FY23 Interim Results

Halfords Group PLC

23rd November 2022

Agenda

Financial Performance
Jo Hartley

Business & Strategic Update
Graham Stapleton

Q&A

FINANCIAL PERFORMANCE

Jo Hartley

Basis of financial information

- Covers the 26-week period from 2 April 2022 to 30 September 2022
- All comparators are on a three-year basis unless otherwise stated
- All figures are post IFRS 16 unless otherwise stated

The structural advantages resulting from our strategic transformation, coupled with our tactical mitigations, are driving resilience in a challenging economic environment

Headwinds	Utilities rates	Consumer confidence	Exchange rates	General inflation
Tactical Mitigation	Rent and space reduction	Freight rates tracking spot rates for FY23	FX and utilities hedged for FY23	Cost reduction
Structural Advantages	Services business	Needs-based spend	Less dependency on $ goods	Optimising market leadership position

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Profit and cash in-line with expectations, with strong revenue performance helping to offset cost pressure.

Strong Group Revenue Growth

Group LFL Revenue Growth Yo3Y

+13.3%

(Total revenue Yo3Y +31.4%)

Gross Margin Growth

Group Gross Margin

51.3%

(+130bps Yo3Y)

Challenging Cost Environment

Costs as % revenue

46.8%

(+3.0 ppts Yo3Y)

Resilient Profit Performance

Group PBT

£29.0m

(-£1.2m Yo3Y)

Strong Balance Sheet

Net Cash
(pre IFRS 16 lease debt)

£32.3m

(-£59.3m YoY)

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Our underlying PBT is broadly flat versus FY20, with our transformational growth and in-year mitigating actions helping to offset the current economic headwinds.

	H1 FY23	vs. H1 FY20	vs. H1 FY22
Revenue	**£765.7m**	+£183m +31.4%	+£70.9m +10.2%
Gross Profit %	**51.3%**	+130bps	-39bps
Costs	**-£358.7m**	-£103.8m -40.7%	-£63.0m -21.3%
Underlying EBITDA	**£92.0m**	+£1.2m +1.3%	-£23.7m -20.5%
Underlying EBIT	**£34.8m**	-£2.0m -5.4%	-£28.9m -45.4%
Finance expense	**-£5.4m**	+£1.2m +18.2%	+£0.4m +6.9%
Underlying PBT	**£29.0m**	-£1.2m -4.1%	-£28.9m -49.9%

Vs FY20 - Strong revenue growth driven by LFL growth and Autocentre acquisitions

Vs FY20 - GM% driven by growth of Autocentres business and improvements in Retail

Vs FY20 - Costs driven by acquisitions and subject to significant inflationary pressure

Resilient profit performance despite significant headwinds

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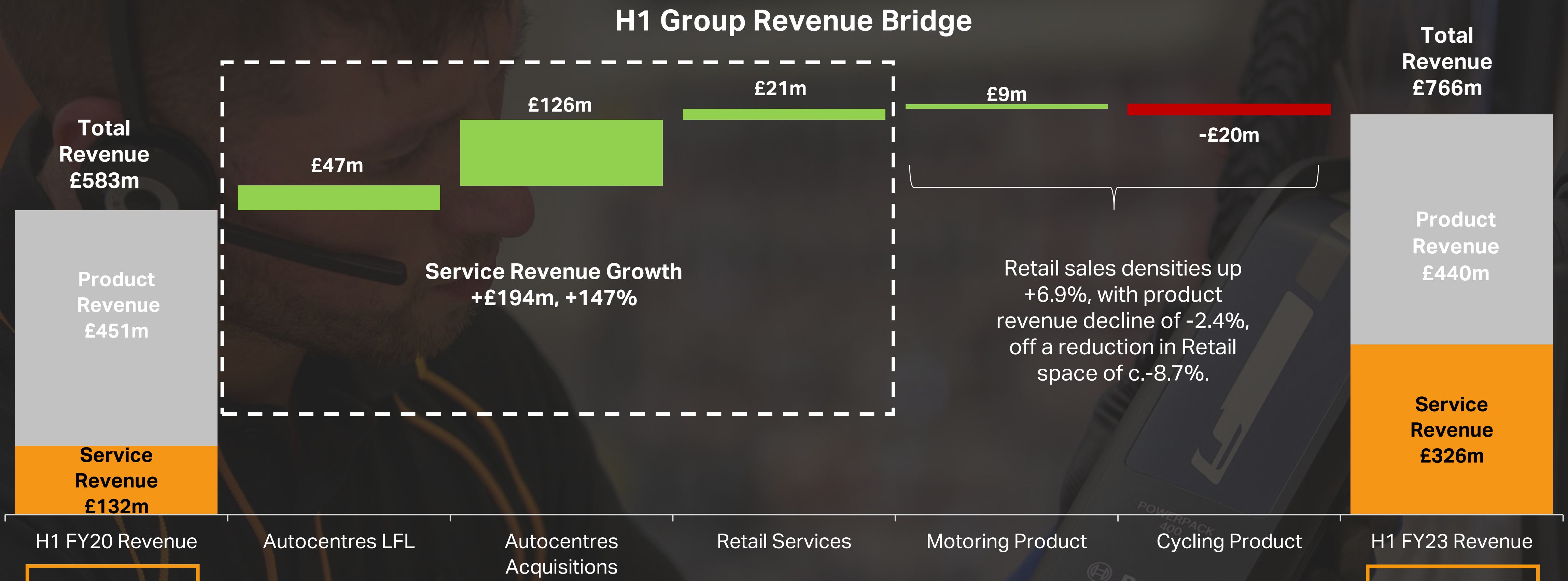
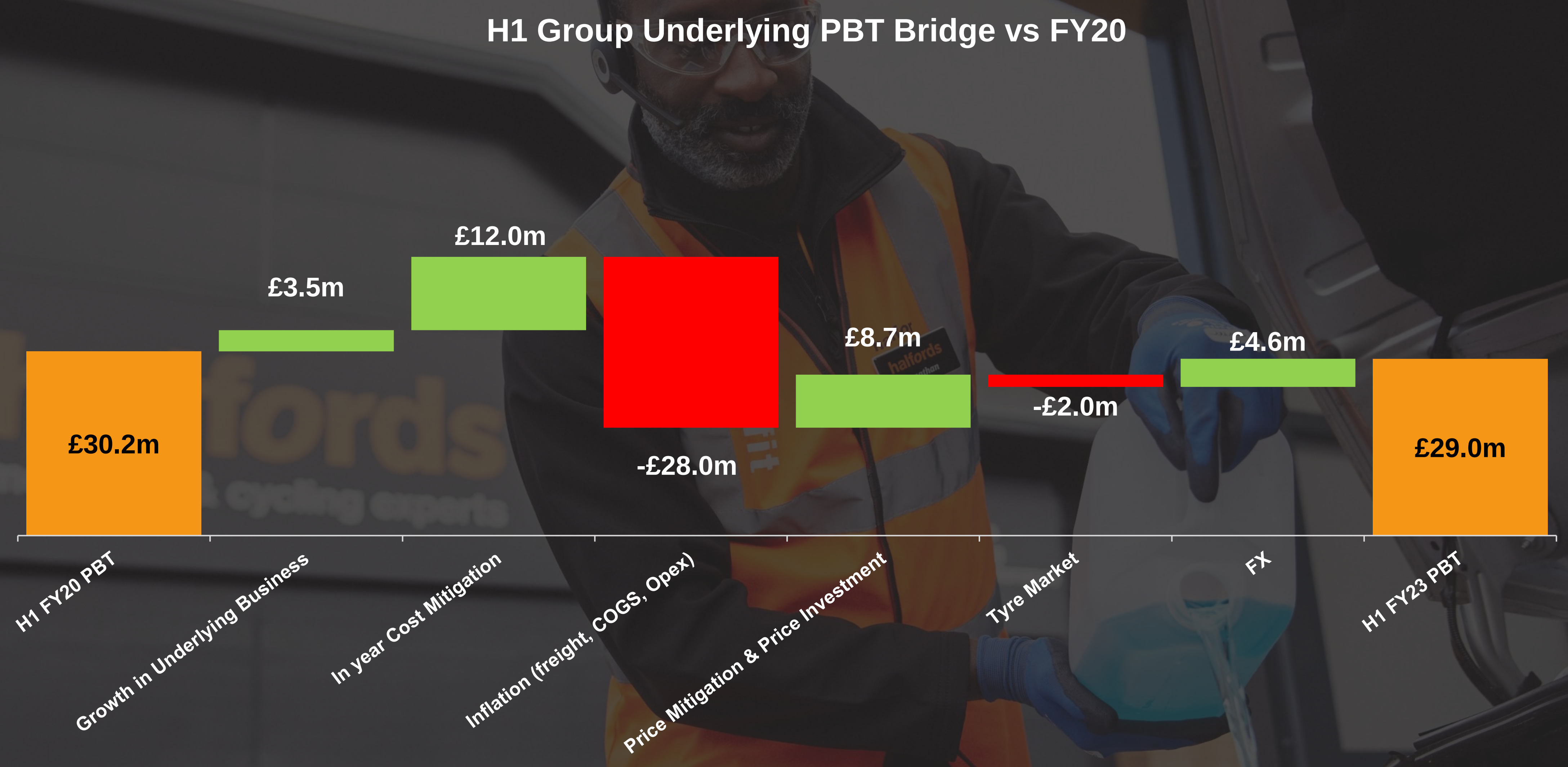
Total Revenue driven by Services growth - now representing 43% of Group Revenue.



Services 23% of Group Revenue

Services 43% of Group Revenues

Versus FY20, PBT is broadly flat despite significant cost inflation.



