that assessment.

We can't assume we'll see the same favourable weather conditions again, or that we will see the same level of incremental profit if we do.

But as this slide shows, even after adjusting for the seasonal benefit, like-for-like sales grew by 5.6%, underlying operating margin increased by 60 basis points to 3.8%, underlying PBT increased by 31.9% to £31.0 million, and return on capital was 16.9%, remaining well above our cost of capital.

So, while the weather clearly contributed to a very strong headline result, the adjusted numbers also demonstrate substantial underlying improvement across the business.

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Let me now provide a little more detail on the shape of the result.

Revenue increased by 6.7% to £953 million, with growth across both Retail and Autocentres.

The difference between reported revenue growth and like-for-like growth largely reflects store and garage closures completed last year.

Gross margin increased by 120 basis points to 52.6% reflecting effective pricing and promotional activity, support from foreign exchange and favourable mix into seasonal categories. It is worth noting that the H1 margin is yet to fully reflect the impact of increased oil prices and as such we expect margin growth to moderate in H2.

Operating costs increased by 6.2%, slightly below revenue growth, and therefore reduced as a percentage of sales.

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This reflects the benefits of operating leverage and continued cost discipline, despite wage and fuel inflation, a higher provision for incentive payments and continued investment in the business.

And as a result, underlying operating margin increased to 4.6%, and underlying PBT increased from £23.5 million to £39 million

Reported PBT was £35.5 million, after £3.5 million of non-underlying costs, including initial expenditure relating to our new distribution centre as we begin to move into the Evolve phase of our strategy.

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This bridge shows the key drivers of our year-on-year profit improvement.

There are three important messages from this bridge.

First, we're seeing real benefits from the improvements we've made to the business. Stronger trading, Fusion and operational efficiencies are all contributing to profit growth.

Second, we're delivering that improvement despite some significant cost pressures. Inflation remains a headwind, although at more moderate levels than in recent years. We've also recognised substantially higher incentive costs. Our strong first-half performance has led to a higher annual bonus provision than at the same point last year, and the higher share price has resulted in higher costs associated with our long term incentive awards due to vest over the coming years. Alongside this, we've continued to invest in the business, supported by the strength of our performance.

And third, we've been very deliberate about separating out the weather benefit. Excluding the estimated £8m benefit from the exceptionally warm summer, underlying PBT grew by 32% to £31m. Including weather, profit increased by 66% to £39m.

So weather has undoubtedly helped, but I think this bridge gives a good indication of the underlying progress we're making through our Optimise strategy.

SLIDE 9

Turning to Retail, revenue increased by 7.3% to £572 million, with like-for-like sales growth of 7.7%. The performance was broad based, with Motoring like-for-like sales increasing by 7.3%, and Cycling increasing by 8.3%.

Retail benefited most directly from the warm and dry summer, particularly in Cycling, camping and touring, and car air-conditioning services. We're also seeing encouraging results from our category management work and improvements to the online customer journey, supporting stronger sales growth.

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Gross margin increased by 130 basis points to 50.6%, reflecting more effective pricing, less promotional activity, growth in higher-margin retail services, favourable foreign exchange and the timing of cost price increases in oil-related categories. While we are really pleased with this result, as we flagged at the prelims, following significant gross margin expansion over the last 2 years, we are not assuming further increases in gross margin rate as we look further forward.

Operating costs increased by 6.9%. Despite wage inflation, higher incentive costs and continued investment in brand, technology and capability, cost growth remained below revenue growth.

As a result, underlying operating profit increased by 46.1% to £30.1 million, and operating margin increased from 3.9% to 5.3%.

We estimate that the warm dry summer added around £6 million to Retail operating profit.

After adjusting for the seasonal benefit, operating margin was approximately 4.3% - an encouraging step towards our medium-term ambition of a sustainable 5% to 6% Retail operating margin, which Henry will cover in more detail later.

