23 November 2022

Halfords Group plc

Interim Results: Financial Year 2023

Resilient H1 performance, with Service-related sales now accounting for 48% of pro forma[1] Group revenues vs 23% in FY20.

Increase in services demand means we are announcing a recruitment drive to fill 1,000 new automotive technician roles in the next 12 months.

Halfords Group plc ("Halfords" or the "Group"), the UK's leading provider of Motoring and Cycling services and products, today announces its interim results for the 26 weeks to 30 September 2022 ("the period").

To provide a better understanding of underlying performance, financial comparisons will primarily be made relative to FY20, that is, on a three-year basis, unless otherwise stated. The disruption from COVID-19 to both FY21 and FY22 means that comparators against these years are more difficult to interpret. All numbers shown are on a post-IFRS 16 basis and before non-underlying items, unless otherwise stated.

Overview

H1 FY23

- Strong total revenue growth vs FY20, up +31.4%, or up +13.3% LFL. All segments delivering LFL growth over three years, with Autocentres +30.0%, Retail Motoring +10.2% and Cycling +8.6%.
- Total revenue growth of +10.2% and -1.5% LFL vs FY22 against strong prior year comparatives (see figure 3), when sales benefitted from the UK emerging from the final COVID-19 lockdown. Performance driven by the strength of needs-based spend categories.
    - Service-related sales represent 42.6% of Group revenues in the period and are expected to reach c.48% of sales on an annualised basis following the acquisition of Lodge Tyre. Over half of Group sales expected to come from services in FY24.
    - Our needs-based business has grown over +50% vs FY20 and now accounts for the majority of our revenues.
- Strong strategic progress evidenced through Motoring Loyalty Club membership numbers being above expectations, the acquisition of Lodge Tyre, the expansion of Avayler (our unique, proprietary software business) into Europe with ATU signed post period end, the rollout of a capital efficient Fusion programme, and the continued integration of National Tyres.
- Robust profit performance in the period, in-line with our expectations, with Underlying Profit Before Tax (PBT) of £29.0m, -£1.2m vs. FY20 and -£28.9m vs FY22 despite significant inflationary headwinds and low customer confidence. FY22 includes business rates relief of £9.2m.
- Strong net cash, pre-lease debt of £32.3m and good stock availability.
- Net Debt : EBITDA (post IFRS 16) of 1.8x, within our target range. Our £180m debt facility has been extended until December 2025.
- Interim dividend of 3p per share declared, to be paid in January 2023.

1. annualised group revenue estimate including the forecast impact of Lodge Tyre (acquired 4 October 2022)

FY23 outlook

- Good visibility on H2 costs, with utilities fully purchased at costs in line with FY22 and 98% of FY23 USD requirements hedged at $1.32. Cost and efficiency programs will exceed £20m of savings vs last year, ahead of the £15m target set out in our preliminary results.
- H2 trading to-date has continued to be strong in needs-based areas, but the more discretionary areas have softened.
- Underlying profit before tax ("PBT") expected to be at the lower end of our £65m to £75m range.

Graham Stapleton, Chief Executive Officer, commented:

"This has been a period of strong strategic progress and resilient financial performance for Halfords. In such a volatile macroeconomic environment, our strategy of focusing on the kind of predictable and recurring revenue that comes from motoring services and needs-based products has never been more relevant. Once the acquisition of Lodge Tyre has annualised, Service-related sales will account for over 48% of our revenues and we expect this to grow to over 50% next year. Lodge Tyre will also mean motoring represents around 77% of total sales.

The success of our Motoring Loyalty Club is exceeding our expectations, as customers continue to be attracted by a range of discounts and offers that are aimed at helping motorists across the UK with the rocketing cost of running and maintaining a car. The club is playing a key role in the rapidly growing demand that we are seeing for vehicle servicing, MOTs, maintenance and repairs. In order to help meet that demand, we are today launching a recruitment drive to fill 1,000 new automotive technician roles over the next 12 months. In particular, we are hoping to attract retirees back into the workforce, as well as increasing the number of women in technician roles."

Group financial summary (fig.1)

£m	FY23 H1	FY20 H1	FY23 vs FY20	FY22 H1	FY23 vs FY22
Revenue	**765.7**	**582.7**	**183.0**	**694.8**	**70.9**
Retail	500.5	500.0	0.5	538.7	-38.2
Autocentres	265.2	82.7	182.5	156.1	109.1
Gross Margin	**51.3%**	**50.1%**	***+130bps***	**51.7%**	**-39bps**
Retail	50.2%	47.0%	*+320bps*	50.6%	*-40bps*
Autocentres	53.5%	68.6%	*-1500bps*	55.6%	*-215bps*
Underlying EBITDA	**92.0**	**90.8**	**1.2**	**115.7**	**-23.7**
Underlying Profit Before Tax ("PBT")	**29.0**	**30.2**	**-1.2**	**57.9**	**-28.9**
Profit Before Tax	**29.3**	**27.5**	**1.8**	**64.3**	**-35.0**
Underlying Basic Earnings per Share	10.6p	12.2p	-1.6p	24.0p	-13.4p

Group revenue summary (fig.2)

	3-Year vs. FY20 Growth		1-Year vs. FY22 Growth	
	Total	**LFL**	**Total**	**LFL**
Halfords Group	**+31.4%**	**+13.3%**	**+10.2%**	**-1.5%**
Autocentres	**+220.7%**	**+30.0%**	**+69.9%**	**+14.3%**
Retail	**+0.1%**	**+10.4%**	**-7.1%**	**-6.0%**
Motoring	+3.7%	+10.2%	-2.4%	-1.5%
Cycling	-4.4%	+8.6%	-11.8%	-12.5%

Group LFLs vs FY20 comparisons (fig.3)

	LFL vs. FY20		
	H1 FY21	**H1 FY22**	**H1 FY23**
Halfords Group	**+6.7%**	**+17.5%**	**+13.3%**
Autocentres	**-2.0%**	**+15.5%**	**+30.0%**
Retail	**+8.1%**	**+17.8%**	**+10.4%**
Motoring	-23.7%	+11.9%	+10.2%
Cycling	+54.4%	+25.3%	+8.6%

Group services (fig.4)

As at H1 Close	**% Group Revenue FY20**	**% Group Revenue FY21**	**% Group Revenue FY22**	**% Group Revenue FY23**
Service-Related Sales	22.5%	23.8%	33.2%	42.6%
Product Sales	77.5%	76.2%	66.8%	57.4%
Group	**100%**	**100%**	**100%**	**100%**

H1 Summary:

Group Revenue

- Service-related sales of £326m, c.42.6% of Group, up from £230m (33.2%) last year, have already exceeded service-related sales in the whole of FY20.
- B2B sales of £201m, 26.3% of total Group, up from £139m (20.0%) last year and above the whole of FY20.

Autocentres

- Resilient performance continued through the period with LFL performance of +30.0% vs FY20 and +14.3% vs FY22 and gaining market share.
- Performance driven by improved productivity enabled by Avayler, increased customer awareness from group-wide marketing and our Motoring Loyalty Club.
- Total revenue growth of +69.9% vs FY22, trebling the size of the business since FY20 from both LFL growth and acquisitions.
- Our Commercial business performed particularly well in the period with sales up +84% vs FY22, underpinned by the strength of customer relationships and the more predictable nature of revenues.

- A competitive labour market has led to capacity constraints. This provides an opportunity through H2 as we further increase our focus on the recruitment and retention of technicians. We are announcing today a recruitment drive to fill 1,000 new automotive technician roles in the next 12 months
- Tyre market share increased although the tyre market has not recovered in line with expectations and remains significantly below pre-COVID levels. This will continue to impact underlying trading in National Tyres until the market recovers to normal levels.

Retail

- Trading in-line with expectations, with LFL performance of +10.4% vs FY20 and -6.0% vs FY22. The decline versus FY22 is partly driven by the strength of the comparative period (as evidenced by figure 3), as well as the challenging economic environment in FY23.
- Motoring:
    - Revenue +10.2% LFL vs FY20, reflecting increased market share from our *"Keep on Motoring for Less"* pricing initiatives and the growth of our Motoring Loyalty Club.
    - Revenue -1.5% LFL vs FY22, with growth across needs-based categories such as maintenance, offset by lower sales in higher ticket discretionary categories.
    - Our strategic price investment has performed well, delivering LFL volume growth vs FY20, and has supported continued increase in volume market share in the period across both needs-based and more discretionary markets.
- Cycling:
    - Revenue +8.6% LFL vs FY20 and –12.5% LFL vs FY22, as a result of the strong FY22 H1 comparative (figure 3). Market share growth has partially offset the impact of a softer market, caused by reduced discretionary spend.
    - Strong stock availability as we head into the Christmas trading period.
    - Our B2B Cycle2Work scheme is proving very resilient, up +7.9% vs FY22.

Gross margin

- Group gross margin of 51.3% represents +130 basis point (bps) improvement versus the 50.1% delivered in FY20. This is partly through the mix of Group transitioning towards the higher margin Autocentres business, alongside our Cycling optimisation since FY20.
    - Autocentres margin has improved on an underlying basis since FY20, but is diluted by the growth in tyre revenue through acquisition, which is lower margin (%).
- Group gross margin declines -39bps versus FY22, in line with expectations, following motoring price investment, cost of goods price inflation, and the annualisation of National Tyres.

<u>Cost and efficiency:</u>

- Strong progress made on our cost and efficiency programme during the period.
- H1 savings of £9.8m vs. last year with full year savings anticipated to be +£20m, exceeding the full year target of £15m.
- FY23 utilities bought in full, with nil increase on last year. FY24 consumption is c.50% hedged which has locked in c.£5.5m of extra cost year-on-year. Risk management strategy in place to optimise purchase of remaining volume for FY24.
- FY23 USD requirements 98% hedged at an average rate of $1.318. 35% of FY24 hedged at $1.237.

- We continue to competitively negotiate freight at or below spot rates, and expect this to be a tailwind into FY24.

Strategic update

- Acquisition of Lodge Tyre in October 2022
  - Halfords is now the largest Commercial Tyre provider in the UK.
  - Acquisition delivers strategically important Motoring, Service and B2B revenue streams, adding resilience through needs-based and contracted revenues.
  - Once Lodge is annualised, service-related sales will account for c.48% of Group.
- Motoring Loyalty Club
  - Over 980k members year-to-date, and therefore expecting to beat 500k to 1m full year target.
  - 64k premium members year-to-date, with an expectation of reaching the upper end of our full year target of 50k – 100k.
  - Driving excellent cross-shop results, with 15% of club members cross-shopping, compared with 4% across non-club members.
  - Introduced 230k new customers to the Group, of which 82% are new to Autocentres.
- Avayler Growth
  - Continued growth in our unique, proprietary software business.
  - Expansion into Europe following signing of third international customer post period end.
  - Signed ATU, part of the Mobivia group with the roll-out to start in Germany through ATU's mobile fleet.
- National Tyres
  - Integration progressing well following the acquisition in December 2021, with all sites now operational on our Avayler garage platform, "PACE".
  - MOT lane installation commenced, and re-branding being tested in selected sites.
- Fusion
  - Roll out of capital efficient programme to more towns.
  - 17 towns have already received car park referral managers, new technology and new operating processes, with a target of 30 towns by year end.
  - "Solution selling" training completed by over 95% of Retail colleagues and almost 90% of Autocentre managers.

