

Halfords Group PLC FY22 Preliminary Results

Thursday, 16th June 2022

Slide 1**Graham Stapleton (CEO, Halfords Group PLC):**

Good morning everyone, and welcome to the Halfords Group Preliminary Results for the 52 weeks ending the 1st of April 2022.

I'm Graham Stapleton and joining me today for her last Halfords results presentation is Loraine Woodhouse, our outgoing CFO. I'm also delighted to introduce you to Jo Hartley, our new CFO – for her very first set of Halfords results.

Slide 2

In terms of the structure for today's presentation, Loraine will start with a look at our FY22 Financial Performance, I will then take you through our Strategic Update. Jo will then present the plan for FY23 and the Outlook, and I will close today's session with a quick summary. We will then be happy to take your questions at the end.

So, to get us started, I'll hand you over to Loraine to talk you through our Financial Performance.

Slide 3**Loraine Woodhouse (Outgoing CFO, Halfords Group PLC):**

Thank you, Graham

Good morning, everybody. It's nice to see some of you in person again after such a long gap.

Slide 4

Before I start, on slide 4, I want to flag a couple of points that are relevant to today's presentation.

The first is that, where we use comparative data, unless stated otherwise, I focus primarily on our performance vs. two years ago as our financial year FY21 was heavily disrupted by Covid, and it makes meaningful comparisons quite difficult.

That said, where relevant, we have included our prior year numbers throughout the presentation to ensure that we give full transparency.

The second point of note is that our results are post IFRS16. The standard has a material impact on our balance sheet and cash flow metrics, and I will explain the movement where relevant.

Slide 5

Slide 5 summarises our overall performance.

Our financial year started on 3rd April 2021, just before non-essential Retail started re-opening after the third National lockdown.

We were fortunate during Covid that we were able to keep our stores and garages open. That said, this has undoubtedly been one of the most operationally difficult periods that we have experienced as a business. Throughout the whole year we experienced significant disruption, with sickness-related absences, unprecedented supply chain disruption and unpredictable peaks and troughs in demand that made running the operation extremely challenging.

Against this backdrop, we are proud of the results we have delivered.

- Group revenue was up +19.9% on a two-year basis, or +16.7% LFL
- We delivered an improvement in gross margin of 157 basis points vs. FY20
- Costs as a % of revenue stayed broadly flat, as we cut underlying costs to allow us to invest in our strategy
- We delivered Group underlying profit before tax of just under £90m, at the top of our guidance range, 57.8% ahead of FY20.
- In the year under review, we received £11m of rates relief, demonstrating strong underlying profit growth vs. two years ago.
- Cash ended the year strongly at £46.1m, with our net debt: EBITDA ratio at 1.67x, including lease debt.

Slide 6

Moving to slide 6, I cover most of these metrics later in the presentation, but I did want to touch briefly on non-underlying items, which total a credit of £6.8m for the full year.

The credit relates primarily to the release of provisions related to prior year store and garage closures whereby, in subletting or assigning leases, we have done better deals than we originally assumed.

Partially offsetting the provision releases are £2.8m of fees in relation to recent acquisitions, including National, and a charge of £0.8m relating to the replacement of our Warehouse Management System.

Slide 7

On slide 7, I thought it would be helpful to provide a simple bridge of our profit vs. two years ago.

To give visibility of business rates relief, I have stripped it out of our underlying trading numbers and shown it separately.

As you can see, we've seen profitability improvements vs FY20 across our business.

Retail profit for the year overall was ahead of FY20 by 19.4% pre-rates relief, a very strong result given the extensive volatility and disruption we experienced.

Our Autocentre business, including the impact of acquisitions, had an excellent year. Overall profit, at £14.4m, was £3.2m above FY20. As a reminder, our Autocentre business made £2.2m of profit in FY17.

And, finally, as we highlighted at the half year, our performance cycling business is materially more profitable than it was two years ago, with the closure of Cycle Republic benefiting the P&L by £3.2m.

Slide 8

On slide 8 you can see a summary of our retail performance. We delivered solid sales growth of 5.4% vs FY20, 2LFL of 15.2%. Total sales were down on FY21 as cycling sales moderated vs the extreme demand seen in the previous year, and we saw a revenue impact of closing less productive stores.

We delivered very strong gross margin, despite investment in motoring pricing in the second half of the year, and we managed the underlying cost base, allowing us to invest for the longer term in areas we believe are strategically important.

Slide 9

On slide 9, there is a little more insight into our sales performance. As I said, our LFL sales growth was 15.2%, with Motoring growing by 12.5% and Cycling by 18%.

Our motoring performance was encouraging, especially after a weaker performance in FY21 where Covid materially impacted miles driven and therefore sales overall. Workshop, car cleaning and touring all performed well during the year. Most encouraging was the growth we have seen in motoring product market share, with our volume share in measured categories increasing by 380 basis points over the last twelve months. This continues to support our strategy of investing in more competitive pricing in key motoring categories.

Cycling sales were solid but more volatile during the period and experienced a weaker second half, especially when compared to FY21 where demand peaked. Sales were suppressed by supply chain issues, particularly in premium end own brand bikes, but we did also see some periods of weaker demand.

Overall, you can see from this slide that sales were volatile. Quarter one was exceptionally strong, which will impact the pattern of sales growth seen over the year we are now in.

Slide 10

On slide 10 you can see that Retail gross margin moved very positively vs both FY20 and against last year.

Against FY21, margin strengthened via a return to stronger motoring sales, a dynamic which is always positive for margin as the category has a higher gross margin than cycling, despite the investment we've made in price. However, against two years ago, the key driver behind our overall improved margin remains the increase we delivered in our cycling margins, work that began two years ago.

I should flag that towards the end of the financial year, we did see our cycling margins begin to step back as the ongoing supply chain challenges inevitably started to drive up cost prices once more and this is a trend that is likely to continue, as Jo will cover later.