Its worth noting here that we shouldn't expect progress to be entirely linear. We'll need to absorb further inflation and continue investing in the proposition, but the weather-adjusted result gives us confidence that category management, services, digital improvements and more disciplined trading can deliver sustainable growth in sales densities and operating margins.

SLIDE 10

Moving now to Autocentres, where performance was also strong.

Excluding Avayler, revenue increased by 5.9% to £380.2 million, with like-for-like sales growth of 6.1%, driven by both consumer garages, supported by a stronger tyre market, and commercial fleet services.

We continued to grow the amount of Additional Work Identified and sold on each vehicle that came into our garage, gained tyre market share and increased income per tyre through better attachment of services such as wheel alignment and warranties.

Gross margin increased by 110 basis points to 55.5%, reflecting improved pricing and a more favourable sales mix.

Operating costs increased by 5.0%, below revenue growth, despite labour inflation and continued investment in the estate.

Importantly, labour costs as a percentage of sales reduced by more than 200 basis points year on year, reflecting better garage utilisation and our continued focus on having the right

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technician, doing the right job, in the right location. Fusion and more targeted investment in equipment, technology and garage leadership are also supporting this progress.

As a result, underlying operating profit increased by more than 60% to £16.1 million, and operating margin increased from 2.8% to 4.2%.

Seasonal services, particularly air-conditioning, contributed approximately £2 million to that performance. Excluding this benefit, operating margin was approximately 3.7%, an important step towards our medium-term ambition of 5% to 6%, which Henry will cover in more detail later.

Finally, on Avayler, revenue was broadly stable and the operating loss increased to £2.3 million as we continued to invest in the platform. Avayler remains an important technology platform for Halfords, particularly as we modernise the systems supporting our garage and mobile operations. That said, revenue from external customers has been slower to materialise than originally anticipated. In light of the continued losses being generated by Avayler, a review of the business is being performed in the second half of the year.

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Turning now to cash and the balance sheet.

We ended the half with net cash of £40.1 million, a significant increase both year on year and from the FY26 year-end position.

The principal driver was strong profit generation, supported by effective underlying working capital management.

We generated £38.0 million of free cash flow in the period, while continuing to invest in the business and fund the dividend.

Cash capital expenditure was £25.6 million and cash on non underlying items was a small credit in the period.

Including lease liabilities, net debt reduced to £207 million, from £228.7million at the end of FY26. We retain significant flexibility in our lease portfolio with the average retail lease length now 2.2 years, and the average garage lease length now 4 years.

We also retain access to our £180 million revolving credit facility, which runs to April 2029 and was undrawn throughout the period.

The strength of the balance sheet provides considerable financial flexibility. It allows us to fund attractive organic investment, maintain an appropriate dividend and begin the next phase of our strategy, while remaining comfortably within our leverage guardrail.

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SLIDE 12

This slide brings us back to the four financial outcomes we committed to when we launched Fit for the Future.

We've delivered strong sales growth, improved operating margins, increased profitability and, importantly, significantly improved returns on capital.

We've deliberately shown the weather-adjusted numbers alongside the headline results. Weather has undoubtedly helped us, but even excluding that benefit, we've delivered 5.6% like-for-like sales growth, 60 basis points of operating margin expansion and 32% growth in underlying profit.

And our return on capital, at 16.9% excluding weather, is comfortably above our cost of capital.

These are first-half results, and we expect some moderation in the second half, particularly as we continue to invest to drive continued momentum.

But the underlying progress we are making is really encouraging. We're beginning to see the benefits of the changes we've made through Optimise, with stronger sales, better productivity and improved operating leverage.

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When we launched the Fit for the Future Strategy this time last year, we set clear financial guardrails, committing to an annual cash investment envelope of £55 million to £65 million, covering both capex and non-underlying project costs.

At that point, we assumed we'd lease or externally finance the capital investment in our new distribution centre.