Enquiries

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Results presentation

A pre-recorded webcast followed by a live Q&A call for analysts and investors will be held today, starting at 08:00am UK time. Attendance is by invitation only. A copy of the transcript of the call will be available at www.halfordscompany.com in due course. For further details please contact Powerscourt on the details above.

Next trading statement

On 12 January 2023 we will report our Q3 Trading Update for the period ending 30 December 2022.

Notes to Editors

www.halfords.com www.tredz.co.uk www.halfordscompany.com

Halfords is the UK's leading provider of motoring and cycling services and products. Customers shop at 397 Halfords stores, 3 Performance Cycling stores (trading as Tredz and Giant), 646 garages (trading as Halfords Autocentres, McConechy's, Universal, National Tyres and Lodge Tyres) and have access to 268 mobile service vans (trading as Halfords Mobile Expert, Tyres on the Drive and National) and 433 Commercial vans. Customers can also shop at halfords.com and tredz.co.uk for pick up at their local store or direct home delivery, as well as booking garage services online at halfords.com.

Cautionary statement

This report contains certain forward-looking statements with respect to the financial condition, results of operations, and businesses of Halfords Group plc. These statements and forecasts involve risk, uncertainty and assumptions because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. These forward-looking statements are made only as at the date of this announcement. Nothing in this announcement should be construed as a profit forecast. Except as required by law, Halfords Group plc has no obligation to update the forward-looking statements or to correct any inaccuracies therein.

Chief Executive's Statement

The first half of FY23 has been a period of strong strategic progress and resilient financial performance, despite the volatile economic backdrop. Our Motoring Loyalty club will beat our full year targets, our Avayler business has signed another large international client in November, the integration of National and rollout of Fusion continues, and shortly after the period closed we completed the acquisition of Lodge Tyre, a business centred around our strategically important Motoring Services and B2B markets.

Three years ago, we outlined a strategy to "*evolve into a consumer and B2B services-focused business, with a greater emphasis on motoring".* The importance of this strategy has never been clearer given the volatile macro-economic conditions that continue to impact the UK and global economies. In periods of low consumer confidence and high inflation, the benefits of predictable and recurring revenue derived from needs-based, less discretionary areas have never been more valuable.

This strategic progress has enabled the Group to accelerate its transition towards becoming a services-business, with service-related sales now accounting for 43% of the Group in H1 FY23. This compares to 33% in the same period last year and is already more, in absolute terms, than the full year FY20 figure. Once annualised, the Lodge Tyre acquisition will expedite this transition, with service-related sales projected to be c.48% of Group, Motoring sales c.77%, and B2B sales c.22%. During FY24 we expect service-related sales to exceed 50% of Group sales for the first time – a significant milestone in the strategic evolution of our business.

Whilst this strategic transformation is not yet complete, the transition we have made over the past few years is one of the key reasons for our robust financial performance in the first half of FY23. Group underlying PBT in the period of £29.0m was down just -4.1% versus FY20 and -49.9% on FY22 despite significant cost inflation, a reduction in consumer confidence and the very strong first half trading performance of FY22 as the UK came out of lockdown.

Group revenue

Revenue in the period demonstrated our growing resilience, delivering strong LFL and total revenue growth across the Group. Group LFL revenues were +13.3% vs FY20 and down only -1.5% vs FY22. Performance vs FY20 showcases the growth of the underlying business compared to the last normal pre-COVID year, and with total growth of +31.4% after including our acquisitions, the increased scale of the business is significant.

FY22 comparisons are also encouraging. H1 FY22 was a strong trading period, with sales buoyed by the UK coming out of lockdown. In contrast H1 FY23 has seen a significant decline in general consumer confidence. The LFL performance and total growth of +10.2% therefore demonstrates the growing resilience of our revenues, and our strategic progress.

Autocentres

Our growing Autocentres business performed very well over the period. Our consumer garages and Halfords Mobile Experts both delivered strong revenue growth, as did the B2B commercial operation of McConechy's and Universal Tyres. The continued growth of this strategically important B2B commercial operation is covered in more detail in the "Strategic Review" section of this statement.

Retail Motoring

Retail saw a resilient performance in Motoring, with overall sales +10.2% LFL vs FY20 and -1.5% vs FY22, alongside increased market share in our measured categories. This performance was underpinned by our "Keep on Motoring for Less" campaign and strategic price investment that has seen strong volume growth, partially offsetting the price investment and lower sales of more discretionary, higher ticket, items such as technology. This is a particularly strong performance as we anticipated it taking longer to get to the levels of volume growth we are seeing within our invested categories.

Retail Cycling

Our Cycling business has also performed well and proved to be more resilient than initially anticipated. Whilst sales have declined -12.5% LFL relative to the strong COVID-19 FY22 comparisons, the LFL business since FY20 has performed well, growing +8.6% LFL whilst we have simultaneously improved the profitability of the Cycling business through our store rationalisation and product profitability.

Cycling however, has borne the brunt of many of the economic headwinds, as a result of being higher ticket and more discretionary, and more exposed to many of the inflationary impacts including raw materials, freight and a weakening sterling to USD exchange rate. This has ultimately meant that consumers have seen inflationary pressures passed through to prices and may see further pressures into FY24, particularly with respect to foreign exchange. Our B2B Cycle2Work business has proven to be resilient and offers a significant opportunity to us due to the bigger savings available to end consumers as they navigate the cost-of-living crisis and as we target a greater share of SME businesses in H2.

More broadly, as market leaders in Cycling - with a successful range of exclusive, own brand bikes - we also have options to negotiate with suppliers and re-engineer ranges to meet customer specification and price demands.

Strategic review

Acquisition of Lodge Tyre in October 2022

Like the existing Halfords businesses of Universal Tyres and McConechy's Tyres, Lodge Tyre is a commercial vehicle tyre and service specialist. These businesses carry out tyre fitting, repair, and servicing on commercial vehicles – large vans through to HGVs, tractors and plant. Revenues are predominantly B2B and are therefore contracted or highly predictable due to the importance of keeping a third-party company's fleet operational.

The acquisition of Lodge in October was perfectly aligned to our ongoing strategy, with Lodge revenues being 100% Motoring, 100% Services, and over 90% B2B.

Equally as important was the completion of our national scale in the commercial tyre market, with the Lodge locations (operating across the Midlands from 50 garages, 240 mobile vans and 1 warehouse) perfectly complementing our existing businesses of Universal Tyres and McConechy's Tyres. Halfords is now the largest commercial vehicle tyre services business in the UK.

The combined strength of McConechy's, Universal and Lodge offers a significant opportunity to grow our B2B revenues in the future through national fleet contracts, whilst simultaneously providing resilience through needs-based revenue streams.

Avayler growth

Our SaaS platform "Avayler", the unique digital operating model that underpins our business, has already entered the US market with two large automotive businesses, ATD and Tirebuyer. Shortly after the period closed, Avayler also entered the Central European market having signed an agreement with Mobivia, a large automotive conglomerate.

This is another exciting addition to our platform and demonstrates its market leadership. Under the Mobivia organisation, ATU will be using Avayler to underpin the launch of a market-first, mobile servicing fleet across Germany.

Motoring Loyalty Club

March 2022 saw the launch of the Halfords Motoring Loyalty Club - the UK's first loyalty club centred around motoring. At our preliminary results we described the rich dataset it would bring to the Group at the same time as highlighting the significant financial opportunity as the club grows and becomes optimised to customers' needs. In June 2022, we stated an ambition to have between 500k and 1m members by the end of FY23. The performance in the year-to-date has exceeded our expectations, with over 980k members by week 34.

We are therefore confident that the club will exceed our targets within its first year, demonstrating the appeal of this proposition for customers.

More importantly though, the financial and customer performance has also exceeded expectations. The club is delivering very strong cross-shop results of 15% against a company average of 4%, with cross-shop to Autocentres being particularly strong. We are attracting both new and existing customers, and both groups are spending more than an average Halfords customer.

We remain very excited about the opportunities that this customer proposition brings us and see it as a key platform on which we can build our future growth.

National Tyres integration

The integration of National Tyres, which we acquired in December 2021, continues to progress well. We have now installed our Avayler garage software "PACE" across the estate and have commenced the re-branding of selected sites from "National Tyres" to "Halfords Autocentres". We have also made excellent progress on our synergy programme, with particularly strong procurement savings. As noted at our 20-week update, the tyre market is yet to recover to pre-COVID levels which is giving a short-term headwind to underlying trading. That said, we remain confident in the market recovering and are therefore still confident in our original business case assumptions.

Fusion Programme

Our Fusion programme is the transformation of the Halfords customer experience within a town. FY22 saw us bring this to life in two 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. We were able to highlight 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, the roll out of Fusions centres around the most capital efficient elements, developing the customer proposition further, and focusing on the most successful elements of the trial, delivering it to more locations across the UK.

So far this year, we have trained 95% of our Retail colleagues, and almost 90% of our Garage managers in "selling solutions". In our car parks, we have deployed 17 colleagues as car park referral managers. This has been constrained by the ongoing recruitment challenges across the sector, but we expect to increase this number by the end of this year.

I remain excited about the long-term prospects for this programme, as we rollout the very best of Fusion across our estate.

Operational review

Although the supply chain and lockdown challenges brought about by COVID-19 have almost entirely subsided, the operating environment continues to remain very challenging, with the worst cost of living crisis in a generation. Numerous new challenges have impacted the immediate operating environment and have also added significant uncertainty as we look forward.

Most notably, the inflationary backdrop has been building globally since H2 FY22 but escalated significantly with the onset of the war in Ukraine. Every business within the UK, directly or indirectly, will have been exposed to large and unavoidable inflationary pressure through energy costs, the appreciation of the USD, increases in National Minimum Wages ("NMW"), raw material price increases, freight cost increases as well as general inflationary pressure.

Whilst certain aspects of inflation have been unavoidable such as NMW and the cost of raw materials, we have been very successful at mitigating and minimising the impact of others through supplier negotiations, hedging policies and tactical cost savings and efficiencies. Notwithstanding those mitigations, as a Group we estimate that we have been exposed to over £30m of headwinds vs last year. Consumers therefore have inevitably seen prices of certain products increase, particularly those most exposed to inflationary pressures.

<u>Forward purchasing</u>

Two of the most significant inflationary impacts facing UK businesses are energy and USD purchases but we have very successfully managed both of these impacts within FY23. Our entire FY23 energy requirements were fully purchased by October 2021 resulting in a nil, year on year impact to the Group. This was a significant achievement and testament to our forward-looking purchasing policies which successfully mitigated significant potential inflation relative to spot rates or purchases made later last year.

Our USD hedging policy has been equally successful with the Group seeing an average hedge rate of almost $1.37 through our cost of goods during H1. We are now 98% hedged for the FY23 purchases at an average rate of almost $1.32 - again, significantly ahead of current spot rates.

