Halfords Group plc, H1 2023

2022-11-23

Graham Stapleton

Good morning, everyone, and welcome to the Halfords Group Interim Results for the 26 weeks ending the 30th September 2022. I'm Graham Stapleton, and joining me today is Jo Hartley, our CFO.

In terms of the agenda for this morning, Jo will begin today's presentation by taking you through our financial performance and outlook. I will provide you with an update on our progress against our strategy and this year's plan. You will then have the opportunity to ask questions at the end.

So to start, I will now hand you over to Jo to talk you through our first half performance in more detail. Jo?

Jo Hartley

Thank you, Graham. Good morning, everybody. I'm now going to cover the highlights of our financial performance in the 26 weeks to the 30th of September 2022.

Before I start, I want to flag a couple of points that are relevant for today's presentation. The first is that unless stated otherwise, in my commentary, I focus primarily on our performance versus our first half 3 years ago. Like many businesses, we still see FY '20 as our last normal trading period pre-COVID. Having said that, you will notice that we've included our prior year comparatives throughout the presentation where relevant to ensure that we give full transparency.

The second point to note is that our results are post IFRS 16. Before we get into the detail of the numbers, I thought it would be helpful to start with this slide, which gives an overview of the headwinds that we have faced into in the first half, the tactical mitigations we have deployed and the structural advantages we have as a result of the transformation in the business has undertaken over the last few years.

The inflationary and consumer headwinds described at the top of this slide are clearly not unique to Halfords. I referenced them for 2 reasons. Firstly, because I feel it is important to remember that what we delivered in the first half was despite these headwinds.

Secondly, I raised these themes now because you will notice me talk about many of them in greater detail throughout this presentation. This slide also summarizes some of the things we've done to mitigate these macroeconomic headwinds.

Tactically, we've reduced space and rent, negotiated excellent freight rates, hedged our FX and utility costs well and left no stone unturned as we've sought to drive cost reduction and efficiency.

Structurally, the transformation of the group over the last 3 years has undoubtedly driven a much more resilient business, with nearly half of group revenue from services, the majority of revenue from needs-based spend categories, a reducing proportion of the cost of goods we sell being purchased in U.S. dollars and strong supplier relationships, we're better placed than many to face into the current headwinds. We'll give more color on a

number of these topics as we step through this presentation.
Moving now to Slide 6, which summarizes what I believe has been a strong performance against a challenging consumer and inflationary backdrop. Group like-for-like revenue grew by 13.3% versus FY ’20 with total growth, including acquisitions at 31.4%. Margin rate has grown by 130 basis points since FY ’20 to 51.3%, driven by our sales mix moving increasingly into the higher-margin Autocentres business and underlying improvements in our retail margin as we’ve optimized our Cycling business.
Costs have grown as a percentage of sales compared to FY ’20 with cost inflation and investment being partially offset by cost and efficiency programs. Underlying profit before tax was in line with our expectations and broadly flat with the same period in FY ’20 despite significant inflationary and consumer headwinds compared to 3 years ago. And finally, net cash pre-lease debt at the half year-end is positive at GBP 32.3 million, reflecting the continued strong balance sheet of the business.
Slide 7 shows some of our key financial metrics versus both FY ’20 and FY ’22. I won’t dwell on this slide as we’ve already covered the highlights, and we’ll now move into some more detail. So let’s turn now to look at what has driven the 31.4% revenue growth in half 1 versus FY ’20. There are 2 main points I’d like to make on what is quite a detailed but important slide.
Firstly, our service-related sales illustrated by the orange blocks on the bar charts have grown from GBP 132 million to GBP 326 million. That is a growth of 147% over the last 3 years. The increase is driven by like-for-like growth in our existing Autocentres business, the acquisitions that we’ve made and growth in service-related retail sales with these dynamics represented by the 3 upward green blocks on the chart.
It is notable that service-related sales in the first half of FY ’23 are already higher than those achieved through the whole year in FY ’20. This means that 43% of our sales in the first half came from services, nearly double the 23% we saw in half 1 FY ’20. And service-related sales are expected to reach around 48% on an annualized basis following the acquisition of Lodge Tyre, which happened after the half year end.
The second point I’d like to draw your attention to is that whilst our product sales have decreased by 2.4%, we’ve reduced our retail store space by 8.7% over the same time period. Meaning our retail product sales densities have increased by 6.9%.
On Slide 6, I highlighted that one of our structural mitigations to the cost-of-living crisis have been our evolution from being a traditional retailer to being a predominantly services business and I think that this point is demonstrated clearly by this slide and particularly the movement in service-related sales. Put simply, the shape of our business has changed. And Graham will later go on to talk about how this will progress even further as we look forward.
On Slide 9, I bridged underlying profit before tax in half 1 against FY ’20. And against this pre-COVID comparison, you can see that we’ve held profit broadly flat. Cost inflation versus FY ’20 is, as you would expect, very significant. We’ve offset this through 3 key levers. Firstly, growth in the underlying business; secondly, cost mitigation, and thirdly, price mitigation. Versus FY ’20, we were also negatively impacted by the tyre market,

