Halfords Group PLC

Capital Markets Day

18 April 2023

Transcript

Graham Stapleton:
Good morning everyone. I'm Graham Stapleton, Chief Executive of Halfords and it is my pleasure to welcome you to the Halfords Group Capital Markets Day – thank you for coming along.
I've met many of you before, but for those who don't know me I've spent over 30 years in consumer facing Service and Retail businesses, 5 of those here at Halfords.
Before we get started, let me just take a few moments to introduce you to my team.
Many of you will have met Jo Hartley, our CFO. Jo has over 20 years of services and retail experience, most recently as Group CFO at Virgin Active, and before that as UK Finance Director at Tesco.
Karen Bellairs has spent 25 years in consumer facing businesses including nearly 20 years with Halfords, in roles across trading, marketing and digital. Karen is now our Chief Customer and Commercial Officer and she is here today to talk to you about the value of our customer data.
Moving now to Rob Keates, our Chief Operating Officer. Rob joined us from O2 nearly 3 years ago, where he was Director of Transformation and also led O2's retail and supply chain team. Prior to that Rob spent 14 years as a management consultant, where he focused on customer experience, sales, service and change.
And finally, Chris McShane joins us today, to talk about Avayler. Prior to joining Halfords Chris and I worked together to develop and grow Honeybee – the SaaS platform that Dixons Carphone created and sold to other businesses.
So that's an introduction to the presenters today, and here is the agenda we are going to cover together:

- I will start with a reminder of the journey we have been on since our last Capital markets day in October 2018. I will cover the progress we have made against both our vision and strategy. I will highlight how I believe we have created a more resilient, differentiated, customer and data-centric business – one that is now well positioned to deliver significant shareholder value.

- We will then spend the majority of today in the mid-term - showing you how we plan to fully leverage the investments and transformation that we have already delivered.
  Here Jo, Rob, and Karen will cover the market and cost opportunities we have, together with a deep dive into Garage Services, and Data and Lifetime Value.

- I will then talk about our opportunities in the mid to longer term – outlining where we believe there is further potential for the Halfords Brand to create even greater value for customers and shareholders.

- Chris will then give a separate update outlining our Avayler business and the opportunity it creates for us. Within this overview we will focus on how Avayler works, its economic model, and why we intend to separate the business from the core Halfords operation.

- Finally, to close today's session, I will summarise the key points, and then the team and I will be happy to take your questions.

So, some of you might be thinking – why do a CMD now… when it is so difficult to forecast forward, and we are trading through an unprecedented period – with significant headwinds and subdued profits….
Well, I believe this CMD is necessary - to highlight the significant amount of transformation that we have managed to deliver over the last few years, and the potential of the business platform we have created. In the mid to long term, we intend to fully leverage the investments we have made and the potential we believe the Halfords brand has.

As you see on the slide here, in the mid term sales are expected to reach around £1.9billion as the key markets in which we operate recover, and we continue to grow market share through our uniquely convenient, and competitive proposition.

Inflation and cost efficiencies are broadly expected to offset, enabling us to maintain current gross margin and grow operating margin to 5.5%.

With profit in the mid-term set to grow to £90 - £110million, and capital expenditure at lower levels than we have seen historically, we also foresee strong cash generation and expect growth in return on capital employed.

As we continue to transform the business and unlock further potential in the Halfords brand, we believe there is an opportunity to add a further £300 million pounds of sales in the mid to longer term. This will generate £130-150million of PBT and a 6.5 % group operating margin. We also expect to continue to generate strong cash flows and grow our return on capital employed to 20%.

Let me bring you back though now, to where our journey started in 2018.

When I joined Halfords, I was fortunate enough to inherit a great brand, with a strong heritage and good awareness.

The business employed fantastic colleagues with good technical expertise and knowledge; and we had created the foundation of a services business.

However, it is also fair to say that operationally, Halfords was still an industry and store-focused, traditional retailer.

Some customers had to travel long distances for services, and many shopped across fragmented and disconnected channels.

The business operating model was oriented towards marketing and acquisition, with little focus on data capture, customer retention and lifetime value.

It was with this context, together with a significant programme of customer, competitor and market research, that we formed our current customer purpose – to inspire and support a lifetime of motoring and cycling.

This purpose remains as relevant today as it did then, and has helped shape our strategy - to become a consumer and B2B services focused business, with a greater emphasis on motoring, generating higher and more sustainable financial returns.

To bring the point around higher and mores sustainable returns alive, is best explained from this simple bubble chart from 2019.

On the slide here, you can see the markets that we operate in. The sizes of the bubbles are indicative of the sizes of our businesses in FY19. The vertical axis shows the potential growth opportunity, and the horizontal axis shows the return on investment.

Very simply what you can see on the chart is that our motoring categories deliver much more profit than our cycling business does, and that there is a huge potential growth opportunity for services – which are also much more profitable.

So taking that into account, what progress have we made in delivering the purpose and strategy over the last four and half years?

Well today, Halfords is a very different business.

It is now a truly digitally enabled, omnichannel company.

We have invested significantly in our digital transformation with customers now able to shop seamlessly across all our channels – on one market leading, customer centric, Halfords Group website.

Alongside this we have built a unique and more convenient physical estate for customers.

Our scaled services business can now be accessed through a very different mix of channels, with a combination of a nationwide network of stores, garages and mobile vans. And as a result, for motoring

services the average customer drive time has been reduced from 30 minutes in 2018, to just 20 minutes now – or zero if we come to you at home or work.
On this slide you can see how the change in channel mix and increased customer convenience has impacted the type and number of services we deliver each year.
In 2018 our services business was entirely consumer based - almost equally split between service events in retail stores and garages.
At this stage we had no mobile option for customers, or commercial presence.
Today we have a much bigger services business, with a greater focus on more complex and valuable service jobs, such as MOT, service and repair. While jobs have increased 44%, revenue has almost doubled.
Combined, this digital and physical transformation means that we are now the UK's biggest motoring and cycling services provider, undertaking just over 10 million service events per year.
We have also firmly established ourselves as a super specialist in what we do – not just because we have more than doubled the size of our services and B2B businesses - but because we have also continued to focus on product innovation and growing our unique own brand offer.
This is not just good for customers – it also further differentiates us from our generalist competitors.
Last but certainly not least, we have step-changed the way we collect and use data – through the investment that you can see on the left hand side of this slide.
We collect data in all of our channels via our own technology which we embed in the devices that colleagues use at every step of the customer journey.
And once we have that data, we use best-in-class systems such as our single customer view, CRM, and our group data platform - to ensure we can analyse and make the most of the information we have collected.
Our aim here is to become as good at retaining customers and improving lifetime value, as we are at acquiring customers. Ultimately, we want to get to know more about a customer's car and bike than they do - so we can predict what they need before they know they need it, and ahead of our competitors.
And customers are positively responding to this transformation.
We now have more than 30 million known customers shopping across our group products and services every year, and more than half of those customers share their vehicle data with us.
We have also seen a 6-point increase in our net promotor score in just 4 years, from 62.9 in FY19 to 69.1 today.
Alongside the customer transformation we have also been identifying ways to continually make our business more efficient and effective. This slide shows some of the highlights from the work we've done.
To pick out the big ones…

- Within our property portfolio, we have closed over 80 stores, generating savings of £20 million pounds.

- This, combined with a new approach to merchandising cycling, has driven up Retail store sales densities by 7%.

- And we have significantly increased our focus on the procurement of goods not for resale resulting in savings of £30million pounds over 4 years.

And delivering a combination of a better customer experience, and a significant shift in the mix of our revenues, has led to better results overall.

- Our total group revenue has increased by over 40%.

- Much more profitable service-related sales have more than doubled, and now represent nearly 50% of total group revenue.

- Our comparatively higher gross margin motoring business has also grown - moving from 66% in FY19 to now 77% of total group sales.

- And B2B revenue has grown from just 12% of total group sales in 2018, to 22% today.

And in terms of relative return on invested capital and market opportunity, you can see in this update to the bubble chart that we talked about a few minutes ago, our growth has very much been in areas that are either higher returning or have greater market opportunity.
And finally, we have also created a much more resilient operating business - less prone to cyclical external market events.
Our much bigger B2B business is far less impacted by changes in customer sentiment and an increasing proportion of this is now contracted, multi-year, revenue.
At the same time, the split of needs based spend across the Halfords Group has increased from just under half our spend in 2018 to just under two thirds of our spend today.
And we have reduced the impact that FX can have on our business, moving the percentage of goods we buy in US dollars from 35% in FY19 to just 23% today.
Before we move on to the next part of our agenda, let's just recap on the key messages.
As you can see on this slide, there are 3 big takeout's for me:

- Since 2018 we have created a significantly bigger business with service related sales just under 50% of total revenue, and our B2B business more than doubling. We have developed a unique and scaled platform, building a market leading interconnected infrastructure of stores, garages and vans, at the same time as creating a data and digitally-enabled business. This platform differentiates us from our competitors and provides significant opportunities for earnings growth.

- In the mid-term, we believe a combination of our core markets recovering, leveraging the investments we have made, and optimising the unique platform we have created will deliver £1.9billion of revenue, £90-£110m of PBT and 5.5% operating margin.

- And finally what is really exciting is that in the mid to long term there is a huge opportunity to unlock further potential in the Halfords brand. We believe that this significant transformation will deliver a further £300million pounds of revenue and a much more profitable business.

Today, we will set out a plan which shows how we will deliver that.
And on that note, I'll hand you over to Jo who will begin the mid-term section of today's presentation.

Jo Hartley:
In this next section, I will show you how we plan to leverage the platform that Graham has described to grow our profits over the medium term.
I will get my caveats out the way before I start.
I have been involved in forecasting financial performance of consumer facing businesses for about 24 years.

I can honestly say it has never been harder to predict customer behaviour or cost inflation.

Over the last year or so we have seen interest rates increase from 0.1% to 4.25%, inflation reach over 10%, the Sterling to US Dollar FX rate fluctuate from 1.08 to 1.30, freight rates move between c $2k and $15k per container, seasonal gas prices range between 225p and 827p per therm, and minimum wage increases of over 10%. On top of all that, consumer confidence has been at an all time low for much of the year. I am not sure anyone saw all that coming.

Looking forward with certainty is therefore hard.
While the short-term picture on costs is clearer – in the mid-term there remains considerable uncertainty around both costs and consumer behaviour.

Against that backdrop, what I can promise with absolute certainty is that this forecast will contain some inaccuracies.
With that in mind, we have anchored our projections around external forecasts of market recoveries, and factors within our control for which we have a strong track record of delivery, such as cost control. I will lay out all our assumptions with as much clarity as I can. Where there are significant sensitivities, I will explain how they impact our profitability. Hopefully you will leave with confidence that the forecast has been built sensibly, and able to understand the sensitivities within it.
Before we do that, I thought it might be useful to recap how profit has moved since FY20, our last normal year before COVID.
In FY20, Halfords delivered underlying profit before tax of £55.9m. In the years since then, we have transformed the business, bought National and Lodge, grown our services and B2B businesses, significantly reduced our retail store portfolio and delivered meaningful cost reduction programmes.