Whilst these two pressures look to be a headwind for FY24, we will continue to manage and limit our exposure. Our Service led strategy means USD denominated goods have fallen as a proportion of Group cost of goods to less than 30%. This means that while we still see exposure to foreign exchange volatility, the scale of impact it has on profits will continue to reduce. We will also continue to monitor markets in order to make optimal purchases and limit risks to the business.

Freight negotiations

Freight markets have been another, highly volatile and inflationary cost to businesses over the last 18 months. During FY21 and FY22, freight markets saw rates increase almost 10x at their peak as businesses fought to secure supply and transportation of goods through some of the peak demand of the COVID period. The scale and forward purchasing of goods by the Group enabled us to stay below spot rates through the entire COVID period. Recently however, as global demand has fallen, freight rates have also begun to fall to levels in line with pre-COVID. Whilst the rates the Group had secured for FY23 were competitive rates at the time, we have since renegotiated with our providers to ensure we continue to pay rates at or below spot markets during H2, as spot rates fall below our previously contracted rates.

Cost and efficiency

The Group has an excellent track record of cost and efficiency delivered through targeted store closures, increasing sales densities, product profitability and general cost reduction. Over the last two years this has enabled the Group to reinvest and grow the underlying business by creating a digitally led, customer first business.

This year is no different and in June we set a target of £15m of in year cost reductions. Whilst these savings will be used to offset inflation, the importance of continuing to drive reductions remains. By the close of H1, we had already achieved savings of c.£10m vs. last year and these will exceed +£20m over the full year, beating our original target.

These savings have been achieved through rent reductions, organisational design, efficiency improvements within our stores, garages and contact centres, and general savings negotiated through our tendering process.

Financial strength and resilience

It is ultimately the Group's strategy that has enabled both a resilient H1 performance and the strong PBT growth since FY20. Transforming into a services-led business, targeting needs-based consumer spend, and being less reliant and exposed to the volatility of more discretionary product markets has been, and continues to be, key.

The Group remains financially secure with strong revenue resilience, cash generation and capital discipline. At the end of H1, the business closed with an underlying net cash position of £32.3m and with a lower stock volume than at the start of the year as we continue to manage intake, whilst maintaining strong availability for our customers.

Capital structure and dividend

Our capital allocation priorities remain unchanged:

1. Maintaining a prudent balance sheet
2. Investment for growth
3. M&A, focused on Autocentres
4. Progressive dividend policy
5. Surplus cash returned to shareholders

We ended the period in a positive net cash position (pre IFRS 16 lease debt), with a Net Debt: EBITDA ratio (post IFRS 16) of 1.8x which is within our targets of 1.8x pre-M&A or 2.3x post. Our £180m debt facility has recently been extended to December 2025.

With a continued strong performance from our areas of strategic focus, we will continue with our transformation plan, for which we will require between £45m and £50m of capital expenditure in FY23, plus a further £15m on National. Our growth plan has been complemented by the acquisition of Lodge Tyre at the beginning of H2.

We understand the importance of the ordinary dividend to many of our investors and we updated our dividend policy at our preliminary results in June 2021, reinstating the ordinary dividend from FY22 at 9p per share, intending this to be progressive. We have declared an FY23 interim dividend of 3p per share to be paid on 20 January 2023 with the corresponding ex-dividend date of 15 December 2022 and the record date of 16 December 2022.

Current trading and outlook

Since the period close, we've continued to see resilient trading in the more needs-based categories, but there has been a softening in the more discretionary areas. It remains challenging to predict consumer confidence for the remainder of FY23, but we don't expect the challenges that businesses are facing to dissipate soon.

Whilst the macro-economic environment remains volatile, we continue to focus on the things that are within our control. We have good visibility of cost inflation in FY23, having bought early on FX and utilities and will exceed our cost and efficiency targets for the full year.

Our transition towards a more resilient, needs-based, motoring services business leaves us much better insulated from the potentially volatile and softer demand for discretionary goods. Our focus on increasing capacity and retention in our garages will ensure we meet the high customer demand for our services and also provides an opportunity to further increase our share within these markets.

We expect full year underlying profit before tax to be at the lower end of our £65m and £75m range. With even the very bottom-end of this range representing double-digit percentage growth on FY20, it is a testament to our transformation and the increasing resilience of the business.

Graham Stapleton

Chief Executive Officer, Halfords Group plc

22 November 2022

Chief Financial Officer’s Report

Halfords Group plc (“the Group” or “Group”)

Reportable Segments

Halfords Group operates through two reportable business segments:

- Retail, operating in both the UK and Republic of Ireland; and
- Autocentres, operating primarily in the UK.

All references to Retail represent the consolidation of the Halfords (“Halfords Retail”) and Cycle Republic businesses, Boardman Bikes Limited and Boardman International Limited (together, “Boardman Bikes”), and Performance Cycling Limited (together, “Tredz and Wheelies”) trading entities. All references to Autocentres represent the consolidation of the Autocentres, McConechy’s, Axle (“National Tyres”), Avayler and Universal trading entities. All references to Group represent the consolidation of the Retail and Autocentres segments.

The “H1 FY23” accounting period represents trading for the 26 weeks to 30 September 2022 (“the period”). The comparative periods “H1 FY22” and “H1 FY20” represent trading for the 26 weeks to 1 October 2021 (“the prior period”) and to 27 September 2019 respectively.

To provide a better understanding of underlying performance, operating performance comparisons (sales, margin, profitability) will also be made relative to FY20, that is on a 3-year basis. The disruption to the last two years (FY21 and FY22) from COVID-19 and the Ukraine war means that one-year comparators are, in some instances, more difficult to interpret. All numbers shown are on a post IFRS16 basis, unless otherwise stated.

Group Financial Results

	H1 FY23 £m	H1 FY22 £m	Change 23 vs 22 %	H1 FY20 £m	Change 23 vs 20 %
Group Revenue	765.7	694.8	10.2%	582.7	31.4%
Group Gross Profit	393.1	359.4	9.4%	291.7	34.8%
Gross Margin	51.3%	51.7%	-0.8%	50.1%	2.4%
Group EBIT	34.4	63.7	-46.0%	36.8	-6.5%
Underlying EBITDA	92.0	115.7	-20.5%	90.8	1.3%
Net Finance Costs	-5.4	-5.8	-6.9%	-6.6	-18.2%
Underlying Profit Before Tax	**29.0**	**57.9**	**-49.9%**	**30.2**	**-4.1%**
Net non-underlying items	0.3	6.4	-95.3%	-2.7	-111.1%
Profit Before Tax	**29.3**	**64.3**	**-54.4%**	**27.5**	**6.5%**
Basic Earnings per Share, before non-underlying items	10.6p	24.0p	-55.8%	12.2p	-13.1%

Group revenue in H1 FY23, at £765.7m, is up +31.4% vs FY20 and +10.2% on H1 FY22. This comprised Retail revenue of £500.5m and Autocentres revenue of £265.2m. Group gross profit at £393.1m (H1 FY20: £291.7m and H1 FY22 £359.4m) represented 51.3% of Group revenue (H1 FY20: 50.1%, H1 FY22 51.7%). The absolute gross profit growth vs FY20 has been driven by both Retail and Autocentres, but most notably Autocentres growing by +£85m since FY20. This is a result of growth in the LFL business and also the acquisitions of National, Universal and McConechy's, which were not part of the business during H1 FY20.

Gross margin % has also grown, +130bps vs FY20, with Retail +320bps and Autocentres -1500bps. Retail gross margin growth is a result of the Cycling optimisation work through FY21, offset in part by an investment in price within our Retail Motoring business. Autocentres has seen gross margin improvements in each underlying business, but has seen margin dilution as a result of acquisitions of lower margin tyre businesses.

Total operating costs before non-underlying items were 40.7% higher than H1 FY20 at £358.7m and 21.3% higher than H1 FY22 (H1 FY20: £254.9m and H1 FY22: £295.7m) of which Retail comprised £216.5m (H1 FY20: £201.1m and H1 FY22: £211.4m), Autocentres £139.8m (H1 FY20: £52.7m and H1 FY22: £83.1m) and unallocated costs £2.4m (H1 FY20: £1.1m and H1 FY22: £1.2m). Within FY22, the Group received business rates relief totalling £9.2m of which £7.9m was within Retail and £1.3m in Autocentres. The significant increase in operating costs within Autocentres primarily reflects the costs within the acquired businesses of +£58.5m. Operating expenses also saw significant inflationary pressures totalling approximately £12m. Unallocated costs represent amortisation charges in respect of intangible assets acquired through business combinations, namely the acquisition of Autocentres in February 2010, Boardman Bikes in June 2014, Tredz and Wheelies in May 2016, McConechy's in November 2019, Universal in March 2021 and National in December 2021, which arise on consolidation of the Group.

The overall EBIT performance of the Group declined -£29.3m vs H1 FY22 which was a result of a softer trading performance in more discretionary Retail products, annualising the business rates relief and significant inflation within costs of goods and operating expenses. Whilst the Group has made significant progress in mitigating inflation, the combination and speed of onset of both inflation and softer Retail trading resulted in the EBIT decline vs FY22. Performance vs H1 FY20 declined only -£2.4m which demonstrates the significant strategic progress and growth of the Group which has almost entirely offset the same pressures. Group Underlying EBITDA decreased -20.5% from H1 FY22 to £92.0m (H1 FY22: £115.7m), whilst net finance costs were £5.4m (H1 FY22: £5.8m).

Underlying Profit Before Tax for the period was down 4.0% on H1 FY20 at £29.0m (H1 FY20: £30.2m and H1 FY22: £57.9m). The non-underlying credit of £0.3m in the period (H1 FY20: debit £2.7m) relates principally to adjustments to store and autocentre closure cost provisions, offset by acquisition fees in prior years.

After non-underlying items, Group Profit Before Tax was £29.3m (H1 FY20: £27.5m).

Retail

	H1 FY23 £m	H1 FY22 £m	Change 23 vs 22 %	H1 FY20 £m	Change 23 vs 20 %
Revenue	500.5	538.7	-7.1%	500.0	0.1%
Gross Profit	251.3	272.6	-7.8%	235.0	6.9%
Gross Margin	50.2%	50.6%	-0.8%	47.0%	6.8%
Operating Costs	-216.5	-211.4	2.4%	-201.1	7.7%
EBIT before non-underlying items	**34.8**	**61.2**	-43.1%	**33.9**	2.7%
Non-underlying items	1.7	6.4	-73.4%	-2.5	-168.0%
EBIT	**36.5**	**67.6**	-46.0%	**31.4**	16.2%
Underlying EBITDA	**74.7**	**102.3**	-27.0%	**80.0**	-6.6%

Revenue for the Retail business of £500.5m reflected, on a constant-currency basis, a one-year like-for-like (LFL) sales decrease of -6.0% and three-year LFL growth of +10.3%.