which is yet to recover to pre-COVID levels, a point Graham will expand upon later.
Finally, we've had a GBP 4.6 million credit in the period relating to derivative financial instruments that do not qualify for hedge accounting under the rules of IFRS 9 and to therefore, recognize that fair value through the income statement. These adjustments in the P&L reflects the fair value adjustment on open trades. That is the difference between the FX rate at the balance sheet date and the hedge rate on these trades, again, representing the fact that we hedge significantly above the spot rate.
Slide 10 bridges the profit before tax metric versus FY '22. I wanted to lay this out very clearly given there has been a significant decline. The first 2 bars on the chart represent the cost headwinds we faced compared to the first half of FY '22.
Firstly, we had a GBP 9.2 million benefit from rates relief in half 1 last year. This has not recurred in FY '23 and as such, results in a reduction in profit. Secondly, like many businesses, we've been impacted by significant inflationary headwinds in the cost of freight, the cost of goods we sell and people costs. I'll give more detail on these later, but in total, we've seen GBP 21 million of cost inflation in the period. So overall, over GBP 30 million of cost headwinds in the first half of the year.
We have mitigated these in part through the next 2 green bars. We have delivered GBP 9.8 million of cost savings in the period and have also mitigated GBP 8.8 million through price which is after the price investment we have made as part of our Motoring for Less campaign.
Underlying retail sales volumes unsurprisingly, have been down year-on-year with strong performance in needs-based categories being offset by declines in the more discretionary areas. It is worth remembering that half 1 FY '22 was a very strong trading period in retail with growing optimism amongst consumers as the nation emerged from COVID-related lockdowns and restrictions.
Our Autocentres business has performed well in the period with underlying growth year-on-year, but this has been offset by the impact of the depressed tyre market, which, as already noted, is still tracking significantly below pre-COVID levels. Finally, you'll notice a similar credit in relation to FX, as that which I described on the previous slide.
So to summarize, the reduction in profit versus half 1 FY '22 should be seen within the context of over GBP 50 million of our first headwinds from cost inflation and significantly lower levels of consumer spending than those seen in the first half of last year as the country emerged from COVID.
Next, I wanted to specifically highlight some of the dynamics within our Autocentres business before doing the same within retail. The Autocentres business has experienced significant sales growth versus both FY '20 and FY '22, driven by both like-for-like growth as well as from acquisitions.
Underlying EBIT, however, as you can see on the table on the left of the slide, has decreased both versus FY '22 and FY '20. There are 2 key points to note on this slide, which help to explain this dynamic. Firstly, on the bridge on the right of the slide, you can see that the year-on-year comparison of Autocentres EBIT is distorted by 2 one-off credits in half 1 FY '22. These being business rates relief and the profit on sale and leaseback of

properties following the Universal acquisition.
Outside of these impacts, there is underlying growth in our Autocentres business, which has been partially offset by a softer tyre market, holding back National Tyres performance in particular. Graham will touch on National Tyres later in this presentation.
Secondly, you will note in the table the dilution in gross margin, which is driven by sales mix. Our underlying margin rate continues to improve year-on-year, but the businesses we acquired have a heavier skew towards tyres, which has diluted overall margin rate. As we've described before, tyres sales are typically higher average invoice value but lower gross margin rate and therefore, can be just as profitable in absolute terms. They are also less complex and therefore, require lower operating costs. That said, over time, we expect to see this margin rate improve as we drive efficiencies and change the mix of products that we sell through the acquired businesses.
Slide 13 illustrates another key point in relation to our Autocentres business. Highlighting the impact of the COVID induced, 6-month MOT deferral action by the government during 2020. As the chart shows, this has changed the shape of MOT demand across the industry. The gray line on the chart shows the relatively flat profile of MOTs in FY '20, and the orange line shows how this profile shifted in FY '22. Year-on-year, we've seen less MOTs in half 1 than we saw in FY '20. And in half 2, we expect to see more.
The result of this shift is that half 2 is expected to be a far more profitable period than half 1. This is consistent with what we highlighted 12 months ago, but I thought it's appropriate to mention it again.
Moving on to retail now. Retail sales at GBP 501 million are broadly flat versus FY '20 despite an 8.7% reduction in store space, but down 7.1% year-on-year. Given the very challenging economic environment and the exceptionally strong comparatives. This is a robust performance, reflecting volume market share growth year-on-year across all measured categories.
Gross margin is up 320 basis points versus FY '20, reflecting work done to optimize the Cycling business over the last few years, but down 40 basis points versus FY '22 reflecting the impact of inflation in the cost of goods sold and freight costs. While we have invested in prices for customers through our Motoring for Less campaign, this has been more than offset by price increases in other areas, particularly Cycling.
Operating cost growth versus FY '20 and year-on-year reflects the net impact of cost inflation, investment and our efficiency program, which we will describe in more detail later. Versus FY '22, the nonrecurring business rates relief also has a significant impact.
Underlying EBIT is up 2.7% versus FY '20 with cost increases being offset by strong margin rate growth. The decrease in EBIT versus FY '22 is driven by the factors I have just described.
Having given an overview of business performance in half 1 and made a number of references to the significant cost headwinds we're facing, I wanted to now go into a little more detail on how we're managing our cost base. I will start by describing how we are managing FX and freight, both of which predominantly impact gross margin in our retail business before moving on to talk about our operating costs.