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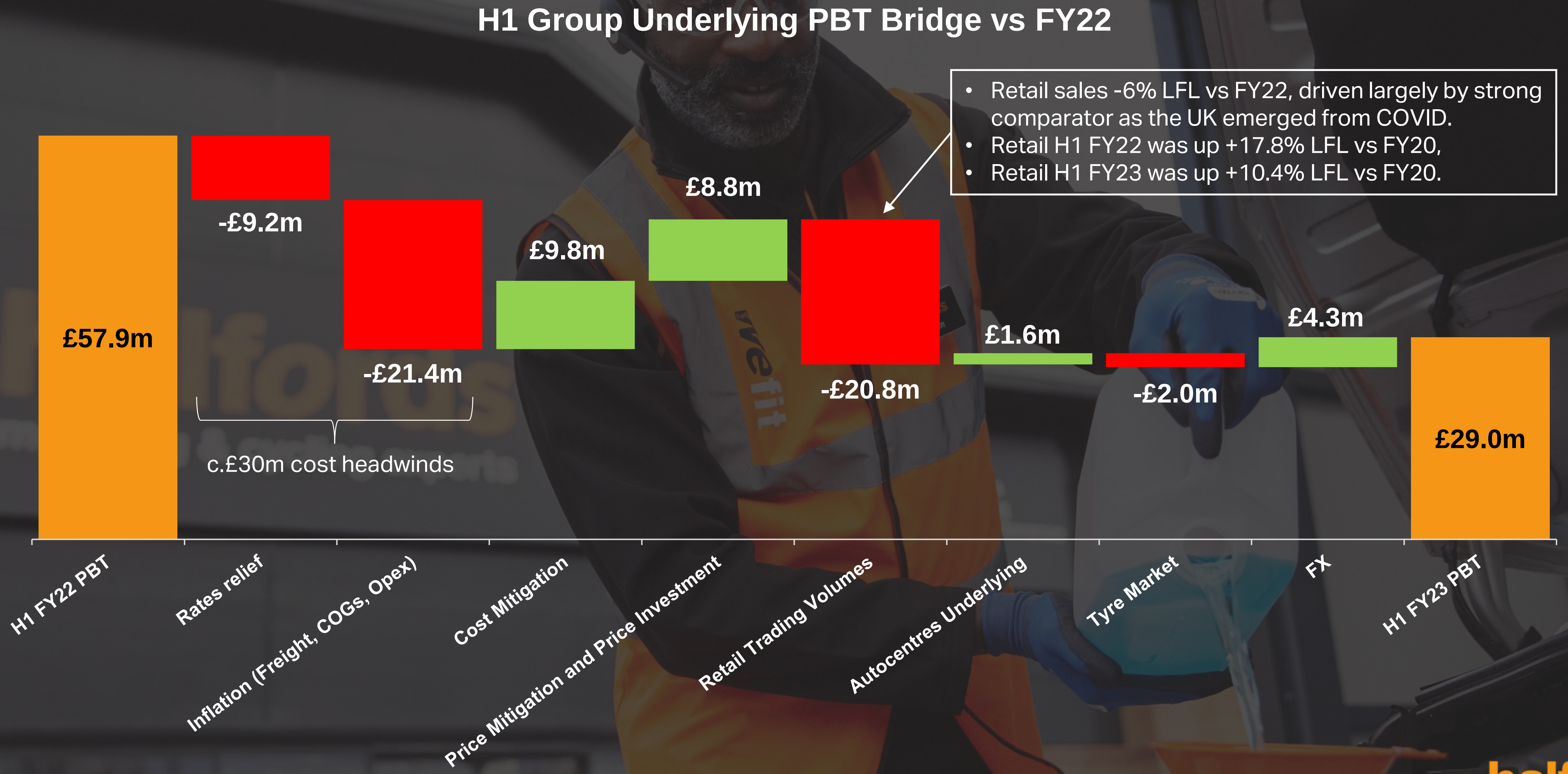
Versus FY22, we've seen over £30m of cost headwinds. We've been able to partially offset some of this through tactical and strategic mitigation.



- Retail sales -6% LFL vs FY22, driven largely by strong comparator as the UK emerged from COVID.
- Retail H1 FY22 was up +17.8% LFL vs FY20,
- Retail H1 FY23 was up +10.4% LFL vs FY20.

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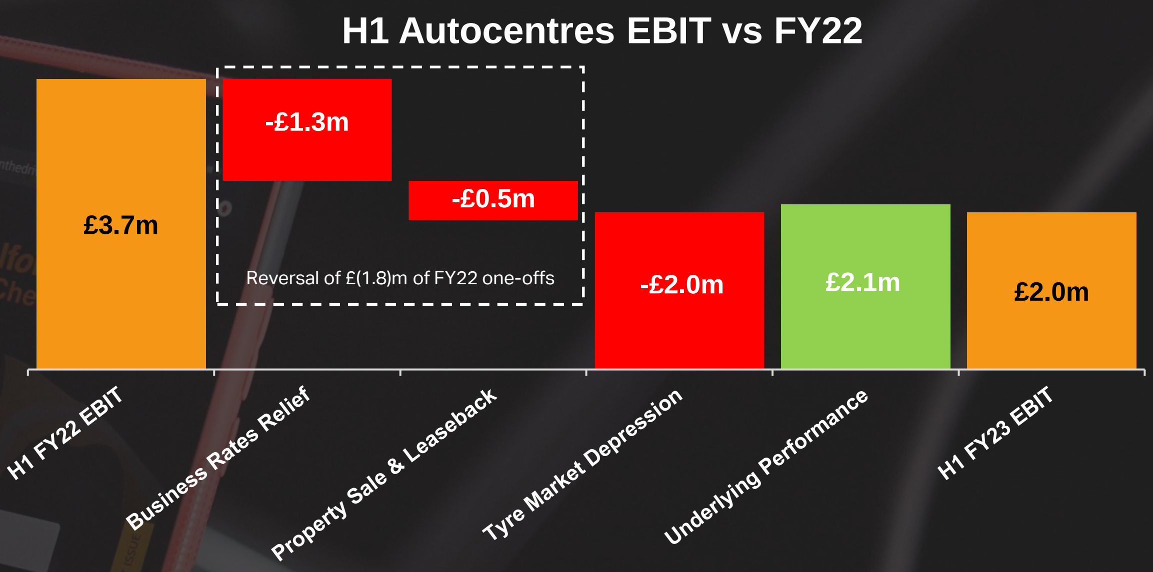
AUTOCENTRES

Autocentres revenue growth driven by LFL business and acquisitions. EBIT is up year-on-year, pre one-offs.

	H1 FY23	vs. FY20	vs. FY22
Revenue	£265.2m	+220.7% Yo3Y +30.0% 3LFL	+69.9% YoY +14.3% LFL
Gross Margin	53.5%	-1500bps Yo3Y	-210bps YoY
Operating Costs	139.8m	+165.3% Yo3Y	+68.2% YoY
Underlying EBIT	£2.0m	-50.0% Yo3Y	-45.9% YoY



- £(1.7)m reduction in EBIT between H1 FY23 and H1 FY22, after £(1.8)m of one-offs, as business rates relief and profit on sale & leaseback from FY22 don't recur.
- Gross margin rate dilution in line with expectations as National annualises.
- National synergies on track but tyre market has impacted underlying performance.
- Strong underlying performance, up £2.1m YoY.

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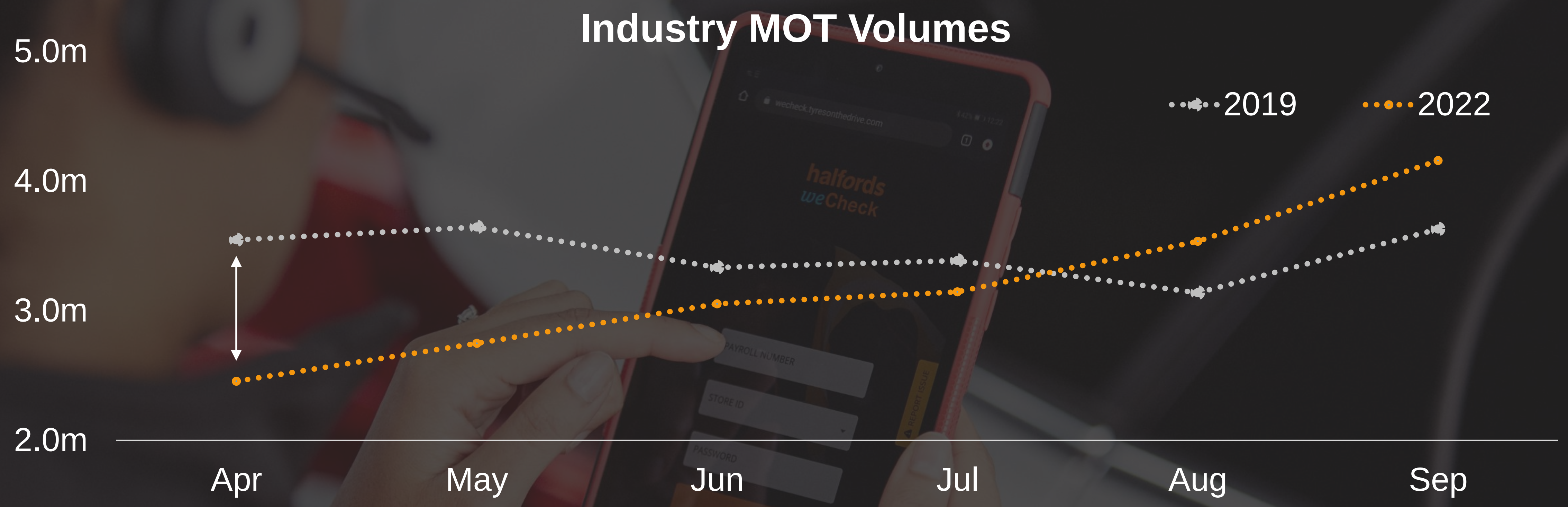
Autocentres EBIT weighted heavily towards H2, following government initiated MOT 6-month deferral in 2020.



- During COVID, the Government deferred MOTs due between April 2020 and July 2020, meaning they fell between October 2020 and January 2021. This has perpetually changed MOT peak seasons.
- As a result, MOTs alongside higher margin remedial work continues to weight Autocentres profit into H2.

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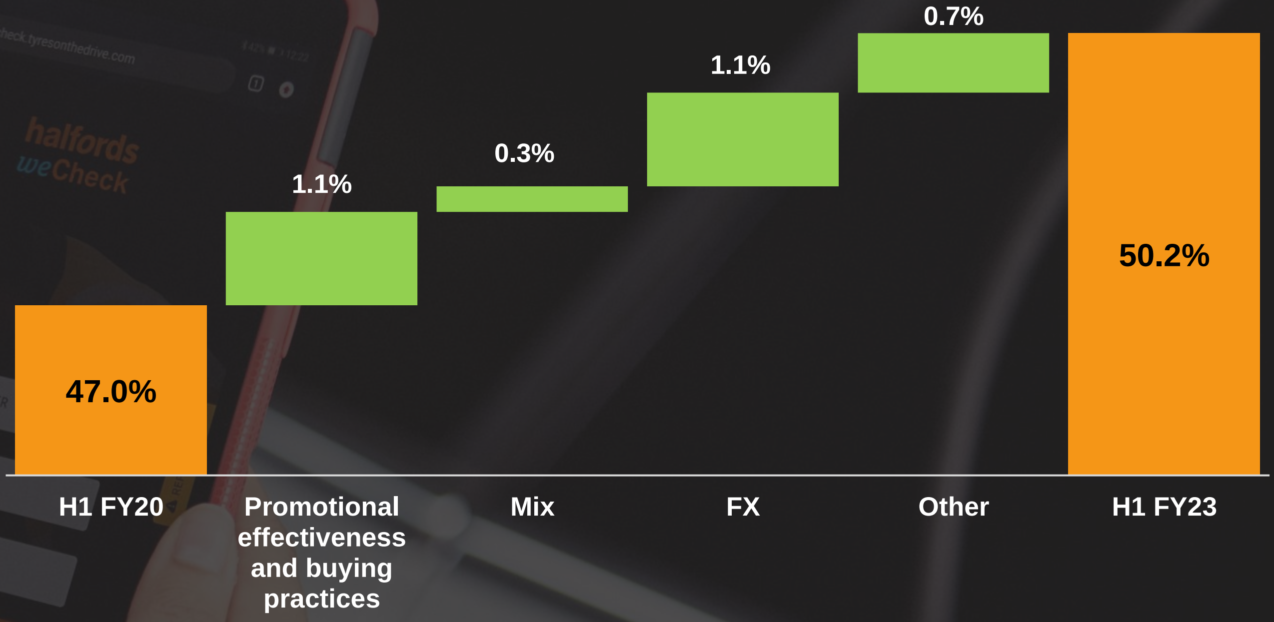
RETAIL

Retail has seen a resilient revenue performance but inflation has impacted overall profitability.