We saw underlying PBT rise to nearly £90m in FY22, before the enormous impact of unprecedented inflation and deteriorating consumer confidence hit.
We have reviewed data from GFK, Kantar and ONS - this shows clearly that the markets in which we operate saw more decline than most - with the cycling and the tyre market particularly impacted. We have included this detail in an appendix.
Our efforts to reduce cost helped to significantly mitigate the headwinds, and we guided in January that we expect FY23 PBT in the range of £50 - £60m – close to what was delivered pre-COVID despite the inflation and market deterioration we have seen since then.
The good news is that while FY24 looks set to continue to be challenging, the mid-term future looks much brighter. The markets that have come down are expected to go back up based on external forecasts. Furthermore, inflation is widely expected to abate – indeed we expect some costs to deflate. So, while we have seen a sharper fall in profit than some others, we may also see a sharper rise.
This next slide bridges from our £50 – £60m guided range for FY23 to our mid-term targeted profit of £90 - £110m, and an operating margin of around 5.5%.

In a moment I will spend some time talking to you about the significant growth we expect from market recovery and market share gains, and the inflation and cost saving assumptions we have made. Karen will cover the incremental value we expect from data in her section before Rob explains the incremental benefits we expect as our synergies from acquisitions mature.

But before that, lets briefly touch on capex, cash and return on capital employed.
Since FY20 our total capital expenditure has been nearly £300m, with around one third of that spent on acquisitions and integrations, predominately of Lodge and National garages. The remainder has been

spent on the existing estate, with around 60% of that being on the maintenance of our growing number of fixed and mobile locations.

Looking forward over the mid term we do not foresee any further major acquisitions and our focus will be on leveraging the platform already built. As such, we see expenditure falling back to c. £50 - £60m per annum and averaging around 3% of revenue, which is below historical averages.

Profit and capital are key drivers of cash flow for the business. The charts on this page illustrate our expectations on free cashflow and leverage over the mid term compared to what we saw between FY21 and FY23.

As you can see we expect improvement in both metrics.
We expect to see growth in positive free cashflow in the mid term to around 45 – 55 million per annum, as profit grows and capital expenditure falls as I have described. That results in a positive cash position that is forecast to build through the plan, and as a result, net positive leverage is anticipated. Looking forward we intend to retain our balance sheet strength.

The profit and capex trajectories that I have just highlighted, explain our returns history and forecast. Here you can see that, unsurprisingly, ROCE has fallen vs FY20. Profit has been significantly supressed given the extraordinary headwinds which we have already described and capital employed has increased following the acquisitions of Lodge and National garages. While these factors have led to a decline in ROCE, if we normalised inflation and the size of the markets in which we operate, the picture would look very different as illustrated by the green box at the top of the FY23 bar. Our view is that the investments we have made in transforming the business are returning, but that current market and inflationary headwinds are offsetting the growth we would otherwise have seen.
As we look forward, we see return on capital grow and exceed the levels seen in FY20 – with a mid term target of over 15% as markets recover and our acquisitions continue to mature while capital returns to normalised levels. Rob will cover the acquisition returns in more detail in his section.

With limited capital expenditure looking forward, the key to delivering ROCE expansion and cash generation is the forecast profit growth, which I will now go on to cover in some more detail.
So lets turn now to look at the markets in which we operate.

And I start here, because this is where we start our forecasting process. In this section we will cover what we expect to happen to each of the markets in which we operate and what we expect to happen to our share of those markets. Those two factors together drive our sales forecasts – and given the leverage within the business, this is probably the most critical number in any forecast. For that reason I will take time here to go through the assumptions in some detail.
Today, Halfords operates in 4 key markets – Motoring Products, Cycling, Tyres and Motoring Servicing. These are all markets with strong fundamentals. Our motoring markets are underpinned by a growing and ageing UK car parc, and the cycling market continues to be supported by significant government investment into infrastructure. And when these markets are looked at in aggregate, Halfords is able to support customers across their mobility needs in a way that the competition cannot.

This slide shows the size of each market today and our volume share within that market. It also shows what has happened to those markets since COVID. And here, I would draw your attention to the significant declines we have seen in both the cycling and consumer tyre markets, which have been a key driver of the profit decline we are forecasting in this year, but will also be a key driver of the recovery we anticipate as we look forward.

So with that context, let's now take each market in turn, and I will explain to you the c.£17m of profit growth we expect over the mid term from market recovery.
The £4bn motoring products market has been comparatively resilient – with the more "needs-based" areas offsetting much softer performance in more discretionary categories.
We expect volumes in this market to grow 2% in the mid-term, based on GIPA data suggesting that the ageing car parc will push more cars into the "aftermarket" in which we operate. This market growth is expected to deliver profit growth of c. £6m in the mid term based on our current share. Every 1% change in the market has a c. £3m profit impact for Halfords.
The £1.2bn cycling market, given its more "discretionary" nature, is the most significantly impacted by the cost-of-living crisis, and as we have already seen, in volume terms, it is over 20% down versus pre-COVID levels.

To make that really clear, on this next slide I have shown the volume of units sold in the cycling market since FY20. It has been a staggering decline.
The chart shows that approximately 800,000 less bikes will be sold in the UK in FY23 than were sold in FY20.

The graph shows that almost 300,000 extra bikes were sold in the UK in FY21. Even if we assume that was a pull-forward of demand driven by COVID and add all of that back into the FY23 numbers – we still have a 500,000-bike delta to normalised bike volumes.

To explain these dynamics further, the chart on this slide indexes market price and volume vs FY20 - effectively mapping the percentage movements in each metric by year against an FY20 base line.

On Cycling, the story is clear. In FY21, the first covid year, the market saw record volume growth through successive lockdowns. Prices started to rise at the same time, as supply chain issues started to hit stock availability. In FY22, volume fell back to below the levels seen in FY21, reflecting the fact that there had likely been some pull forward in demand. Pricing in the market continued to increase, as supply chain issues continued, and freight rates started to increase. In FY23, we saw further price rises, fuelled by inflation in freight rates, commodity prices and the weakening of sterling. Volume fell even further, reflecting a cost of living crisis and customers cutting back on discretionary spend.

As we look to the mid term, based on external market projections we do expect volumes to recover, albeit not to pre-covid levels. Our planning assumption is that there will be some price deflation in the market to drive this volume growth, especially as commodity and freight prices start to reverse.

Our market growth assumptions are based on those of the Bicycle Association who forecast that while FY24 will continue to be challenging, we can expect volumes to recover to 10% below pre COVID levels in the mid-term. As we have already discussed, the market has seen significant price inflation as retailers have passed on the impact of increasing freight and product costs to consumers. Our forecast £5m profit growth from the market recovering includes an assumption that pricing will need to fall to deliver the scale of volume growth that is forecast, and therefore our profit sensitivity contains some contingency. Using this logic, every 1% change in the market impacts profit by £0.4m. It is important to note that cycling is different to our other markets, in that market forecasts suggest we have not yet reached the bottom of the trough here and therefore there is further decline to come in FY24, before recovery in the mid-term.

The consumer tyre market has also been significantly impacted by COVID and the cost of living crisis. Throughout this year we have talked about the challenges presented to us by a £2.2bn consumer tyre market in which volumes remain 14% below pre-covid levels.

Our National garages business case assumed that the consumer tyre market would return to pre covid levels in FY23.

We didn't anticipate that a cost-of-living crisis would mean consumers would slow down the replacement of their tyres, given the significant safety risks, fines and penalties associated with driving with tread depth below the legal minimums.

In fact, in such extreme circumstances, we have seen customers defer and delay tyre replacement for as long as possible – in some cases waiting for an MOT fail before replacing them.
GIPA data also shows us that miles travelled remain 7% below pre COVID levels – another change which no one anticipated.

These 2 factors explain why we are seeing such a significant difference between current market performance and our business case assumptions.

This slide indexes the market movement in consumer tyre prices and Volumes vs FY20 in the same way as we did for the cycling market.

Here we see consumer tyre volumes drop and stay depressed from FY21 to FY23 reflecting less miles travelled through the covid years, and then the impact of a cost of living crisis on consumer expenditure in FY23. At the same time, market prices increased in FY22 and then sharply in FY23 reflecting commodity cost price inflation, freight rate increases and the weakening of sterling. As we look forward to the mid term, based on forecasts on miles travelled, we do expect volume recovery, albeit not to the level we saw in FY20. Again here, we expect some price deflation as commodity and freight rates normalise, and in order to drive the market volume growth.
The consumer tyre manufacturers previously indicated that we might expect volumes to start to return in calendar year 2023, but we are yet to see that recovery commence. As such, our mid-term forecast now assumes a gradual improvement such that volumes in the consumer tyre market return to 3% below pre-covid levels based on GIPAs forecast that miles driven will only return to 97% of pre-covid levels. We hope that is a prudent assumption.

The move from -14% to -3% is expected to deliver an incremental £6m of profit across the Group – with every 1% movement in the market worth £0.6m for Halfords based on our current market share.

The £9bn motoring servicing market is currently seeing volumes around 4% above pre-covid levels, and based on SMMT forecasts that the UK car Parc will remain broadly flat in the medium term, we have assumed the motoring services market remains flat. Given the aging car parc predicted by GIPA, this may prove to be a conservative assumption. Every 1% movement in the market impacts profit by £1m.

In addition to the growth we expect as markets recover, we are also confident in our ability to grow market share. The next few slides will cover the £22m of profit growth we expect from market share gains over the mid term

In Motoring products, we see opportunity to grow volume share from 41.8% to 43% adding £10m of incremental profit. The volume share metrics here reflect GFK data, which audits 7 categories in which we participate.

We have recently started participating in Kantar's wider survey of the motoring market, and It is notable that on that measure, Halfords currently accounts for less than one third of customers yearly spend on motoring products.

This is despite the fact that, unlike our competitors, as a super specialist, Halfords can offer customers product advice and a fitting service in hundreds of convenient locations across the UK. Over 40% of all batteries, bulbs and windscreen wiper blades are now fitted – and there is room for that to grow.
We see share growth coming from 3 key areas
Firstly, Data, personalisation and the motoring loyalty club provide us with unique opportunities to take share. We are already seeing increased spend and frequency from the 1.7m club members we already have and there is significant further opportunity. Karen will cover this in more detail in her section later.

Secondly, extending ranges into markets where we under index presents a clear share growth opportunity. The most notable of these is an extended range of car parts, an £800m market that we currently have less than 1% share in.

In November last year we launched a new broader range of thousands of car parts online with competitive pricing. Today we offer free next day delivery and shortly we will be offering "order online" and "collect instore within 60 minutes", making Halfords the one of the most competitive and convenient propositions in the market. With stock managed by the vendor and limited costs to serve, this is a high returning area for us despite lower-than-average gross margins.

And finally we see share growth coming from an improved value proposition. Own brand product accounts for only 44% of motoring revenue vs around 70% in cycling, with immediate opportunities in Touring, Car Seats and Car Cleaning. Combining a good value own brand range with enhanced promotions including bundled deals and impulse lines is expected to drive share growth.