Slide 11

Retail operating costs have grown by just over 6% in two years, a good result given the inflationary environment and the significant investment we have chosen to make.

Our focus has been to lower the underlying cost base so that we can reinvest in areas that we believe will drive growth.

The store closure programme and the renegotiation of 69 leases in the period saved us £10.6m of property cost vs two years ago. We also kept our variable costs tight through carefully managing labour modelling and by renegotiating many 'goods not for resale' contracts.

Against those savings, we have chosen to invest in a series of key strategic programmes that we believe will drive future revenue. For example, we invested in a centralised customer contact centre and, as a result, have seen an increase in our Retail NPS scores of over 10%. We have increased our digital and technology spend resulting in online sales ahead by 77%. We also invested heavily in staff training, improving our ability to provide a greater number of in-store services, key to building a more resilient business.

Not all these investments will pay back in year, but we believe they are key to building a stronger, more customer-centric, business going forward.

Note also on this chart that Group-wide bonuses and LTIPs have increased vs 2 years ago as, in FY20, as Covid hit, we removed all central incentive payments.

Slide 12

Moving to slide 12, and our strategically important Autocentre business. The improvement in Autocentre EBIT to £14.4m is really pleasing in a year that continued to see significant Covid disruption.

During the last couple of years, we have step-changed the shape of our Autocentre business through the acquisitions of Tyres on the Drive, McConechy's, Universal and, more recently, National or Axle Group. Alongside this, we have rapidly expanded our mobile business on the back of the TOTD acquisition and created a successful software business in Avayler, re-selling the software that has made our own business materially more productive.

As expected, in the second half of the year, MOT tests deferred as a result of Covid came through. The net result is an extremely strong performance for the Autocentre business with 2LFL growth of 23.4% vs FY20, total revenue nearly doubling and profit up by 47% vs two years ago.

Looking forward, the Autocentre business is increasingly important to the Group. We bought National Tyre Services in December 2021, a synergistic acquisition that will deliver good value for the Group. We are on track to deliver our planned synergies in the first year of acquisition.

We also see planned profit growth from our existing business and therefore this needs-based, more resilient part of our business, will continue to deliver a greater share of group profitability. A long way from the £2.2m of profit you can see here back in FY17.

Slide 13

Moving now to slide 13. The composition of Autocentre revenue, as we've explained previously, has changed, with a switch into lower gross margin tyre volumes on the back of our acquisitions. National, particularly, is a heavily tyre-based business. Tyre businesses have higher average selling prices, and hence £ margin, but a lower gross margin percent. These businesses are very productive and run with a different labour model to our existing operation, which has a high proportion of service and repair work. The opportunity is to retain the tyre business but to boost the level of service and repairs, which will lead to strong margin growth going forward.

On this slide you can see cash margin growing over time but a reduction in gross margin % - purely reflecting our changing model. Across Autocentre group we saw a strong gross margin rate improvement of 320 basis points, reflecting the productivity improvements that we've seen through using PACE, one of the core components of our Avayler software.

Slide 14

Moving now to slide 14.

We have closed the year with cash of £46.1m, slightly elevated, reflecting the fact that a quarterly VAT payment was made on the first working day of the new financial year.

For clarity, under IFRS16, depreciation now includes the amortisation of the right of use assets which, for the full year, is around £70m.

The most notable movement in our cash flow is working capital, which is an outflow of £70m. Last year we saw a working capital inflow of around £50m. As I flagged previously, working capital normalised as we rebuilt cycling stocks after a period of heavy disruption. Our Retail stock, before provisions, at the end of the financial year has increased to £195m from £134m

last year. This is higher than we would typically run but, with freight rates increasing, and supply remaining volatile, we chose to take some stock in early to give us the best possible chance of avoiding supply shortages this year.

Included within our cash flow is £47m of capital expenditure for the year, excluding the purchase of National. You can also see here the £62m proceeds of our share placing, executed back in December.

Slide 15

Moving to slide 15. As a result of our ongoing strong cash flow, including IFRS16 lease debt, our total debt is £345m, £68m higher than FY21, a difference that can be explained by the lease debt associated with National. We ended the year with net debt: EBITDA of 1.67x, just below the range we said we would typically expect to operate within.

Slide 16

Our strong results support the payment of a dividend. We updated our dividend policy at our Prelim results a year ago, reinstating the ordinary dividend from FY22 at 9p per share, with an intent for this to be progressive. We paid an interim dividend of 3p on the 21st of January this year. We are therefore proposing a final dividend of 6p per share to be paid in September.

Regarding capital allocation, whilst we do still have cash on the balance sheet, we flagged during our acquisition of National that we had plans for future investment. This year we will invest in the integration of National. We will also continue to invest in our underlying business, including in Avayler to allow us to capitalise on the opportunities we believe are open to us in the garage software market. And finally, of course, we remain open to opportunities afforded by appropriate M&A activity in the garage services business.

HOLDING SLIDE

This is my last set of results for Halfords. The last nearly four years have not been easy – I did not foresee a global pandemic, a war, record inflation or a consumer confidence crisis. But, notwithstanding the environment, I am proud of what we have achieved in my time here. The reshaping of the Halfords business towards a motoring services led offer has built much greater resilience; work in progress but something that is becoming increasingly important. Working alongside Graham has been a privilege, given his amazing vision for the business, and, whilst we faced some challenging times together, we also had a lot of fun along the way. In handing over, I know, in Jo, that we have found a rare talent who will excel in her financial management of Halfords. We were fortunate to find someone of Jo’s calibre and her integration into the business has been seamless. Jo, I wish you the very best of luck in the role.

Positively for Jo, I know that she will be well supported by the incredible team of people - the broader Halfords Finance and Legal team - who have been at my side for the last few years. To the team, who I hope are watching, you could not have worked harder, or been more supportive, and I’d like to say a huge thank you.