	H1 FY23	vs. FY20	vs. FY22
Revenue	**£500.5m**	+0.1% Yo3Y +10.4% 3LFL	-7.1% YoY -6.0% LFL
Motoring	***£297.3m***	*+3.7% Yo3Y +10.2% 3LFL*	*-2.4% YoY -1.5% LFL*
Cycling	***£203.2m***	*-4.4% Yo3Y +8.6% 3LFL*	*-11.8% YoY -12.5% LFL*
Gross Margin	**50.2%**	+320bps Yo3Y	-40bps YoY
Operating Costs	**£216.5m**	+7.7% Yo3Y	+2.4% YoY
Underlying EBIT	**£34.8m**	+2.7% Yo3Y	-43.1% YoY

Gross Margin Improvement



- Operating costs vs FY20 have been impacted by inflation in payroll and W&D, alongside investment in strategic investments such as digital and customer.

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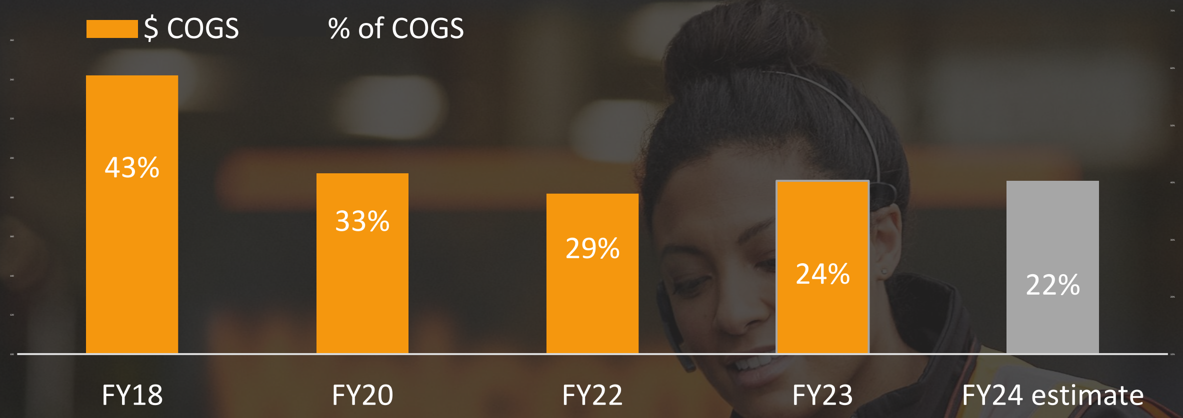
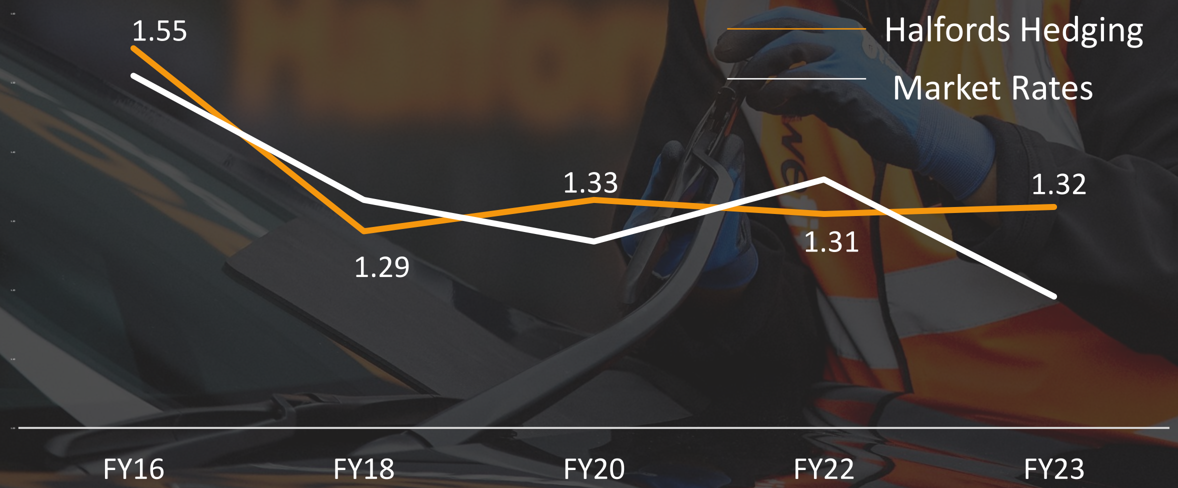
FX & FREIGHT

Strategy reduces reliance on USD denominated purchases. FX hedged for FY23, but will be a headwind in FY24

Group COGS purchased in Dollars



Average $ Hedge Rate



- Growing Services business results in $ denominated goods becoming a proportionately smaller part of the Group.
- Purchase c.$230m each year remaining relatively constant but now represent less than 30% of total COGs.
- Hedged 98% of FY23 purchase at $1.318
- Hedged 35% of FY24 purchase at $1.237
- A focus has been placed on mitigations:
  - ✓ Sales price increases
  - ✓ Re-engineer own brand ranges
  - ✓ Supplier negotiation
  - ✓ Commodity deflation as demand falls
  - ✓ Freight costs

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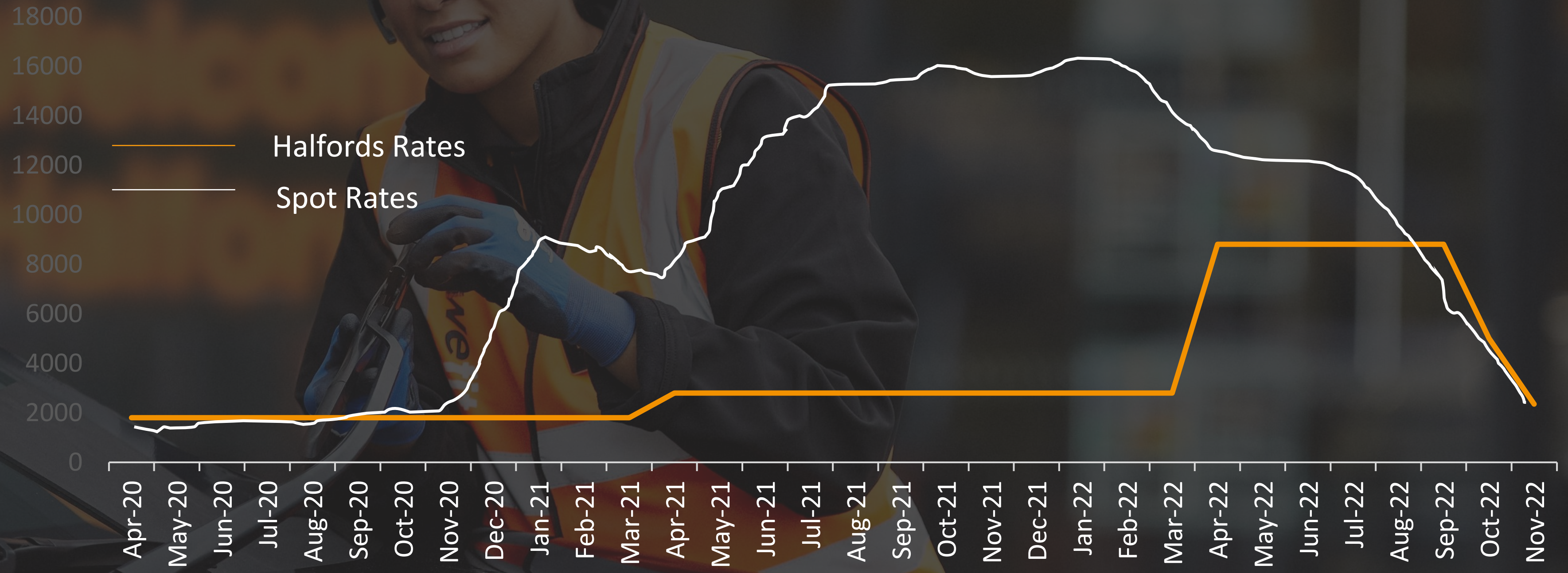
We continue to use our scale to ensure we have access to competitive freight rates.

- FY21 through H1 FY23 freight rates were below spot rates.
- As spot rates have eased we have renegotiated to ensure we remain on competitive rates.
- Possible continued rate reduction into FY24



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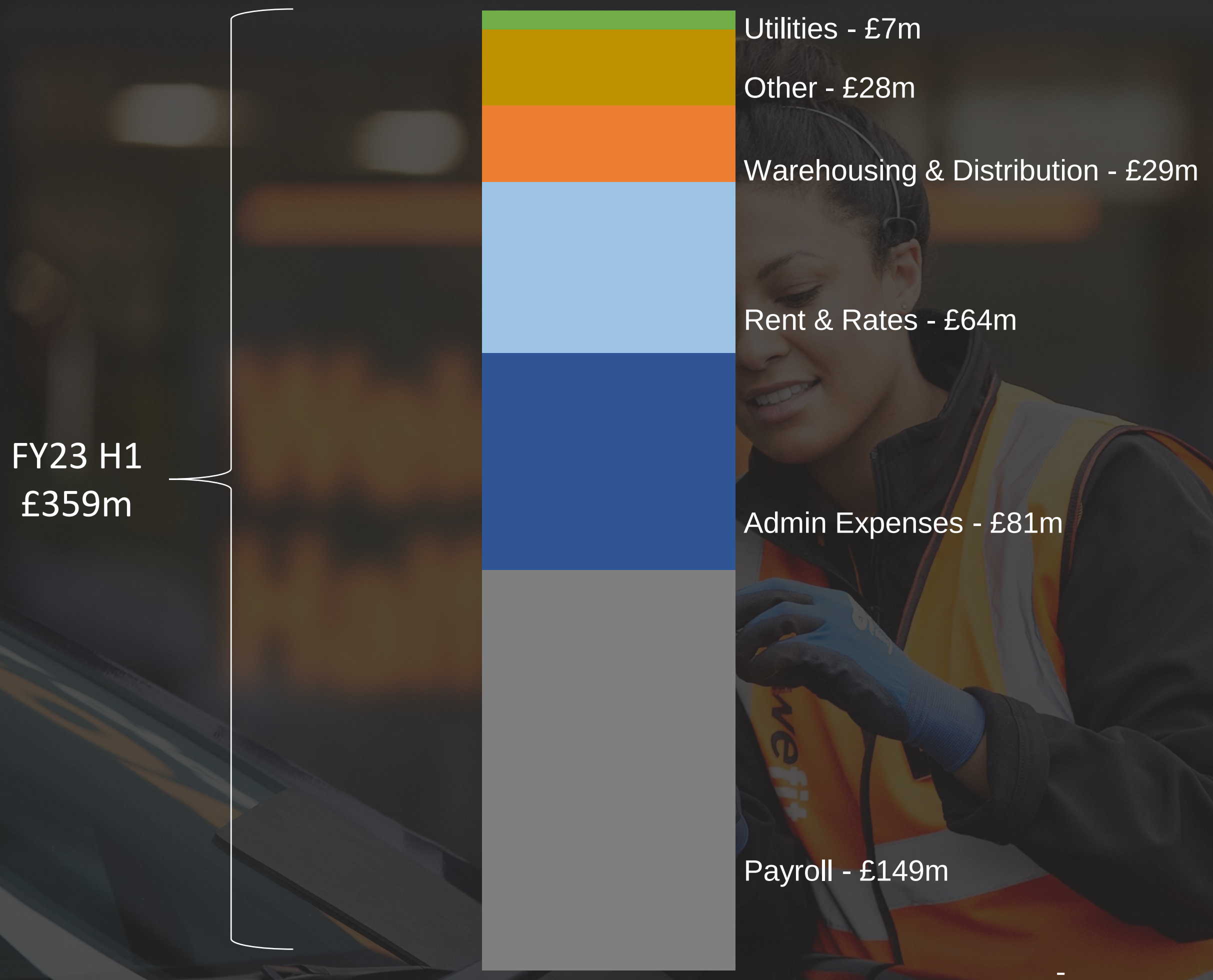
GROUP OPERATING COSTS

Although many aspects of our cost base are seeing inflationary pressures, we have opportunities to mitigate or manage the impacts.