Please refer to the Retail Operational Review in the Chief Executive's Statement for further commentary on the trading performance in the period. Like-for-like revenues and total sales revenue mix for the Retail business are split by category below:

	H1 FY23 vs FY22 LFL (%)	H1 FY23 vs FY20 LFL (%)	H1 FY23 Total sales mix (%)	H1 FY20 Total sales mix (%)	H1 FY22 Total sales mix (%)
Motoring	-1.5	10.2	59.4%	57.5	56.7
Cycling	-12.5	8.1	40.6%	42.5	43.3
Total	**-6.0**	**10.3**	**100.0**	**100.0**	**100.0**

Gross profit for the Retail business at £251.3m (H1 FY20: £235.0m and H1 FY22: £272.6m) represented 50.2% of sales, which is a decrease on previous year but an increase on FY20 (H1 FY22: 50.6%, H1 FY20: 47.0%). The year-on-year decrease in gross margin % is largely driven by inflationary cost pressures, particularly in freight and the cost of goods sold, whereas the growth since FY20 reflects favourable buying terms, component rationalisation, more effective promotional pricing within the cycling category and a sales increase in higher margin motoring categories vs cycling despite the price investment in key categories that began in H2 FY22. Although the price investment has had a dilutive impact on Motoring margins, volume growth and market share to date have been stronger than anticipated having an overall positive effect on total Retail gross profit.

The table below shows the average exchange rate reflected in cost of sales, along with the year-on-year movement. The Groups hedges US dollar cashflows 12 -18 months in advance and therefore the average exchange rate reflected in cost of sales in the period reflects the prevailing rates at this time.

	H1 FY20 $	H1 FY22 $	H1 FY23 $
Average USD: GBP rate reflected in cost of sales	$1.33	$1.32	$1.37

A £4.5m credit (H1 FY22: £0.8m) has been recognised at the period end relating to Derivative financial instruments that do not qualify for hedge accounting under the rules of IFRS 9 in the context of the Group's policy to hedge its inventory purchases. The gain has therefore been recognised at fair value through the income statement. A £9.0m credit (H1 FY22: £5.0m) has also been recognised through Other Comprehensive Income relating to the increase in fair value of Derivative financial instruments for which hedge accounting has been applied.

Retail operating costs before non-underlying items increased by 2.4% against H1 FY22 and 7.7% against H1 FY20 to £216.5m (H1 FY22: £211.4m and H1 FY20: £201.1m). The 2.4% increase against H1 FY22 is predominantly due to last year's business rates relief of £7.9m not recurring in H1 FY23. This was offset somewhat by benefits associated with our cost transformation programme as well as a reduction in bonus accruals that were made as a result of lower overall Group performance. The 7.7% 3-year increase in cost supported the 10.3% LFL% sales growth, incorporating increases in store payroll, warehouse and distribution and marketing costs.

Autocentres

	H1 FY23 £m	H1 FY22 £m	Change 23 vs 22 %	H1 FY20 £m	Change 23 vs 20 %
Revenue	265.2	156.1	69.9%	82.7	220.7%
Gross Profit	141.8	86.8	63.3%	56.7	150.1%
Gross Margin	53.5%	55.6%	-3.8%	68.6%	-22.0%
Operating Costs	-139.8	-83.1	68.2%	-52.7	165.3%
EBIT before non-underlying items	**2.0**	**3.7**	-45.9%	**4.0**	-50.0%
Non-underlying items	-1.4	0.0	-100.0%	-0.2	600.0%
EBIT	**0.6**	**3.7**	-83.8%	**3.8**	-84.2%
Underlying EBITDA	**17.7**	**13.4**	32.1%	**11.0**	60.9%

Autocentres generated total revenues of £265.2m (H1 FY22: £156.1m), an increase of 69.9% on H1 FY22, with one-year LFL increase of 14.3%.

The increase in total revenue from FY22 was primarily due to the acquisition of National, but the underlying Autocentre business also performed strongly on a like-for-like basis with growth in all categories, particularly services and tyres.

Gross profit at £141.8m (H1 FY22: £86.8m) represented a gross margin of 53.5%, a decrease from the 55.6% gross margin in H1 FY22, reflecting the higher tyre mix because of the acquisition of National, which made up c33% of sales in H1 but has a lower gross margin percentage. Excluding National, gross margin was +1.7% year on year.

Autocentre EBIT of £0.6m was £3.1m below H1 FY22 and £3.2m below H1 FY20. FY22 comparative EBIT is distorted by the partial closure of some of the garages, furlough claims and business rates and therefore the more relevant comparator is H1 FY20. The dip in profitability reflects the significant shift of the MOT peak season into our second half. Autocentres operating costs increased by £56.7m (+68.2%) primarily driven by the acquired National business, totalling £37.6m. Of the remaining variance, £9.0m was driven by an increase in wages and salaries due to increased headcount and higher colleague variable pay. This was combined with additional costs in travel, fuel, rent and rates.

Portfolio Management

The Retail store portfolio as at 30 September 2022 comprised 397 stores (end of H1 FY22: 403; end of FY22: 403). No new Retail stores were opened and 3 were closed during the period.

The Autocentres portfolio as at 30 September 2022 comprised 593 locations (304 Halfords Autocentres, 42 McConechy's, 231 National Garages, 14 HME hubs & 2 HaveBike hubs). At the end of H1 FY22 there were 374 locations and at the end of FY22 606.

As at 30 September 2022 there are a total of 482 vans in operation, 196 of which are HME, 128 McConechy's, 93 Universal and 65 National. At the end of H1 FY22 there were 364 vans across the Group and at the end of FY22 445.

The following table outlines the changes in the Retail and Autocentres store portfolio over the 26-week period:

	Retail	Autocentres
Relocations	0	0
Leases re-negotiated	13	9
Rightsized	0	0
Openings	0	0
Mergers	0	11
Closed	3	2

Net Non-Underlying items

The following table outlines the components of the non-underlying items recognised in the period:

	H1 FY23 £m	H1 FY22 £m
Organisational restructure costs	0.5	0.3
Closure costs	(2.8)	(6.8)
Acquisition and investment related fees	1.6	-
Provision for expected settlement of an ongoing legal case	-	0.1
Replacement of warehouse management system	0.4	-
Net non-underlying items (credit)	**(0.3)**	**(6.4)**

In prior period, organisational restructure costs related to a strategic redesign of our instore operating model undertaken to better meet our customers' expectations and deliver a consistent shopping experience across our estate. Costs of £0.3m were incurred in the prior period to transition to the new operating model. In the current period £0.5m of redundancy costs were incurred in relation to further organisational design changes.

During FY20 and FY21 the group completed a strategic review of the profitability of the physical estate and subsequently closed a number of stores and garages. Assets were impaired and costs associated with the ongoing onerous commitments under the lease agreements and other costs associated with the property exits were provided for accordingly. In the current period, a credit of £2.8m (HY22: £6.8m) relates to the release of some of these provisions as the group continues to negotiate lease disposals and review provisions held. These will continue to unwind as property exits are negotiated with landlords and tenants and could result in further amounts being released to the income statement due to the significant estimation uncertainty over the timing of exits and the final negotiated settlements.

Acquisition and investment related fees of £1.6m (HY22: £0.0m) in the period comprise professional fees incurred in relation to National Tyres and the post year end acquisition of Lodge Tyre Company.

Provision for expected settlement of an ongoing legal case in the prior period of £0.1m relates to professional and redundancy fees incurred in relation to the national minimum wage investigation which was settled in the prior year, these amounted to £0.1m. A release of £2.2m was made in FY22 as the case was fully settled and paid.

Costs relating to the replacement of the Warehouse Management system were incurred during the current period and in H2 FY22. Under the new IFRIC guidance regarding IAS 38 this cannot be capitalised and therefore, owing to the nature of this cost, this is disclosed as a non-underlying expense.

Finance Expense

The net finance expense for the period was lower year-on-year at £5.4m (H1 FY22: £5.8m), as a result of a decrease in the level of IFRS 16 interest, reflecting the ageing of the lease portfolio. Net finance costs pre IFRS 16 are in line with the prior year at £1.3m (H1 FY22: £1.3m).

Taxation

The taxation charge on profit for the financial period was £6.2m (H1 FY22: £11.6m). The effective tax rate before non-underlying items of 20.2% (H1 FY21: 18.0%) differs from the UK corporation tax rate (19.0%) primarily as a result of movement on share based payments. The rate increase is partially offset by the effect of the 30% permanent element of the 130% capital allowances super deduction on qualifying plant and machinery additions.

The full year FY23 effective tax rate is expected to be around 21% which is due in part to the share based payment charge in the period to 30 September 2022.

Earnings Per Share ("EPS")

Underlying Basic EPS was 10.6 pence and after non-underlying items 10.6 pence (H1 FY22: 24.0 pence after non-underlying items, H1 FY22: 26.6 pence). Basic weighted-average shares in issue during the period were 217.2m (H1 FY22: 197.8m). The increase in the basic weighted-average shares in issue during the period from H1 FY22 is due to the issue of additional shares in H2 FY22 to fund the acquisition of the National Group.

Dividend ("DPS")

The Board have declared an interim dividend of 3p per share in respect of the period to 30 September 2022 (H1 FY22: 3p). The interim dividend will be paid on 20 January 2023 to shareholders who are on the register of members, with an ex-dividend date of 15 December 2022 and a record date of 16 December 2022.

Capital Expenditure

Capital investment in the period totalled £20.0m (H1 FY22: £22.8m)

£14.1m was spent in Retail, of which £6.5m related to various business system improvements, £1.0m was invested in stores, the majority of which related to on-going store improvements and maintenance projects. Investment has also continued in IT systems £2.2m, covering the continuous development and enhancement of the website. A balance of £1m was invested within Tredz & Wheelies relating to software. H1 FY22 capital expenditure of £7.4m was spent developing the website, £3.4m was spent on business system improvements and £5.5m was invested in store improvement and maintenance projects.

£5.9m was spent in Autocentres, of which £1.6m relates to IT software, £2.5m was spent on asset replacement and £1m on support centre costs. Within this spend, £1.7m is attributable to National integration, with both the rollout of PACE and equipment renewals being the most significant investments. H1 FY22 capital expenditure of £7.8m related to the purchase of Halfords Mobile Expert vans, PACE (the underpinning system architecture within the Autocentre business) development work and replacement of fixtures and fittings.

Inventories

Group inventory held as at the period end was £255.3m (H1 FY22: £172.3m). The FY22 year end balance was £222.1m and as such the H1 FY23 stock balance represents a £33.2m increase on the year end position. This has been driven by product and freight inflation, and investment in Autocentres to support growth.

Retail inventory increased to £200.5m (H1 FY22: £151.6m, YE FY22: £182.9). The increase vs H1 FY22 was largely driven by a significant recovery in stock availability and the impact of inflation. The £17.6m increase vs the FY22 year end position was driven by inflation in the cost of goods sold (including the impact of higher freight rates). Overall stock volumes are broadly flat compared to year end.

Tredz and Wheelies stock value was £13.2m (H1 FY22: £10.1m, YE FY22: £11.6m) largely driven by rise in inflation, similar to retail, as well as an increase in stock holding.

Autocentres' inventory was £41.6m (H1 FY22: £10.6m, YE FY22 £27.6). The increase in inventory vs H1 FY22 primarily relates to the acquisition of National group and their stock holding of tyres. Within this stock balance, Autocentres have £8.2m of stock held at a 3rd party location, of which Halfords hold the legal rights to the stock.