With the significant weakening of sterling that we've seen since the start of our financial year, I thought it's appropriate to update on our exposure to FX and our hedging. The first point I would make is that the structural change in our business towards services has significantly reduced the proportion of cost of goods sold that we buy in U.S. dollars.

In FY '18, 43% of our cost of goods sold was U.S. dollar-denominated. In FY '22, it was 29%, and that will decrease as the Lodge acquisition reduces the proportion of U.S. dollar-denominated purchases even further.

The second point I would make is that FX is not a significant inflationary impact for us in FY '23. Whilst we buy around $230 million each year to purchase dollar-denominated product, our hedging policy and program means that we are now 98% hedged for FY '23 at $1.318 broadly in line with our average rate of [$1.31] for FY '22.

Finally, it is worth noting that as we look forward to FY '24, FX is likely to be a headwind. 35% of our volume requirement is hedged at a rate of $1.237 which is clearly significantly below the rates for this year.

We have a number of levers to mitigate this headwind such as sharing the challenge with suppliers through negotiation, passing on a proportion of increases through consumer pricing, and through our own continued cost mitigation, with softening commodity pricing and freight rates also providing some relief.

Moving on now to freight. As you've heard from us and no doubt to others the increase in freight rates has been a significant headwind in the first half of FY '23. The chart shows the spot rate in white versus our contracted rate in orange.

As spot rates rose through FY '22, our team did a fantastic job of contracting for the whole of FY '23 at what were at the time, highly competitive rates. Whilst this represented a year-on-year increase in freight costs, we've saved over GBP 10 million versus the spot rate through the first half of FY '23.

As the spot rates have improved, we've acted quickly to renegotiate those contracts and are now paying below the current spot rates. As we look forward, we expect to continue to remain ahead of the market and are hopeful that rates will remain lower than those seen earlier this year, providing some tailwind into FY '24.

Slide 20 summarizes our half 1 FY '23 group operating costs. The bar chart breaks down our half 1 cost base by cost type. On this chart, I wanted to draw attention to 2 key cost lines. Firstly, payroll and surprisingly, is the most significant of our cost lines, representing 42% of the cost base and GBP 149 million. This has grown year-on-year at 5%, given increases in national minimum wage and general payroll inflation.

Looking forward, the increase in the minimum wage announced as part of the autumn statement will lead to further inflation on this cost line, although it should be noted that our base pay rate at GBP 10 is above the current minimum wage.

Secondly, given all the news on utilities cost price inflation, you may be surprised to see that utilities at a GBP 7 million cost in the first half of the year represent just 2% of our cost base or just under 1% of sales value.

It's also worth noting that this is not an inflationary headwind in FY '23.

On the next slide, I'd like to give a little more color on how we're managing that cost line and what we might see going forward. Most of the good work done on utilities predates my arrival. We brought our full requirement for FY ’22 in October 21 at rates considerably below the current spot rates, as shown on the graph at the bottom of this slide.

This forward purchasing has mitigated any year-on-year cost impact this year. We currently have bought roughly half of our FY ’24 expected energy consumption at rates which crystallized GBP 5.5 million of year-on-year inflation into FY ’24. It’s very hard to predict what inflation we’ll see on our remaining requirement and there remains significant volatility. We, therefore, are focusing our attention on consumption reduction initiatives as we move into the second half of FY ’23 and FY ’24.

Our relentless focus on cost and efficiency has been a theme of FY ’23. This has never been more important as we face into the prospect of a prolonged economic downturn, coupled with inflationary pressures. When we set our plans out here at the prelims in June, we said that we would be targeting GBP 15 million in cost reduction in this financial year. Having delivered nearly GBP 10 million of savings in the first half, we’re on track to exceed GBP 20 million for the full year, employing multiple levers and leaving no stone unturned to ensure that across the group, we’re operating as efficiently as possible.

We’re undertaking an ongoing organization design review to ensure that we have the most effective structure in place to provide the necessary support to our stores, garages and vans. We’ve also reduced support costs through marketing and other goods not for resale savings. We continue to successfully reduce the cost of our property estate through lease renewals and have delivered a number of more tactical savings by embedding a culture of treating every penny like it’s your own.