FY23 H1 Group Operating Cost Breakdown



- FY23 is seeing significant and unavoidable exposure to inflationary pressures.
- We have options to manage and mitigate inflation both tactically and strategically.
- H1 cost and efficiency saving is already £9.8m and we will exceed our £15m stated target over the full year.

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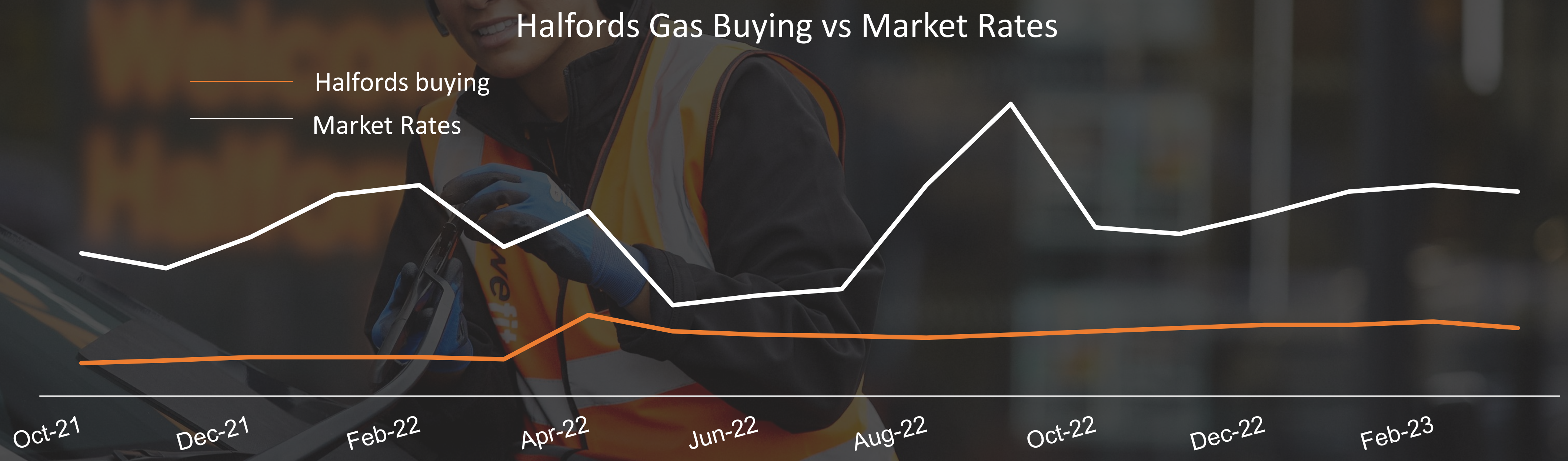
Utilities for FY23 is fully bought with nil YOY impact. Looking forward FY24 will see a headwind but the market remains unpredictable.

- FY23 requirement fully bought during FY22 with no YOY impact due to our purchasing strategy.
- Looking ahead c.50% of FY24 consumption purchased
- Group continues to reduced consumption through
  - LED lighting roll out. >90% of Retail complete but Autocentres <25% complete.
  - Building Management Systems monitoring consumption and waste.



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With a continued focus on cost and efficiency, we have already saved £10m through H1 and expect to deliver over £20m for the full year, exceeding our target of £15m.

Organisation Design

c.£2m H1 savings

Support Costs

c.£5m H1 savings

Property Costs

c.£1m H1 savings

Continued Cost Culture

c.£2m H1 savings

FY24 presents us with both risks and opportunities. We continue to focus on the areas that are within our control to mitigate the things that aren't.

- FX
- Utilities
- COGS/ Commodity prices
- Freight
- Cost reduction activity

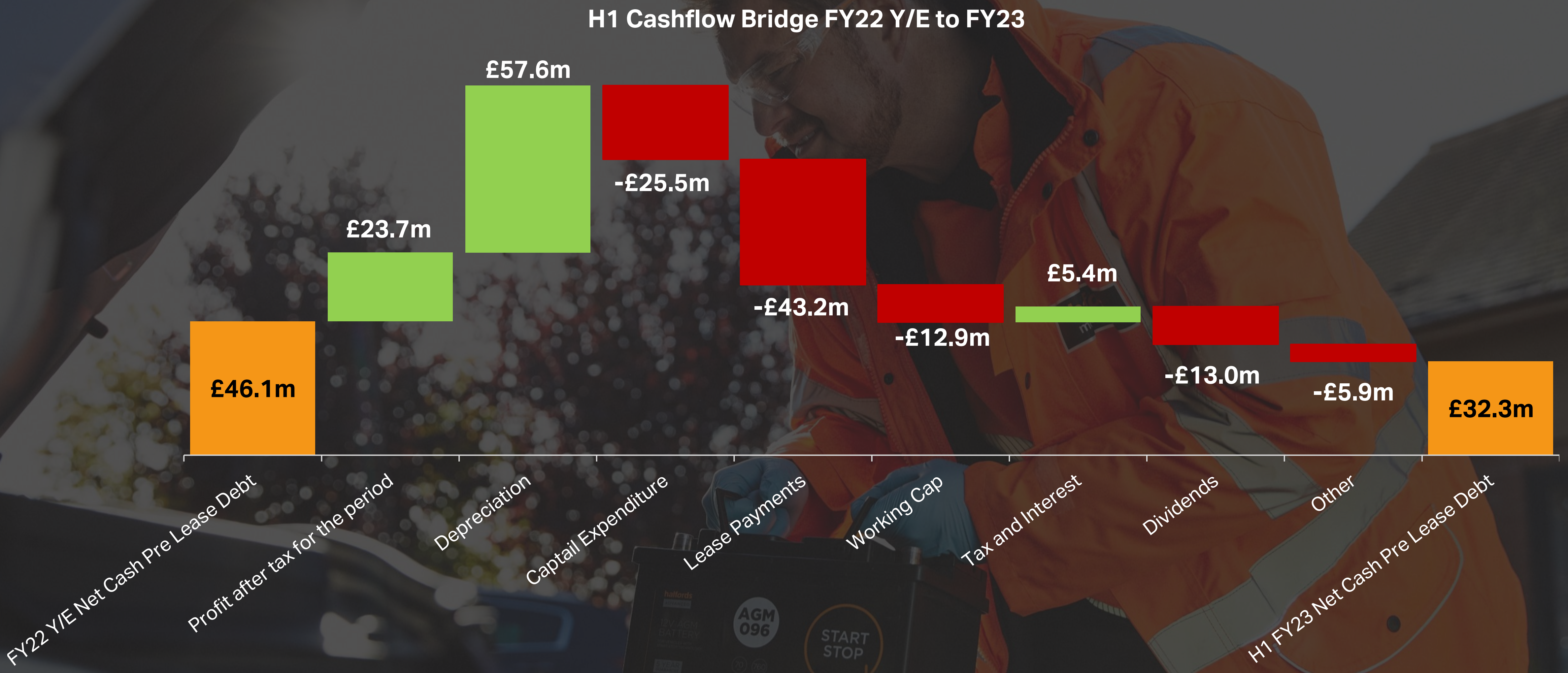
- National Minimum / Living Wage
- Consumer confidence?
- Consolidation of competitor set
- Acquisition maturity
- Growth in capacity
- Ageing car parc

Structural Advantages

- Services Business
- Needs-based spend
- Less dependency on $ Goods
- Optimising market leadership

CASH & BALANCE SHEET

Continued strong cash position, allowing investment in the business and returns to shareholders.



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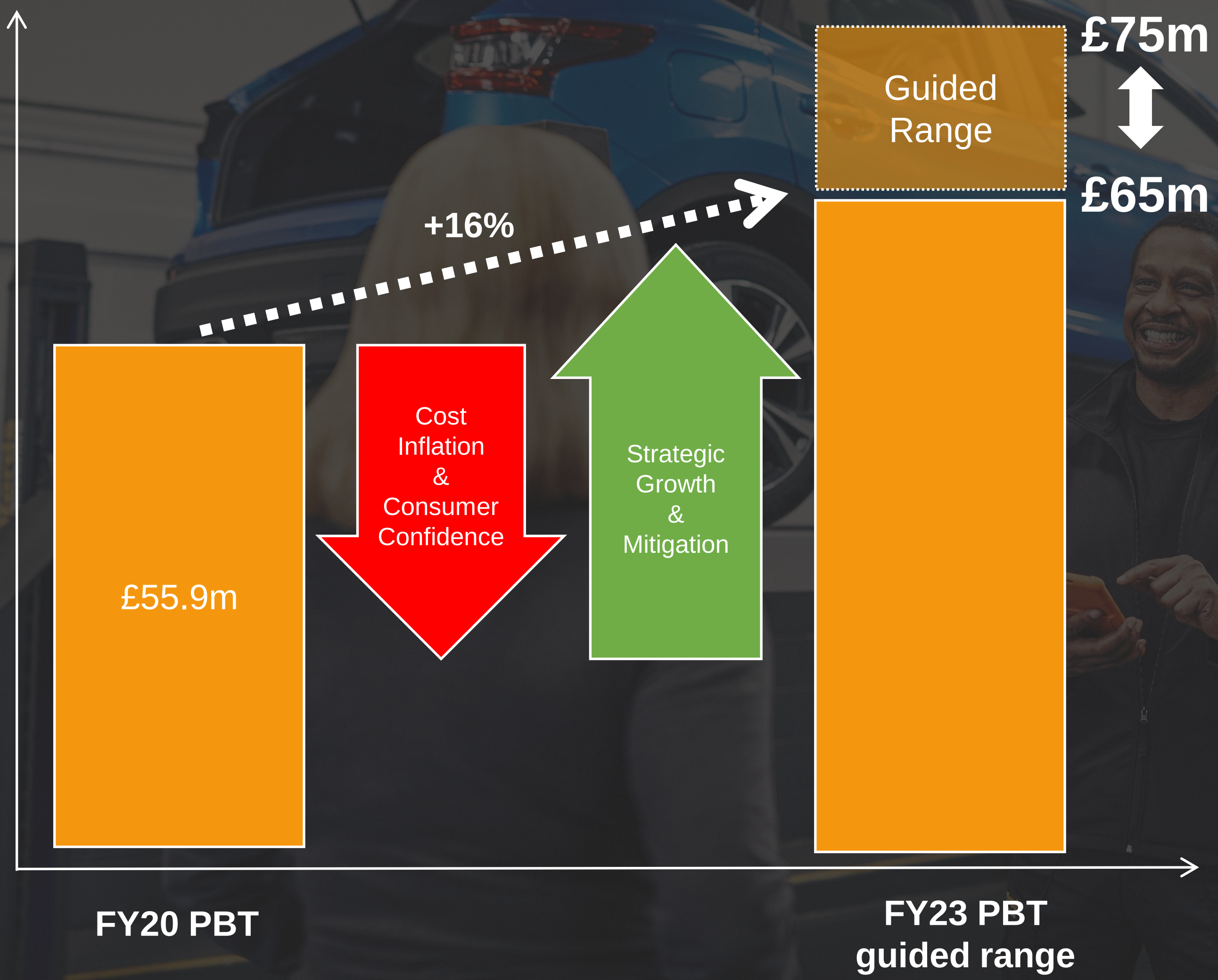
The Group continues to be cash generative and well placed to succeed during economic uncertainty.