And finally, I’d also like to say a big thank you to investors, analysts, bankers, and advisers on the call and in the room, many of whom I’ve known for decades! It’s been quite a journey, but you’ve given me a lot of help and advice over the years, and I have greatly appreciated the support.

With luck, I will see some of you when I pop up on the non-executive side of the table.

Thank you.

Slide 17

Graham Stapleton (CEO, Halfords Group PLC):

Thanks Loraine, and for your kind words.

You can see from Loraine’s summary that, despite a very challenging trading environment - still heavily impacted by covid, and against some big macro-economic headwinds - we delivered a very good set of results.

I am incredibly proud of the resilience our colleagues have shown, in the face of significant operational disruption. I'd like to express my gratitude to them for their continued hard work and determination to provide the very best experience for our customers.

Slide 18

Executing our strategy, and delivering on our purpose, to *Inspire and Support* our customers through a *lifetime of motoring and cycling*, continues to contribute to our improving performance.

Slide 19

And therefore, the three key strategic goals that we set out to help us deliver against our plan remain entirely unchanged, as you can see here on slide 19.

[PAUSE]

And this year you will also notice that our ESG commitments are now present in our group strategy, as they form a key part of how we do business going forward.

Slide 20

Moving to slide 20, you will remember that in 2019 we made a move towards accelerating specific elements of our plan, in order that we could *evolve into a consumer and B2B services-focused business, with a greater emphasis on motoring, generating sustainable financial returns*.

And that's exactly what we have done.

Slide 21

Slide 21 shows how a very different Halfords is starting to emerge.

- We have increased our Group revenue by just under 20%
- We have built a large-scale services business that now represents almost 40% of total group revenue
- Our B2B sales have also grown, and now represent 20% of turnover
- You can also see here the change in shape and scale of our channels and physical assets – specifically the reduction in the number of stores, but the increase in the number of garages and vans.
- The result of all of this change, is that our motoring sales are now a billion pounds and represent over 70% of total group revenue.
- Consequently, we are now much less reliant on customers coming into our stores for product-based transactions. And instead, we are able to enjoy the benefits of a much more resilient, needs-based, services offer.

- And our customers are responding. By focusing on delivering our vision and strategy, we now have more customers than ever before recommending Halfords as a place to shop.
- In fact, we achieved our stretch Net Promoter Score targets for FY22, ending the year at 68.4 points for the Group, a huge 6 point increase versus FY20. This is an extraordinary achievement – particularly given the challenging trading circumstances for both colleagues and customers.

And of course, all of this progress creates a very strong platform from which to further transform the Group.

Slide 22

So let's now look in more detail at the progress we have made in FY22, starting with *Inspire*, and how we are offering our customers a more differentiated and super specialist experience.

Slide 23

On slide 23, you can see that our main focus here has been in transforming the Halfords customer experience in a town, via a programme we have called Fusion.

Fusion delivers a seamless, convenient, and consistent experience to our customers, by leveraging all that Halfords has to offer in a single town.

It highlights our Super Specialist credentials and our unique combination of stores, garages and mobile experts, together with product advice and services delivered by fantastic colleagues.

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.

And to show you just how this unique proposition comes together, we have a short video to play.

[Play Fusion Video]

Slide 23

So, as you can see, a huge transformation, with the customer experience at the very heart of what has been delivered.

And the results speak for themselves. Both towns are now beating the very ambitious business case we set ourselves, and our Fusion garages are breaking sales records. Our garage in Halifax has moved from being ranked 214th to one of our top 3 garages.

What we found through our trials in Halifax and Colchester is that three specific elements of Fusion resonated most with customers and equally delivered significant value.

- Firstly, our investment in the Car Park, giving us the ability to refer customers from a car Check in our Retail store, directly across to our garages and mobile vans for the work to be completed on their vehicle.

- Secondly, the new quick-serve, Bulbs, Blades and Batteries desk in our Retail store
- And lastly, the solution selling training our colleagues across the town received and the impact this had on average transaction value.

And its these key successes that we will use to focus our plans and investment for this financial year. Jo will come back to that later in today's presentation.

Slide 24

Its not just about Fusion though. We also made significant progress across the year in terms of *Inspiring* our customers with new products and services.

I'll touch on a few examples here on the slide....

- We have made huge strides in our electric credentials, *inspiring* our customers with new market -leading eBike and eScooter ranges, together with the launch of the biggest electric bike trial scheme in the UK.
- We have also launched innovative new ranges, gaining external recognition, and some impressive industry awards across the year – including the Boardman SLR 9.4 which won the prestigious *Cycling Plus* Bike of the Year award.
- And finally for cycling, we launched Bike Xchange – a brand new proposition, putting Halfords into the rapidly growing circular economy for the first time, and leveraging our scale to offer the largest physical network of 2nd hand bikes in the UK.
- For our motoring customers, we have launched a new Electric Vehicle charging solution in partnership with BOXT. This market leading proposition makes the complex home charging journey easy for our customers, in a one stop shop approach. We take care of everything - from installation, to accessories, to energy supply - all in one place, and all for a fixed price.

Slide 25

Moving on now to the progress we have made in Supporting our customers through and *integrated, unique, and more convenient services offer.*

Slide 26

Here, we have arguably seen the greatest change across the year, transforming the shape and scale of our business through the acquisitions of National, Iverson Tyres and most recently, Havebike.

The timeline on slide 26 shows you the acquisitions we have made over just the last two years - all of which are in line with our strategic goal to evolve into a *services-focused business, with a greater emphasis on motoring.*

The result is greater scale and convenience across the UK, for both our consumer and commercial customers.

Slide 27

Our most significant acquisition to date, was the purchase of National Tyres last November.

The £62 million pound share placing enabled us to acquire 234 sites, 60 vans, and 1,200 highly skilled colleagues.

One exciting aspect of the National deal was the acquisition of Viking - their tyre wholesale business. This nationwide distribution network will not only benefit our new National sites, but also the existing Halfords Autocentre business. For the first time, Viking enables us to buy tyres directly from manufacturers and therefore reducing reliance on our existing third party wholesalers. Just one of the many synergies we have been able to realise.