Cashflow and Borrowings

Adjusted Operating Cash Flow during the period, was £84.8m (H1 FY22: £108.1m). After acquisitions, taxation, capital expenditure, net finance costs, and lease payments, Free Cash outflow of £0.1m (H1 FY22: £31.1m inflow) was generated in the period. The decrease in Free Cash Flow of £31.2m from H1 FY22 is primarily due to the reduction in the Group's EBITDA from H1 FY22.

Group net debt was £336.0m at the balance sheet date (H1 FY22: £232.7m, YE FY22 344.9m) consisting of £78.0m of cash, £(11.5)m bank overdrafts, £(34.2)m the Group's revolving credit facility, and £(368.3)m of Lease Liabilities. The decrease in the Group's net debt from FY22 year end of £8.9m relates to a decrease of £22.7m in Lease Liabilities, £20.4m cash inflow, £0.6m of other non-cash movements, and a £34.2m drawdown on the Group's revolving credit facility to fund the acquisition of Lodge Trading Holdings Limited after the period end.

Post period end the Group has also successfully extended its £180m debt facility until December 2025.

Principal Risks and Uncertainties

The Board considers risk assessment, identification of mitigating actions and internal control to be fundamental to achieving Halfords' strategic corporate objectives. In the Annual Report & Accounts the Board sets out what it considers to be the principal commercial and financial risks to achieving the Group's objectives. The main areas of potential risk and uncertainty in the balance of the financial year are described in the Strategic Report on page 72 of the 2022 Annual Report and Accounts, and all are considered relevant to the H1 FY23 reporting. These include:

- Business Strategy
    - Capability and capacity to effect change
    - Stakeholder support and confidence in strategy
    - Value proposition
    - Brand appeal and market share
    - Climate change & electrification
- Financial
    - Sustainable business model
- Compliance
    - Regulatory and compliance
    - Service quality
    - Cyber security
- Operational
    - Colleague engagement/culture
    - Skills shortage
    - IT infrastructure
    - Disruption to end to end supply chain

Jo Hartley
Chief Financial Officer, 22 November 2022

Glossary of Alternative Performance Measures

In the reporting of financial information, the Directors have adopted various Alternative Performance Measures ("APMs"). APMs should be considered in addition to IFRS measurements, of which some are shown on Page 1. The Directors believe that these APMs assist in providing useful information on the underlying performance of the Group, enhance the comparability of information between reporting periods, and are used internally by the Directors to measure the Group's performance, not necessarily comparable to other entities APMs.

The key APMs that the Group focuses on are as follows:

1. Like-for-like ("L4L") sales represent revenues from stores, centres and websites that have been trading for at least a year (but excluding prior year sales of stores and centres closed during the year) at constant foreign exchange rates.
2. Underlying EBIT equates to results from operating activities before non-underlying items, as shown in the Group Income Statement. Underlying EBITDA further removes depreciation and amortisation.
3. Underlying Profit Before Tax is profit before income tax and non-underlying items as shown in the Group Income Statement.
4. Underlying Earnings Per Share is profit after income tax before non-underlying items as shown in the Group Income Statement, divided by the number of shares in issue.
5. Net Debt is current and non-current borrowings less cash and cash equivalents, both in-hand and at bank, as shown in the Consolidated statement of financial position, as reconciled below:

	H1 FY23 £m	H1 FY22 £m
Cash and cash equivalents	78.0	92.1
Borrowings – current	(45.7)	(0.1)
Borrowings – non-curent	-	(0.4)
Lease liabilities – current	(75.2)	(55.9)
Lease liabilities – non-current	(293.1)	(268.4)
Net Debt	**(336.0)**	**(232.7)**

6. Net Debt to Underlying EBITDA ratio is represented by the ratio of Net Debt to Underlying EBITDA (both of which are defined above).
7. Adjusted Operating Cash Flow is defined as EBITDA plus share-based payment transactions and loss on disposal of property, plant and equipment, less working capital movements and movements in provisions (excluding post period end payment run adjustment), as reconciled below:

	H1 FY23 £m	H1 FY22 £m
Underlying EBIT	34.4	63.7
Depreciation and Amortisation	57.6	52.0
Underlying EBITDA	92.0	115.7
Non-underlying operating income/(expenses)	0.3	6.4
EBITDA	**92.3**	**122.1**
Share-based payment transactions	0.4	4.2
Loss on disposal of property, plant & equipment	0.5	2.5
Profit on disposal of assets held for sale	-	(0.5)
Working capital movements	(6.1)	(12.1)
Provisions movement	(2.3)	(8.1)
Adjusted Operating Cash Flow	**84.8**	**108.1**

8. Free Cash Flow is defined as Adjusted Operating Cash Flow (as defined above) less capital expenditure, net finance costs, taxation, exchange movements, and capital lease payments; as reconciled below:

	H1 FY23 £m	H1 FY22 £m
Adjusted Operating Cash Flow	84.8	108.1
Capital expenditure	(25.5)	(27.3)
Net finance costs	(5.0)	(5.5)
Taxation	(5.9)	(5.3)
Exchange movements	(9.6)	(0.7)
Payment of Capital element of Leases	(38.9)	(38.2)
Free Cash Flow	**(0.1)**	**31.1**

Halfords Group plc

Condensed consolidated income statement

For the 26 weeks to 30 September 2022

	Notes	**26 weeks to 30 September 2022 Unaudited £m**	26 weeks to 1 October 2021 Unaudited £m	52 weeks to 1 April 2022 £m
Revenue	7	**765.7**	694.8	1,369.6
Cost of sales		**(372.6)**	(335.4)	(647.9)
Gross profit		**393.1**	359.4	721.7
Operating expenses		**(358.7)**	(295.7)	(620.6)
Operating profit before non-underlying items		**34.4**	63.7	101.1
Net non-underlying operating income	8	**0.3**	6.4	6.8
Results from operating activities		**34.7**	70.1	107.9
Finance costs	9	**(5.4)**	(5.8)	(11.3)
Net finance costs		**(5.4)**	(5.8)	(11.3)
Profit before tax and non-underlying items		**29.0**	57.9	89.8
Net non-underlying operating income	8	**0.3**	6.4	6.8
Profit before tax		**29.3**	64.3	96.6
Tax on underlying items	10	**(6.0)**	(10.4)	(17.2)
Tax on non-underlying items	8	**(0.2)**	(1.2)	(1.7)
Profit for the period attributable to equity shareholders		**23.1**	52.7	77.7
Earnings per share				
Basic earnings per share	13	10.6p	26.6p	37.9p
Diluted earnings per share	13	10.3p	26.0p	36.4p
Basic underlying earnings per share	13	10.6p	24.0p	35.5p
Diluted underlying earnings per share	13	10.3p	23.4p	34.0p

A final dividend was paid for the 52 weeks to 1 April 2022 of 6 pence per share (2022: 5 pence per share). The directors have declared an interim dividend of 3 pence per share in respect of the 26 weeks to 30 September 2022 (2022: 3 pence per share).
The notes on pages 29 to 38 are an integral part of these condensed consolidated interim financial statements.

Halfords Group plc

Condensed consolidated statement of comprehensive income

For the 26 weeks to 30 September 2022

	26 weeks to 30 September 2022 Unaudited £m	26 weeks to 1 October 2021 Unaudited £m	52 weeks to 1 April 2022 £m
Profit for the period	**23.1**	52.7	77.7
Other comprehensive income			
Cash Flow hedges: fair value changes in the period	**9.0**	5.0	(9.6)
Income tax on other comprehensive income	**(0.9)**	(1.2)	1.6
Other comprehensive income for the period, net of tax	**8.1**	3.8	(8.0)
Total comprehensive income for the period attributable to equity shareholders	**31.2**	56.5	45.2

All items within the Consolidated statement of comprehensive income are classified as items that are or may be recycled to the consolidated income statement

The notes on pages 29 to 38 are an integral part of these condensed consolidated interim financial statements.

Halfords Group plc

Condensed consolidated statement of financial position

As at 30 September 2022

	Notes	**As at 30 September 2022 Unaudited £m**	As at 1 October 2021 Restated* Unaudited £m	As at 1 April 2022 £m
Assets				
Non-current assets				
Intangible assets	14	**444.7**	401.9	442.4
Property, plant and equipment	14	**97.9**	79.4	101.7
Right-of-use assets	14	**329.8**	271.2	350.2
Derivative financial instruments		**0.7**	0.7	-
Deferred tax asset		**13.2**	8.2	14.7
Total non-current assets		**886.3**	761.4	909.0
Current assets				
Inventories		**255.3**	172.3	222.1
Trade and other receivables		**122.4**	85.0	92.6
Derivative financial instruments		**15.7**	3.0	4.2
Current tax assets		**-**	0.5	3.9
Cash and cash equivalents	15	**78.0**	92.1	46.3
Total current assets		**471.4**	352.9	369.1
Total assets		**1,357.7**	1,114.3	1,278.1
Liabilities				
Current liabilities				
Borrowings	15	**(45.7)**	(0.1)	(0.2)
Derivative financial instruments		**(0.1)**	(1.5)	(0.5)
Lease liabilities		**(75.2)**	(55.9)	(74.5)
Trade and other payables		**(350.3)**	(280.6)	(299.6)
Current tax liabilities		**(0.3)**	-	(4.0)
Provisions		**(20.3)**	(19.2)	(20.4)
Total current liabilities		**(491.9)**	(357.3)	(399.3)
Net current liabilities		**(20.5)**	(4.4)	(30.2)
Non-current liabilities				
Borrowings	15	**-**	(0.4)	-
Lease liabilities		**(293.1)**	(268.4)	(316.5)
Derivative financial instruments		**(0.1)**	(0.5)	-
Trade and other payables		**(3.7)**	(5.1)	(4.9)
Provisions		**(4.3)**	(12.2)	(6.4)
Total non-current liabilities		**(301.2)**	(286.6)	(327.8)
Total liabilities		**(793.1)**	(643.9)	(727.1)
Net assets		**564.6**	470.4	551.0
Shareholders' equity				
Share capital	16	**2.2**	2.0	2.2
Share premium account	16	**212.4**	151.0	212.4
Investment in own shares		**(13.1)**	(9.1)	(11.6)
Other reserves		**7.1**	1.7	2.0
Retained earnings		**356.0**	324.8	346.0
Total equity attributable to equity holders of the Company		**564.6**	470.4	551.0

* Please refer to Note 20 for further details

The notes on pages 29 to 38 are an integral part of these condensed consolidated interim financial statements.