Given the strength of our balance sheet, we've looked again at that decision. Funding the assets ourselves delivers significantly better returns than leasing them, creating greater value for shareholders.

So, with that clear focus on returns, we've decided to fund the £40 to £50 million of capital investment directly over the next three years, outside our existing £55 to £65 million annual investment envelope. The associated non-underlying operating costs of £35 to £45 million will remain within the guardrails previously set.

We expect the new distribution centre to deliver low to mid teens of millions profit benefit at maturity, and therefore returns significantly above our cost of capital.

And importantly, we can fund this investment while remaining comfortably within our leverage guardrail throughout the Evolve phase of our plan.

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So this is a deliberate decision to fund the new distribution centre ourselves given the superior returns, while maintaining financial discipline across the rest of the business.

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And that brings me to our capital allocation priorities, which are outlined on this slide, and remain unchanged.

We're focused on maintaining a strong balance sheet, investing where we see attractive returns, and delivering a sustainable dividend to shareholders.

And in that context, the Board is declaring an interim dividend of 3.5 pence per share, compared with 3 pence last year. That reflects our strong first-half performance, cash generation and confidence in the outlook

So, stepping back, I'm really pleased with the progress we've made in the first half.

Better execution is helping us attract more customers, grow volumes and sales, and generate more profit and cash — even after allowing for the benefit of the weather.

And that, in turn, gives us the capacity to reinvest in the business and support further growth.

It's that combination of stronger performance and a healthy balance sheet that gives us the confidence to upgrade our profit expectations for the year, increase the dividend and commit to significant investment as we move into the Evolve phase of our strategy - and we'll continue to do that with discipline and a clear focus on returns.

With that, I'll hand back to Henry, who'll take you through the progress we're making against the strategy and our priorities and outlook for the rest of the year.

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Thank you Jo. So turning now to our strategic progress.

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A year ago, badged as Fit for the Future, we set out the 3 phases of our strategy, Optimise, Evolve and Scale. We are really pleased with our progress and I wanted to update on actions we have taken within our Optimise phase and then talk about the start of our Evolve phase and what that entails.

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You may remember that at our prelims in June we had a greater focus on our strategic progress in our Garages business, and similarly today there will be more focus on our retail business.

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SLIDE 18

But to briefly cover our Garages, I wanted to start by reminding you of the key components of our Optimise plan.

First, we said we would grow garage-level contribution through our Fusion programme, increasing capacity in our existing garage footprint, optimising our operating model and making better use of the referral opportunities between our retail car park and garage within a local area.

Second, we would drive utilisation by better matching the supply of labour to customer demand for services in our garages, and focusing on having the right technician doing the right job in the right location, across the estate.

And third, we would prioritise our garage workforce, deploying technicians more flexibly, improving retention, and growing the next generation of talent with our market leading apprenticeship programme.

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And we've made some great steps forward across all of these areas, which have cumulatively resulted in the 3.7% weather-adjusted operating margin we're reporting for HY27, as Jo has already outlined.

More specifically – we have 121 Fusion sites now trading, and are on track to complete the programme by the end of the financial year. Fusion has been hugely effective in driving sales and profitability and demonstrates our ability to deploy capital in our estate to good effect driving a typical payback within 2 years.

Moving on to utilisation, we have continued to make good progress on reducing labour cost as a percentage of sales, which is down more than 200bps year on year, even with the backdrop of a 4% increase in the living wage.

And finally, we have seen really good progress on Additional Work Identified, or AWI, which now represents around a quarter of revenue in our consumer garages. And we have also delivered strong growth in tyres. Although the overall tyre market continues to be subject to volatility, volumes grew in the first half. And beyond that, we have grown our market share, including through strong growth in Fleet following the exit of a major competitor. Although slightly lower margin, fleet work provides a reliable and recurring source of revenue that can complement our consumer garage business and help us to manage supply and demand more effectively to achieve better levels of utilisation. And alongside this, we have further grown income per tyre through high-value services such as wheel alignment.