So overall – clear plans in place to take market share from both pure play online retailers and physical retailers. Each 1% point volume share gain over the mid term adds £10m of profit.
As the cycling market recovers, we see a further £2m of profit growth through growing our volume share by approximately 2 percentage points.
Here again, we see growth opportunity from enhanced data and CRM driving increased retail visits and frequency. Indeed in the mid term, we plan to launch a cycling loyalty club to drive this opportunity further given the success we have seen in the motoring loyalty club.
Innovation and range development also provide share growth opportunity. With the shift in the market towards more premium products in both Adult Bikes and Electric bikes, we see opportunity to grow our average selling price through product mix and Boardman range expansion opportunities.
The Cycle to work market has proved resilient so far for us, with many customers taking the opportunity to buy bikes through their company's cycle to work schemes, giving them an effective discount of up to 47% through the tax advantages of salary sacrifice schemes.
We are investing in our Cycle to work platform to make signing up quicker and easier, which will enable us to target the SME market that we currently cannot access. We are confident that this is an area in which we can drive share growth.

And finally, we see opportunity in servicing. We are investing to develop our cycle servicing proposition and experience, introducing bookable slots for all types of services, digitalising the customer journey so that customers can see when their bike has been completed and is ready to collect, and upskilling all our colleagues so that they know how to confidently sell customers the services they need.

In summary, we see c. £2m profit improvement from Cycling Market share gains, predominately coming from the Independent Bike shops, Generalist retailers and Mid Market High Street bike shops. Every 1% share gain delivers around £1m of incremental profit

In a depressed consumer tyres market, we need to double down on our efforts to drive market share, and our target here is to grow volume share from 9.5% to 11% over the mid term, delivering £5m in incremental profit.

We now have the largest Nationwide Network of fixed and mobile locations – which is a great platform from which to grow share.

Here again data and CRM will play a role particularly as we leverage our loyalty club to drive consumer tyre demand looking forward – which Karen will talk more about later.

We are also driving share growth through improving our proposition. Last year we launched same day tyres bookable online and we believe we have the largest range of tyres available for fitting across the UK. We have also introduced dynamic slot pricing to enable customers to make their own value and convenience choices.

Finally, we see considerable share growth opportunity as we continue to develop own brand consumer tyre ranges. We already have one of the fastest growing own brand tyre products with Autogreen – with volumes up 67% vs FY23, and opportunity to expand further.

With our unique Motoring Loyalty club to drive demand, and a customer proposition delivering unrivalled convenience and value, we believe we are very well positioned to take consumer tyre share from both National Chains and Local Garages. Every 1% volume share gain, delivers £3.5m of profit.

In Motoring Serving, we forecast an increase in our volume share of this highly fragmented market from 3.5% to 3.8% driving £5m of profit.

We expect these share gains to be fuelled by demand driven by our growing motoring loyalty club and also from referrals from our retail estate, which performs 3.7m service jobs every year. Driving cross shop through these and other data led initiatives is one of the biggest share growth opportunities we have.

We also forecast share gains as we improve utilisation of our garage estate through better localised demand and capacity matching. We know this year we have at times had more demand than capacity. Using new data and tools we will be able to optimise each individual location through localised demand forecasting and targeted capacity increases enabling us to take a greater share of demand within a locality. Rob will talk more about this in his section.

And finally, improvements to our value proposition, as well as communicating them more broadly will also drive share gains. We already offer market-beating value levers, including Brakes4Life, 2 year standard guarantee and price match promise as well as financing propositions to enable customers to spread the price of their repairs. With prices that are over 25% cheaper than the dealers, we see significant opportunity to take share from both the brand dealerships, independents and nationwide garage chains.

Every 1% improvement in volume share in motoring servicing improves profit by £16m.

We have now gone through all the markets in which we operate and I have outlined the profit growth we expect from externally forecast market recovery and detailed our clear plans to drive market share gains. In total, these deliver nearly £40m of the expected profit growth from FY23 into the mid term –

with a roughly equal split between market recovery and volume share growth.

Having described the market movements, I will now go on to cover the third and fourth bars on the profit bridge – cost inflation, and efficiency.
Before getting into any more detail, I would like to be clear that our planning assumption is that cost inflation will be more than offset by cost efficiencies over the medium term – which this bridge illustrates. As a business, we have increased our focus on cost and efficiency particularly in the very near term where the headwinds are expected to be the greatest.

So lets start with the c.£46m of cost increases we expect over the mid term.
Over the last year we have talked with you about the 4 key factors that impact our cost base and those factors remain the same. Here I will lay out our assumptions:
FX is assumed to stay broadly flat at 1.23 in the mid term, being close to the current rate. This assumption will definitely be wrong – but given the volatility seen in the past year I cannot begin to predict it. We buy around $230m of product in USD each year. So it is straightforward to work out the sensitivity here.

While we expect significant inflation in Utility costs in FY24, we are expecting those costs to return to FY22 levels in the mid term, meaning we are broadly assuming a return to the levels seen before the war in Ukraine started.

On Wages, we have taken account of the FY24 minimum wage increases which are known, and assumed around a 6% increase thereafter. Taking account of the impact on the whole employed workforce, we see average inflation per annum of around 4% in the mid term.
These cost increases are partly offset by expected decreases in freight rates, which we expect to return broadly to pre covid levels – a significant reduction vs what we have seen in F23.
We expect to offset this inflation through our £51m cost reduction programme. In this area I would hope that our strong track record of exceeding the cost saving targets we set gives confidence that we can deliver or beat this number.
There are 3 key areas where we'll drive value, and I'll now go on to step through each in turn. Perhaps unsurprisingly, our biggest cost reduction opportunity is in the cost of goods we sell. So let me move now to outline our plans in that area.
Today we have over 400 suppliers from whom we purchase close to 800 million pounds worth of goods each year. Our purchases from suppliers have grown 36% or £200m since FY20 as the business has grown, and looking to the mid-term we anticipate significant continued growth.
Despite that volume growth, we have seen the cost of goods we sell, (excluding the impact of FX movements and freight costs), inflate by around 6% over the last 2 years. This has been particularly seen in the cycling market, which has seen unprecedented raw material price inflation and supply chain disruption in part mitigated by our negotiating strength.
We have been working with external consultants to understand how we drive material reduction in the cost of goods that we sell, supported by expected commodity cost deflation which we are already seeing.
There are 4 key levers to the programme.
Firstly reviewing our strategic supplier partnerships. Over 50% of the goods we purchase for resale are supplied by 20 key suppliers. By strengthening strategic partnerships we see the opportunity to drive joint growth and value together through the unparalleled opportunities we can offer these suppliers given our scale and growth ambition and our ability to add advice and service to their products across our fixed and mobile locations. These partnerships can unlock product innovation, category leadership

investment and supply chain agility giving us further points of differentiation. These strategic partners can also lead from the front on partnering with us on our wider Sustainability agenda in areas like carbon reduction, packaging and recycling initiatives.
Secondly, we have significant opportunity to reduce cost through value engineering product across our own Brand ranges. We have historically had success with this in the cycling category, where changing components such as the pedal or handlebar on a bike has enabled up to 4% reduction in individual product cost prices. There is significant opportunity to expand this approach across both motoring and cycling.

Thirdly, we see significant cost benefits both through growing the penetration of own brand, and also through retendering supply and expanding sourcing through our Halfords Global sourcing office based in Hong Kong. Own Brand products typically see margins more than 2 percentage points higher than branded margins and historic tenders have led to reductions in cost prices on the tendered products averaging 4%. This year we plan to run around three times the number of tenders we did last year.
In the mid term we see significant opportunity to grow own brand penetration in motoring and tyres which currently significantly under index on own brand vs cycling.

Finally – there remains opportunity to drive value through our increased scale as we deliver Group Buying Synergies and a supplier rationalisation program. With 400 suppliers of around £800m of product there is very clearly an opportunity to cut the tail here and give more volume and growth to a smaller number of suppliers across the Group to drive more value for everyone.
Supporting the whole program is investment in systems and data to bring a more rigorous and data based approach to supplier management which in itself will unlock value.
All this work supports a prudent target of a cumulative 3.5% reduction in the cost of goods we sell over the mid term – and therefore a £30m saving vs today's pricing.
Combining our historic investment and compelling future growth plans with a clear and externally supported better buying program underpinned with data, gives many reasons to believe the targets are achievable – and they fall well within externally validated benchmarks.
While Freight costs were not included in the product cost information I have just shared, freight costs do form part of our gross margin. As we have already heard, there has been significant fluctuation in the cost of freight over the last year. Looking forward, we have assumed that freight rates remain above pre covid levels but stay broadly in line with our FY23 exit rate in the medium term. This leads to a 20% reduction vs the rates we have paid this year.
At this point, I thought it would be useful to lay out our expectations looking forward on gross margin. We have now talked through the differential growth rates we expect in our markets going forward, the fact that in some markets we expect reduction in pricing to be necessary to drive growth, our assumptions on FX and freight going forward, and our plans to reduce the cost of goods we sell through a better buying program.

Effectively, we have talked through many of the drivers of the margin rate and as you can see from the bridge, in the mid term we expect to maintain margin in line with FY23 at a Group level .

While our product cost reduction programme would normally support margin expansion, we anticipate some price investment in Cycling and tyres as deflation in commodity prices is passed on to consumers to drive market volume growth, and some adverse mix impacts as sales grow in lower margin categories driven by the market recovery in cycling, and range expansion into lower margin motoring categories where suppliers manage inventory.

Our sales mix into autocentres at higher margin rates will offset an expected reduction in retail margins across the plan period. Our view is that margin maintenance is a very reasonable planning assumption for all the reasons I have just outlined.

Lets now move back to our cost saving initiatives.
The second significant cost saving we see over the mid term is in retail property costs, where we anticipate £6m of savings.
Firstly, we expect to see a further reduction in our retail store estate, as we continue to right-size the business at lease renewals and benefit from a proportion of the trade transferring to adjacent stores. In the mid term, we expect our store estate to reduce to around 380 - a reduction of 100 stores since FY18.
Secondly, we will continue the great work that our Property team have done over recent years in bringing down our average retail lease cost at each lease renewal event. We have around 45 lease renewals coming up each year and anticipate savings averaging around 10% at the point of renewal.

While not so relevant to our cost programme I also highlight here the flexibility in our retail lease profile – the average lease length of our retail estate is now less than 3 years, down from close to 6 years in FY18 – giving us considerable flexibility.

And as a final point on retail property, it is worth noting that the combination of our sales growth and store reduction plans sees sales densities improve by over 15% in the mid term
Finally, this slide summarises some of the other cost saving programmes we'll be working on over the mid-term. We have identified a further £15m of savings opportunities across 3 key areas.