Slide 28

As you can see on slide 28, we are making significant progress on the integration of this business, with our FY22 targeted savings already realised across the Group.

We will also be further enhancing the business through FY23, via the launch and integration of our Avayler software to make National garages more efficient and effective. We will also embark on a rebranding and refurbishing programme for these sites.

Slide 29

And at the same time as adding to our Group garage portfolio, we have scaled our Halfords Mobile Expert fleet, moving from just 7 vans to over 250 in two years.

The mobile expert proposition has been particularly successful and resilient through the pandemic, providing customers with an integrated, convenient and unique 'on the drive' or 'at work' offer. We can see this reflected in the revenue growth of +44% year on year.

And our customers have rewarded us with over 220,000 reviews rating us "excellent" on Trust Pilot.

Slide 30

Moving to slide 30, and as you can see, when you bring together all of these changes in the shape and scale of our business, we are now able to offer our customers unparalleled convenience through our combination of 606 garages, 250 retail vans, 192 commercial vans and 400 stores.

85% of the UK population are now within a 20-minute drivetime to one of our locations – and of course that's no minutes if we come to you!

And all of this meant that in FY22 we became the UK's biggest provider of motoring services. A staggering 8 million services were carried out, representing almost 40% of total Group revenue.

Slide 31

And underpinning both our consumer and commercial garage services businesses is our market leading digital platform - Avayler.

Many of you will have heard me talk about our entry into the software as a services market last year, leveraging the success of our own proprietary technology, which was developed using a combination of our PACE software and the Tyres on the Drive platform.

For those of you who are new to the proposition, here's a short video which shows you exactly what Avayler is all about.

Play: Avayler video

Slide 31

So, as you can see, Avayler creates a more efficient Halfords business, alongside a better Halfords customer experience, driving productivity and profit.

And this is certainly reflected in our Autocentres Net Promotor score which has increased 3.5 percentage points year on year.

And as you've seen, we have now also successfully taken Avayler into the B2B market, with significant interest internationally from the motoring services sector.

It's the start of an exciting journey for us with multiple opportunities ahead.

Slide 32

Moving now to slide 32, and how we are enabling a *lifetime* of motoring and cycling for our customers.

And here, we made some huge strides forward in FY22 through a focus on the launch of our brand-new Halfords Motoring Club in March.

Slide 33

As you can see on this slide, despite the breadth of our full motoring offer – which includes products and services, delivered through our Retail stores, garages, and our mobile vans - currently just 4% of customers shop in more than one of those businesses within the Group.

Slide 34

And slide 34 shows just how important it is to focus on optimising this. Customers that shop across the breadth of our Group offer are three and half times more valuable to us, and equally, if we can engage them over multiple years, they are then two and half times more valuable.

Our Club is therefore designed to incentivise customer behaviours that encourage breadth of shopping, cross shop within the Group, and multi-year relationships.

Slide 35

The Halfords motoring club keeps our members moving, keeps them safe, and helps them save.

It's a Digital loyalty club with two tiers – a free to join, and a subscription membership – which you can see here on the slide.

Benefits include MOT discounts, and a free 10-point car health check- aimed at encouraging retail customers to use our garage services, alongside personalised discounts off products and services to encourage customers to shop across more of our offer.

Critically, the club also enables us to capture each customer's vehicle and registration data, together with marketing permissions, via an easy multi-channel sign-up process.

Slide 36

Just 10 weeks since launch, we are encouraged by both the sign ups and the customer engagement from club members. 27% of all club members are new to the Halfords Group database, and 81% of club members are new to Autocentres.

We are also seeing evidence that members are increasing their spend and are more likely to book their MOT with us.

The Club gives us the opportunity to know more about our customers vehicles than they do. Our objective is to develop the ability to accurately predict vehicle and customer needs, so we can proactively advise them on how we can help them - before any of our competitors have the opportunity to do so.

The more we understand a customer's vehicle, and the more work we do to service, maintain and accessorise that vehicle, the easier it is to build life-long, sticky customer relationships.

Slide 37

So, we've talked about the progress we have made across *inspire, support and lifetime*, but as I said at the beginning, all of that is underpinned by a relentless focus on cost and efficiency, continued investment in our highly skilled colleagues, and our ESG commitments.

So let's move to slide 37 and look at cost and efficiency first.

Across the year, we have seen substantial savings from our store closure programme, where sales transfer rates have been met, and we have settled just under 70 Retail lease renewals, with an average saving of 26% on the existing terms.

Our GNFR procurement team have driven savings of £7.6 million pounds across more than 100 initiatives.

And, as you will see when we move on to talk about FY23, it is this focus on removing cost, and improving underlying profitability, that gives us room to reinvest this year, specifically in those strategic programmes where we can see good return on capital.

Slide 38

Of course, our colleagues remain our most valuable asset, and throughout FY22 we placed increased importance on investment across colleague wellbeing, engagement and development.

On slide 38, you can see that despite a challenging operational backdrop, we also continued to increase our investment in training. We spent £2.5million pounds this year in both generally improving colleague skills - for example our on-demand fitting for customers, and in training new skills, with over 2,000 colleagues now trained to service and repair electric vehicles in our retail stores and garages.

And recognising the ongoing impact of covid throughout the year, our *Here to Help* fund continued to support colleagues in financial crisis, with more than £400,000 pounds issued in FY22.

Slide 39

And finally, as I said at the beginning, this year our ESG commitments are now present in our group strategy, forming a key part of how we do business going forward.

We remain committed to lowering our carbon footprint, and have made good progress against our science-based targets, scope 1 and 2 emissions, and our use of virgin plastic.

Unlike many other businesses, at Halfords we have a unique opportunity to create a *lockstep* between our ESG commitments and our customer proposition and commercial strategy.