1. **£32.3m of net cash** (pre IFRS 16 lease debt) and continued **capital discipline.**
2. **£180m debt facility** which has been **extended until December 2025.**
3. **Retail stock well manged with volumes down on FY22 year end.**
4. **£368m of lease debt, operating within our Net Debt : EBITDA targets** of 1.8x to 2.3x including M&A (post IFRS 16).
5. Declared **interim dividend of 3p per share.**
6. Capital allocation priorities **unchanged.**

- *See appendix for further details on Cash, Leverage and Balance Sheet.*

Full year PBT expected towards the lower end of our £65-75m range.
Even the bottom of that range represents +16% growth versus our last “normal” year.



- Despite unprecedented levels of cost inflation and consumer confidence in FY22, our guided range represents double digit growth on our last normal year, which underlines the strength of our transformation.
- **Full year PBT expected to be towards the lower end of previously communicated range.**

Note – bar sizes not to scale

BUSINESS & STRATEGIC UPDATE

Graham Stapleton

The strategy we set out in 2019 continues to be the right one.

… Our transformation is ahead of plan.

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

The advantages of growing our presence in these areas remains significant.

Services	Unique advantage over online rivals	Deeper longer-term relationships with customers	More needs-based, less discretionary	Opportunity to consolidate fragmented market
Motoring	Lower working capital	Less FX exposure	Higher operating margins	Opportunity to enter adjacent markets
B2B	Highly predictable revenue	High value relationships	Leverages existing Halfords assets	Opportunity to enter new markets

Our H1 results demonstrate a growing business, that is increasingly focused on motoring services, with a greater emphasis on B2B revenue streams.

	FY20	FY22	FY23 H1
Revenue	£1.1bn	£1.4bn (+19.9%)	£0.77bn (+10.2%)
Revenue from Services	26% £0.3bn	39% £0.5bn	43% £0.3bn
Revenue from Motoring	65% £0.75bn	70% £1.0bn	75% £0.57bn
Revenue from B2B	15% £0.17bn	20% £0.3bn	26% £0.2bn
Fixed and Mobile Locations	918 (371 Garages, 472 stores, 75 Vans)	1,451 (606 Garages, 400 Stores, 445 Vans)	c.1,453 (606 Garages, 397 Stores, c.450 Vans)

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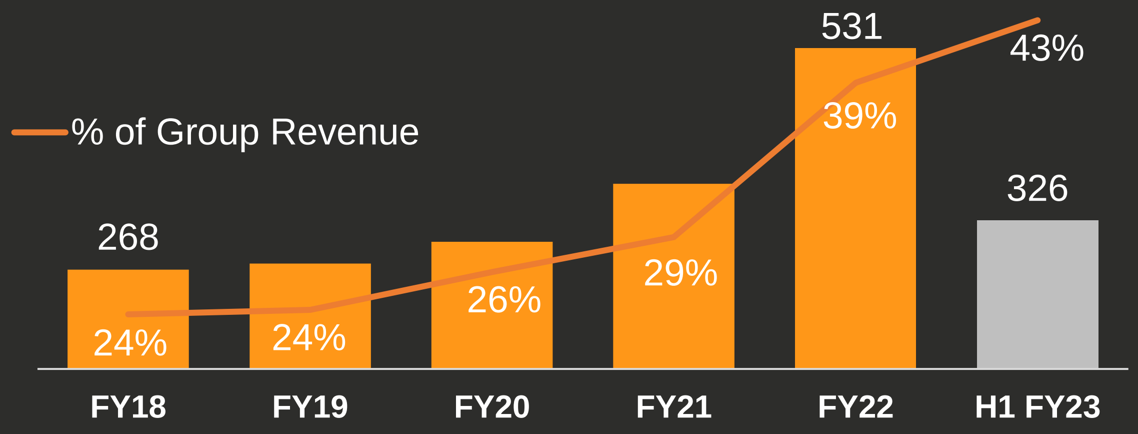
We’ve delivered growth in service-related sales year-upon-year – through both acquisition and organic growth.

Group Service-related Revenue - trend



Acquisition Timeline

Oct FY20	TyresOnTheDrive	70 Consumer Vans
Nov FY20	McCONECHY'S TYRE & EXHAUST CENTRES	60 Garages 100 Commercial Vans
Mar FY21	Universal TYRE & AUTOCENTRES	20 Garages 89 Commercial Vans
Dec FY22	IVERSON TYRES LTD	4 Garages
Dec FY22	NATIONAL TYRES AND AUTOCARE Going the EXTRA mile	234 Garages 68 Vans 8 Warehouses
Mar FY22	havebike... WILL RIDE	7 Vans

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At the same time, we've ensured our revenue is increasingly resilient through growing our presence in the more predictable and recurring B2B markets.

Avayler Software as a Service

Fleet Services

Cycle 2 Work

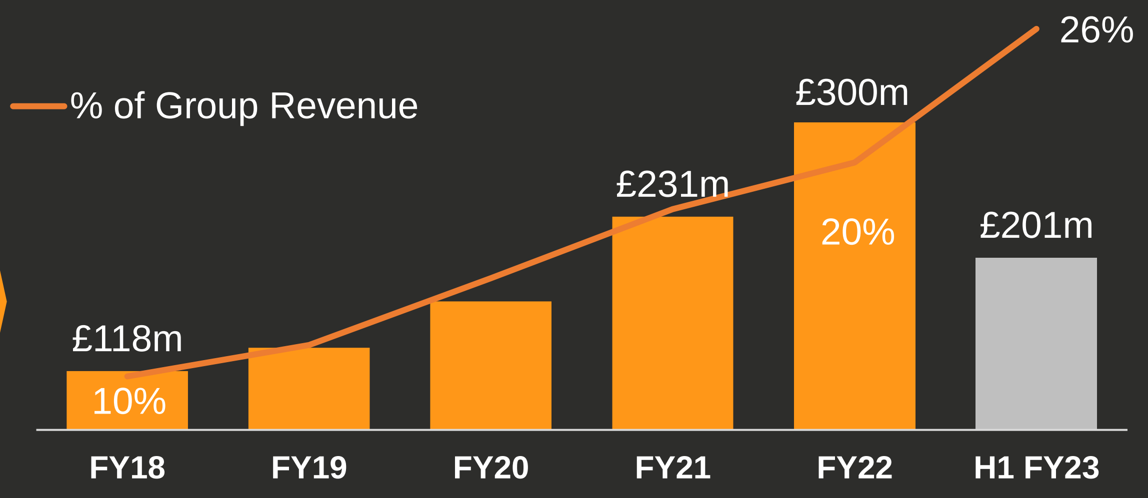
Trade card

Gift Cards

Bulk Purchases for Business

B2B

Group B2B Revenue



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The strategic progress so far in FY23 has moved the dial on all parts of the strategy

	Lodge Acquisition	Avayler contract	National Tyres Integration	Motoring Club	Fusion rollout
Services	✓	✓	✓	✓	✓
Motoring	✓	✓	✓	✓	✓
B2B	✓	✓	✓		
Higher Returns	✓	✓	✓	✓	✓

	Lodge Acquisition	Avayler contract	National Tyres Integration	Motoring Club	Fusion rollout
Services	✓	✓	✓	✓	✓
Motoring	✓	✓	✓	✓	✓
B2B	✓	✓	✓	✓	✓
Higher Returns	✓	✓	✓	✓	✓

The Lodge Tyre acquisition was perfectly aligned to these strategic growth areas

Strategic Rationale

100% Motoring

100% Services

>90% B2B

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

Lodge Tyre, when added to Universal and McConechy's, has made us the UK's largest Commercial Tyre Provider.