Firstly, we have identified numerous opportunities to reduce the central support costs of our business. We will rationalise our "goods not for resale" supplier base and renegotiate contracts, we will utilise our Group Data platform to underpin efficiencies across the business, and we will make further savings through a more efficient operating model.
Secondly, in warehousing and distribution, we are rolling out a new warehouse management system and a customs and duty platform, both of which will drive efficiencies and savings.
And lastly, in our store and garage estate, we target energy consumption reductions through further roll out of LED lighting and building management systems, efficiency savings through our well established "we operate for less" programme and cost savings through improved utilisation in our garage business, as Rob will explain later.
The assurance I can give you on this is that there are clear plans in place for all the savings that I am describing. And the other assurance I can give you is that we will not stop here. We will leave no stone unturned as we continue to optimise the business.
I have now taken you through the first 4 bars on the bridge.
I have highlighted how externally supported market growth assumptions and our share growth assumptions are expected to drive nearly £40m of profit growth in the mid-term.
I have explained our assumptions on cost inflation and our cost reduction plan that will more than offset those headwinds to deliver £5m of profit growth.
These items alone would take us into our mid term guided range– and Karen and Rob will go on to describe the incremental growth we expect from Data and Loyalty, and the maturity of our acquisitions which together will enable our profit to grow further to between £90m and £110m.
You will notice that if we add all the bars on this chart together, we are describing £65m of growth initiatives, which could take us beyond even the top of our guided range in the mid - term. All the bars contain best estimates, so having some contingency in there seems sensible.

So 3 key takeaways for the mid term plan to leverage the platform we have created:-

We expect Profit to grow from £50 - £60m in FY23 to £90 - £110m in the mid term.
FY23 has been impacted by extraordinary inflationary and consumer headwinds. These factors are likely to continue to suppress profit in FY24. In the mid term, external forecasts suggest these pressures may abate, driving market and profit recovery. These dynamics, supported by our own efforts to drive cost reduction and market share growth are expected to drive compelling mid term profit growth.

Capex (including acquisition spend) is expected to drop back to between £50m and £60m per annum or 3% of revenue over the mid term as we focus on leveraging the platform we have created, and the money spent to date on acquisitions. We do not foresee significant M&A in the mid term.

Return on Capital employed has been suppressed in FY23 `by the challenging market conditions. As we look forward, we expect capital employed to exceed 15%.
I hope it is now clear how we have built our forecast, the basis of our assumptions and the sensitivities that are contained within them.
I will now pass you over to Karen, who will describe our plans to leverage data and lifetime value.
Thank you.

Karen Bellairs
Thanks Jo.
I am delighted to be here today to talk to you about the significant progress we have made over recent years to build out our Group data and analytics capabilities.
We have transformed our platform, and as you will see, we will continue to deliver substantial outcomes for Group returns as we grow our customer lifetime value.
Our vision here is to support our super specialist proposition by creating the most unique and personalized end to end customer experience.

I'm going to cover two key areas in my presentation this morning.
Firstly, I will shine a spot light on our unique data platform, which is enabling us to know more about our customers, and their vehicles, and helping us to predict future customer needs. The scale and quality of our data capture provides us real differentiation in the market.
Secondly, I will demonstrate how this data and subsequent personalisation across key customer touch points unlocks value for our business.

As a quick reference from the offset, the value we will unlock in the mid term is two fold;
Our lifetime activity is a key underpin to the £22m market share growth that Jo referenced earlier. This is achieved through growing breadth of spend across the group and multi year retention of that spend, ultimately changing customer behaviour so we take more of their cycling and motoring share of purse.
In parallel, with the infrastructure we have now built, there is also a discreet and incremental benefit of £8m PBT in the mid term from leveraging this data ecosystem.
I will begin by talking about the area that supports the £22m market share. Starting with sharing how we have created a unique data platform to power understanding and leverage this growth.
Let's look firstly at what type of data we collect.
The sheer scale of our collection is compelling, overall we capture hundreds of different data points to uniquely position our customer and vehicle understanding across our touchpoints.
From a customer perspective we collect over 40 feeds. Capturing an array of customer contact details like email address and postcode, their shopping and service history including spend and browse

behaviours which is captured across channels. We enrich this with demographic attributes enabling us to segment customer groups for targeting. We also collect data from customers on their experience and the reviews they leave us across categories, channels and down to shop or garage locations, which supports journey improvements and range development.
Across vehicles we collect rich data too, let's look at our car data now, to bring this alive.
Here we capture everything about the car and its condition across 200 different data fields. Information like, make, model, mileage, tyre tread, MOT advisories, Halfords service history, our we check assessments and their outcomes. The Vehicle Registration Number capture is the critical data point to collect though, as it connects the vehicle to the customer and to their cross group purchasing. Enriching this VRN with our third party data, helps us understand MOT and service due dates and all the car specific parts for that vehicle. We really have a 360 degree view of the car.
To have this level of understanding is really valuable and it is the combination of the scale of data we can access, combined with the quality of our vehicle view that gives us the ultimate differentiator versus our competitors, and this is a result of how we uniquely collect it.
We collect our data from multiple touch-points across the Halfords Group – including our Websites and Stores, where the scale of customers is vast, to our retail car parks, Garages and mobile vans where we have access to our customer's vehicles, creating a richness in the quality of the data we capture.
We have invested in smart technology to collect the data from both our customer and our vehicle interactions with infrastructure, systems and software all integrated to enable this process. We have also created and embedded our own technology to collect data, Chris will talk about this later, as part of Avalyer.

One real advantage in how we collect data, is the access we have to so many vehicles, not only do we see over 35m vehicle registration checks on our Website and in our shops annually.
But we physically inspect, fit products, maintain and service more vehicles than anyone else - in fact customers give us their keys to carry out 8.8 millions jobs every year.
The result of this has been a collection of over 16m unique vehicles into our ecosystem to date. This is nearly half of the UK car parc.

Overall, the output of our data collection has seen phenomenal growth over the last 5 years, especially in the scale of vehicle, and customer email, records. We now have almost 15 million customers that have opted in to receive communications from us, and of the 30 million known customers in Halfords database today, we can match these to over three quarters of our group sales.
Now you've seen what data we collect and how we collect it, let's move on to what we do with it.
Again, we've heavily advanced our infrastructure in this space – with systems that include; Microsoft Azure, Databricks, Powerbi, Python and Spark– and at the heart of this, our market leading, single customer view.

With an end to end view of customers, their vehicles, and our operation, our group data platform is fuelled by data science and analytics, which transform these diverse and scaled data feeds to give us rich intelligence, helps us predict customers needs and enables us to model and set target strategies, to personalise communication through CRM and Colleague interactions.
To bring this to life let me give you a few examples:
Understanding our customers, their needs and their vehicle health enables us to predict the next likely health issue and what they will need to solve it. For instance, we remind customers about MOT due dates, warn customers that their brakes will need replacing and use car and tyre tread data to predict when their tyres need changing.

We use product recommendation engines to suggest the most appropriate products for our customers based on their browse and purchase behaviour. For example, a customer buying a bike without accessories could be served communication to offer a matching helmet, a lock to keep their new bike safe and a cycle carrier to support their cycling usage.
We use models to enable us to predict the customers next best action with the largest future value to Halfords. For example, if we have identified a customer with a high propensity to use a mobile van service we upweight Halfords Mobile Expert offers within their communication.
You'll see that our programme is more than just email. We use the same sophisticated models to personalise our website and create a more personalised experience in our social channels. In fact, we have over 10m different personalised web experiences so when a known customer lands on our website they see unique and relevant content based on our knowledge of them.

In marketing, we use this data to target lookalike customers and improve our efficiency of spend. We also enrich our targeting by using third party data like weather for example, to personalise content by location across all our channels. If we knew it was frosty in Hull and you had an aging car, we might serve you a battery communication, for example.

Over the past five years we have been using this growing data science and modelling capability to drive highly personalised, timely, helpful communications that both engage and support our customers, and in turn increase customer lifetime value for Halfords.
This transformation in personalisation enabled from data, has supported a significant change in customer behaviour over time resulting in higher conversion online, and strong growth in our CRM. A customer opted into emails for example spends 1.5 times more than that of a less engaged customer. When we have an email and that magical VRN we see 2.4 times more spend. This has resulted in nearly 5 fold growth in CRM, now accounting for £282m of Group revenue. We know if a customer is opted into our communication, we see that they are our most retained group within our business, evidencing further that customers are finding this personalised content valuable and it's powering their relationship with our brand.

Growing Lifetime value is our ultimate North Star and with a low frequency products and services business like ours, this of course takes time to mature. To continue to unlock this growth curve at Halfords, the customer behaviours we need to keeping driving forward are breadth of shop – both across categories in our shops and cross shop across our shops and garages, and multi-year retention. This subsequently results in more market share as customers spend a greater proportion of their motoring and cycling spend within the Halfords brand.
Why are these key behaviour changes so intrinsic to growing value and in turn share?
Well, because a loyal customer demonstrating all of these behaviours, is nearly 6 times more valuable spending over £470 versus a non loyal customer who spends under £81, over a three year period. Despite our significant success to date, we still have 43% of customers spending under £81, so there is meaningful headroom for growth. These changes in behaviours take time and we see a curve to the growing spend. But at the extremes of the curve, for every 1ppt growth we see in moving the under £80 cohort of customers, literally shopping once in the three years and buying one product…. to the loyal cohort group of customers spending £470, shopping over multiple years across a breadth of our offer and across the group, it's worth £77m of revenue to us over a three year period.

Before I move on to how we can drive even greater returns in the mid term leveraging data for further value creation, I wanted to play a short video to bring all of this to life and demonstrate visually our unique advantage in data capture, and how we use our communications to engage customers and drive their spend with us.

As the video has highlighted, the value we are getting from our unique data platform is now meaningful for the Group, and it underpins a key driver of market share growth over the mid term as we continue to grow our data collection and use our tools to drive value from it. Now though I want to turn to the £8m we will also unlock in parallel within the mid term.

This further incremental value is all about discreetly leveraging the data platform we've built.
This £8m PBT will come from 3 key areas; the reduction in customer acquisition costs, new data monetisation income and new motoring and cycling subscription products. Let's take each in turn:

One unique advantage we have for our motoring loyalty club and indeed our car park managers, is the scale of customers we can attract from our multi million retail and digital customer base, to support referrals into our garage group.
Acquiring from within the group at scale means we can reduce our marketing acquisition costs in channels like radio, outdoor advertising and Google .
You might be surprised to know it can cost us £20 to acquire a tyre customer in Google for example, so reducing this spend into a lower benefit exchange through loyalty rewards, is very valuable to us. Of course, as our retention through our club grows so does the stickiness to spend within our group and further reductions can then also be made in marketing costs.

The next step on our journey is leveraging our unique data and insight.
As the super specialist we believe we have more customer and vehicle data than anyone else and we have opportunities to monetise this.
The Motoring and Cycling categories are one of the most under-developed areas for market intelligence and customer understanding. We are therefore the best positioned, to partner with suppliers and provide robust data and insight, around their categories and customer base, on who their customers are, where and how they shop, what they buy, and what they might buy next.
We believe this can create a revenue stream for us through monetisation, as well as helping us to build stronger joint business plans with our suppliers.
This is a growth path that many loyalty propositions and retailer brands have followed historically, and one that has genuine interest and support for, with our supplier base.

In the mid term we are going to build on the success and infrastructures we've built for motoring club and expand our subscription propositions. The recurring revenue from subscription supports both certainty of income as well as more predictable customer demand over the long term.
On the roadmap here is a cycling club, motoring consumables and cycle service care subscription.