Halfords Group plc

Condensed consolidated statement of changes in equity

For the 26 weeks to 30 September 2022

For the period ended 30 September 2022 (Unaudited)

	Attributable to the equity holders of the Company						
				Other reserves			
	Share capital £m	Share premium account £m	Investment in own shares £m	Capital redemption reserve £m	Hedging reserve £m	Retained earnings £m	**Total equity £m**
Closing balance at 1 April 2022	**2.2**	**212.4**	**(11.6)**	**0.3**	**1.7**	**346.0**	**551.0**
Total comprehensive income for the period							
Profit for the period	-	-	-	-	-	23.1	**23.1**
Other comprehensive income							
Cash flow hedges: fair value changes in the period	-	-	-	-	9.0	-	**9.0**
Income tax on other comprehensive income	-	-	-	-	(0.9)	-	**(0.9)**
Total other comprehensive income for the period net of tax	-	-	-	-	8.1	-	**8.1**
Total comprehensive income for the period	-	-	-	-	8.1	23.1	**31.2**
Hedging gains and losses transferred to the cost of inventory	-	-	-	-	(3.0)	-	**(3.0)**
Transactions with owners							
Acquisition of Treasury Shares	-	-	(1.5)	-	-	-	**(1.5)**
Share options exercised	-	-	-	-	-	-	**-**
Share-based payment transactions	-	-	-	-	-	0.4	**0.4**
Tax on share-based payment transactions	-	-	-	-	-	(0.5)	**(0.5)**
Dividends to equity holders	-	-	-	-	-	(13.0)	**(13.0)**
Total transactions with owners	-	-	(1.5)	-	-	(13.1)	**(14.6)**
Balance at 30 September 2022	**2.2**	**212.4**	**(13.1)**	**0.3**	**6.8**	**356.0**	**564.6**

The notes on pages 29 to 38 are an integral part of these condensed consolidated interim financial statements.

Condensed consolidated statement of changes in equity (continued)

For the 26 weeks to 30 September 2022

For the period ended 1 October 2021 (Unaudited)

	Attributable to the equity holders of the Company						
				Other reserves			
	Share capital £m	Share premium account £m	Investment in own shares £m	Capital redemption reserve £m	Hedging reserve £m	Retained earnings £m	**Total equity £m**
Closing balance at 2 April 2021	**2.0**	**151.0**	**(10.0)**	**0.3**	**(2.1)**	**276.6**	**417.8**
Total comprehensive income for the period							
Profit for the period	-	-	-	-	-	52.7	**52.7**
Other comprehensive income							
Cash flow hedges: fair value changes in the period	-	-	-	-	5.0	-	**5.0**
Income tax on other comprehensive income	-	-	-	-	(1.2)	-	**(1.2)**
Total other comprehensive income for the period net of tax	-	-	-	-	3.8	-	**3.8**
Total comprehensive income for the period	-	-	-	-	3.8	52.7	**56.5**
Hedging gains and losses transferred to the cost of inventory	-	-	-	-	(0.3)	-	**(0.3)**
Transactions with owners							
Share options exercised	-	-	0.9	-	-	-	**0.9**
Share-based payment transactions	-	-	-	-	-	4.2	**4.2**
Tax on share-based payment transactions	-	-	-	-	-	1.2	**1.2**
Dividends to equity holders	-	-	-	-	-	(9.9)	**(9.9)**
Total transactions with owners	-	-	0.9	-		(4.5)	**(3.6)**
Balance at 1 October 2021	**2.0**	**151.0**	**(9.1)**	**0.3**	**1.4**	**324.8**	**470.4**

The notes on pages 29 to 38 are an integral part of these condensed consolidated interim financial statements.

Halfords Group plc

Condensed consolidated statement of cash flows

For the 26 weeks to 30 September 2022

	Notes	**26 weeks to 30 September 2022 Unaudited £m**	26 weeks to 1 October 2021 Restated* Unaudited £m	52 weeks to 1 April 2022 £m
Cash Flows from operating activities				
Profit after tax for the period before non-underlying items		**23.0**	47.5	72.6
Non-underlying items	8	**0.1**	5.2	5.1
Profit after tax for the period		**23.1**	52.7	77.7
Depreciation – property, plant and equipment		**10.2**	11.5	20.6
Impairment/(reversal) – property, plant and equipment		**0.6**	0.3	(0.3)
Amortisation of right-of-use assets		**37.4**	33.4	69.9
Amortisation – intangible assets		**9.4**	6.8	15.8
Net finance costs		**5.4**	5.8	11.3
Loss on disposal of property, plant and equipment and intangibles		**1.2**	2.5	1.8
Profit on sale and lease back		**-**	(0.5)	(0.4)
Gain on disposal of leases		**(0.7)**	-	(6.6)
Equity-settled share-based payment transactions		**0.4**	4.2	7.8
Exchange movement		**(9.6)**	(0.7)	0.9
Income tax expense		**6.2**	11.6	18.9
Increase in inventories		**(22.7)**	(30.3)	(66.7)
Increase in trade and other receivables		**(30.9)**	(10.9)	1.3
Increase/(decrease) in trade and other payables		**47.5**	29.1	(4.6)
Decrease in provisions		**(2.3)**	(8.1)	(14.7)
Corporation tax paid		**(5.9)**	(5.3)	(12.2)
Net cash from operating activities		**69.3**	102.1	120.5
Cash Flows from investing activities				
Acquisition of subsidiary, net of cash acquired		**-**	-	(58.5)
Proceeds from sale of assets held for sale		**-**	7.5	7.5
Purchase of intangible assets		**(10.9)**	(10.4)	(22.0)
Purchase of property, plant and equipment		**(14.6)**	(16.9)	(25.3)
Net cash used in investing activities		**(25.5)**	(19.8)	(98.3)
Cash Flows from financing activities				
Proceeds from issue of share capital		**-**	-	61.6
Repurchase of treasury shares		**(1.5)**	-	(3.0)
Proceeds from share options exercised		**-**	0.9	1.4
Finance costs paid		**(0.7)**	(5.5)	(1.6)
Proceeds from loans, net of transaction costs		**35.0**	-	-
Interest paid on lease liabilities		**(4.3)**	(4.6)	(9.0)
Payment of capital element of leases		**(38.9)**	(38.2)	(76.0)
Dividends paid	12	**(13.0)**	(9.9)	(16.5)
Net cash (used in)/generated from financing activities		**(23.4)**	(57.3)	43.1
Net increase/(decrease) in cash and bank overdrafts	15	**20.4**	25.0	(20.9)
Cash and cash equivalents at the beginning of the period	15	**46.1**	67.0	67.0
Cash and cash equivalents at the end of the period	15	**66.5**	92.0	46.1

*Please refer to Note 20 for further detail

Bank overdrafts are included within Cash and cash equivalents above, see note 15 for further details.

The notes on pages 29 to 38 are an integral part of these condensed consolidated interim financial statements.

Halfords Group plc

Notes to the condensed consolidated interim financial statements

For the 26 weeks to 30 September 2022

1. General information

The condensed consolidated interim financial statements of Halfords Group plc (the "Company") comprise the Company together with its subsidiary undertakings (the "Group").

The Company is a limited liability company incorporated, domiciled and registered in England and Wales. Its registered office is Icknield Street Drive, Washford West, Redditch, Worcestershire, B98 0DE.

The Company is listed on the London Stock Exchange.

These condensed consolidated interim financial statements were approved by the Board of Directors on 22 November 2022.

2. Statement of compliance

These condensed consolidated interim financial statements for the 26 weeks to 30 September 2022 have been prepared in accordance with IAS 34 'Interim financial reporting' as endorsed by the UKEB. They do not include all the information required for full annual financial statements and should be read in conjunction with the 2022 Annual Report and Accounts, which have been prepared in accordance with UK adopted international accounting standards.

The comparative figures for the financial period ended 1 April 2022 are not the Group's statutory accounts for that financial period. Those accounts have been reported on by the Group's auditors and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

3. Risks and uncertainties

The Directors consider that the principal risks and uncertainties which could have a material impact on the Group's performance in the remaining 26 weeks of the financial year remain the same as those stated on pages 72 to 77 of our Annual Report and Accounts for the 52 weeks to 1 April 2022, which are available on our website *www.halfordscompany.com*. These are also detailed in the CFO report on page 65.

4. Significant accounting policies

Going Concern

The directors have reviewed the current financial performance, liquidity and forecasts of the business. Further details of the assessment are provided on pages 78 to 79 of our Annual Report and Accounts for the 52 weeks to 1 April 2022, which are available on our website www.halfordscompany.com. The directors have updated the financial forecasts to reflect the actual performance of the business during H1 and a more challenging economic environment in the UK. Stress tests have been performed on these forecasts and no issues have been raised.

Having reviewed current performance and forecasts, the Directors consider that the Group has adequate resources to remain in operation for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the condensed consolidated interim financial statements. The Group's forecasts and projections, taking into account reasonably possible changes in trading performance, show that the Group has adequate resources to continue in operational existence and are compliant with all covenants for a period of at least 12 months from the date of approval of these financial statements.

Accounting Policies

As required by the Disclosure and Transparency Rules of the Financial Conduct Authority, the condensed consolidated interim financial statements have been prepared by applying the accounting policies and presentation that were applied in the preparation of the 2022 Annual Reports and Accounts, which are published on the Halfords Group website, *www.halfordscompany.com.*

The accounting policies adopted in the preparation of the interim financial statements are the same as those set out in the Group's annual financial statements for the 52 weeks ended 1 April 2022.

5. Estimates and judgements

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the 52-week period ended 1 April 2022 and the 26 weeks ended 1 October 2021.

6. Operating segments

The Group has two reportable segments, Retail and Car Servicing, which are the Group's strategic business units. Car Servicing became a reporting segment of the Group as a result of the acquisition of Nationwide Autocentres on 17 February 2010. The strategic business units offer different products and services, and are managed separately because they require different operational, technological and marketing strategies.

The operations of the Retail reporting segment comprise the retailing of automotive, leisure and cycling products and services through retail stores and online platforms. The operations of the Car Servicing reporting segment comprise car servicing and repair performed from Autocentres, commercial vehicles, and mobile customer vans through Halfords Mobile Expert.

The Chief Operating Decision Maker is the Executive Directors. Internal management reports for each of the segments are reviewed by the Executive Directors on a monthly basis. Key measures used to evaluate performance are Revenue and Operating Profit. Management believe that these measures are the most relevant in evaluating the performance of the segment and for making resource allocation decisions.

The following summary describes the operations in each of the Group's reportable segments. Performance is measured based on segment operating profit, as included in the management reports reviewed by the Executive Directors. The segmental reporting disclosures are prepared in accordance with IFRS accounting policies.

All material operations of the reportable segments are carried out in the UK and all material non-current assets are in the UK. The Group's revenue is driven by the consolidation of individual small value transactions and as a result Group revenue is not reliant on a major customer or group of customers. All revenue is from external customers. Since H1 FY22 National Tyres has been acquired by Halfords group and due to the synergies this represents, it has been consolidated within the Car Servicing segment.

Income statement	**Retail £m**	**Car Servicing £m**	**26 weeks to 30 September 2022 Total Unaudited £m**
Revenue	**500.5**	**265.2**	**765.7**
Segment result before non-underlying items	**34.8**	**2.0**	**36.8**
Non-underlying items	**1.7**	**(1.4)**	**0.3**
Segment result	**36.5**	**0.6**	**37.1**
Unallocated expenses[1]			**(2.4)**
Operating profit			**34.7**
Net financing expense			**(5.4)**
Profit before tax			**29.3**
Taxation			**(6.2)**
Profit after tax			**23.1**

Income statement	**Retail £m**	**Car Servicing £m**	**26 weeks to 1 October 2021 Total Unaudited £m**
Revenue	**538.7**	**156.1**	**694.8**
Segment result before non-underlying items	**61.2**	**3.7**	**64.9**
Non-underlying items	**6.4**	**-**	**6.4**
Segment result	**67.6**	**3.7**	**71.3**
Unallocated expenses[1]			**(1.2)**
Operating profit			**70.1**
Net financing expense			**(5.8)**
Profit before tax			**64.3**
Taxation			**(11.6)**
Profit after tax			**52.7**

[1] Unallocated expenses have been disclosed to reflect the format of the internal management reports reviewed by the Chief Operating Decision maker and include an amortisation charge of £2.4m in respect of assets acquired through business combinations (2021: £1.2m).