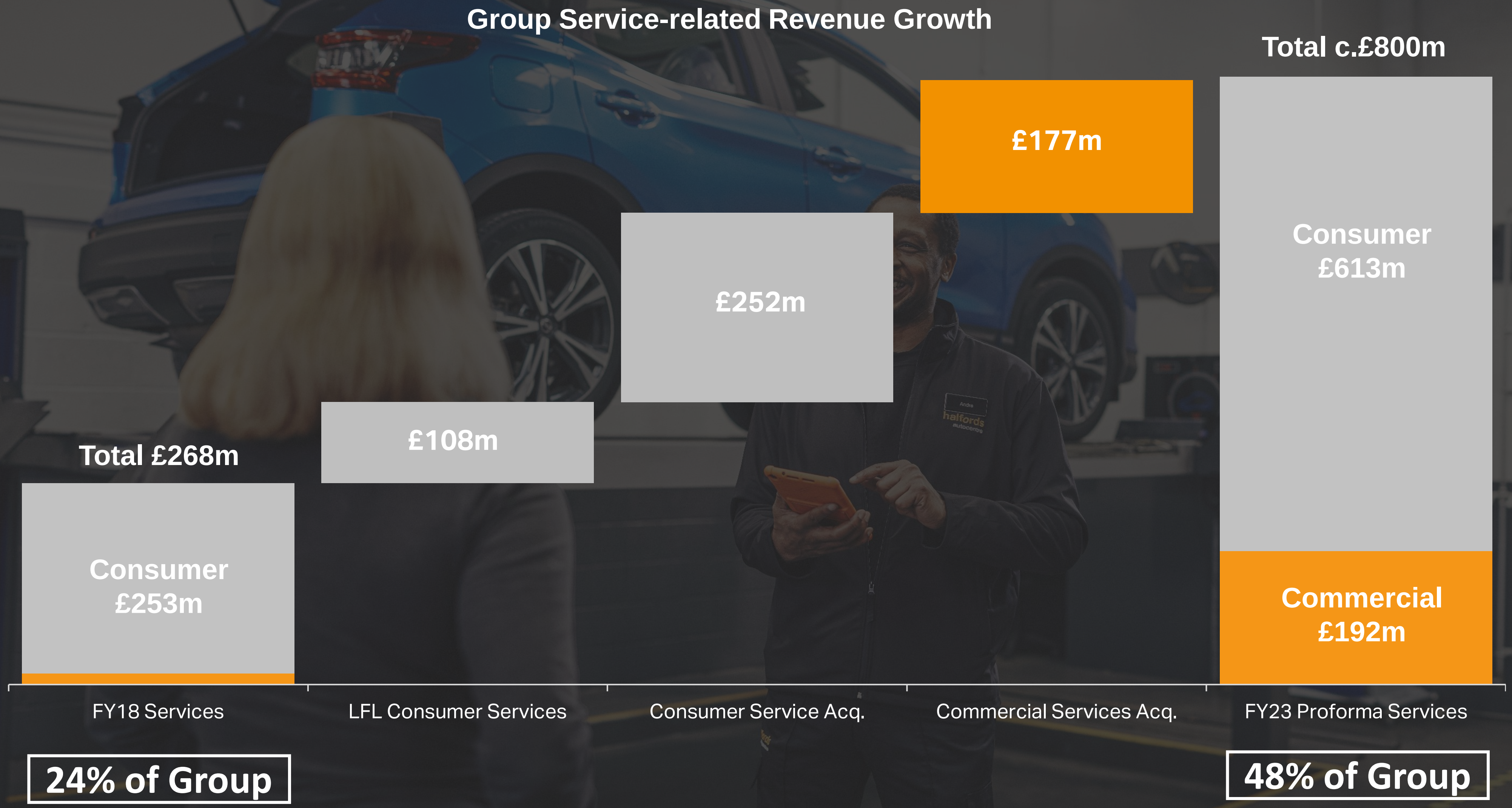
- Lodge completes full UK coverage of commercial vehicle tyre & service market.
- Adds 240 Commercial Vans, taking Halfords total to 440.
- Adds 50 garages, taking Halfords total to 656.
- Significant synergies through consolidated procurement, and the ability to win National contracts.

Our Autocentre business offers significant potential to grow it's B2B commercial offering by bringing together our three commercial brands

	Consumer Garages and Vans	Commercial Garages and Vans
Key Customer Facing Brands	halfords autocentre; halfords mobile expert; National Tyres and Autocare – Going the Extra mile; Tyre Shopper	McConechy's Tyre & Exhaust Centres; Universal Tyre & Autocentres; Lodge Tyre
Type of Services offered	Service, Maintenance, Repair, MOTs & Tyres	Tyres, Service, Maintenance, Repair & MOTs
Vehicle Type	Cars through to light commercial vehicles	Light commercial vehicles through to HGVs, including agricultural and plant & machinery
Customer Mix	More weighted towards B2C than B2B	More weighted towards B2B than B2C
Number of Garages*	534	112
Number of Vans	268	433
Total Number of Garages and Vans	802	545
National Coverage	✓	✓

**Note – some garages are both Retail and Commercial, hence the total does not add to 656*

We’ve transformed our Group service-related sales through a combination of organic growth and acquisition, in both consumer and commercial motoring services.



With a full year of Lodge added, service-related sales represent nearly half of Group revenue.

	FY20	FY22	FY23 H1	Including Lodge*
Revenue from **Services**	26%	39%	43%	48%
Revenue from **Motoring**	65%	70%	75%	77%
Revenue from **B2B**	15%	20%	26%**	22%
Fixed and Mobile Locations	918 (371 Garages, 472 stores, 75 Vans)	1,451 (606 Garages, 400 Stores, 445 Vans)	c.1,453 (656 Garages, 397 Stores, c.450 Vans)	c.1,750 (656 Garages, 397 Stores, 693 Vans)

*Assumes a full year of Lodge revenue.
** B2B higher in H1 due to seasonality.

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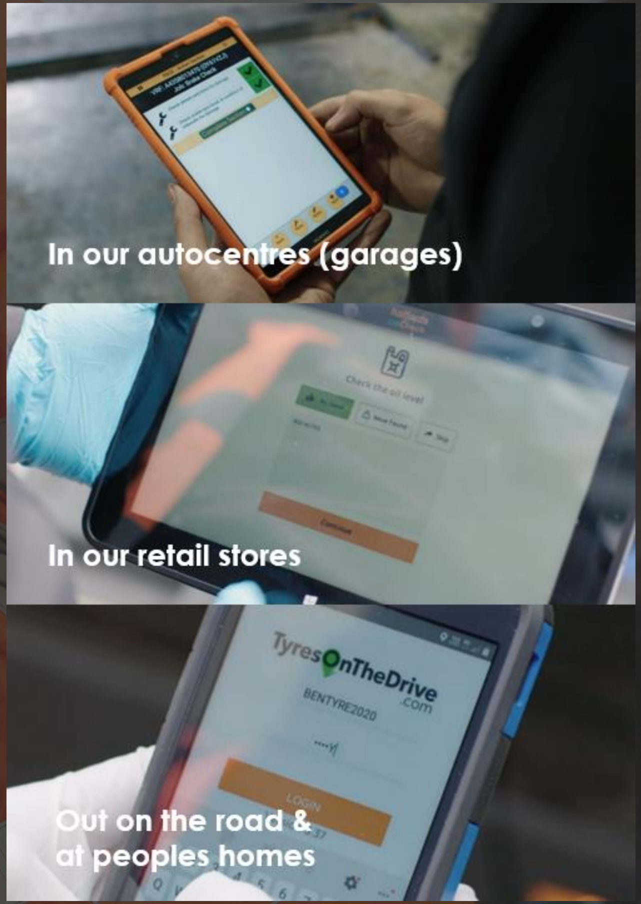
	Lodge Acquisition	Avayler contract	National Tyres Integration	Motoring Club	Fusion rollout
Services	✓	✓	✓	✓	✓
Motoring	✓	✓	✓	✓	✓
B2B	✓	✓	✓	✓	✓
Higher Returns	✓	✓	✓	✓	✓

Avayler is our unique industry leading proprietary software business

Value Drivers:

1. Resilient, contracted B2B revenue
2. Higher operating margin, through leveraging existing investments
3. Natural FX rate hedge
4. Large market opportunity
5. Strengthens relationships with strategic customers.



Avayler has signed a third, market leading client in Europe, in Mobivia

Grow Avayler.

- Third international client signed in ATU, part of **Mobivia** – a large international business with a portfolio of 9 mobility businesses throughout central Europe with over 2,000 sites.

- Initially rolled out across ATU in Germany, with further expansion across other European countries also planned.

Mobivia

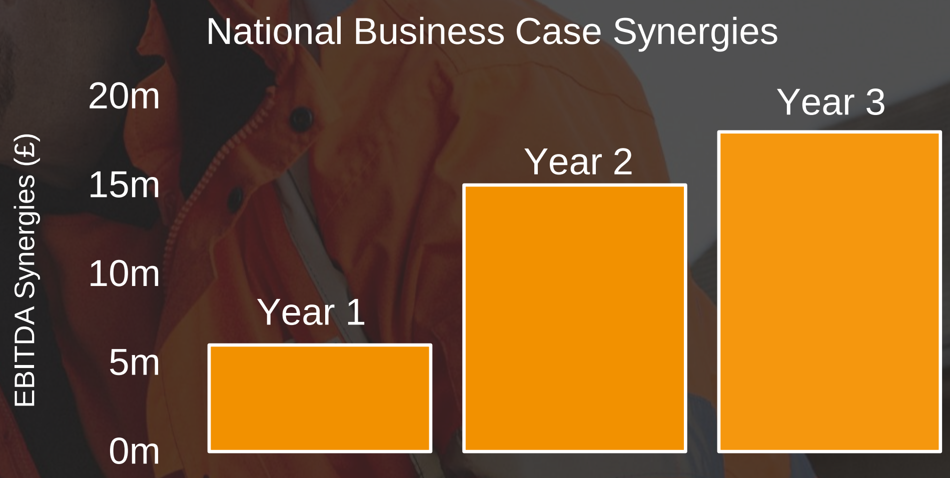
ATU

- ATU's move into the mobile space has been supported by the success of the Halfords Mobile Expert business.

- HME clearly demonstrates the operational efficiencies provided by the Avayler platform and supported ATU's decision to work with Avayler.

	Lodge Acquisition	Avayler contract	National Tyres Integration	Motoring Club	Fusion rollout
Services	✓	✓	✓	✓	✓
Motoring	✓	✓	✓	✓	✓
B2B	✓	✓	✓	✓	✓
Higher Returns	✓	✓	✓	✓	✓

National synergies are on track to deliver business case, but underlying tyre market remains down on pre-COVID levels.



- Synergies are on plan, focused around procurement synergies and productivity.
  - Our Avayler garage platform "PACE" has been rolled out across the network.
  - MOT lane installation has started, and re-branding being tested in select sites.

- Consumer tyre market is still down significantly vs. pre-COVID.
- We remain confident of our business case aspirations, but expect a challenging first year.

	Lodge Acquisition	Avayler contract	National Tyres Integration	Motoring Club	Fusion rollout
Services	✓	✓	✓	✓	✓
Motoring	✓	✓	✓	✓	✓
B2B	✓	✓	✓		
Higher Returns	✓	✓	✓	✓	✓

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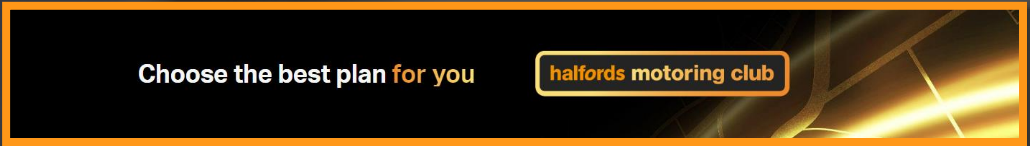
We launched our unique Motoring Loyalty club in March 2022 – providing the platform for future growth.