I wanted to finish my presentation today with a case study that will hopefully bring together what I have shared, highlighting how we optimise our unique data collection to change customer behaviours by knowing more about them and their vehicles, and how this provides value for Halfords both in market share and in leveraging the platform. This year, we have taken another step in our lifetime journey launching our Motoring Club.
The club helps us grow more customer data. We collect it across multiple touch points as customers can sign up in our shops, garages, online or through our contact centre. The scale of collection is significant with an average 35k sign ups to our club every week. The richness of the data is high with mandatory email addresses and vehicle registration numbers secured.
Recently reaching our first anniversary, the results have been spectacular.

We have signed up over 1.7m Members, with 7.4% signing up to the recurring revenue, Subscription tier.
As you can see NEW customers have shopped in Halfords for the first time, with significant customers shopping in our Garage Services channel for the first time too, as we successfully deliver cross shop from retail shops into garages.
We are attracting a slightly younger audience with a stronger EV bias.
Importantly, our club members are enjoying the benefits of a VIP experience, demonstrated by our growing NPS scores of +4 points vs non-Members.
Furthermore, our commercial results so far are beyond expectations. For example, we have achieved record levels of cross shop now standing at 15% for Members, versus just circa 4% for non-Members across our Retail and Garage businesses.
Not only are Members therefore Cross shopping nearly 4 times more than non-Members, but they now represent over 33% and growing, of all our MOT customers.

The North Star ambition to drive lifetime value is truly working with our motoring club. It's a case study to how our collection of data and the use of it, is delivering positive impact to our customers and to our financial performance. This is reflected in the powerful change to customer behaviours we are enjoying so far from club members.
Our Members are visiting more often and spending more per visit which results in our subscription members for example providing an additional £245 of revenue to date.
Our subscribers give us the certainty of recurring revenue and of predictable demand to help plan and optimise our capacity.

We anticipate our Motoring Club membership growing to 4-6m in the mid-term with a 8-10% subscription mix and our vision is to grow to over 10m Members longer term.

To summarise what you've heard from me;
Firstly, I shared how the unique data platform we have built is now helping us to know more about our customers and their vehicles than anyone else. The scale and richness of the data we collect and how we collect it is truly differentiating.
I then described how our data science and analytics uses this data to power our Understanding of car health and in predicting future customer needs enables us to personalise content across customer touch points, helping us drive breadth of shop and multi year retention. This is driving £282m to the group revenue and is key to unlocking further market share growth over the mid term.
I then highlighted the incremental mid term value we can now start to unlock from our investments, through leveraging our data further, in three discreet areas:

- Lowering customer marketing acquisition costs from attracting customers via our more efficient club mechanic and in growing our repeat Members.

- The unique opportunity to leverage our customer and vehicle data and monetise this more strategically with our supplier base, powering our sales performance and funding income.

- And the roadmap of further Subscription propositions to drive greater recurring revenue, which is in scope for the next few years.

I concluded by celebrating the launch of our Motoring Club which is providing stellar strategic and commercial outcomes and provides a case study to how we are driving value through positively changing customer behaviour.

I am extremely proud of the progress we are making on our lifetime journey, the impact it is having on customers, the unique advantage it's creating versus our competitors and the value this is driving for the Group.

I'll now hand over to Rob to talk to you about how we are going to leverage our garage services in the mid term.

Rob Keates:
Hello everyone. Many of you will not have met me before, my name is Rob Keates and I joined the business in 2020 and have recently taken on the Chief Operating Officer position.
I am accountable for the customer facing parts of the business - stores, garages, mobile vans and contact centres.
In this section, I am going to take you through our progress and plans for our recent acquisitions and how we are going to leverage our unique platform to create more efficiency and profitability in our garage services business.
I thought it would be useful upfront to give you the major headlines from this section.

Firstly, we will grow our total garage services annual profit to £40-50million in the mid term.
Secondly, our synergy growth plan within Lodge & National Tyres will contribute around £13million of profit growth to the total garage business
And finally, I will summarise how our investments over the last 4 years have created a unique platform that we will use to drive utilisation. Utilisation is the biggest lever to creating more profit and will become a more important focus in the coming years. It will underpin and enable the profit growth we plan to deliver from market share and cost improvements

Lets move first to how we will grow profitably in our garage services business

We have a clearly defined strategy, with garage services at the heart of it. We aim to evolve Halfords into a consumer and B2B service focussed business with a greater emphasis on motoring. This will generate higher and more sustainable financial returns.
Our confidence to deliver this strategy comes from the transformation we have delivered in our core autocentre business over the last four years.

When we refer to our core autocentre business – we mean the original garages acquired in 2010 and which we have improved through a major focus since 2018. This area has been through massive change. We have new dedicated technology developed through our Avayler platform which is transforming how we work. Our buying approach is centralised and coordinated. We are now leveraging a single integrated group website to attract and book in customers. And through all of this we are growing our demand, capacity and efficiency.
The financial results of this are compelling.

In 2018 our c300 site garage business generated a little over £4m of profit from £158m sales. That's an EBIT percentage of 2.6%. From less garages, over 4 years later, in FY22 that profit figure was over £11m, with an EBIT percentage of almost 6%.
This shows the huge value created through growing demand and serving that demand whilst reducing our costs as a percentage of sales. It also demonstrates the power of efficiency and utilisation improvements in our business, a key theme I will come back to later. Ultimately this is about our ability to better leverage a fixed cost base.

Our ambition in the mid term is to grow this business to £40m to £50m of annual EBIT, and an operating margin of 6% plus.
Jo & Karen have already taken us through the detail of how we will drive benefit from market recovery and share, cost and data. Where I will focus next is the synergy maturity of our most recent acquisitions, specifically National and Lodge tyres. However, I will also summarise how we are progressing against the total business cases for these acquisitions, and our comprehensive plans to drive performance.

As we deliver the plans I will summarise now, we forecast a further £13m of profit from synergies, will be created in the mid term.
Before we get into the detail of the specific acquisitions, let me just quickly cover how we create value and why we have confidence in our approach.

At a macro level, our approach to value creation is consistent.
First, through acquisitions we increase our scale which unlocks significant buying and cost synergies.
Secondly as we acquire more garages and vans, we increase location coverage and reduce drive time for our customers. This improves the convenience we offer and therefore allows us to grow share.
Thirdly, we fully leverage the core Autocentres platform that I outlined earlier in my presentation. This means introducing Avayler and digital integration, ensuring acquisitions benefit from all our group assets – for example our Halfords.com website. It also ensures we fully leverage the efficiencies already within the business, and increase the mix into service maintenance and repair.
And finally, our acquisitions give us the potential for new capabilities - for example “walk in” tyres in National garages and commercial tyres in Lodge. This gives us a bigger addressable market to target.

Lets recap on the acquisition journey we have been on.
In the last 5 years we have expanded our garage volume by more than 100%, and our vans from a handful to 264 consumer vans and 473 commercial vans. This has given us true nationwide coverage for our garage services business with the majority of customers now within just a 20 minute drive time.
This has been achieved through a series of carefully considered acquisitions that have expanded coverage and grown the markets we operate in.

Whilst we have had success with previous acquisitions such as tyres on the drive and McConechys, the majority of our future profit growth will come from our more recent acquisitions, National garages and Lodge. That is where we will focus today.

Moving onto National garages.
If we recap on exactly what we communicated when completing the acquisition. Our plan was to deliver £18m of synergies in year 5, with £6m of those coming in the first year. Overall we also forecasted an underlying EBITDA of £5.9m in the first full year, assuming the tyre market recovered.
Our synergy plan is on track. I will take you through the detail of this but the key message is the major integration deliverables, planned so far, have been completed. In FY23 as we committed, we have delivered £6m of synergy benefit to the group.
However as Jo has already articulated, the delay in the tyre market recovery has impacted the underlying business and therefore the FY23 profit position.
Looking ahead, due to the success of the synergy delivery to date, and the plan we have, we are confident that we will achieve the full business case, but now in the mid to long term. We will be focussed on both synergies and additional actions that improve the performance of the underlying business.

I wanted to give you a specific update on the core synergies we identified and communicated as part of the acquisition process. As you can see, we are making good progress. All of the core synergies we communicated within the business case are on track to be completed in line with the plan. I won't go through all of these, but to select some particular highlights. Our combined Group buying scale has been leveraged, with improvement in terms across key product lines delivering over £5m of savings each full year. The core head office functions have been consolidated across the group and we have merged or closed 26 sites, delivering cost savings to the group. One of the most complicated parts of any integration is technology. Critically we now have the Avayler technology, a core part of the Halford group platform, embedded in every National garage. This has enabled the growth of our SMR business by 27%. National garage slots are also available to book via the Halfords website, giving those garages a bigger market, and our customers more choice. Other synergies we have delivered include in our group B2B Fleet business. A major improvement has been built from National garages fleet clients now being able to book into our Autocentre estate for tyre and SMR work.
Combined, these have enabled us to deliver over £6m of synergy improvement to the group in FY23, in line with our original plan.
The synergy benefits from the activity completed to date will grow again in FY24 as it matures and we get the full year return from the FY23 actions. However we will also continue to deliver against these major opportunities, optimising each of them.

In addition to our synergy programme, we are also delivering further activity to address the underlying performance of the business. The major drivers of our total garage services profit growth are just as relevant to our National business. Market recovery is a key part of this, but we are also have more planned to increase our market share.
For example, there are will be more SMR work completed and MOT lanes installed. We will be very focussed on localised planning of demand and capacity to drive utilisation across the National garages, but this is a theme I will come back to shortly. Our National fleet business is expected to grow as new major contracts come to market.
Costs will remain a key focus. We will be running major tenders within our tyre business, creating further savings from buying synergies.
We will launch our Halfords Motoring Club into our National garages and we anticipate doing even more with specific tyre based loyalty offers.

Lets move briefly onto Lodge, where overall with good market resilience, our plans are on track. With the synergies progress made to date and the plan in place, we have very good confidence in delivering our business case in the mid to long term.
But first, as a relatively recent addition to the group, let me quickly remind you of the market this business operates in.
The commercial tyres market involves the provision of tyre service on large commercial vehicles (for example HGVs and tractors). The market is valued at over £800m and is primarily a B2B business. Its historically been served by a fragmented range of local independents. And this creates a major opportunity for Halfords.
Through the acquisition of Lodge we have created the UK's market leading nationwide commercial tyre provider. We have successfully brought Lodge together with McConechys and Universal and become number one in the market. We have made excellent progress on consolidation of infrastructure and bringing together our core external relationships.
As we are less than a year into this acquisition there remains much more to do, however we are on plan and expect to deliver our synergy business case. This market has proved resilient to the more specific consumer headwinds and we have a very clear differentiated offer.

SLIDE

In summary, we expect to deliver both the full National garage & Lodge Tyre business cases in the mid to long term. Our forecasts are that in the mid term, these combined plans will deliver £13m of synergy growth, with c£10m from National garages and £3m from Lodge. This means that £22m of synergy growth will have been delivered in total by the mid-to-long term.