We have talked previously about how, alongside other chains, our Garages business competes both with dealerships and single independent owner operator garages. From a price and

proposition point of view, Halfords offers a branded service with expert technicians at a significant discount to dealerships and slightly more expensive than the independents. To differentiate further, we have recently introduced a 2 year guarantee on parts and labour and a year's free breakdown cover on any car that we service. To my mind that is a pretty compelling proposition and a real reason to switch to Halfords. More broadly, we've got a clear view of the levers that improve garage profitability, and confidence that we are able to pull them effectively to drive further operating margin gains in the future.

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Which brings me to the medium term operating margin target of 5-6% that we have talked about previously. Recent performance gives us even more confidence that this is eminently achievable – and we are making good progress towards it as I have just described. Looking ahead, the biggest lever continues to be further progress on utilisation, with further benefit from the maturation of Fusion and continuing to drive AWI and optimise our tyres business. And these levers apply equally across both our consumer garages and our commercial fleet services business.

So our garages business is in good shape with over 6% sales growth, an improving operating margin with a clear pathway to our target, and over the longer term a real opportunity to scale up efficiently.

SLIDE 21

As Jo outlined, Retail had an exceptional H1 and we are both really pleased with performance and excited about what more we can achieve. Our retail trading benefitted from the weather but, crucially, we were able to seize the opportunity and capitalise on it and in doing so, take market share. That is the sign of a retail business on its game. So yes, we have had some benefit from the weather, but much of our momentum comes from self-help initiatives and our Optimise programme.

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First, we are rolling out a programme of category management, driving sales densities and improved margin. At the heart of this is a forensic focus on pricing and promotion, on ranging, customer trends and preferences, own brand development and channel and marketing mixes. We are building new capability within our business and it is starting to pay off in terms of results.

Second, the vast majority of customers who cross the threshold of one of our stores is either looking for advice or a service attached to one of our products such as a battery or wiper blade fitting, a new headlight, or the attachment of a roof box. In our categories, we are unique in our ability to sell a product with an attached service, giving us a differentiated competitive advantage and a higher overall margin. So we are developing how we improve and expand the services we offer and developing training for our colleagues.

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And third, a large proportion of customer journeys begin online but are fulfilled in store or in garage. 80% of our online orders are collected in store, and many of our store sales start with research on our website. Our digital platform helps our customers to get the right solutions and brings our unique touchpoints and assets closer together. So digital is an important feeder of store and garage performance, but it is also a transactional channel in itself.

But to pull all of this together, we are now going to show a short video.

SLIDE 23 - VIDEO

SLIDE 24

So turning to category management, the proof of the pudding is whether our efforts are actually delivering results. And the short and longer answer is yes. We are at the beginning of our category management journey – a full category relaunch takes up to 18 months to execute – but we have seen a 5% plus sales and margin uplift in the categories we have trialled in stores as part of Wave 1, which covers about 15% of retail sales and includes workshop, flagship cycling and cycling parts & accessories.

But there is still more to do in these and other categories, with a plan to have relaunched c.60% of our ranges by the end of FY28 with associated benefits building from there. It is premature to extrapolate Wave 1 success across the whole programme but early signs are very encouraging and we are getting real traction and creating momentum.

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In retail services, we have taken steps to drive services growth and profitability ahead of expanding the range of services on offer in our car parks. These small changes have already had an impact, with services growth ahead of product sales and a marked increase in profit per job. We saw particularly strong growth in bike servicing and repair as well as dashcam fitting in H1, and we're now moving into trials on new service offers including security and diagnostics.

On the digital side, we are a genuinely omnichannel business with a website which is a transactional channel, a booking platform and a research tool, and it is unusual for a customer journey not to touch both our digital and physical channels.

Our online channel is starting from a lower level of maturity than our physical operations but we are continuing to strengthen our foundations, improving customer journeys and driving increased conversion, and Group online sales growth in the period was just under 6%.