Currently, no UK brand is clearly leading the way in helping customers with more sustainable solutions for their car and bike needs – be that more recycled products, electrification, or less packaging. We are already the only UK business to offer customers a complete servicing solution across all forms of electric mobility. And I believe we are uniquely placed therefore to fill this gap.

Slide 40

So, we've talked about the progress we've made against our strategy in FY22. And I'm circling back to this slide as a final reminder that everything we have achieved this year has contributed to a significant change in the shape and scale of our business.

Not only has FY22 delivered all of this progress against our strategy, but it also gives us a very strong platform and sets us up well for what poses to be a challenging year ahead.

And on that note, I am delighted to introduce you to Jo, who will now take us through our plan to navigate this for FY23 and the Outlook.

Slide 41**Jo Hartley (Incoming CFO, Halfords Group PLC):**

Thank you, Graham.

It is a great pleasure to be here today meeting you for the first time as the incoming CFO.

I would like to start by saying a huge thank you to Loraine, firstly for giving me time since I joined to complete a full induction, freed from the day to day responsibilities of the CFO role, but more so for the fantastic work she has done over the last few years to bring the business to where it is today. I am very conscious that I have big boots to fill, and I commit to do my very best to pick up where Loraine left off.

I joined Halfords because I saw a business with significant opportunity - a clear and compelling strategy, an impressive leadership team to execute it and a strong balance sheet. As I have got to know the business better over the last two months, I have learned that the scale of the opportunity is even greater than I first thought - and I am really excited about what the future may hold.

That said, as Graham has already noted, the next year will not be without its challenges

Slide 42

It is clear to me, that the work Graham, Loraine and the team have done over the last few years leave the business much better equipped to face into the current headwinds and underlines the importance of the Group strategy.

As you have heard, an increasingly significant proportion of our sales now come from motoring, services, and Business to Business customers, and as such we find ourselves a more resilient business. Today, more of our revenue than ever comes from needs-based spend categories - the products and services our customers, including those businesses we service and supply, need to stay safely on the move. Evidenced by over 70% of our revenue coming from Motoring, which is by nature more needs-based.

20% of our revenue comes from our Business customers - as such it is more predictable and resilient in a downturn.

And less than a third of our revenue now comes from Cycling, which is more discretionary

All this is a significant shift from where we were two years ago and leaves us much better placed to face into the current circumstances. That said, our transformation is not yet complete - and we are not immune to the headwinds we are facing.

Slide 43

This year, under such extraordinary circumstances, in a cost-of-living crisis, we are sharpening our focus on what matters most to customers, whilst keeping a careful eye on our cost base.

For our customers, we will focus in on the support elements of our plan, targeting the needs-based, motoring services opportunities - be that the MOTs customers need in our Garages, the bulbs and blades they need fitted in our retail stores, or the tyres they need fitted on their drives, at work or in our carparks by Halfords Mobile Experts.

Our Motoring Loyalty club and continued price investment will allow us to continue to give customers the very best value across the full breadth of our offer.

And as a business, we are optimising our capital efficiency and controlling our costs, while continuing with our transformation, to support long term growth, and build even greater resilience looking forward.

Let me now move to slide 44 and take you through the plan in a bit more detail.

Slide 44

We will continue to *Inspire* our customers, with the roll out of the most capital efficient elements of our Fusion programme, developing the customer proposition further, and focusing on the most successful elements of the trial, delivering it to more locations across the UK.

This year, we plan to.....

- Continue to roll out our Click and collect and Batteries, Bulbs and Blades hubs – with separate service desks for customers to collect their products, and order and purchase motoring parts.
- We are committed to increased training in enhanced customer service and selling skills, enabling us to benefit immediately from the added transaction value we've seen in Halifax and Colchester.
- Our busiest car parks will be upgraded with the skilled colleagues and technology to connect with our customers as soon as they drive in, and deliver fast and seamless referrals for work straight across to our garages and vans.

- And we are moving towards providing a broader, extended range of car parts and tyres to maximise customer choice and drive incremental sales.

Slide 45

We will also continue to *support* our Consumer and Business to Business customers.

Our plans here include the continued integration of National, to realise the full benefit of the synergies available ,alongside further increasing the scale and convenience of our motoring services business.

In this financial year we are committed to concluding the roll out of Pace on the Avayler platform across all National sites, continuing our rebranding programme, and at the same time upgrading a significant amount of equipment across the National estate.

We will also continue to grow our Avayler business – our ambition being to expand further across the US and into Europe.

Slide 46

And our market leading Motoring Club will enable us to focus on unlocking the lifetime value in the relationships we build with our customers, optimising the platform and accelerating the opportunities to get more customers shopping across the full breadth of our Group offer.

Here, our ambition is to get to between five hundred thousand and 1 million customers signed up to the Motoring Club this year, targeting 10% against our premium subscription.

All of those members will have given us their vehicle registration number and marketing consent on sign up, giving us rich customer data from which to build personal and relevant offers – such as reminding them when their MOT is due, and helping them book directly into one of our garages.

Slide 47

Underpinning all of this, we must continue to make sure we are as cost efficient as we possibly can be, targeting more than £15million pounds worth of in-year savings.

We will continue to work on the structural cost base as we have done in the past, and also look at new opportunities, for example, how we use technology and data to operate more effectively across the Group.

And in a year where it would be easy to pull back on our investment in colleagues, we will do the opposite.

The scale of our business, with now more channels to market than ever before, creates huge career opportunity for our colleagues. At the same time, to support our strategy and fully realise our growth ambitions, we need to create capacity across our customer facing, highly skilled technical roles.

So this year, we will continue an extensive recruitment and training programme, leading the market in skilled learning opportunities, and creating a pipeline of home grown talent.

We will increase investment in the training and development of our colleagues. Training will enhance technical skills and capability – including Electric Vehicle servicing, and also include selling solutions training, enabling us to realise the full benefit of our Fusion plans.