Hopefully that gives you a better understanding of our acquisition progress.

SLIDE

I now wanted to talk a bit more about our increased focus on utilisation that will underpin not just our acquired businesses, but the original Halfords sites as well.

SLIDE

This theme is going to be even more important to us over the next few years. It is going to support our plans by ensuring our market share growth is profitable, and it will also enable the reduction in our cost base as a proportion of revenue. Whilst we have not separated it out within our profit growth chart, it is critical in the delivery of our market share and cost targets.

SLIDE

Let’s start with a very simple description of what we mean by utilisation and why it is so important.

We measure utilisation as the amount of time we spend on a job, divided by the amount of time we had available.

Within our services business we are selling our colleagues time. As with most service businesses we are paying for colleague time whether they are completing work on a vehicle or not. Therefore, the amount of productive time, on revenue generating work, that our colleagues complete is a hugely important sensitivity. The cost will be there, so we need to make sure the demand and therefore revenue is as well.

To meet this challenge, we have a careful balancing act. We need to make sure we have enough capacity to meet and make the most of customer demand, whilst also making sure we don’t have too many technicians that we cannot keep busy. A balance between making the most of the opportunity whilst maintaining efficiency.

Customers demand convenience, and therefore we also have to make sure that we are getting this right in all of our 650 garages across the UK. There is obviously no point in having the right capacity but in the wrong place.

SLIDE

This graph maps our individual garage utilisation rate. Due to the sensitive nature of the data we have removed the axis labels, but it illustrates two key points I wanted to make

Firstly, as a garage estate that has grown rapidly with many acquisitions, we have a spread of performance to consider and manage.

Secondly, the equation is relatively straightforward. Very high capacity garages are full and likely need more capacity to deliver more profit. Lower capacity garages need more demand to increase their profit.

Critically this is why we are now focussed on capacity creation as a function of increased utilisation AND increased recruitment. We will recruit where we identify opportunities for growth, but we will also create capacity from our existing technicians through improved utilisation. For example, in some circumstances we will relocate a colleague from an area of low utilisation to one with high utilisation rather than recruit.

We previously communicated a target of adding 1,000 more technicians to our business. We have made good progress against this, but we have also identified we can create the capacity by driving utilisation further in addition to recruitment. In effect we have found alternative, and more innovative, ways to create capacity and we will not require this full level of recruitment that we communicated in January. Therefore we will not be reporting against this target going forward.

We are also not focussed on a total average utilisation number. We are focussed on the unlocking of potential by managing the spread of performance. For very high utilisation garages, we will add capacity which will drive more profit, even if the utilisation performance stays the same or even reduces in the short term.

This challenge is universal across our industry (and many others). However what we believe is different is the Halfords platform, and how it will enable us to strike the right balance across all of our garages

SLIDE

Let me bring this to life.

In a traditional model, a garage business that needs demand may run a nationwide promotion. For example it might reduce the price of its MOT for a few weeks. This may be effective in driving some demand to garages that need it, but it will also drive demand to garages that are already full. As a result, in certain locations it will increase cost & reduce revenue.

Within Halfords we now have the tools, the platform, to run a new hyper localised model. We believe we have a unique capability to drive local demand to individual garages and towns where we can see we have capacity. We can do this as we have a large store estate where we can drive referrals from the store to local garages. We can utilise dynamic pricing to stimulate demand using our digital channels...and we can create more predictable demand, through our reoccurring subscription offer and local fleet clients, which allows us to better plan our capacity.

On the capacity side, a traditional model uses standard local & national recruitment, typically based on seasonal demand spikes. Many garages have operated using manual or “paper based” processes. This means limited reporting on capacity or utilisation. As a result it is very difficult to understand when a garage is full or empty and respond accordingly. This means the national “push” for more technicians during general peak periods without a clear understanding of the specific demand potential of an individual garage. Therefore, solving the capacity problem in some garages can create unnecessary costs and poor utilisation in other garages that didn’t need it.

In the new Halfords model, to build capacity we are building out even more capabilities. Uniquely we have a range of colleagues across the group, in stores, garages and vans. Our new model will enable us to share capabilities locally, ensuring we maximise utilisation and driving real flexibility.

But fundamental to all of this is our unique technology that allows us to understand capacity. The Avayler software gives us specific data at a technician, garage and town level. It allows us to understand exactly what our capacity is, where it is, and how much of it is being used on any given day. We can identify and react to areas of low utilisation with more demand, and areas of high utilisation with more capacity.

The real power is when we bring all of this together, matching capacity with growing demand, all at a local, granular level underpinned by real data science and a massive retail customer database.

Ultimately, we expect this total capability to lead us to a bigger, more efficient and ultimately more profitable garage business that we don’t think anyone can replicate today.

SLIDE

To conclude, back with our major headlines.

We have a target to grow our garage businesses of £40m-£50m of annual profit in the mid term.

The synergy growth plans for our acquisitions are well underway, and will ultimately deliver on their original business cases, albeit with a change to the expected timings in the National business.

And lastly over the next period we will increase our focus on utilisation, leveraging our unique platform to grow supply and demand at a local level.

The combination of these makes us both confident and excited for the future of our garage services business.

I will now pass you back to Graham. Thank you

Graham Stapleton:
Thanks Rob.
Before moving on to describe our plans in the mid to longer term, let me take a moment to summarise where we have got to today.

Jo has explained how we expect our underlying profit before tax to grow from £50 – 60m in FY23, to £90 - £110m in the mid term.
Jo covered the fact that £17million pounds of growth is expected to come from externally supported market growth forecasts, particularly in the cycling and tyre markets which currently remain significantly below pre – covid levels.

£22million comes from our clear plans to drive market share across all of our categories, leveraging the platform we have built and continuing to offer convenience and value to customers.
And £5million of profit growth is forecast as our cost savings more than offset the likely cost of inflation in the mid term.
Karen then went on to explain that £8m of profit growth is expected specifically from leveraging data and lifetime value – and as you heard this is also an underpin to our share growth too.
And then Rob described how our maturing acquisitions deliver a further £13million and how utilisation becomes an important contributor.

Jo also explained that we forecast capex to be around £50 - £60million per annum across the mid term, equating to circa 3% of revenue, as we focus on leveraging the platform we have built.

Therefore, we expect to deliver better free cash flow conversion going forward, and that return on capital employed will grow to over 15%.

As such, we believe our mid term investment case is an attractive one.
With a trusted brand, and as leader in markets with strong fundamentals, we are well placed to capitalise on markets rebounding from historic lows.
We have a unique and well invested platform to leverage, and are now the UK's biggest motoring and cycling services business.
We are already seeing data driven growth in revenue and profit through our motoring loyalty club and the improvements we have made in CRM and personalisation – and we believe there is much more to come.

I want to give you a couple of facts here that really bring alive how big this opportunity is for Halfords. Last financial year we conducted almost 9 million service jobs on vehicles. That means millions of customers gave us the keys to their cars enabling us to start building a relationship with them and their vehicle. To put that in context, the AA completes a little over 3 million call outs or breakdowns per year – roughly a third of the jobs we do.

All these things enable a highly differentiated operating model bringing clear competitive advantage through a market leading interconnected infrastructure of stores, garages and vans, together with our expert colleagues.

In addition, we have a fast-growing services and commercial business, offering attractive returns and resilient recurring revenue streams.

And all of these reasons to invest are underpinned by our strong balance sheet and a relentless focus on cost and efficiency.
So in summary, there is significant opportunity for growth and returns in the mid term by leveraging the platform that we have built.

We will now take a short break for 10 minutes. Please feel free to get a cup of coffee and stretch your legs, and we will see you back here in 10 minutes.

Graham Stapleton:
Welcome back everyone, we are now in the last part of the agenda for today.
So over the course of this morning, we have looked at how we have laid solid foundations, but as I said in my introduction, the business and platform we have created lends itself to even more opportunity in the mid to long term.

I believe we can create a business of well over £2billion of sales and £130 to 150 million of PBT, with circa 6.5% operating margin.
So now I am going to bring to life what that looks like in the outer years of the plan.
Lets start with a brief summary of what we believe are the key customer and market trends that have helped inform our mid to longer term thinking.

Firstly, there is a continuing trend towards convenience as customers prioritise their time around the things they really want to do. Put simply, this means they want to be able to access products and services easily, and at a time and place to suit them.
Many customers also want to take the stress out of complex maintenance and repairs, where they don't have the skills, knowledge, or time to complete the work themselves. Those are the customers who want it "done for them".
And whilst arguably value is the most important consideration for customers today – we still think it will feature as a major theme for the foreseeable future. And for specialist retailers and services providers, this means offering the very best combination of quality, service, and price.
In addition to these customer themes, there are a large number of market trends that we could cover today. But there are three that are most likely to contribute to our strategy in this period, as you can see outlined here on the slide.
Firstly, electric - where we see the transition to more sustainable forms of transport continuing to accelerate over the coming years, with all forms of electric mobility increasing.
We believe that electric and hybrid cars still represent the biggest opportunity here because of the potential market scale; their common parts versus traditional mechanical cars; and the range of new parts and services linked to EVs.

And to bring that to life, on this slide you can see a traditional mechanical car next to an electric car. Highlighted in red are those component's that continue to be common between the two, and therefore retain their profit and revenue contribution – for example, wipers and bulbs.
In yellow you can see some of the components that are the same on both cars, but on an electric car the parts are either more expensive or require more regular maintenance. One example here would be tyres which wear more quickly because electric vehicles are heavier and the tyres themselves are

manufactured with less tread to increase efficiency. Other examples would be steering, suspension and brakes.
In blue we show the parts and services that are purely for the traditional car – mainly relating to the engine components.
And finally in green, you can see the new parts and services that are specific to electric cars. These include larger, more expensive and sometimes multiple batteries. And of course the EV charge point.
Going back now to the key market trends, and the second of these is the continuingly changing UK car parc.
Here we have already seen an increase in the average age of a car move from 7.9 to 9.7 years since 2019, and we believe that this will continue. We also think that towards the end of the period of this plan, we will start to see an increase in shared ownership, leasing and other options which will advantage businesses with a nationwide, B2B and commercial fleet services operation.

And finally, the last trend you can see on the slide is around cycling infrastructure, where we think in the mid to long term we will start to see some benefit from the investment that government and local authorities have made in making it easier for the public to use bikes.

So If those are the key customer and market trends – how are we going to evolve our strategy to take full advantage of these?
Well, we believe there are 3 key areas of opportunity:

1. Firstly, to develop the UK's one stop shop for motoring ownership

2. Secondly, to be the UK's servicing destination for all electric cars, vans, bikes and scooters

3. And lastly, to create a unique local multi-channel motoring and cycling offer

So let's now look at each of these three elements of the mid to long term plan in a bit more detail.
Starting with the one stop shop for motoring ownership.
For some time now we have been looking at how we could expand our motoring offer to better leverage the platform and investments we have made.
As you can see from this slide, there is a lot a customer has to do across their ownership journey – and currently they have to do it with many different brands, spending a lot of money in many different places.
With this complex and fragmented market in mind, we commissioned some research aimed at identifying how far the Halfords brand could stretch within the overall motoring market ….. and the results were compelling.
Not unsurprisingly, customers told us that they currently find shopping for all that they need when owning a vehicle daunting, confusing, as well as costly.
Three quarters of customers surveyed said that they would find a *one stop shop* to motoring ownership very appealing. Not just to simplify the process, but to put every element of the costs associated with owning a vehicle into one place – that is easy to access, and easy to navigate.
And the majority said that they see Halfords as one of the very few brands that is both a great fit, and highly relevant.
As you can see, the vehicle ownership space is currently a highly fragmented market – with no one single provider for a scaled, one stop shop.