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Similar to Garages, we want to set out a target operating margin for our retail business. Over the medium term, and based on both Optimise and the new distribution centre we are announcing today, we believe we can also take this to between 5 and 6%. Key building blocks include scaling

our category management approach to around 60% of our range, expanding an optimised services offer and, critically, investment in a simplified retail supply chain operation, which I'll talk more about shortly. Today, we have a very well-run retail business but we feel there is more to go at and are confident we can get there.

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Finally, turning to Group initiatives where I'm going to focus on our investment in the Halfords brand.

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A year ago when we set out our strategy and plans, we identified a need to invest in the Halfords brand. Our brand is well-recognised, but research data showed that, because of a lack of investment historically, it was losing relevance and resonance. We have a powerful brand with a lot of touch points with emotional connection – from a baby seat to a first bike for a child to rescuing a school run or holiday trip that has faltered.

But we also know that many people don't recognise the breadth of our offer, the services that we offer, and that we can meet so many different customer demands particularly for those with a "do it for me" mindset. We have started investment in our brand with a new brand platform and it will help underpin our medium and longer term growth aspirations. TV is a much smaller part of the marketing mix these days, but video remains important and we wanted to show an example of some of the work we are doing.

SLIDE 29 – VIDEO

SLIDE 30 – VIDEO

SLIDE 31

When we set out our Fit for the Future strategy last year, we made the observation that there were areas where we could drive structural efficiencies and attractive returns on capital - underpinning what we termed our Evolve phase to drive growth over the medium and long term.

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Our assessment was that, before embarking on any capital programme, we needed to demonstrate improved performance in our core business and we needed to exercise discipline and transparency in deploying capital.

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As we have previously highlighted, we feel there is a transformative and attractive opportunity to re-cast our retail supply chain by consolidating our warehouse footprint, shown on the slide,

into a single, purpose-built distribution centre. This is a significant project but one which will have very clear and traceable returns on investment and is a well-worn path for many retailers. Indeed, at a former company, we undertook a very similar project driving clear and positive returns.

We have identified our site and signed a lease for a new distribution centre in Coventry, which we expect to open in FY30. It will drive an improved customer proposition, it will deliver a better colleague experience and it will generate significant shareholder value, with low to mid-teens millions of pounds benefit annually at maturity.

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Finally, I wanted to summarise our performance and turn to our outlook.

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We are very pleased with progress so far this year. We have executed against our strategic priorities very effectively, driving positive change in all our key financial metrics. We have benefitted from weather, but we have shown that we are a business on its game, capable of taking opportunities as they present themselves. And it is the confidence in our momentum that has driven the upgrade in our underlying PBT guidance for the year to between 60 and 65million.

Having delivered £39m of PBT already, this means we are expecting FY27 profit performance to be H1 weighted. Sales growth has returned to more typical levels in October and November, and we are planning to reinvest some of that first half outperformance in H2 to drive sustainable future growth.

We are clear on the path to a 5 to 6% operating margin in both of our business units, and, importantly, our strategic momentum is giving us confidence to make the right decisions for the longer-term success of the business, including the investment in our retail supply chain we have just described

SLIDE 36 –

Over the last 5 or 6 years, Halfords has been subject to volatility in its trading, whether from weather, the consumer outlook or industry or market dynamics. Over the next few years, we may well experience periods of volatility, but we are building a business that is structurally more efficient and profitable, that is more resilient and delivers a higher quality of earnings. Our results today are an early indication that our mission is working.

Halfords is performing better, the structural improvements are working, the earnings potential is greater than we've seen historically, and we have the confidence and discipline to invest for the next phase of growth. We definitely have much more to do, but we are encouraged by progress so far.

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Thank you for listening today and we would now be happy to take any questions you may have.