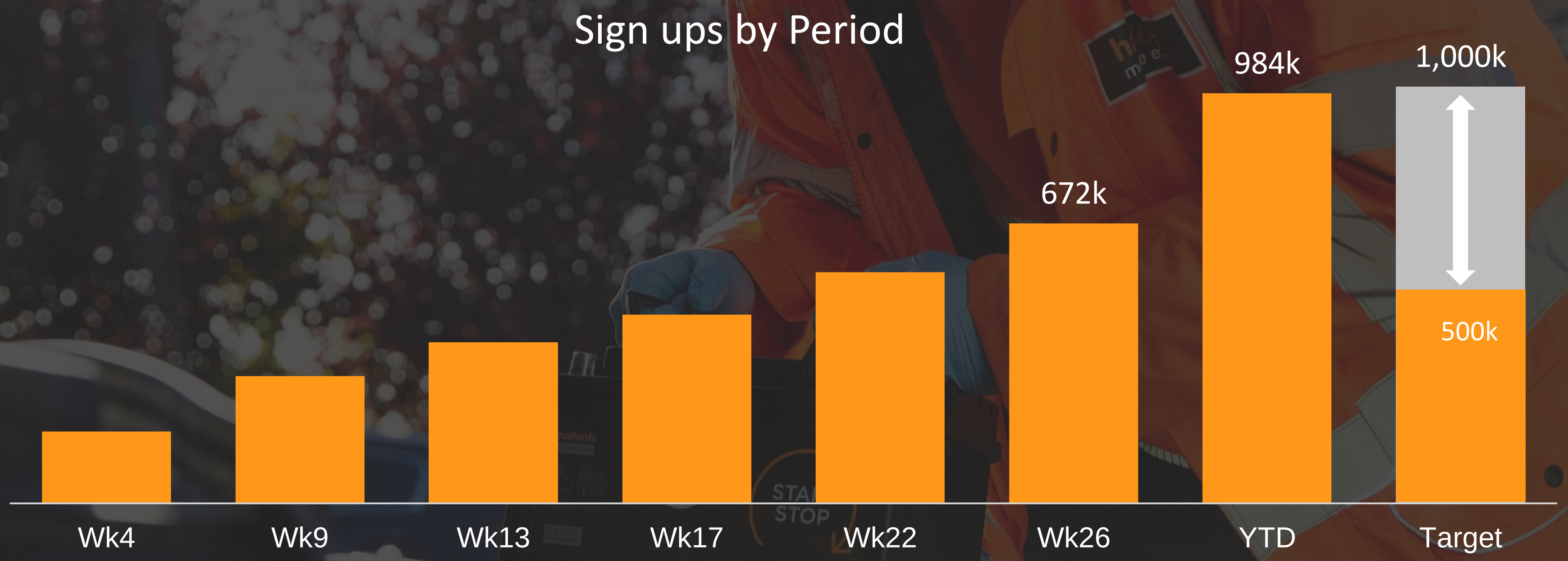


- Motoring Club offers exclusive benefits to members
- Two membership tiers:
  - **Premium** subscription based
  - **Free** to join
- Digitally enabled with rich data collection allowing us to personalise and optimise to future drive value from the club.

	Premium	Free
	Worth over £100 Helping you save across the year	Worth £30
Join Halfords Motoring Club Premium today for £4.99 a month or £49 a year and get access to a wide range of instant benefits to keep you moving all year round, worth over £100.	£4.99/mo £49/year	£0.00/mo
	Join Premium	Join Free
	Premium	Free
Welcome Voucher *£20 minimum spend on free membership	£10	£5
MOT Offer	FREE MOT Save £39.99	£10 OFF
10 point car check	2 x FREE Save £30.00	1 x FREE
5% off motoring products and services	✓	✗
1 x FREE fitting in our stores of wiper, bulbs or batteries	✓	✗
FREE next day delivery (online orders)	✓	✗
Exclusive offers and member discounts	✓	✓
	Join Premium	Join Free

We will have well over 1 million customers signed up to our Motoring Club this year

- Over 980k members year-to-date, versus a full year target of 500k – 1 million.
- Full year premium target of 50k to 100k achieved with over 64k year-to-date.



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The Motoring Club is driving a step change in customer behaviour, increasing cross shop and attracting new customers to the Group.

New Customers to Group
230k

➢ Of the club members, 82% are new to Autocentres.

Cross Shop
15%

➢ Loyalty member cross shop % (company average is 4.3%).

MOT Bookings
43k

➢ New customers booking MOTs in H1.

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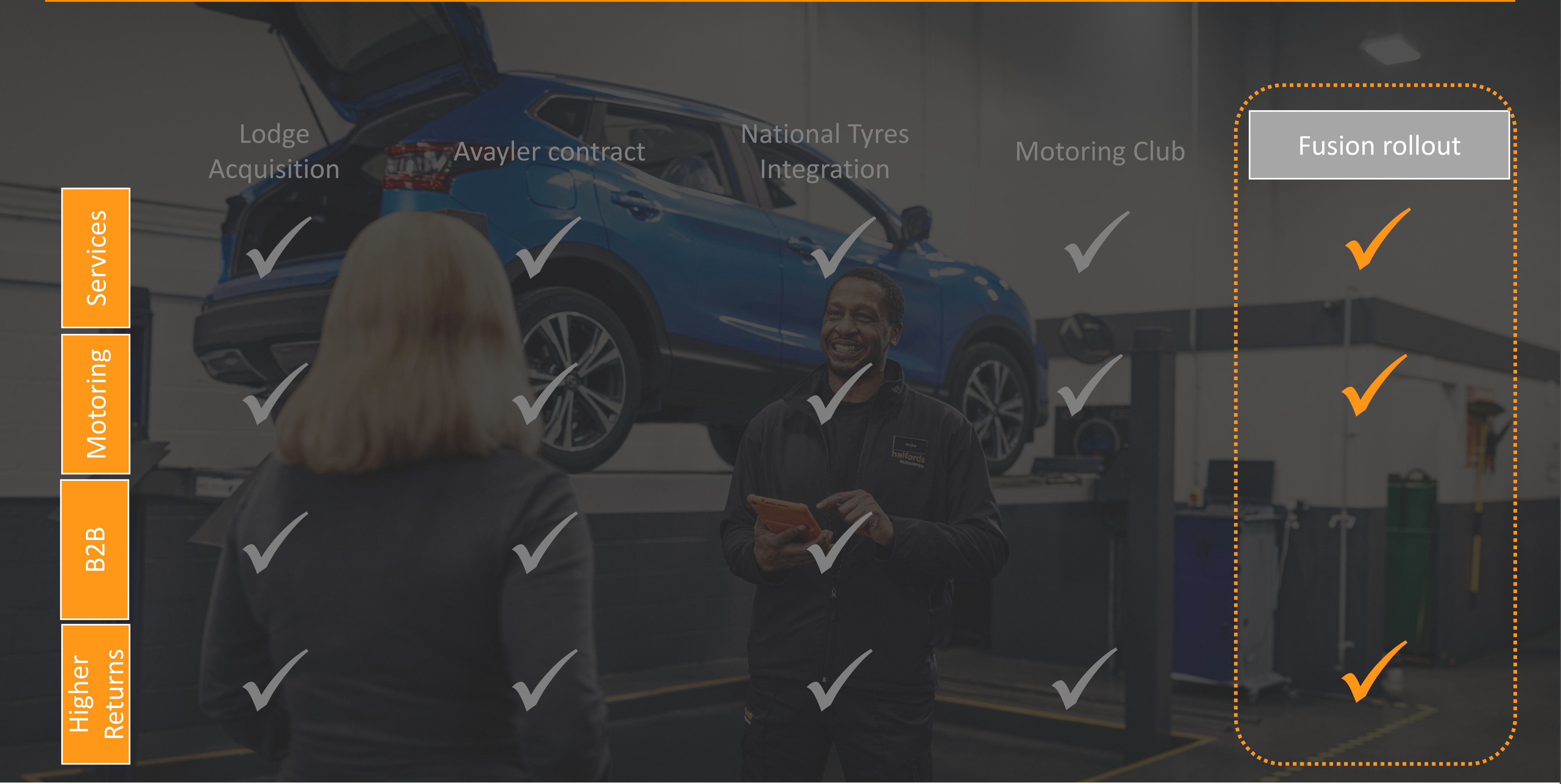
Both free and subscription club members shop more frequently with us creating more valuable relationships vs non members.

Customer Type	Subscription Revenue	Shop Frequency	Average Spend per visit*	Customer numbers	Revenue Uplift per Customer	Revenue Vs Non Loyalty
Non Member	£0	1.6x	£47			
Free Member	£0	2.6x	£44	900k	£38	+£34m
Subscription Member	£44	3.8x	£68	60k	£229	+£14m

* Excludes subscription revenues
All values exclude VAT.
Data up to week 32.
Members signing in first 4 months and behaviour up to week 32



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Higher Returns	✓	✓	✓	✓	✓

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We continue to rollout the most capital efficient aspects of our Fusion programme

- ***Solution selling***

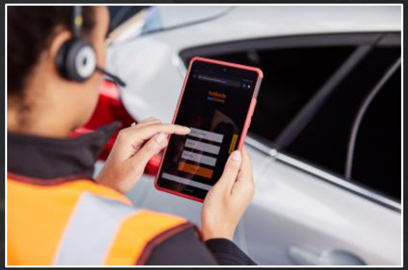
  Training completed by over 95% of Retail colleagues and almost 90% of our Garage managers

- ***Car park referral managers***

  Now in place in 17 towns, with a target of 30 towns by the end of this financial year

- Fusion remains a key element of our strategic plans and we plan to roll out a ‘lite’ version to 100 stores when capital constraints lift





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Our transformation means we have transitioned from Retailer into Services-business.

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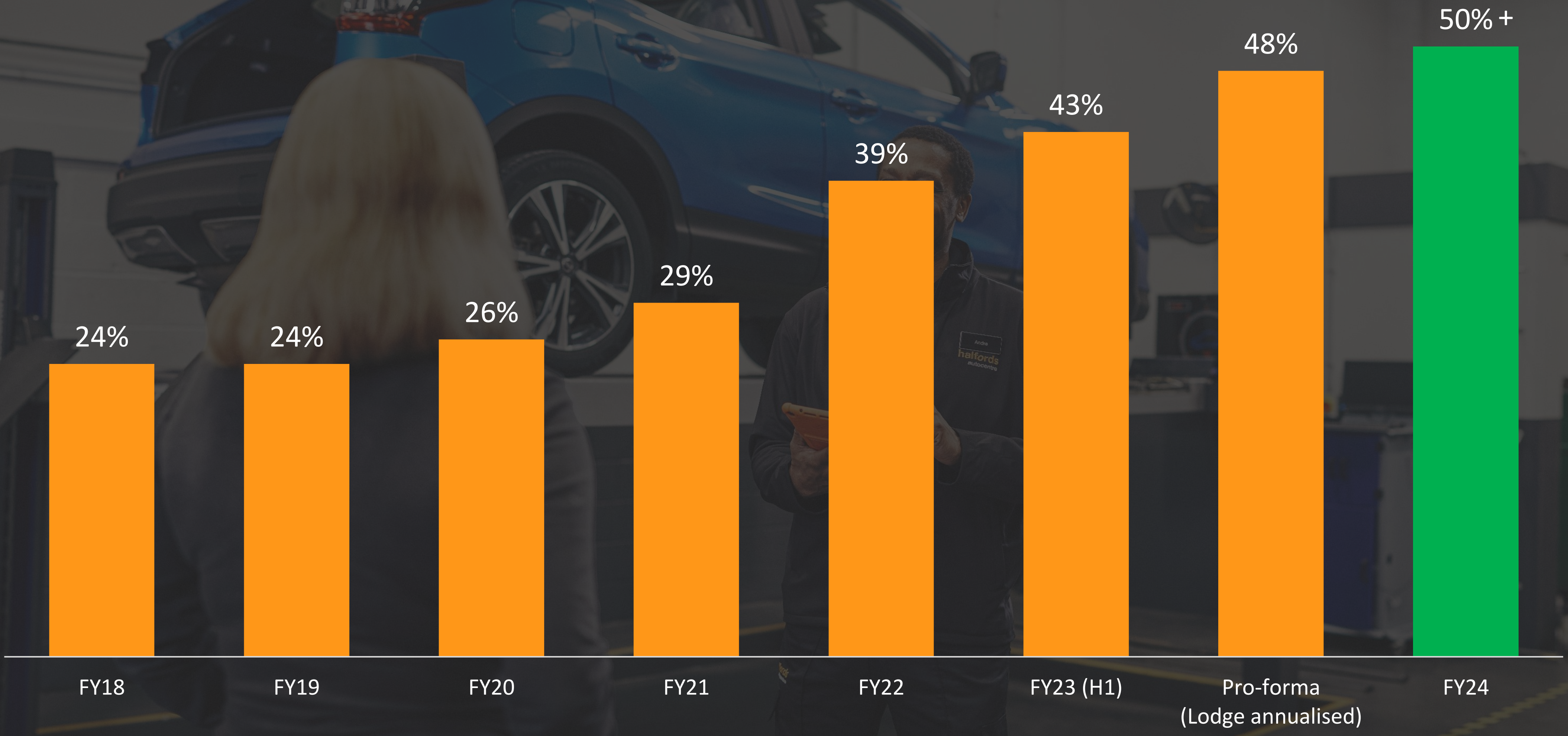
Motoring	✓	✓	✓	✓	✓
B2B	✓	✓	✓		
Higher Returns	✓	✓	✓	✓	✓

During FY24 we expect service-related sales to make up more than half of the Group.