And that is where we see huge opportunity - to provide our customers with the full ownership solution throughout the life of their car - all under the trusted Halfords Brand, either via affiliation, partnerships and franchising, or through our own capability.
In fact, we believe we are the only motoring products and services provider in the UK with the infrastructure, scale and expertise to do this.
As you can see here there are a large number of big markets that we currently do not access with the Halfords brand – from insurance, service plan and warranties through to breakdown cover, windscreens and minor body repairs.
And a number of these services are recurring, subscription revenue and needs based spend – far less impacted by customer sentiment and more reliable and predictable.
The overall size of the prize here is potentially huge, as we have the opportunity to nearly double the size of our addressable market from £15billion to £28billion.
And the good news is, we know exactly how to create a one stop shop - because we have done it already for bikes!
In cycling, we have spent over 130 years supporting customers and growing our offer so that we can be with our customers throughout the ownership of their bike – and indeed throughout their lifetime.

- We are there at the beginning when they select a bike
- We help them to buy it through financing it,
- We then build it for them
- And we help protect their bike – insuring it for them.
- We provide them with the right parts, accessories and clothing to help them use it effectively
- We support them in maintaining their bike – servicing and repairing it;
- And finally, when they are finished with it, we can recycle it and give them the value of that bike to put towards buying a new one from us.

And not only have we a track record in the mobility ownership space, but the data capability and motoring club platform we have created, means that it doesn't need to be expensive to surface new services to customers in the future either.
Our Club provides us with a unique opportunity to do this, in a relatively low cost way.
For example, if we have been servicing, repairing, and collecting vehicle data on your Volvo for a number of years, we would be well placed to help you with a tailored service plan or warranty – specifically for this car. This could then be surfaced through your motoring club membership accordingly.

At its greatest extreme, what we are attempting here - with a combination of our one stop shop and our data capability - is to create a unique competitive advantage around a customer's car ownership journey – where not only are we offering all the products and services that they might need, but we are predicting when they need them, before any competitor has the chance to intervene.
Not only is a one stop shop great for customers, we think it will be very good for shareholders.
Alongside significantly increasing our addressable market place......

- It enables us to better leverage the fixed costs and investments we have made.

- It will provide us with economies of scale and even greater relevance to supply partners

- And it increases our brand relevance, proportion of sales from services, and recurring revenue.

Moving on now to the second area of opportunity – establishing ourselves as the UK's servicing destination for all types of electric transport.

As I said earlier, we are the only UK brand with the physical network to service all modes of electric transport. The majority of our consumer garages and all of our stores are currently set up to service eMobility.

We also have the capability and expertise across our estate to deliver these services - with more than 2000 technicians trained to service, maintain and repair electric transport across both our retail stores and garages.

And our operational infrastructure is already in place. The majority of our garage estate is equipped with diagnostic software to service all brands of EV and hybrid cars, and our Halfords training academies are already delivering eMobility qualifications to the technicians of the future.

So in the mid to longer term, we are focused on the following areas to build this market leading position:

We will significantly increase resource and capability both in retail and garages. Our aim is to have 100% of our garage technicians trained in EV and hybrid technology, versus 20% today. In addition, we plan to introduce further eMobility training into our four Halfords Academies and work with government to ensure electric becomes a bigger part of standard industry qualifications.

We will fully leverage our mobile servicing capability and expand the range of electric maintenance and servicing we can offer customers at home or at work. This will incorporate charge point fitting, servicing, and diagnostics – all delivered on the driveway.

We will continue to grow our market leading position as an eBike and eScooter retailer, and the servicing opportunity which then comes from that. This will be more effectively delivered through the introduction of our cycling club towards the end of the plan.

Finally, as we showed in the market data earlier, as the used electric vehicle car parc becomes more substantial, we have investment in the outer years of the plan to start to build a destination Halfords brand position for the servicing of all types of electric transport. We will also use the motoring and cycling clubs to increase awareness of our unique market status.

But timing here is everything – particularly as the Halfords garage business delivers most of it’s servicing in the used car parc, where we are maintaining cars which are on average more than 8 years old.

You can see on the chart here that we estimate the opportunity for the used car parc on EVs is still some way away, and that’s why we plan to build out our electric credentials towards the back end of the plan.

Last but certainly not least is our plan to create a unique *local* motoring and cycling multi channel offer.

We felt the best way to show you the huge opportunity generated by the town-based shopping experience we have already created in Halifax and Colchester, is to bring this alive in a video - so you can see what it looks like, and how the roles of our channels come together.

I hope the video has helped you visualise what the optimum customer experience in a town could look like for Halfords, and has given you confidence that in the short to mid term there is enough opportunity to leverage the less capital intensive, higher returning parts of Fusion – namely upgrading the retail car park service provision, and empowering more colleagues with the tools to sell the full solution to every customer, every time.

But what about the mid to long-term plan?

Well, with the results that we have seen we believe there is an opportunity for a fusion town experience in more than half of our locations across the UK– which means investing in 25 towns per year, in the outer years of the plan. These are highlighted by the red dots on the map to the right of this slide.

And in the future, we will look at the entire Halfords’ physical estate through a local lens, to ensure we have a town-based approach that optimises all of our local assets with the appropriate levels of investment.

The final piece here, is what does all of this mean when we look at planning all of our channels and respective physical assets, alongside the strategy we have outlined?
In the future Retail stores not only play their unique traditional role in on demand fitting, and as the only nationwide specialist showroom for products - but they also become a vital customer acquisition channel for our garages, and an important, scaled source of customer data capture.
We currently have 394 retail stores, and we expect this to decrease to around 350 over the mid to longer term.   This would still mean we are within 20 minutes drivetime for 86% of the population across the UK.

Moving to our consumer and commercial garages, where in the consumer space colleagues deliver the more complex service and MOT events, and where we know electric will play an even greater role in the long term.
We believe here it will be necessary to grow from 650 to 800 garages, which in turn will mean we are within 20 minutes drivetime for just under 90% of the population.
And finally, we intend to complement our fixed locations with an increased network of consumer and commercial mobile vans and technicians, to reach a total of 800. This will cover circa 90% of the UK population and allows us the future headroom to service and maintain the growing proportion of electric vehicles on the driveway.
As you might expect, the growth I have described will require more capital going forward.
In the mid to long term, as we grow the number of vans and garages and roll out elements of fusion to more towns, we anticipate our capital requirement increasing to £90 - £110m per annum or circa 5% of revenue. This investment will undoubtedly drive returns even beyond the longer term we are describing today.

Notwithstanding the increase in capex, as this slide illustrates, we still expect to generate strong free cashflow in each year of the mid to long term plan, given our increasing profit across this period. Our positive leverage position is therefore expected to improve further.
We believe the 3 big strategic opportunities of …developing the UK'S one stop shop for motoring ownership….becoming the UK's servicing destination for all electric vehicles….and creating a unique local multi-channel motoring and cycling offer….will help us to deliver greater value in the long term.
Alongside this we will continue our relentless focus on cost and efficiency, through a combination of both strategic and tactical plans. This will include a greater emphasis on outsourcing, automation and AI, and a strategic review of our supply chain.
And as we build out an even bigger services business colleagues will of course be central to what we do here. We will continue to put them at the top of our business agenda - continuing to invest in their expertise, training and development, to ensure we maintain our competitive advantage.
I hope you agree there are some real opportunities to create significant shareholder value in the years ahead, but I want to be very clear that our immediate focus as a team will be very much on the short to mid term plan - ensuring we do all we can to optimise and leverage the investment we have made and the platform we have already created. To deliver value now, not just in the future.

Before I hand you over to Chris McShane, I want to give a bit of context around why we are covering Avayler as part of today's presentation.
Avayler has previously operated as a relatively small part of the Halfords business. Over the last twelve months we have clearly defined the economic model for this business. We have also contracted some significant international enterprise clients and developed a substantial pipeline.
We therefore believe today is a great opportunity to share a bit more detail about the business.
On that note, I'll now hand you over to Chris McShane.

Chris McShane:
Thanks Graham. Good morning, everyone, I'm Chris McShane, I head up the B2B Business at Halfords which as you have heard, now represents almost 22% of the business, and includes Avayler, Halfords' software arm

Today I will walk you through details of the Avayler business, its origin, current state, its future plans, including splitting Avayler out as a separate Halfords business to accelerate its growth. However, it's always easier to show rather than tell, so let's start with this short video about what Avayler is.

As we have communicated in previous presentations, Halfords has spent the past five years investing in technology, to create a platform that facilitates customer centricity, growth, and profitability, which Halfords knows internally as the PACE and Tyres on the Drive platforms.

It has been a journey of discovery, fuelled by Halfords ambition to be the best for its customers and deliver the best automotive services in the UK.

Avayler was born from this.

Having done it successfully ourselves, our mission is to help other ambitious businesses provide a truly customer centric service offering that connects colleagues and customers and streamlines operations, increases efficiencies, and reduces costs in a complex service environment.

The Avayler platform is Built by the automotive industry for the Automotive industry.

In 2018, Halfords was facing the automotive industry challenges that still impact the automotive service businesses today.

- Customers now accustomed to the fast, convenient, and digitally enabled services of Amazon and Uber, now expect an end-to-end seamless and digital journey from all service providers.

- At the same time customers are often mistrusting of automotive service businesses. They fear a lack of transparency, price increases on products and services, and being intimidated by their lack of knowledge around their vehicle.

- Technicians on the other hand struggle to meet customer demand due to a shortfall in available skilled technicians, being spread thin by a lack of new talent entering the workforce, and not being given the tools or visibility to suitably serve customers.

- These issues are additionally compounded by the Automotive industry's reluctance to transform digitally, with disparate and often paper-based processes, thinning profit margins due to time and stock wastage.

To solve these industry challenges and support its service strategy, Halfords set out to create a purpose-built technology platform that put the customer at the heart of operations and allowed Halfords to deliver automotive services profitably.

This technology gives Halfords customers the ability to purchase automotive services online and connects them to their services on the day, while automating service delivery for Halfords technicians and retail associates. The platform enables Automotive service delivery to your home, in garages and in our retail stores.

Because of rolling out these technology solutions in house, Halfords has seen a 77% increase in productivity in mobile, a 20% increase in job bookings year over year in garages, plus the leading Trustpilot “excellent” score of 4.8 out of 5 for Halfords Mobile Experts (Tyres on the Drive) and a 4.4 for Halfords Autocentres – With Halfords Mobile Expert Still No.1 in the world on Trustpilot.