Q&A:

Jonathan Pritchard: Thanks. Yeah, Jonathan Pritchard at Peel Hunt. Two, if I may, could you just put a bit more skin on the bones on current trading? I mean, I know you said it's normalised a little bit, but just anything you could add on customer feel, consumer feel. Obviously, the receive wisdom might have been that higher fuel prices lead to less miles driven, but clearly that's not been a factor in the first path as that started to be a thing. And then second, a sort of pet topic of mine really, the mobile expert. Any thoughts, comments, evolution of that business?

Henry Birch: Thanks very much, Jonathan. So on current trading, we said that trading has returned to more typical levels. What we've seen actually is our retail business continues to do really well, as you would expect actually going into Black Friday and Christmas. And actually we've seen strength across motoring and cycling. So all in all, we feel in good shape. We've got good momentum and a lot of the actions that we're taking are continuing to deliver growth. You make the point on the miles driven. I mean, it's interesting that there was data out that showed that the 12 months to June, actually miles driven in the UK has actually increased 2% year on year. So if you think about diesel prices at two quid a litre, actually people aren't driving less. And I think that bodes quite well for our garages business in as much as what you're not seeing is people abandoning their cars.

And I think the fact that our tyres business has actually been in good, not just our own business, but the market overall, actually, if you look in H1, that's been in growth. So I think there are some good positive indicators there. I think our only note of caution that we sound is that when you look at the more macroeconomic indicators and particularly the commentators out there, they are sounding a kind of note of caution. But what we're seeing in our business at the moment gives us confidence going into H2, which is why obviously we've done the profit upgrade. On the mobile side, that continues to be our most popular customer proposition. So if you look, it's five star rated in terms of Google. We get loads of positive feedback. And frankly, what is not to like about a technician coming to your house, servicing your car on your drive or changing your tyres, you can sit at home and have a cup of tea, do your email, whatever it may be.

So customers absolutely love that. Frankly, the issue that we've had really is actually getting that message out there. So it is a great service. It's doing well. It continues to grow. We've got, what, 250 mobile vans at the moment doing

that. We see the scope to grow it. It's more complex operationally than a garage because we've got to go to customers, but I think over the long term, that is going to increase in profitability and become a more important part of what we do.

Jonathan Pritchard: Great. Thanks. Yeah, your mobile expert. I get so many punctures he's part of the family.

Analyst: Yes I am a contributor to that as well. Do you think you could just flesh out maybe a little bit on the CapEx spend for the distribution centres and when the benefits come through, how we should think about the shape of when that comes through?

Jo Hartley: Do you want me to cover that one? So look, the CapEx spend on the new distribution centre will be around 40 to 50 million. You'll see we'll spend about 5 of that in this year, and then the remainder will be split reasonably evenly over the following two years. The non-underlying OpEx costs, which really are the costs of transition and the dual running costs as we move from the old DC to the new DC, will continue through to the new DC going live in FY30 with the peak year for that being in FY29, which is when we'll be very much in dual running and transition timing wise. As Henry described, we expect to deliver low to mid-teens, single digit millions of benefit on the project and really attractive returns that will beat our cost of capital.

Analyst: Okay. And then just in terms of the second half outlook for OpEx, you sort of mentioned that the gross margin is potentially going to moderate a bit in the second half. Sounds like sales might moderate as well. What's the sort of outlook for OpEx? Should it be, I guess to hit higher end of the numbers you've given today, it needs to moderate a bit in the second half. Any colour around that really, just in context about incentives that you had in the first half?

Jo Hartley: Yeah. So in terms of the OpEx in the second half, we're continuing to invest, as we said, particularly in the brand. So the brand creative that you saw this morning was actually done in the first half, but will be really executed in the second half of the year. The advertising campaign started in September. So there's an acceleration of that investment through the second half as well as continued investment in technology data and particularly strengthening our AI foundations as we move through the second half. So we do expect a slightly higher level of investment in the second half than that which we saw in the first half, which is why our second half profit won't be quite as strong as our first half profit, even excluding the benefit of weather. But all of those investments are designed to drive continued momentum into FY28 and FY29 as we look further forward.