And it’s fair to say that a relentless focus on cost and efficiency will continue into FY ’24. As we’ve outlined, we expect to continue to face a number of headwinds through FX, energy costs, minimum wage increases and continued low consumer confidence.

However, we do see a number of potential mitigants. We will see the annualized impact of cost and efficiency programs starting this year and continue to drive further savings. Freight costs are currently lower than those seen at the start of this year and commodity prices are softening. In addition, our recent acquisitions, both National and Lodge will continue to mature and drive further growth and synergy savings, and we’ve outlined today our plans to drive growth through increasing capacity in our Autocentres business.

In a cost-of-living crisis, it is also probable that we will see an acceleration in the aging of the car park as consumers delay new car purchases, which will drive growth in servicing, maintenance and repairs. On top of all that, the structural advantages that I outlined at the start of this presentation will continue and indeed strengthen further.

Moving now to cash and balance sheet. The appendices set out our cash movement in further detail. So here, I will simply pull out the key movements. Our underlying net cash pre-IFRS 16 lease debt reduced from GBP 46.1 million at year-end to GBP 32.3 million at the end of half 1 FY ’23, representing a reduction of GBP 13.8 million. This was after a dividend payment of GBP 13 million to shareholders.

The other points I’d like to draw your attention to is that the working capital movement reflects retail stock volumes that are broadly flat. The increase in working capital is a

result of inflation in the cost of goods sold and freight in stock, and an increase in stock to support the growing Autocentres business. The overriding point on this chart is that we remain in a net cash position with a strong balance sheet.
So as I stand back from the business today, I feel that we're well positioned to succeed during these challenging times. In addition to the cash on the balance sheet, we have a GBP 180 million debt facility, the maturity of which was extended to December 2025 in the period.
Retail stock has been well managed with volumes broadly flat compared to the year-end. We continue to operate within our stated leverage targets, which include IFRS 16 lease debt, and our capital allocation priorities remain unchanged. Carefully balancing investing for growth and maintaining a prudent balance sheet remains a key priority for us going forward.
In light of all that, I'm pleased to declare an interim dividend of 3p per share to be paid in January 2023. We've had a lot of challenges to face into in the first half of the year. Consumer confidence at record low levels driven by a cost-of-living crisis, unprecedented inflation and the rapid depreciation of sterling to name but a few.
Against that backdrop, we have delivered robust and resilient first half performance, growing market share, ensured we have as much certainty as we [turn] over our cost base for the second half of the year and made very significant strategic progress as Graham will go on to describe.
As we look forward, it remains very difficult to predict how consumers will behave as they start to understand how energy price increases, interest rate changes and tax changes will affect them.
In line with the guidance given in the Chancellor's Autumn statement last week, we don't expect the current economic headwinds to dissipate anytime soon. Over recent weeks, we've seen continued resilience in consumer demand in new space spend areas. However, we have seen a softening of trade in more discretionary categories.
Additionally, movements in the GBP, U.S. dollar FX rate between now and the year-end could impact the profit outturn. Taking everything into account, we now expect performance to be towards the lower end of our guided range. Given the inflationary and consumer spending headwinds we're facing, which are extraordinary, I do think it is some achievement and testament to the success of the transformation over the last 3 years, that even at the very bottom of the range, we would still be delivering a 16% improvement in performance versus FY '20, the last normal year we've seen.
With that, I hand over to Graham.

Graham Stapleton

Thanks, Jo. So as you can see from Jo's summary, despite a very challenging trading environment, we have delivered a good first half. And that, in part, is because over the last few years, we have placed a huge emphasis on building a more resilient Halfords, one that is evolving rapidly into a consumer and B2B services-focused business.
In many areas of our strategy, we are ahead of our plan and are now starting to leverage our unique market position in motoring, B2B and across the breadth of our retail and