Our transformation has delivered growth in our areas of strategic importance, creating a super-specialist services business with more resilient, recurring revenue streams.

(Note – icon sizes are indicative only, and not to scale)

Q&A

APPENDIX

Our cash position remains strong and our RCF has been extended until the end of 2025.

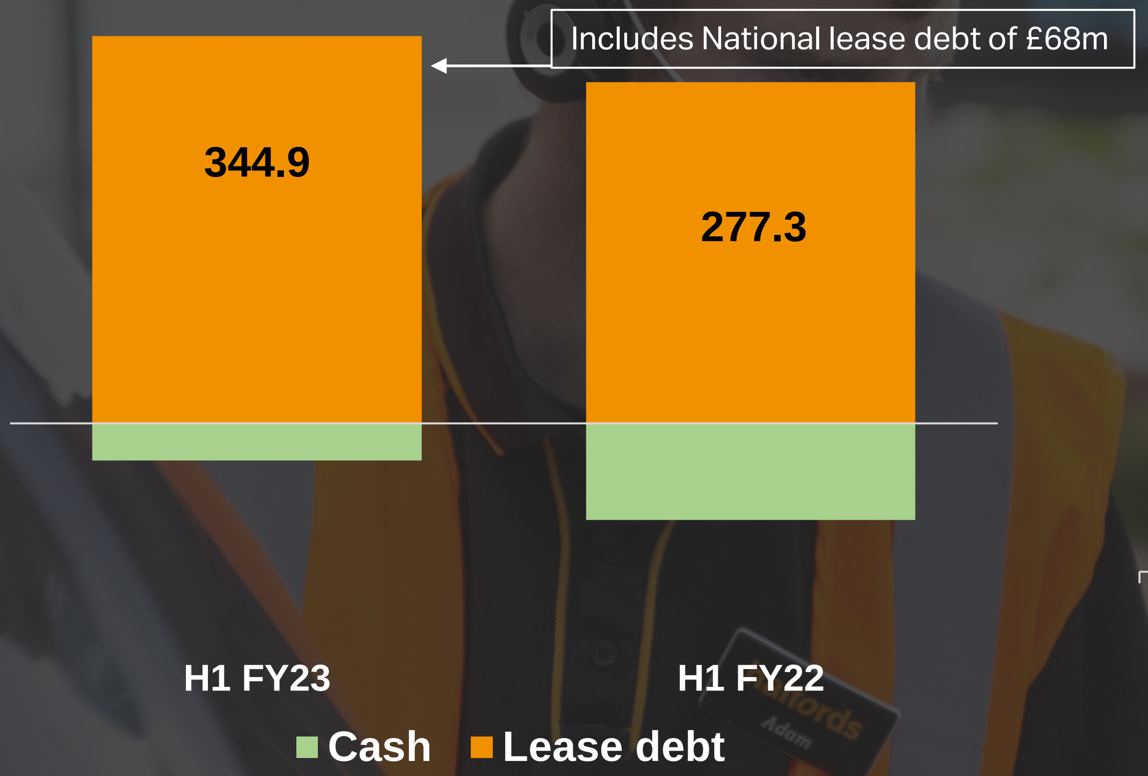
	H1 FY23	H1 FY22	YoY
Profit After Tax	**30.0**	**53.2**	**-22.7**
Depreciation, Amortisation & Loss on Disposal of Assets	57.0	54.0	3.0
Working Capital	-2.7	-20.2	17.5
Taxation	-5.9	6.3	-12.2
Net Finance Costs	5.4	5.8	-0.4
Provision Movements and Exchange rate movements	-10.3	3.5	-13.8
Operating Cash Flow	**73.5**	**102.1**	**-28.6**
Acquisitions and Proceeds from Held for Sale Assets	-	7.5	-7.5
Capex	-22.3	-27.3	5.0
Cash Used in Investing Activities	**-22.3**	**-19.8**	**-2.5**
Proceeds from Issue of Share Capital	-	0.9	-0.9
Capital lease payments	-38.6	-38.2	-0.4
Finance Costs Paid, including IFRS16 lease interest	-5.2	-10.1	4.9
Dividends Paid	-13.0	-9.9	-3.1
Proceeds from Loans net of transaction costs	35.0	-	35.0
Other	-1.5	-	-1.5
Cash Used in Financing Activities	**-23.3**	**-57.3**	**34.0**
Cash Movement in Period	**23.4**	**25.0**	**-1.6**
Opening Cash and Cash Equivalents	46.1	67.0	-20.9
Closing Cash and Cash Equivalents	**69.5**	**92.0**	**-22.5**

$ revaluation of stock and creditors

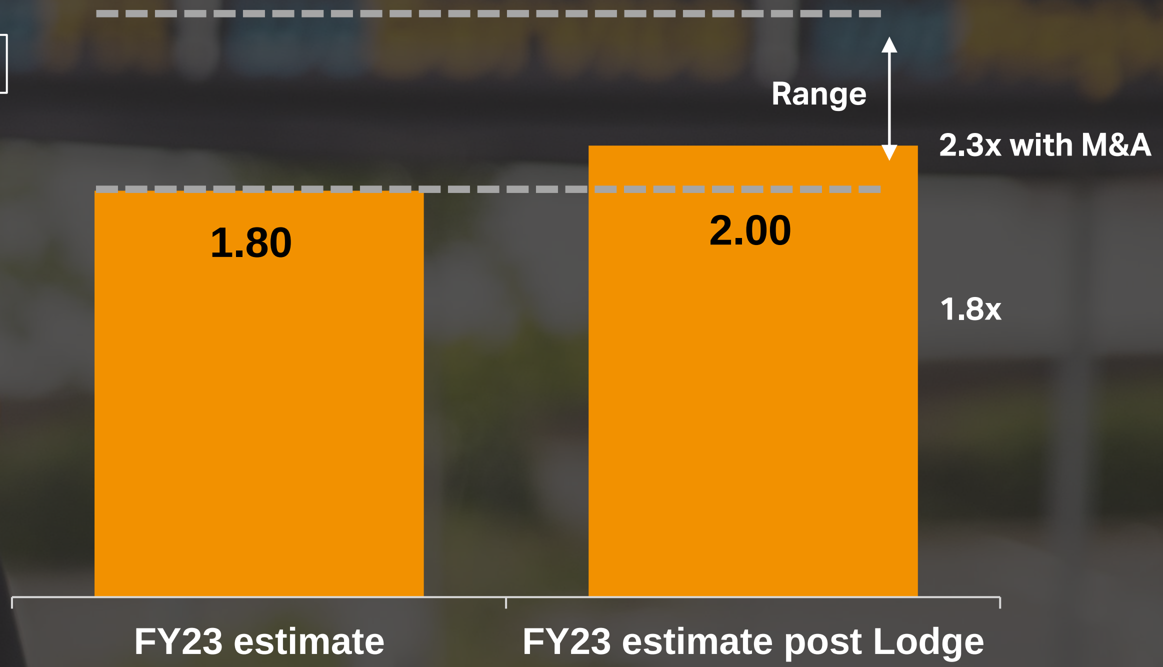
Drawdown to fund acquisition of Lodge

Net debt increase reflects leases associated with National with underlying H1 cash position positive. We remain within our leverage targets.

Net Debt £m



Net Debt:EBITDA

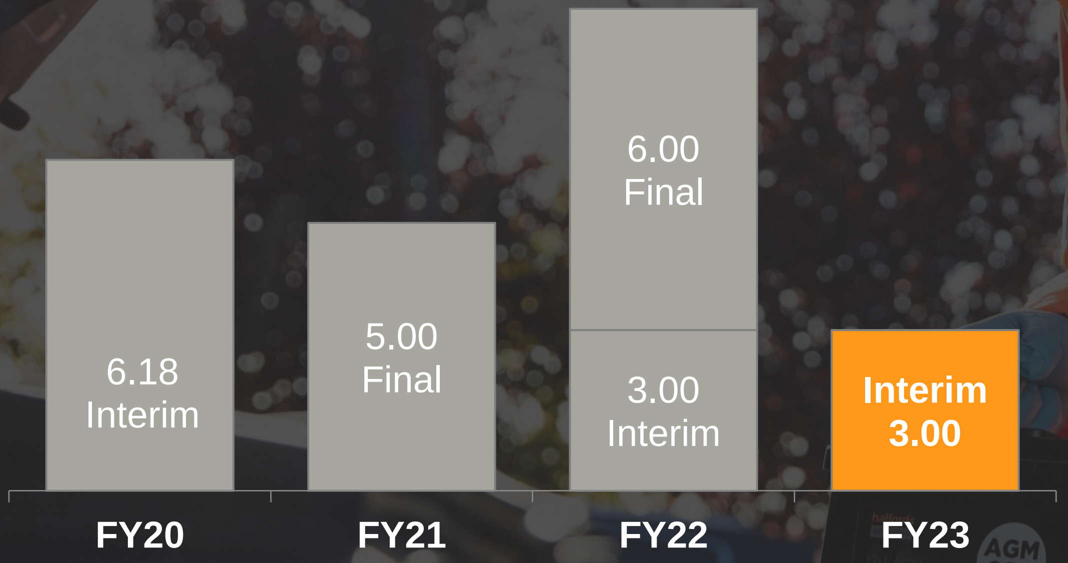


- Expect to remain within our leverage targets in FY23.
- £180m debt facility successfully extended to December 2025 during the period.

halfords

Declared interim dividend of 3.00p per share, with capital allocation priorities and guidance unchanged.

Dividend per Share



Capital Allocation Priorities

- Maintaining a prudent balance sheet
- Investment for growth
- M&A focused on Autocentres
- Progressive dividend policy
- Surplus cash returned to shareholders

halfords