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Mark Photiades: Hi, Mark Photiades from Canaccord. Just a quick one on the scaling of category management. So I think you said you'd seen 5% margin uplift. Is that at the gross or the operating level? Just tying that back to your thoughts around not seeing. So I guess just you kind of indicated you didn't expect to see any further retail gross margin advancement. Presumably though, as you continue to drive these category management phases, that's going to be a driver of gross margin going forward.

Jo Hartley: The sales and margin have gone up by the same amount, so around 5% sales growth and around 5% quantum margin improvement. So the growth stays reasonably similar as we move forward. And really, we've seen very significant gross margin increases over the last two years supported by better buying and FX. As we look forward, we do expect that to be slightly flatter than it has been in the past.

Mark Photiades: Fine. And then just Avayler H2 losses, similar to H1, is it the expectation?

Jo Hartley: Similar. Yeah, similar. Very slightly higher, but yeah, broadly similar.

Mark Photiades: And then finally on the non-underlying DC charges, are they all expected to be cash?

Jo Hartley: Yes. In time, the non-underlying DC costs will be cash. There'll be a bit of a phasing thing there. We've taken a little bit of dilapidations provision, for example, in the first half of this year. The cash cost of that will come a bit later.

Mark Photiades: Thank you.

Manjari Dhar: Thank you. It's Manjari Dhar RBC. I just had a question on the fleet market share gains. I guess, how do you guys think about the opportunity in fleet versus what you still have to go for in consumer?

Henry Birch: So it's currently about 20% of our garage's business comes from fleet. We know that comparable businesses to ourselves are achieving more like 30%. So we look at that differential and say, actually, do you know what? As a scaled branded operator with presence throughout the UK, there's no reason why we shouldn't be up at those levels. So we see that as an opportunity and B2B is about 30% of our business today and we see that broadly as a growth area. And that obviously helps not just in terms of growth, but in terms of resilience of earnings as well, because typically those are repeatable, reliable earnings. So there's definitely opportunity we think in fleet.

Manjari Dhar: Thank you. And just on the motoring loyalty club, can you give us an update on where that's got to, maybe the paid versus the?

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Henry Birch: Yeah, so we're up at 7.2 million on the free and 435,000 on the premium. That continues to be really strong. Premium members are worth four times as much as a non-member and just a free member is more likely to visit Halfords more frequently and to spend more. But the real differential is with the premium members, and that continues to be really popular. And just to remind people that premium membership, you get a free MOT. And the beauty of an MOT is that by law, you have to have your MOT done every year. So it should be kind of nicely recurring. And we see that actually in terms of our retention rates, they're pretty high for a loyalty club.

Kate Calvert: Thanks so much. Kate Calvert from Investec, just two for me. First on the retail side, what proportion of your sales is services at the moment and where do you think that could get to as a percentage of the sales mix going forward? Again on retail, as far as the category management's concerned, you sort of set out the phasing, the timeline, but when should we sort of expect the peak benefit? Would that be second half of FY28 or would it be really 29 in terms of that benefit?

Henry Birch: In terms of category management.

Kate Calvert: Yeah, the phasing and the flow of it.

Henry Birch: So Joe, I don't know if you've got a stat on overall services or Jess may, but one thing I will say is if you look at retail growth in the half, our overall sales were at what, 7.7%, services were at 12%. So what we're seeing is that actually services are growing faster than retail. Our real kind of sweet spot is where we have a product plus a service. So it's a roof box plus a fitting or a start stop battery where we're charging £50 for that fitting, but we're also selling the product and getting a margin. So we're probably less.

Jo Hartley: I'll come back to you on the precise retail stat. Across the group, it was 55% service related sales, combining products and service and slightly up on the same period in the prior year. So really strong performance, but I'll come back to you on the specific on retails, service related sales.