garage services offer.
And growing our presence in these key areas does give us a significant advantage, as you can see set out here on Slide 30. I won't go through all of these advantages now, but I will pick out a few examples from each area. If we take services first, crucially, revenue here centers around needs-based areas of customer spend.
Even when there is a squeeze on disposable income, customers still have to keep vehicles safely on the road. And this means MOT, servicing and repairs remain vital. We're also able to build deeper and longer-lasting relationships with customers if we're taking care of their cars in this way.
Moving on to our motoring products business. Much of what we sell here is also more resilient and needs-based. For example, bulbs, car batteries and wiper blades are all needed to keep customers safely on the move. And access to our expert colleagues means that customers can also get these products fitted on-demand, a key differentiator from our online competitors.
Our motoring products business is also less impacted by FX and has a significantly more agile supply chain. And lastly, B2B, which as a reminder, encompasses our commercial tyre business, our fleet garage services operation, our SaaS business of Avayler and a variety of retail products that we sell to other businesses such as Cycle 2 Work.
The B2B area is increasingly important as it leverages our existing Halfords assets and delivers highly predictable, ongoing contractual revenue. And the impact of this shift in emphasis can be seen clearly in our financial results and the physical assets that we now have.
Since FY '20, in half 1, services revenue has increased from 26% to 43% of total group revenue. Motoring now represents 75% of group sales. And B2B has increased from just 15% in FY '20 to 26% of total group revenue in half 1 this year. This revenue shift has a direct correlation with the reduction in the number of retail stores and the increase in the number of garages and mobile vans.
On Slide 32, you can see how the physical infrastructure to serve customers has dramatically changed for acquisition. Both organic growth and acquired businesses have contributed to that change in the shape of our channels. Acquisitions like National have significantly increased our scale, putting 85% of the U.K. population within a 20-minute drive time of one of our garages.
And the purchase of tyres on the drive in 2019 not only step change the convenience we offer customers by mobile servicing, but enabled us to acquire an industry-leading technology platform which now forms a core part of our SaaS business Avayler.
The result here is that group service-related revenue now accounts for 43% of total group sales. And on the next slide, you can see it is a similar story for B2B with growth across our B2B proposition, resulting in revenue more than doubling over the last 5 years. Here, the results have been driven by our Avayler business, our commercial fleet and vehicle maintenance and repair services and our market-leading Cycle 2 Work offer alongside other B2B offers such as trade card.
And as we said in the previous slide, we've also grown our B2B motoring services propo-

sition through the acquisition of McCONECHY'S, Universal and Lodge, giving us national coverage of the commercial sector and market leadership in this space. Crucially, all of these long-term contracted predictable revenue streams are much more resilient in the current climate. Bringing all of this together on Slide 34, you can see that what we have already delivered this year helps build further momentum in our B2B motoring and services businesses.

Now let's take each of these 5 areas of strategic focus for this year and look at how we are moving the dial in each, starting with Lodge.

As we said when we announced the Lodge acquisition, this business increases the proportion of needs-based revenue across the Halfords Group. It aligns to our motoring and services strategy and with more than 90% of Lodge customers B2B, this also significantly enhances our commercial B2B proposition.

Key for us, though, is the geographic impact. Lodge completes our coverage of the U.K., adding a Midlands-based presence to McCONECHY'S in the north and Universal in the south. It gives us a scaled national network that will unlock larger national commercial contracts and significant synergies.

But what exactly do we mean by commercial services? Well, in this slide, we have split out our consumer motoring services and our commercial motoring services. So you can see the difference clearly in terms of the types of vehicle we service in each area of the business and how we use our physical infrastructure.

And to bring that to life, we've also put together a short video which showcases our commercial business.

Graham Stapleton

So as you can see, our commercial garages and vans deliver essential services to a diverse B2B community from HGVs to agriculture and plant machinery. And the chart on Slide 39 shows how significant our growing commercial garages and van business is, representing nearly 1/4 of group services revenue once Lodge is annualized.

And when we add the Lodge acquisition to the slide you saw earlier detailing our services revenue growth since FY '20. You can see that this business moves our revenue from services from 43% to just under 50%.

Moving on now to Slide 41, and our next area of strategic focus for FY '23 of Avayler, our unique garage management proprietary Software as a Services business. Avayler has had a very successful first 18 months. We've created a unique software platform with an industry-leading proposition, which has already been adopted by some high-value clients. We remain very optimistic about the prospects for Avayler and the potential this SaaS business has to significantly enhance operating margins.

On Slide 42, we highlight some of the reasons why Avayler is increasingly important to Halfords. Avayler is entirely contracted ongoing B2B revenue, which is, by nature, far more predictable and resilient. We leverage existing Halfords technology infrastructure, which in turn delivers higher operating margins.

And lastly, we have the potential opportunity to use our Avayler technology to support existing strategic partners to become even more efficient. For example, our tyre and part

suppliers.
Of course, as Avayler is still early in its development, there also remains a large market opportunity, and I'm delighted to be able to announce today that we have now signed our third Avayler client. Adding Mobivia to the list of market-leading international businesses now using the Avayler platform.
To give you an idea of the scale of this partnership, Mobivia consists of 9 brands across nearly 2,000 sites in Europe. Our Avayler technology will initially be rolled out across ATU Germany and Norauto in France. This deal represents a significant step forward for our Avayler business. It's an exciting time for us, and we're looking forward to working with the Mobivia team.
Moving on to our next area of strategic focus this year, the integration of National Tyres. As a reminder, we bought National in December 2021, primarily to reduce customer drive time to one of our Halfords Autocentres and to realize some significant cost synergies between the 2 businesses.
This financial year, we committed to concluding the rollout of PACE on the Avayler platform across all National sites, whilst also continuing our rebranding program. At the same time, we also indicated that we would upgrade a significant amount of equipment across the National site, which included the introduction of new MOT testing stations.
This plan and the delivery of our synergies is on track and will continue throughout the rest of this year. However, it is fair to say that this has been a tough first year for National. Recessionary and cost-of-living pressures mean that customers are delaying replacing tyres due to cost.
Our research shows that circa 28% of drivers are delaying replacing tyres with low tread. Customers are also making shorter journeys due to the rise in fuel prices. This, combined with the ongoing delayed maintenance cycle post COVID is having a major impact on the consumer tire market which is circa 14% down versus pre-COVID.
The good news is that even with a smaller total tyre market, we have seen Halfords tyre market share growth. We remain confident that the tyre market will in time recover and that we will continue to gain share, therefore, enabling us to get back to business case.
Our next area of strategic focus for FY '23 is to develop deeper, longer-lasting relationships with our customers, and we will do this through the development of our unique and industry-leading motoring club. We are very pleased with progress to date. We launched the club at the very end of FY '22. And as a quick reminder, it is a digital loyalty club with 2 tiers, a free to join and a subscription membership, which you can see here outlined on the slide.
Benefits include MOT discounts and a free 10-point car health check aimed at encouraging retail customers to use our garage services, alongside personalized discounts on products and services to encourage customers to shop across more of our group offer.
Most importantly though, the club also enables us to capture each customer's vehicle and registration data, together with marketing permissions by an easy multichannel sign-up process. It is this capability, which is a key enabler of future revenue and profit growth.
The motoring club creates a platform for us to reach and engage millions of customers