In terms of increasing capacity, in addition to our already enhanced Business as usual recruitment programme, in this financial year we plan take on over 300 learner level roles – giving college leavers, apprentices and tyre fitters the opportunity to become our technicians and services colleagues of the future.

And our ambition doesn't stop there, over the next 3 years our aim is to bring in over 1,000 new trainees, right at the start of their career – train them, develop them, and give them the tools and opportunities they need to excel in a career at Halfords.

And finally, ESG. Here our plans centre around sustainability, and the market leading role we have to play in enabling our customers to switch to electric mobility, alongside supporting them with more sustainable product ranges.

This year, we are committed to increasing the percentage of sales from electric services and solutions across the Group. We will further develop our ranges and provide enhanced customer communication to support the switch to electric mobility.

At the same time, we are committed to making every part of our business more sustainable – this means further reducing the use of virgin plastic - particularly across our own brand products; and continuing with our carbon reduction plans across the business and our supply chain.

We will target increased data from our suppliers, in support of reducing our scope 3 emissions, and working toward our longer term net zero target.

So, in summary, a busy year ahead, and despite some significant macro-economic headwinds, we are confident that we have a plan in place which keeps costs firmly under

control, whilst delivering a value driven, convenient, and super specialist experience for our customers; development opportunities for our colleagues; and in year returns for our shareholders.

Slide 48

Moving on now to the outlook, and on slide 48, you can see a chart which illustrates how we are building a projection for this financial year based off last year's results, by bridging between the two years.

As I already described, we face a number of headwinds.

Inflation will have a significant impact - the cost of goods sold, people, utility and freight are all increasing at levels not seen for some time. These cost pressures will come as no surprise given that they will be experienced across all businesses.

Consumer confidence has declined steeply, we are seeing the market softening, particularly in discretionary spend areas, and that will impact us in the year ahead.

And as expected, the rates relief received in the prior year will reverse.

Despite all those challenges, we are choosing to continue our strategic investments in both colleague training and motoring pricing, the latter being critically important to grow market share in our needs-based motoring spend categories, particularly in the year we are facing into.

By way of mitigation, represented by the upward bar, as you would expect, we are passing on price increases to consumers where we are able to, and we continue work on cost transformation to reduce our cost base sustainably for the future, with over £15m of cost savings included in our forecasts.

Finally, I'm delighted to report that our expectations on National Tyres, which we acquired in December, are in-line with our business case – evidencing the more resilient nature of our garage businesses, and the value of this investment to shareholders.

While it would be tempting not to give guidance given the challenges of forecasting and the fact that we are only 10 weeks into our financial year, to be as helpful as possible we are guiding to a range for Profit before tax of 65 to 75 million pounds based on what we can see today.

I would emphasise that there remains uncertainty in the macro-economic environment looking forward, the impact that this will have on the business, and the extent to which our newly launched Loyalty Scheme, planned price investment in Motoring, and expanded Auto

centre business will enable us to offset this through our needs-based propositions.

We will continue to keep you updated as the year progresses, but I leave you with two thoughts:-

- 1) Firstly, The transformation the business has undertaken to focus on needs based motoring services revenues means it is much better placed to face the current headwinds than it would have been historically – we need to continue on this journey;
- 2) And secondly, while we don't know how long the current headwinds will persist for, they won't be with us forever – the balance sheet and strategy of the business remain very strong and the opportunity ahead is significant.

I will now hand back to Graham to summarise.

Slide 49

Graham Stapleton (CEO, Halfords Group PLC):

Thanks Jo.

So to summarise, FY22 was a year of significant progress, across all parts of our *Inspire, Support, and Lifetime* plan. And it was the year in which we accelerated our move towards becoming a motoring services-focused business.

I am proud to say that we are now the UK's biggest provider of motoring services, and that we are able to offer our customers unparalleled convenience across a unique omnichannel offer.

In doing so, we have created a much more resilient business, which is far better placed to withstand the challenging macro-economic headwinds we are facing into this year.

That said, our revised profit guidance for FY23 reminds us just how important the continued transformation of our business is. This will need to be undertaken alongside optimising near term returns.

Before we close, I would of course like to express my sincere thanks to Loraine for her outstanding contribution to the business over the last 4 years.

I am immensely grateful for her support, and for the expertise and dedication she has shown in her tenure as CFO. Her thoughtful, pragmatic approach, and her skilled leadership, have been critical in our transformation journey so far, and her legacy is the very solid platform we see today.

Loraine, we wish you all the very best for the future.

Thank you for listening. We will now be happy to take your questions.

Q&A

Graham Stapleton (CEO, Halfords Group PLC): Thank you for listening We'll now be happy to take your questions. I think there is a microphone winging its way.

Tony Shiret (Panmure Gordon): Just to preface my questions with another observation Loraine, because I was a broker at Kingfisher when she emerged from the Finance department some years ago. I can remember particularly I laughed when Jo mentioned her big boots because I know there are a couple of other people in the room, Kate and Jonathan who probably spoke to Loraine about that time. She used to live in Rotherhithe and most of the communication that she did was early morning stuff for her but obviously we had been in the office a couple of hours on the mobile phone. The thing that I remember was you could always hear her boots as she was walking to the station because she had very heavy footsteps.

Anyway, moving on I think it is fair to characterise Halfords at the moment as Graham being good at all the wishy front-end stuff and Loraine being the enforcer at the back-end. You have got big boots to step into and I think it was particularly apposite that Loraine finished her tenure with a Hollywood style swoon at the stage. Sorry, those are just a few observations.

Now to move on to the nasty stuff, the Q&A. Just a couple of questions. I am interested in Avayler, obviously. I just wondered where it is in the P&L, what the revenue is, that sort of stuff. How it is going to appear. Secondly, on a broader question, how does it fit in with the ERP at Halfords? Is there an ERP that basically goes across both parts of the business or are they operated separately? If you could give us some sort of idea of that and I did not notice you referencing any cloud-based costs and revenue versus capitalisation of those. I wondered what you would like to say about that. That is it.