Henry Birch: But we've got 25 different services that we offer in retail and 80% of service jobs that we carry out are actually done in our retail car park. So you think services around your car, you go to a garage, absolutely we do that brilliantly, but actually there's a lot of stuff like re-gassing your air conditioning where we saw sales up 48% year on year. A lot of that was actually done in a retail car park. But our sweet spot, as I say, is where you've got product plus service. In terms of the category management rollout, in terms of when that will hit, latter half of FY28 probably. I mean, it is a rollout. There will be an element of calibration and optimisation, but I think the important thing there is that the trials have been really successful. They've shown a decent uplift. We're a little bit nervous about saying to analysts, go ahead and extrapolate

because obviously not every single trial will end up with those numbers, but the direction of travel is kind of really positive, which is why we've got the confidence to give that retail operating margin number.

We think there's a lot more to go at from category management.

Kate Calvert: Can I just ask a quick question on the auto centre side, similar thing in terms of phasing. Obviously you had a big benefit from the labour utilisation in the first half. That started coming through in the second half of last year. That presumably will build over a couple of years as you get better and better. Should we expect quite a big increment next year as well, or would it be more smaller increments going forward?

Jo Hartley: Yeah, I don't think we'll see another 200 basis points increase next year. I think to your point, it's going to take a little bit longer to see the full benefit, to see the continued progress on labour costs as a percentage of sales. But as you saw from the bridge, that is by far the biggest lever in driving the operating margin in garages into the medium term that we're looking forward to.

Kate Calvert: Thank you.

David Hughes: Hi, David Hughes from Shore Capital. A couple of questions from me. First of all, just on your estate of retail and auto centres, obviously there was a small number of closures year on year. Are you broadly happy with the estate now in terms of the outlook on it? Are there more white space areas you think you can go after or do you think this is kind of roughly it for the time being? And then secondly, just on cycling, you talked at the full year results around the launch of an expanded electric bike range. I was just wondering if there's any colour on how you're seeing that performing and what's the trends looking like there?

Henry Birch: Yeah. So look, on the retail store estate, we have got now 366 stores. We've closed a couple in the course of the last 12 months. Those have been because of lease expiry or landlord plans, not because we actively were trying to close them. All of our stores are profitable. They are all actually on short lease lengths. I think the average is 2.2 years. So there's a lot of flexibility there, but our view is that actually we've got the right number of stores and actually it's kind of important for us that we've got national coverage. So we say 85% of the population is within 15 minutes drive of a Halfords. And I think that's a pretty compelling and difficult to replicate estate that we've got. So we don't see any significant change on the retail side of things and we definitely don't have a kind of programme of closures that we're planning.

On the cycling piece, e-bikes are doing really well and they're about what? 25%, 30% in terms of value of our current cycling sales. And I think what's exciting about e-bikes is that for a lot of people, they're kind of entirely new products. So you can have a mechanical bike and whereas before you think about a replacement cycle of a mechanical bike, an e-bike is a different beast. It means we've also got different types of customers being introduced to cycling. The price is coming down. Our entry level e-bike at the moment, very good offer, £420 on our website, reduced from £600. So you can get an e-bike for £420 on Halfords right up to the thousands. But now they're much lighter. The batteries are much more efficient and give you a longer range. They look much better and they're much cheaper as well. So we think e-bikes will continue to give our cycling business a real kind of shot in the arm.

Jo Hartley: We were really strong in the first half, about 40% like flight sales growth in Halford stores in the first half they were flying and the new ranges have been super, super popular. So a standout success for us in the first half of the year.

David Hughes: Great. I'll just extrapolate that forward for five years.

Jo Hartley: Maybe not.

Henry Birch: Go for it, David. Knock yourself out.

Jo Hartley: He doesn't mean that.

Henry Birch: Okay. I don't think there are any further questions today. Thank you everyone for listening and for attending, and we look forward to seeing people at our preliminary results in June of next year.

Jo Hartley: Thank you.

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