with a broader range of products and services to grow lifetime value.
I'm really pleased to say that an outstanding customer response means we've already delivered close to the stretch sign-up target for the full financial year and our full year target of between 50,000 to 100,000 premium members has already been met with over 60,000 paid subscriptions year-to-date.
At our prelims in June, we talked about the significant value that could be created by encouraging our customers to shop across the breadth of our offer, introducing customers to different parts of the group. The early results here are compelling, as you can see on Slide 49. The club has so far generated nearly 0.25 million new customers since launch. These are customers who have never shopped with Halfords or previously used our services. Importantly, over 80% of the 900,000 loyalty club members are new to our garage business. And at a 15% cross shop for our loyalty club members is now significantly higher than the average across the group. And this, in turn, is driving MOT bookings in our Autocentre garages already in half 1 alone, over 40,000 of those new customers have booked an MOT in our Autocentres business.
To try and bring the value and opportunity of our motoring club to life, Slide 50 demonstrates some of the key behavioral changes we are seeing from members. You can see that both free and paid club members shop more frequently when compared to nonmembers with free members shopping an average of 2.6x with us and paid members shopping 3.8x over the first 8 months.
And as a reminder, those paid members are 4x more valuable to us. When these behavioral changes are multiplied across over 900,000 free members and over 60,000 paid members the revenue and profit uplift generated is considerable.
Our final area of strategic focus for FY '23 is the rollout of Fusion. As a reminder, our Fusion program transforms the Halfords customer experience in a town. FY '22 saw us bring this to life in 2 trial towns, Colchester and Halifax, where we tested how optimal we could make the customer experience. Across both towns, we successfully delivered a seamless, convenient and consistent experience to our customers using our super specialist credentials and our unique combination of stores, garages and mobile experts, together with product advice and services delivered by fantastic colleagues. This year, Fusion continues with the rollout of the most capital-efficient value accretive elements of the program to a large number of U.K. towns.
As a reminder, in June, we committed to increasing training and enhanced customer service and selling skills in both stores and carriages. Upgrading our busiest car parks with the skilled colleagues and technology to connect with our customers as soon as they drive in delivering fast and seamless referral work straight across to our garages and vans. And continuing to roll out click & collect and batteries, bulbs and blade hubs with the separate service tests for customers to collect their products and order and purchase motoring parts.
And we are making progress. So far this year, we have trained 95% of our retail colleagues and almost 90% of our garage managers in selling skills. In our car parks, we have upgraded 17 towns, introducing new car park referral managers technology and new oper-

ating processes. We're on track to reach 30 towns by the end of this year, and if results continue to significantly scale up next year.

As we move through FY '23, we have had to become much more prudent around capital spend. And unfortunately, this has been we've had to put the development of any further click & collect hubs for both blades and batteries on hold. Once we've completed rolling out these programs and capital constraints lift, we still believe that there is big potential benefit in taking the very best of what we learned in Colchester and Halifax to circa 100 towns across the U.K.

So we have looked at each of our areas of strategic focus for FY '23, and you can see that we are making good progress against our plans. When you bring all of this together, what we can clearly see is that Halfords is successfully transitioning from a solely product-based retailer into a services business.

Our service-related sales for the first half of this year exceed the full 12 months of FY '20. And we expect that in FY '24, service-related sales will make up more than 50% of total group revenue, a pivotal moment as we transition from a retailer to a predominantly services business.

The key to our success here is our highly skilled colleagues. As a super specialist business, our colleagues are a critical part of what we do. Their knowledge and technical expertise are what sets us apart from the competition. The current highly competitive labor market has led to capacity constraints as we see more customers shopping across the group and MOT demand increasing.