Loraine Woodhouse (Outgoing CFO, Halfords Group PLC): Tony, Avayler does not make much of an impact on FY22. We have two deals, as you know, and for both of those deals we are spreading the revenue effectively. What drops into the FY22 P&L are the costs of the Avayler team, clearly any depreciation associated with it and a proportion of the revenue that is spread over a three-year licence. My expectation is that Avayler will continue to make a small loss in the year we are about to enter into but clearly has very significant potential.

I will come on to the cloud-based piece and then I will talk about the ERP. We have done I think it is fair to say a very significant amount of work for this audit to go through the cloud-based costs. For most of what we do with one exception, because we own the IP and because we are in control of that software and any changes that we make to it, we are able to capitalise the intangible under IAS 38. The one exception to that is our new warehouse management system which is a cloud-based system and because in essence that is almost off-the-shelf we will be expensing that. You will see 0.8 associated with that coming through in the non-underlying, which was the WMS that I referred to. I would expect those cloud-based costs to increase going forward probably because like everybody we are moving more and more to cloud-based software.

In terms of the ERP for Avayler it is primarily within the Autocentre business at the moment but there are a number of very attractive aspects to it that I think we would choose to take if we are able to into Retail. Particularly around the booking platform that allows you to be particularly productive. We will seek to use aspects of that across Retail but the bulk of it sits within Autocentres.

Tony Shiret: Okay, so Retail has got its own system and there is an integration of that to come sometime in the future.

Loraine Woodhouse: Yes, I think there is a good chance we will integrate elements of it. There are elements that really would not be appropriate. Things like the mobile vans, for example, but the booking platform is very solid and we think we could make better use of that.

Tony Shiret: Would it be fair to say that we need to have some sort of firmer idea about Fusion, how that is going to work before you integrate the two systems?

Graham Stapleton: Yes. I think that is fair. Certainly for the Retail Services business the two aspects of Avayler, be it the improvement of operational efficiency or the seamless customer journey, they both apply to Retail. As we build out the Fusion best practice and the Avayler platform there is no doubt some of that will come into the Retail business and to what extent that Fusion development will help.

Adam Tomlinson (Liberum): Hi, two questions please. One, on stock levels given that increase you have seen this year and in the context of the guidance cut for FY23. How comfortable are you around those current stock levels? The second question is, appreciating the uncertainty for FY23, perhaps a little bit more colour in terms of the trading assumptions that are baked into the range of guidance you have given. Within that as well, on the Autocentres side with the benefits coming through from the M&A, what is in your underlying assumptions there for that side of the business? Thanks.

Loraine Woodhouse: Yes, you are right, Adam, clearly stock levels have gone up. The Retail business principally drives that and within the Retail business it is Cycling that drives it, as you will expect. Motoring stocks are flattish. We are as comfortable as we can be with the stock levels. We made deliberate decisions to bring the stock in towards the end of the year. With rising freight rates and of course the disruption, we felt it was better to have that stock within the business. As we are a heavily own brand cycling business we are pretty comfortable with the levels of stock that we do have in the sense that we are in control of the cycle. When we upgrade those own brand bikes to a newer version the timing of that is clearly driven by us rather than a branded player. As you probably heard me say before, they are not fashion items per se. We are comfortable that whilst we would be holding the stock for longer and all the costs associated with that, they do not depreciate and we do not potentially have a big write-off problem. Clearly, as Jo was clear, as we go into this year there is a risk that we do not sell through Cycling as fast as we originally thought. We therefore need to manage the stock levels around that.

The only other dynamic I would point to in stock is the new Autocentre businesses come with tyre stock so traditionally the Autocentre business has held very little stock, probably less than five million. It is holding around 25 million now and that is the acquisitions where things

like National come with associated tyre stock. Those businesses are very definitely a different model.

Jo Hartley (Incoming CFO, Halfords Group PLC): If I take your other question on the trading assumptions underpinning the forecast, we are forecasting based very much on what we are seeing at the moment and that splits quite differently between what we are seeing in our Retail business and what we are seeing in our Autocentres business. Our Autocentres business is holding up really well in the current environment, predominantly because it is much more needs-based spend and consumers are continuing to do what they need to for their car. Where we are seeing a much harder trading environment is in the Retail business and particularly in discretionary spend categories. We are seeing a considerable softening of the market in Cycling and to a much lesser extent in Motoring Product. Our share is holding up pretty well and that is what we are expecting to continue but actually it is that market drop that is driving the reduction in our trading forecasts as we look forward.

Jonathan Pritchard (Peel Hunt): Thanks, just on that point on Cycling, can we talk about elasticity and have you brought bike prices up and actually been a bit disappointed with the response to those bike price increases? Or have you not and it is just the market? Secondly, perhaps talk a little bit about NPS. Is that predominantly stores or is HME dragging the total up or is it a bit of both? Then I do not think you talked much about the supercentres where that is a combined National and Autocentre site. Could you perhaps tell us a little bit about that?

Graham Stapleton: I will pick up the first couple. Elasticity of pricing on Cycling, I think in the cycling space because we have got very strong market leaderships, have very big market shares and 80% of our bike range is own brand, we feel confident that we can move pricing up and the market will move with us. We have seen that take place. In terms of elasticity specifically, because of the customer backdrop there is a limit to how much elasticity you are going to get. Our view is that we should optimise the price inflation that we can put through and there is quite significant price inflation in Cycling to the extent that the market overall can stand because we will pretty much set the market price. I think we have been happy with where we are with that in terms of putting the Cycling inflation through but I think we have reached the optimum level. The good news is that last two years we spent a lot of time understanding elasticity of pricing. Loraine mentioned it in her presentation, it is a two-year programme so we have got a really good understanding of where we can move pricing and what limit we can move it to and a lot of data to help us make those decisions. We're comfortable we have put as much of that inflation through as customers and the market can take.