Income statement	**Retail £m**	**Car Servicing £m**	**52 weeks to 1 April 2022 Total £m**
Revenue	1,001.6	368.0	1,369.6
Segment result before non-underlying items	89.8	14.4	104.2
Non-underlying items	8.9	(2.1)	6.8
Segment result	98.7	12.3	111.0
Unallocated expenses[1]			(3.1)
Operating profit			107.9
Net financing expense			(11.3)
Profit before tax			96.6
Taxation			(18.9)
Profit after tax			77.7

[1] Unallocated expenses have been disclosed to reflect the format of the internal management reports reviewed by the Chief Operating Decision maker and include an amortisation charge of £3.1m in respect of assets acquired through business combinations (2021: £2.3m).

Other segment items:	**Retail £m**	**Car Servicing £m**	**26 weeks to 30 September 2022 Total Unaudited £m**
Capital expenditure	**14.1**	**5.9**	**20.0**
Depreciation expense	**8.0**	**2.8**	**10.8**
Amortisation of right-of-use asset	**26.7**	**11.2**	**37.9**
Impairment/ (Impairment reversal) of right-of-use asset	**(0.8)**	**0.3**	**(0.5)**
Amortisation expense	**6.0**	**1.4**	**7.4**

Other segment items:	**Retail £m**	**Car Servicing £m**	**26 weeks to 1 October 2021 Total Unaudited £m**
Capital expenditure	16.1	6.7	22.8
Depreciation expense	8.0	3.5	11.5
Amortisation of right-of-use asset	25.9	7.5	33.4
Impairment of right-of-use asset	0.3	-	0.3
Amortisation expense	6.1	0.7	6.8

Other segment items:	**Retail £m**	**Car Servicing £m**	**52 weeks to 1 April 2022 Total £m**
Capital expenditure	31.1	18.1	49.2
Depreciation and impairment expense	13.1	7.2	20.3
Amortisation of right-of-use asset	54.1	15.8	69.9
Amortisation expense	14.2	1.6	15.8

There have been no significant transactions between segments in the 26 weeks ended 30 September 2022 (2022: £nil).

7. Revenue

A. Revenue streams and location

The Group's operations and main revenue streams are those described in the last annual financial statements. The Group's revenue is derived from transactions with customers.

Revenue split by the Group's operating segments are shown in Note 6.

All significant revenue is recognised in the United Kingdom and Republic of Ireland.

B. Seasonality of operations

At the Group level, Revenue is not materially seasonal, but this hides some underlying seasonality in certain categories. For example, sales of adult cycles tend to peak in the spring and summer months whilst sales of children's cycles peak in the festive season. Conversely, MOT activity is weighted towards our second half of the year whilst motoring products also tend to exhibit stronger demand in the winter months. With motoring products and services tending to generate higher profits than cycling, the Group's profit is expected to be weighted towards the second half.

8. Non-underlying items

	26 weeks to 30 September 2022	26 weeks to 1 October 2021	53 weeks to 1 April 2022
	Unaudited	Unaudited	
	£m	£m	£m
Non-underlying operating expenses:			
Organisational restructure costs (a)	**0.5**	0.3	0.3
Closure costs (b)	**(2.8)**	(6.8)	(8.5)
Acquisition and investment-related fees (c)	**1.6**	-	2.8
Provision for expected settlement of an ongoing legal case (d)	**-**	0.1	(2.2)
Replacement of warehouse management system (e)	**0.4**	-	0.8
Non-underlying items before tax	**(0.3)**	(6.4)	(6.8)
Tax on non-underlying items (f)	**0.2**	1.2	1.7
Non-underlying items after tax	**(0.1)**	(5.2)	(5.1)

Non-underlying items are those items that are unusual because of their size, nature (one-off, non-trading costs) or incidence. The Group's management considers that these items should be separately identified within their relevant income statement category to enable a full understanding of the Group's results.

(a) In prior period, costs related to a strategic redesign of our instore operating model undertaken to better meet our customers' expectations and deliver a consistent shopping experience across our estate. Redundancy costs of £0.3m were incurred in the prior period to transition to the new operating model. In the current period £0.5m of redundancy costs were incurred in relation to further organisational design changes.

(b) During FY20 and FY21 the group completed a strategic review of the profitability of the physical estate and subsequently closed a number of stores and garages. Assets were impaired and costs associated with the ongoing onerous commitments under the lease agreements and other costs associated with the property exits were provided for accordingly. In the current period, a balance of £2.8m (H1 FY22: £6.8m) relates to the release of some of these provisions as the group continues to negotiate lease disposals and review provisions held in place. These will continue to unwind as property exits are negotiated with landlords and tenants and could result in further amounts being released to the income statement due to the significant estimation uncertainty over the timing of exits and the final negotiated settlements.

(c) During the current period, management incurred professional fees in relation to the post year end acquisition of Lodge Tyre Company and the ongoing integration of the National Tyres business.

(d) During the prior period, management incurred professional and redundancy fees in relation to the national minimum wage investigation which was settled in the prior year, these amounted to £0.1m. A release of £2.2m was made in FY22 as the case was fully settled and paid.

(e) During the current and prior period, management incurred costs as a result of the replacement of the Warehouse Management System. Under the new IFRIC guidance regarding IAS 38 this cannot be capitalised and therefore, owing to the nature of this cost (non-trading cost), this is disclosed as a non-underlying expense.

(f) The tax charge in H1 FY23 represents a tax rate of 62.9% applied to non-underlying items (H1 FY22: Credit, 18.8%, FY22 full year: Credit, 26.4%). The effective tax rate differs from the UK corporation tax rate (19%) due to non deductible expenditure in the current year.

9. Net Finance Costs

	26 weeks to 30 September 2022	26 weeks to 1 October 2021	52 weeks to 1 April 2022
	Unaudited	Unaudited	
	£m	£m	£m
Finance costs:			
Bank borrowings	**-**	(0.2)	(0.1)
Amortisation of issue costs on loans	**(0.4)**	(0.3)	(0.7)
Commitment and guarantee fees	**(0.7)**	(0.8)	(1.5)
Interest payable on lease liabilities	**(4.3)**	(4.5)	(9.0)
Finance costs	**(5.4)**	(5.8)	(11.3)

10. Income tax expense

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year, applied to the pre-tax income of the interim period.

The taxation charge on profit for the financial period was £6.2m (H1 FY22: £11.6m). The effective tax rate before non-underlying items of 20.7% (H1 FY22: 18%) differs from the UK corporation tax rate (19%) primarily as a result of movement on share based payments. The rate increase is partially offset by the effect of the 30% permanent element of the 130% capital allowances super deduction on qualifying plant and machinery additions.

The corporation tax rate is scheduled to rise to 25% from 1 April 2023, the closing deferred tax balances as at 30 September 2022 are already being recognised at 25%.

11. Financial Instruments and Related Disclosures

Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

30 September 2022	**Fair Value – hedging instruments £m**	**Amortised cost £m**	**Other financial liabilities £m**	**Total carrying amount £m**
Financial assets measured at fair value				
Forward exchange contracts used for hedging	**16.4**	**-**	**-**	**16.4**
	16.4	**-**	**-**	**16.4**
Financial assets not measured at fair value				
Trade and other receivables*	**-**	**95.4**	**-**	**95.4**
Cash and cash equivalents	**-**	**78.0**	**-**	**78.0**
	-	**173.4**	**-**	**173.4**
Financial liabilities measured at fair value				
Forward exchange contracts used for hedging	**(0.2)**	**-**	**-**	**(0.2)**
	(0.2)	**-**	**-**	**(0.2)**
Financial liabilities not measured at fair value				
Borrowings	**-**	**-**	**(45.7)**	**(45.7)**
Lease liabilities	**-**	**-**	**(368.4)**	**(368.4)**
Trade and other payables**	**-**	**-**	**(301.8)**	**(301.8)**
	-	**-**	**(715.9)**	**(715.9)**

*Prepayments and accrued income of £27.0m are not included as a financial asset.

** Other taxation and social security payables of £21.3m, deferred income of £9.2m and other payables of £21.7m are not included as a financial liability.

1 October 2021	Fair Value – hedging instruments £m	Amortised cost £m	Other financial liabilities £m	Total carrying amount £m
Financial assets measured at fair value				
Forward exchange contracts used for hedging	3.7	-	-	3.7
	3.7	-	-	3.7
Financial assets not measured at fair value				
Trade and other receivables*	-	89.4	-	89.4
Cash and cash equivalents	-	92.1	-	92.1
	-	181.5	-	181.5
Financial liabilities measured at fair value				
Forward exchange contracts used for hedging	(2.0)	-	-	(2.0)
	(2.0)	-	-	(2.0)
Financial liabilities not measured at fair value				
Borrowings	-	-	(0.5)	(0.5)
Lease liabilities	-	-	(324.3)	(324.3)
Trade and other payables**	-	-	(171.0)	(171.0)
	-	-	(495.8)	(495.8)

*Prepayments and accrued income of £8.9m are not included as a financial asset.
** Other taxation and social security payables of £22.9m deferred income of £1.4m, accruals of £84.9m and other payables of £18.4m are not included as a financial liability.

Measurement of fair values

The fair values of each class of financial assets and liabilities is the carrying amount, based on the following assumptions:

Trade receivables, trade payables and lease obligations, short-term deposits and borrowings	The fair value approximates to the carrying amount because of the short maturity of these instruments
Long-term borrowings	The fair value of bank loans and other loans approximates to the carrying value reported in the statement of financial position as the majority are floating rate where payments are reset to market rates at intervals of less than one year.
Forward currency contracts	The fair value is determined using the market forward rates at the reporting date and the outright contract rate.

Financial instruments carried at fair value are required to be measured by reference to the following levels:

- Level 1: quoted prices in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All financial instruments carried at fair value have been measured by a Level 2 valuation method. There have been no changes to classifications in the current or prior period.

Credit risk
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers.

The Group does not have any individually significant customers and so no significant concentration of credit risk. The majority of the Group's sales are paid in cash at point of sale which further limits the Group's exposure. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Board of Directors has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment terms and conditions are offered. The Group limits its exposure to credit risk from trade receivables by establishing a maximum payment period of one month for customers. All trade receivables are based in the United Kingdom.

The Group has taken into account the historic credit losses incurred on trade receivables and adjusted it for forward looking estimates. The movement in the allowance for impairment in respect of trade receivables during the period was £0.3m.

12. Dividends

The Directors paid a final dividend of 6 pence per share in respect of the financial period ended 1 April 2022 (FY21: 5p per share).