This provides us with a huge opportunity through half 2 as we further increase our focus on the recruitment of new technicians, retaining existing colleagues with good rates of pay and improved benefits, and increasing homegrown talent through our industry-leading training program. Combined, these actions will increase our colleague base and unlock significant potential for future growth across the full breadth of our motoring services offer.

Finally, for today, on Slide 55, we have pulled together a chart that shows you how our strategy is building a growing and more resilient Halfords. It clearly demonstrates the shift we have made to being a consumer and B2B services-focused business, generating higher and more sustainable financial returns.

The horizontal axis here shows our growing revenue from FY '18 to today and beyond. The bubbles on the graph show the various types of revenue that we have in the group and the size of bubble whilst indicative gives a sense of how the proportion of these different types of revenue are changing.

You can see therefore that the product revenue bubble shown in blue, has remained relatively flat. And the vast majority of our profit growth has come through services shown in orange and revenue of a recurring nature, shown by the purple bubble. The other important point to note is the white shading in each of the bubbles. This white shading gives you an indication of the proportion of returns from discretionary spend. So if you look at FY '18, you will see a lot more white as we have more discretionary spend within our product offer that year. And as we build out a bigger needs-based business, this white

shading, obviously reduces over time.
So in summary, we are confident with our changing business model. We are not only well placed to tackle the short-term headwinds but we also have a great platform for growth over the long term. Thanks for listening, and we'll now be happy to take any questions.

Question and Answer

Operator

— Operator Instructions — Our first question for today comes from Jonathan Pritchard from Peel Hunt.

Jonathan Pritchard

The customary 3, if I may. Firstly, on the loyalty club, obviously, extremely exciting early data there. But I don't know if you want to give us a sort of a score or just give us a sort of early reports on how much CRM and how much personalization you've actually done so far? Is this sort of almost done without much help from personalization? And is there much more to do? Well, have you actually hit the floor really running from that perspective.
Secondly, on National rebrands, not a huge number of though so far. Anything holding you back from going faster there? What's the thinking on that one?
And then perhaps just another layer deeper on the technician's point. Is there a slight issue with staff retention? Is it the staff turnover has gone up? Is it simply that the pool of technicians in the U.K. has shrunken, as training not happening as quickly as you'd like. Just another sort of level down of granularity on that one, please.

Graham Stapleton

I'll take that, yes. So Jonathan, thanks very much for all the questions there. Starting with the loyalty club. We are thrilled with where we've got to there, just under 1 million customers signed up. That's the stretch target that we've got for the full year.
In terms of the CRM and personalization, we do, do that already as part of the club. It's partly why we've managed to deliver 40,000 incremental MOTs in the first half alone from the membership that we've got because customers are actually using the card benefits and we're following them up.
We don't just follow them up for the – for what they've signed up, we also follow up free members and try and encourage them to become paid members with good reasons. So we – as a reminder, we also get the vehicle registration data and marketing permissions as part of them joining. So immediately, we've got information on the cars and permissions to contact. So really, really exciting.
We've shared all the detail with you on the call in terms of the customer behavior change. It's as good as we'd ever hoped to see, both in terms of increased frequency of shopping and the value that we are generating GBP 48 million of incremental revenue in terms of the club in the first half alone. So feeling very positive about that.
In terms of the National rebrand, we've got 14 sites rebranded to date. We will carry on with the rebranding exercise during the year. We like anything, we are just taking our time, making sure that we are very clear on how that rebrand is taking shape, what it

means for customers.
Looking at the results, not just in one store but by region. And then when we're clear it makes sense for customers, and we've got the right proposition around it from a Halfords' perspective, we'll roll that out further. There is no doubt that these sites will become Halfords sites. It's just making sure we get that proposition right on a site-by-site and region-by-region basis.
In terms of technicians, it's actually – in fact, our retention is better year-on-year of colleagues within Halfords. We haven't, I don't think, publicly stated what that percentage improvement is, but it is up which is good news.
It's not a question of losing more colleagues or to some extent that the markets got tougher, it's more the fact that the demand for our services is exceeding where we expected it to be, both in terms of club sign-up, which is way ahead of what we expected, and we're seeing very big cross shop and MOT bookings as a consequence.
And just general awareness of our Garage Services business, we invested a lot of money last year in advertising our garages, our vans and stores. We've obviously got a website now that brings all of that together. And we've just got a very significant demand for that needs-based service that we've got to meet.
Operator
Our next question comes from Manjari Dhar from Royal Bank of Canada.
Manjari Dhar
I just had 2, if I may. Firstly, perhaps on electrification, what's your current thinking there? And then the outlook for further electrification and EV growth potentially in light of the electric vehicle duty being increased in line with nonelectric.
And then perhaps could you give a little bit more color on how you're thinking about marketing for the remainder of the year and into next year? I know that there's a push to increase awareness, as you said, for garage services. Is this something that's likely to continue?
Graham Stapleton
Thanks very much for those questions. I'll start with electrification. We're still seeing a very significant growth in the number of vehicles coming in that are electric, electric hybrid for servicing. It was just under 90% up. So still a very big growth in that space from a vehicle perspective. On electric bikes and scooters, against FY '20 we're seeing a very big growth still there as well in terms of customer purchasing.
The vehicle duty announcement by the government, I think, was a bit unhelpful, if I'm honest, because we – we don't think the electric vehicle prices are coming down as fast anytime soon. They're still expensive cars. And we think actually leaving that non-duty in place would have been very helpful to get adoption up. So yes, we were disappointed about that.
In terms of marketing, – we spent – what we've decided to do this year, we spend a very significant proportion of our marketing on motoring and specifically in the needs-based part of motoring, the advertising or pricing on needs-based motoring products.
We've put a lot of money against radio and you probably hopefully listened to some of