In terms of NPS, NPS improvements have been everywhere. Yes, we have got a fantastic Trustpilot score on HME but the HME business until this year has not been included within the NPS measure. That sits as a Trustpilot metric for us. It will be included within NPS during this year. The areas that are included in NPS are Retail and Autocentre and both have moved forward. In fact Retail has moved forward more significantly than our garage business over the last 12 months. That is a reflection of the strategic investments we have made like the contact centre.

In terms of the supercentres, can you just repeat that question again?

Jonathan Pritchard: Just a bit more colour on it really. What they are and how they [inaudible 12.25].

Graham Stapleton: In terms of NTS and Autocentres together?

Jonathan Pritchard: Yes, those [inaudible 12.31].

Graham Stapleton: I see, ones opened in very close proximity. We do not see a significant amount of cannibalisation there. We have had to take a view on a few sites where there is a very, very close proximity but the advantage of the garage business is that you are able to run quite a large number of units quite close to each other because customers just do not want to travel long distances to get a car serviced and MOTed because of the number of journeys they have to make to do that. We are very confident that the NTS business gives us a very significant incremental footprint.

Kate Calvert (Investec): Two questions from me. First of all, what level of price inflation are you putting through on Cycling and Motoring? My second question is around the strategic investment. You appear to be stepping it up from I think it was slide 46 or 47. Are you expecting that to incrementally increase more going into future years or do you think that step-up in investment will just stay within the cost base going forward?

Graham Stapleton: In terms of price inflation, there is price inflation across the whole Group. The first thing to say is we are moving prices up in Cycling and in Motoring. The increase in price in Cycling is significantly greater than it is in Motoring because we believe there is more elasticity, more demand in Motoring and more share opportunities in Motoring. Therefore that is where we want to ensure we are most competitive but there is inflation in both. It is pretty competitively sensitive, that data, so we have not actually presented that I do not think externally. However, it is significant in Cycling, less so in Motoring but there is inflation in both areas.

Kate Calvert: [Inaudible 14.36] double-digit?

Graham Stapleton: I am not going to say yes or no.

Loraine Woodhouse: The second question, Kate, yes you are right, we did step up the investment over the last couple of years. We have obviously had a strong couple of years and given ourselves through the work that we have done on the business oxygen to invest in a number of areas that frankly we did not have in the preceding years. We felt it was important to put some of that customer investment in. I would not expect it to keep increasing at the level you have seen. I think some of that investment was a base level investment. Things like the customer contact centre, as an example. Some of it will sustain, some of it might even decrease actually. The contact centre would be a good example of that. We put the centre in. We did it during COVID where we had a lot of incoming customer interaction but actually you can already see the customer contact declining and as that declines we have got the flexibility to dial down the cost in the contact centre. It is in, we had the room to do it but I would not expect to see it increasing like that going forward. As Jo was very clear, cost remains high on the agenda and we can flex some of those costs up and down.

Tony Shiret (Panmure Gordon): Sorry, I do not want you to go, Loraine. Sorry, the question is about Fusion. As you were going through, Graham, I noted you saying that there

was a new way of setting up the garages in the Fusion stores. It made me think a bit more about Fusion, notably I noticed that there was nothing about what the actual sales in the Fusion towns were up or down and the return on capital. Then, the way you then talked about putting bits of Fusion across the estate made me wonder whether Fusion as a concept, i.e. all the crunching together of stores, actually works or whether it has just thrown off a few things that are actually meaningful improvements that you can back into the estate but Fusion itself does not work.

Graham Stapleton: No, it is a good question. The Fusion trial was very much around optimising customer experience, trying to understand what we could do to really optimise customer experience in a town. That was the premise for doing it and therefore, just taking the return on capital point, because it was just two towns and that was the aim we were not looking there at what the return on capital employed would be in those two towns. Not least of which because they are very bespoke and therefore quite expensive fit-outs because it is just two towns we are doing. In terms of sales we might not have mentioned it on there but the sales beat the business case and delivered very significant growth. Certainly more significant growth than I have ever seen in any store trial reformat change that I have done in all of my time. Fusion as a whole definitely worked from a customer experience perspective, which was what it was there to test. What we have decided to do this year primarily, to be frank, on the back of a very difficult trading climate, is to pick out the very best bits that resonated to both customers and delivered financial return and roll them to as many towns as we possibly can so we get a really good balance of near-term return whilst obviously hopefully the inflation and confidence gets back to a better level. Once that is there we can absolutely see a version of that Fusion town being rolled out to more towns across the UK. It was never our intention to roll out to every town because the capital that we would need to employ would not pay back in every single place. However, certainly 100-200 towns you could see a version of that that is more efficient being put into those towns. We are really pleased with the trial. Really pleased with the trial.

Loraine Woodhouse: Just to add a bit more flavour on that, Tony, the ROCE on those two towns I think you would categorise as below what you might like to see for obvious reasons. We put a lot of investment into those towns and there are some things in there that are bespoke. What we have been able to do though is to then normalise that capital. Say, okay, what have we seen work? What do we believe will normalise? If you rolled this to 100 stores what would it cost rather than rolling to two? At the same time we were also able to normalise the cost base because at the same time we were putting a lot of colleagues into those stores. We wanted to make sure that that all worked. You can strip from that to get to a point where you get something that has an attractive return on capital. That is because the sales uplift was materially more than you would recognise as a refurb. There is a rule of thumb, is there not, in retail. It was very significantly more than that. There is an attractive model there but as Graham says, it would not be appropriate for the entire estate.

Tony Shiret: Refurb plus rather than...

Loraine Woodhouse: Yes.

Graham Stapleton: Great, well I think that is it. Thanks very much indeed for the questions. Thanks for making the time to attend and to view the call online as well. If you need any further clarification please reach out to my learned friends in the Investor Relations

team, headed by Richard Guest and Andy Lynch. We look forward to speaking to you again for our 20-week results in September. Thank you.

[END OF TRANSCRIPT]