The Directors have declared an interim dividend for the 26 weeks to 30 September 2022 of 3 pence per share (2022: 3p per share). The interim dividend will be paid on 20 January 2023 to shareholders who are on the register of members, with an ex-dividend date of 15 December 2022 and a record date of 16 December 2022.

13. Earnings Per Share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period. The weighted average number of shares excludes shares held by the Employee Benefit Trust and has been adjusted for the issue/repurchase of shares during the period.

For diluted earnings per share the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. These represent share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the 26 weeks to 30 September 2022.

	26 weeks to 30 September 2022	26 weeks to 1 October 2021	52 weeks to 1 April 2022
	Unaudited	Unaudited	
	Number	Number	Number
	m	m	m
Weighted average number of shares in issue	**218.9**	199.1	205.7
Less: shares held by the Employee Benefit Trust	**(1.7)**	(1.3)	(1.0)
Weighted average number of shares for calculating basic earnings per share	**217.2**	197.8	204.7
Weighted average number of dilutive share options	**7.0**	4.9	9.0
Weighted number of shares for calculating diluted earnings per share	**224.2**	202.7	213.7

	26 weeks to 30 September 2022	26 weeks to 1 October 2021	52 weeks to 1 April 2022
	Unaudited	Unaudited	
	£m	£m	£m
Earnings attributable to equity shareholders	**23.1**	52.7	77.7
Non-underlying items:			
Operating expenses	**(0.3)**	(6.4)	(6.8)
Tax income on non-underlying items	**0.2**	1.2	1.7
Underlying earnings before non-underlying items	**23.0**	47.5	72.6

Basic earnings per share	**10.6p**	26.6p	37.9p
Diluted earnings per share	**10.3p**	26.0p	36.4p
Basic underlying earnings per share	**10.6p**	24.0p	35.5p
Diluted underlying earnings per share	**10.3p**	23.4p	34.0p

The alternative measure of earnings per share is provided because it reflects the Group's underlying performance by excluding the effect of non-underlying items.

14. Capital Expenditure – Tangible, Intangible, Assets held for sale & Right-of-Use Assets

	Tangible and Intangible Assets Unaudited	**Right-of-use assets Unaudited**
	£m	**£m**
Net book value at 2 April 2021	479.6	282.8
Additions	22.8	23.3
Sale and leaseback adjustment	-	(1.4)
Disposals	(2.5)	(0.1)
Depreciation, amortisation and impairment	(18.6)	(33.4)
Net book value at 1 October 2021	481.3	271.2

	Tangible and Intangible Assets Unaudited	**Right-of-use assets Unaudited**
	£m	**£m**
Net book value at 1 April 2022	544.1	350.2
Additions	20.0	14.8
Disposals	(1.3)	-
Effect of modification of lease	-	2.2
Depreciation, amortisation and impairment	(20.2)	(37.4)
Net book value at 30 September 2022	542.6	329.8

During FY21 there was a balance of £6m held within current assets relating to an asset held for sale. This related to seven buildings acquired as part of the acquisition of The Universal Tyre Services (Deptford) Limited. On 26 May 2021, six of these properties were sold to third parties and then leased back to Halfords Autocentres Limited. The transaction has been accounted for as a sale and leaseback transaction in the Group under IFRS 16 'Leases'. The total proceeds of the sale were £7.5m and a net gain of £0.5m was recognised for the transaction within the income statement.

15. Analysis of Movements in the Group's Net Debt in the Period

	At 1 April 2022	Cash Flow Unaudited	Other non-cash changes Unaudited	**At 30 September 2022 Unaudited**
	£m	£m	£m	**£m**
Cash and cash equivalents (condensed consolidated statement of financial position)	46.3	31.7	-	**78.0**
Bank Overdrafts	(0.2)	(11.3)	-	**(11.5)**
Cash and cash equivalents (condensed consolidated statement of cash flows)	46.1	20.4	-	**66.5**

Debt due in less than one year	-	(35.0)	0.8	**(34.2)**
Debt due after one year	-	-	-	**-**
Total net debt excluding leases	46.1	(14.6)	0.8	**32.3**
Current lease liabilities	(74.5)	43.2	(43.9)	**(75.2)**
Non-current lease liabilities	(316.5)	-	23.4	**(293.1)**
Total lease liabilities	(391.0)	43.2	(20.5)	**(368.3)**
Total net debt	(344.9)	28.6	(19.7)	**(336.0)**

Non-cash changes comprise finance costs in relation to the amortisation of capitalised debt issue costs of £0.8m (H1 FY22: £0.4m), and movements in leases.

Cash and cash equivalents at the period end consist of £75.1m (H1 FY22: £86.0m) of liquid assets, £2.9m (H1 FY22: £5.1m) of cash held in Trust and £11.5m (H1 FY22: £0.1m) of bank overdrafts.

Cashflow movements in Debt relate to the drawdown of funds from the Groups' revolving credit facility to fund the acquisition of LTC Trading Holdings Limited, see note 19 for further details.

	At 2 April 2021	Cash Flow	Other non-cash changes	**At 2 October 2021**
	2021	Unaudited	Unaudited	**Unaudited**
	£m	£m	£m	**£m**
Cash in hand and at bank	67.0	25.0	-	**92.0**
Debt due after one year	-	-	(0.4)	**(0.4)**
Total net debt excluding leases	67.0	25.0	(0.4)	**91.6**
Current lease liabilities	(63.4)	42.8	(35.3)	**(55.9)**
Non-current lease liabilities	(280.8)	-	12.4	**(268.4)**
Total lease liabilities	(344.2)	42.8	(22.9)	**(324.3)**
Total net debt	(277.2)	67.8	(23.3)	**(232.7)**

16. Share Capital

	Number of shares	Share capital	Share premium account
	m	£m	£m
As at 2 April 2021 and 1 October 2021	199.1	2.0	151.0

	Number of shares	Share capital	Share premium account
	m	£m	£m
As at 1 April 2022 and 30 September 2022	218.9	2.2	212.4

During the 26 weeks to 30 September 2022 and 1 October 2021, there were no movements in company share capital. The shares held in treasury are used to meet options under the Company's share options schemes.

The parent company issued 19,812,104 new ordinary shares with a par value of 1p per share on 2 December 2021.

In FY22, proceeds from the share issue recognised within Share Premium totalled £61.4m, net of transaction costs of £1.8m.

17. Contingent liability

The Group's banking arrangements include the facility for the bank to provide a number of guarantees in respect of liabilities owed by the Group during the course of its trading. In the event of any amount being immediately payable under the guarantee, the bank has the right to recover the sum in full from the Group. The total amount of guarantees in place at 30 September 2022 amounted to £0.4m (2022: £1.5m).

Where right of set off is included within the Group's banking arrangements, credit balances may be offset against the indebtedness of other Group companies.

18. Related Party Transactions

The key management personnel of the Group comprise the Executive and Non-Executive Directors and the Halfords Limited and Halfords Autocentres management boards. The details of the remuneration, long-term incentive plans, shareholdings and share option entitlements of individual Directors are included in the Directors' Remuneration Report on pages 130 to 149 of the Group 2022 Annual Report and Accounts.

During the period no share options (H1 FY22: none) were granted to directors in relation to the Performance Share Plan ("PSP") and no share options (H1 FY22: none) were granted in relation to the Deferred Bonus Plan ("DBP").

19. Post Balance Sheet Events

After the balance sheet date Halfords Autocentres limited acquired 100% of the share capital of LTC Trading Holdings Limited on 4th of October 2022 for cash consideration of £37.2m. Of this consideration, £33.2m was paid upfront, with a further amount up to £4m deferred until March 2024 and contingent on profits made by the Group's Commercial tyre business. The acquisition increases our garages footprint by 50 sites and 300 vans establishing strong commercial coverage in the Midlands.

Linked to this transaction The Universal Tyre Company (Deptford) Limited acquired the remaining 52% of the share capital of Fit4Fleet Holdings Limited and its 2 wholly owned subsidiaries on 4th of October 2022 for immaterial cash consideration. The Group previously held 48% of the shares of the business and following this transaction owns 100%. Fit4Fleet offers Commercial Tyre customers a 24/7 contact centre service for breakdown and recoveries, using a network of tyre businesses, including Lodge, McConechy's and Universal, to provide the actual breakdown or recovery service to the customer.

Both acquisitions will progress our Commercial Tyre (and therefore overall B2B) business significantly with the intention of the Group being the number one Commercial Tyre business in the UK.

The initial accounting for these business combinations, including goodwill and fair value calculations for all relevant assets and liabilities, has not been completed at the time of issue of these financial statements due to the proximity of the business combination to the release date. Full disclosures will be made on the impact of these acquisitions in the Group's annual report and accounts. The net value of goodwill and intangibles expected to be recognised on the acquisition of LTC Trading Holdings Limited is £24m-£25m. The impact of the acquisition of Fit4Fleet Holdings Limited is expected to be immaterial.

20. Prior Period Adjustment

During the preparation of the annual report and accounts for the 52 week period ending 1 April 2022, a mapping error was identified relating to the reduction in the Cycle to Work contract liability in respect of expected breakage. This reduction in the liability had in previous years (both period end and half period end) been mapped to Prepayments and Accrued Income in the financial statements rather than being mapped to the Cycle to Work liability in Accruals and Deferred Income.

£12.8m was incorrectly included in Prepayments and Accrued Income as at the prior period end of 1 October 2021. The error at the period end of 2 April 2021 is £12.0m, as previously disclosed in the annual report and accounts for the 52 week period ending 01 April 2022.

To correct for this error, in the Consolidated Statement of Financial Position, Trade and other receivables at 1 October 2021 have been reduced by £12.8m with a corresponding adjustment to Trade and other payables. Within net cash from operating activities in the Consolidated Statement of Cash Flows, 'Increase in trade and other receivables' has decreased by £0.8m with a corresponding adjustment to 'Increase in trade and other payables'.

In correcting this error there is no impact on the Consolidated Income Statement or Net Assets.

Responsibility statement of the Directors in respect of the half-yearly financial report

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the UKEB;
- the interim management report includes a fair review of the information required by:

  a. DTR 4.2.7R of the *Disclosure and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

  b. DTR 4.2.8R of the *Disclosure and Transparency Rules*, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

By order of the Board

Jo Hartley, Chief Financial Officer

22 November 2022

Independent review report to Halfords Group plc

For the 26 weeks to 30 September 2022

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2022 is not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2022 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cashflows and the related notes.

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" ("ISRE (UK) 2410"). A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with UK adopted International Accounting Standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with UK adopted International Accounting Standard 34, "Interim Financial Reporting."

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410, however future events or conditions may cause the group to cease to continue as a going concern.

Responsibilities of directors

The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

In preparing the half-yearly financial report, the directors are responsible for assessing the group and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the review of the financial information

In reviewing the half-yearly report, we are responsible for expressing to the company a conclusion on the condensed set of financial statements in the half-yearly financial report. Our conclusion, including our Conclusions relating to going concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion paragraph of this report.

Use of our report

Our report has been prepared in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority and for no other purpose.

No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

BDO LLP
Chartered Accountants
London, UK
22 November 2022

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).