those radio ads over the last 3 to 6 months. We think that's the right thing because that's where the biggest demand is from customers at the moment.

Going forward into the second half of the year, that will carry on. So a big focus on needs-based motoring products and services and obviously, have significant investment in PPC. We are going to – or we're in the process of launching a very significant range of car parts, which obviously fits into the needs-based part of our offer. That will also get increased investment particularly again in PPC to make sure customers are aware of the extended range there online.

Operator

— Operator Instructions — Our next question comes from Matthew McEachran from Singer Capital Markets.

Matthew McEachran

I've got some questions just relating to costs, if that's okay, and one just a follow-up to that last question on marketing. I'm guessing that the proportion of – this is in non-B2B, by the way. I'm guessing the proportion of sales attributed to e-mail campaigns is growing and that's a good thing. But is it really still a tiny base? You give us some flavor as to what – how much e-mail contributes?

Graham Stapleton

Yes, I mean, we have got marketing permissions on a fairly significant base now. We haven't publicly stated what that is, but it is the many, many millions. I mean the motoring club alone will add another 1 million just from the first half of this year to that base because they all – all those club members give us marketing permissions to join the club. So we absolutely – we have a very established CRM approach and campaign method that we've now used, it is in the fifth – sixth year now. So yes, we are – we are and will get more, I think, through that route and particularly as the motoring club grows significantly. We're obviously expecting a very big number in that club by the end of this financial year.

Matthew McEachran

Yes. I mean – and is your open rate, I mean, do you get quite good reactions to some of these campaigns, presumably, when it comes to booking, it's all about timeliness. If you know what the schedule is for someone's MOT or service to come up in motoring, that's fine. If you've got Christmas coming up, how would you kind of – kind of qualify the open rates or the success of the campaigns?

Graham Stapleton

Yes. We are definitely getting better open rates. And I think as the business becomes more needs-based and we get more data or information on customers' cars, how they're used? What the cycle of maintenance is on that car? We're able to get much more personalized about what customers should want and therefore, we can tailor and offer much more succinctly than a generalist retailer would be able to.

And that gets us a better click-through than you would if you were Amazon, for example, just hoping that somebody was looking for something for their car at a particular moment of time. This is why – one of the reasons the motoring in club is so important is this. The more customers we see through our garage services business the better because we just

get so much more information about what they're motoring needs are, not just in the servicing side, but we can see the condition of the car and then offer retail products for motoring to them too.
So and with motoring now at 75% of our business and likely to be 77% by the end of this year, that, what I've just described, that becomes even more important because it's the vast majority of what we sell now.

Matthew McEachran

Yes. No, that's great. And then just coming to occupancy costs in stores. Could you just give us a reminder of where you're at with the most recent – where you've got reviews most recent rent reductions that you've been able to negotiate?

Jo Hartley

Yes. We give a little bit of clarity on rent reductions, and we have been very successful in that over the past years, and we continue to be in the first half of this year. I think we've delivered over 10% of rental reversions on the sites that we've been able to renegotiate that come up for renewal this year, and we expect to continue with that progress through the second half.

Matthew McEachran

You've got – as I remember, you've got quite a lot of reviews coming up. Can you just remind us how many reviews, for example, over the course of the next 12, 18 months that are coming up?

Graham Stapleton

140. I think.

Jo Hartley

140 over the next.

Graham Stapleton

Yes. So next 2 to 3 years, we've got 140 coming up. We've got an average rent [2.5 years].

Jo Hartley

Yes. In retail. Yes.

Matthew McEachran

Great. And then the final one is just on the debt facility. I see that you've reduced that by GBP 20 million, and you've rolled forward. Is there any change to the cost and the margin within the facility?

Jo Hartley

We haven't reduced the debt facility. It's still GBP 180 million, the full debt facility, including the overdraft, there have been no changes apart from the 1-year extension on the debt facility to the end of December.

Operator

We have no more questions for today. So I'll hand back to the management team for any further remarks.

Graham Stapleton

Thanks very much for joining us today. I look forward to seeing you in January for the

Christmas trading update. Thank you.