- Avayler now offers the Halfords technology externally to the Automotive market as an omni-channel product suite built on a commercially ready, agile platform.

- Avayler Mobile & Mobile Pro enables mobile delivery end to end and supports businesses with on-site operations looking to provide mobile services.

- Avayler Hub & HubPro provides garage management options for businesses looking for a light touch garage management solution through to those looking for the fully featured end-to-end garage management platform.

- Avayler for Retail is an industry accelerator designed to help omni-channel automotive businesses offer services in traditional retail environments.

- Businesses looking to provide a full omni-channel solution to their customers will benefit from acquiring the full Avayler product suite.

The key differentiator that sets Avayler apart from the rest of the market is its origin, born from an automotive industry operator.

- This means Avayler is best positioned to help other automotive businesses solve critical pain points and rapidly receive return on investment from the solution. We test our products in our own business, improve them with real operational feedback and then bring the best to the external market.

- Additionally, Avayler is the only software out there in the Automotive market now that enables service delivery across a varied estate, omnichannel both in enabling the way customers “buy’ services and omnichannel as in applied to any business that runs garages, retail stores, mobile delivery, and any hybrid combination of these.

- Avayler also contains unique features, such as truly dynamic pricing that uses historic trends, business rules and real-time product and job information to price slots, optimising profitability and route density.

- And integrated parts bidding, a system that plugs into your selected parts providers, allowing them to automatically bid on needed parts, with best price and fastest arrival time, ensuring end customers always get the best price, reducing service lead times and giving businesses best margin possible.

The competitive landscape further enforces Avayler’s USP as an omnichannel solution.

- The automotive software market is a saturated, disparate market.

- There are no true end-to-end enterprise players.

For example, the market is divided into providers of technologies like:

- Front of House solutions
- Garage Management systems
- Digital Vehicle Inspections
- Mobile Delivery
- And many others...

Enterprise automotive businesses use multiple systems, with multi-site businesses often using different solutions at difference sites without oversight.

Most automotive solutions are legacy systems with outdated UIs. Avayler is the only solution that brings the required Automotive market functions, processes and all places of service delivery together.

So, let's take a look at the Automotive market in our target territories

Not only does Avayler have the advantage of being a unique player in a disparate market, where another like-for-like solution does not exist, but the market opportunity is significant.

Our market is the core automotive garage market in every territory, with the ability to provide our garage management platform and our mobile platform. With the potential to extend into the Automotive retail market in these territories as well.

With Avayler's licencing based off a per garage or per van fee, the opportunity in the US, UK and EU alone (where our current client base and pipeline are based) is expansive, with the potential to tap into over 500,000 automotive repairers.
For context, think about Halfords Autocentres for a moment. Avayler is deployed in all of our 650 garages, with our Halfords mobile expert vans using the platform too, not to mention our 394 retail stores as well.
So, in the UK market, with over 33,000 garages, we have the largest player in the market using it in over 1000 locations or vans.
In comparison, the US has over a quarter of a million automotive repairers, with many much larger garages chains than in the UK, giving us a significant market opportunity.
This potential, coupled with our target sales strategy, gives Avayler the ability to continue to grow rapidly.

So how does the economic model in a software business like Avayler work?

Firstly, we have a very focussed, Automotive industry, targeted sales strategy to ensure its commercial success.

Avayler has also taken an enterprise client target approach, rather than SMB, focusing on larger turnover businesses with an already established garage footprint, primarily in English speaking, or Western European countries. Our existing relationships help speed up sales cycles.

Enterprise automotive businesses often cover many countries, enabling us to land and show value to their business, then expand with them. They are also further along on the digital transformation journey, making them more receptive to our technology and making our solution easier to adopt.

We use a number of criteria to ensure they are worth the time and effort and have the greatest chance of closing.

We already have an advanced pipeline of enterprise customers where we focus on a smaller number of larger clients. We are therefore confident in our conversion of these clients as we progress towards closing our agreements with our partners.

We have major clients already such as America Tire Distributors in the US with 80,000 partner garages, chains like Tirepro's, here we have recently gone live in the US and Mobivia in Europe with 1970 garages where we are about to go live in Germany. These enterprise clients with established bases of garages enable us to have close, long-term and successful partnerships.

This strategy feeds directly into the revenue model for Avayler, which ensures committed, recurring, long-term revenue streams for the business.

Our revenue model is based off four foundational principles:

- long term contacts of 3 years or more
- licence fees that are charged on a per van or per garage basis per month, or per transaction
- fixed set up and configuration costs based on size and complexity of the initial implementation
- And minimum contractual commitments

Committed revenue comes in the form of monthly revenue based off the licence fees and upfront revenue from configuration and set up fees.

Additional revenue comes from offering operational excellence consultancy and one-off customised project-based or development work alongside our licences and set up costs.

As a business unit within Halfords Group PLC, Avayler has developed rapidly in 2 years, establishing an external client base, a product suite, a dedicated team and a strong go-to-market strategy that is being executed on.

However, as Graham mentioned, to better enable its future potential and growth, Avayler will now become a separate entity in Halfords.

So why separate the business now?

Avayler is software business, and it needs to develop competitively in every way within its software market.

- It needs to act like an entrepreneurial start up
- Develop a culture appropriate to a software business

- Be able to attract the best talent in the software market
- And as a more separate business
- We can clearly report and show its value, enabling us to talk more effectively to shareholders about its progress.

So, in the future, Halfords Group intend to report on Avayler as a separate reportable segment, from a financial reporting perspective.

And create an Automotive industry leading software business.

Our performance to date and our business plan gives us confidence that Avayler is now positioned to provide significant long-term value to Halfords.

Key Software business financial metrics such as growth in our Annual Recurring Revenue & our operating margin aims to deliver a valuable software business with a strong valuation multiple in the mid to long-term.

The expansion of our business into new territories, supported by an experienced and growing Automotive specialist and software team mean we are well placed to support our clients.
Our capital expenditure grows in Avayler as you would expect in an early-stage software business, however, the future annual capex spend includes spend to support all internal and external platform needs.

So, 3 key takeaways that I am very excited to leave you with today for the Avayler business:

- We have created an innovative and Automotive industry leading platform for Halfords and our external clients
- We already have clients across the US and Europe and a well-developed pipeline in our target territories, giving us confidence in our ability to expand further
- Finally, our performance to date and forecast on the key software business financial metrics give us great confidence in creating a strongly performing SaaS business in the mid to long term.

This means that Avayler is positioned to add significant value to Halfords in the coming years. It is an exciting point in the Avayler evolution with an even more exciting future.
Thank you for allowing me the time to walk you through the Avayler business, but to close why don't I let someone far more important than me, one of our clients, tell you about what he thinks about Avayler. Thank you.

Graham Stapleton:

Thanks Chris and I hope everybody is as excited as ATD and we are about the Avayler opportunity.

We are reaching our conclusion now, and in a few moments there will be an opportunity for you to ask us some questions. But before that, I wanted to summarise the shape of the plan we have set out today, by putting all the key numbers onto a single slide.
Our financial aspirations are clear…..
We will grow sales from £1.6bn in FY23 to around £1.9bn in the mid-term. This will be driven by:

- Market recovery
- Leveraging the investments and platform that we have built
- our acquisitions maturing
- and driving data and growing lifetime value

As those dynamics continue, in the mid to long term we expect revenue to grow to £2.2bn, as we:

- expand to adjacent markets, creating a one stop shop for motoring ownership;
- establish a market leading position in the servicing of electric mobility;
- and create a unique local motoring and cycling multi-channel offer.

This plan, coupled with a relentless focus on cost and efficiency to offset continuing inflationary headwinds, is expected to drive profit growth from £50 – 60m in FY23; to £90 - £110m in the mid term; and on to £130 - £150m in the mid to longer term.

As such, we see operating margin expansion from 3-4% today, to around 5.5% in the mid term and 6.5% in the long term.

Capex, as we have discussed, will reduce to around 3% of Revenue or £50 - £60m per annum in the mid term, before increasing to circa £90 - £110m in the long term as we lay the foundations for the future through the 3 strategic opportunities we have described.

Free cash flow in the mid term is expected to improve to 45 to 55 million on average per annum as profit grows and we reduce capital expenditure and focus on leveraging the platform we have built. In the mid to long term, we expect free cash flow to continue to improve to around 55 to 65 million.
Our strong cash generation means that we expect to be in a in a net cash position in the mid, and mid-to-long term.
Finally, ROCE is expected to increase to over 15% in the mid term and over 20% in the mid to long term.

In light of our strong balance sheet, and the Board's confidence in our mid and mid to long term plans, I am pleased to announce today our intention to pay a final dividend of 7p per share. This brings the FY23 dividend to 10p per share, an 11% increase on the dividend paid in FY22, and in line with the progressive dividend policy we have had to date.

Going forward, our dividend policy moves to more closely align with earnings, and we intend to pay a dividend that is covered 1.5 to 2.5 times by underlying profit after tax.
Otherwise, our capital allocation priorities remain unchanged – as you can see on this slide.

I will finish with our investment case for the Long Term.

About an hour ago, we ran through the mid-term investment case and in the long-term all these points still stand – but there is even more to be excited about.

Our trusted brand has the ability to stretch to adjacent markets – as we become a one stop shop for motoring ownership, increasing our addressable market from £15bn to £28bn.
We can expand our market leadership position by becoming the market leader in servicing all types of electric transport, as we increase resource and expertise in both retail and garages and leverage our mobile electric servicing capability.

And when you combine these things with our millions of data points, we expect to be able to create a unique competitive advantage as we know more about bikes and cars than our customers do, and can predict their needs like no one else can.
By rolling out key elements of our Fusion plan and bringing together the assets in a town, we will even further differentiate our operating model.
And finally, we see Avayler, our software as a services business, as a significant strategic growth lever for us in the mid to longer term.

So to summarise, I believe the future for Halfords is exciting and the investment case we have laid out to you today is clear, both for the mid-term, and the mid to longer term.

- Since 2018 we have created a significantly bigger business, increasing revenue by 40% and more than doubling the size of our B2B and services business. We have developed a unique and scaled platform, building a market leading interconnected infrastructure of stores, garages and vans, at the same time as creating a data and digitally enabled business.

- In the mid-term, we believe recovery in our core markets, combined with fully leveraging the investments we have made, and optimising the unique platform we have created will deliver £1.9bn of revenue, £90-£110m of PBT a 5.5% operating margin and a return on Capital employed of over 15%.

- And finally, there is significant scope for further transformation in the mid to long term – by unlocking the full potential in the Halfords brand, and in turn creating a much more profitable business.

Thank you for listening.
We are happy to take any questions now.

Jonathan Pritchard:

Morning, all. It's Jonathan Pritchard at Peel Hunt. Sounds like there's going to be a price reset definitely on bikes and to a degree on tires. Are you going to be on the front foot there? Are you going to be driving these prices low? Or are you going to be slightly reactive? Or is it going to be you in the driving seat?

Secondly, on EV training, forgive me. Is it academically more difficult to train to be an EV technician than it is to another engine technician? And may you need to have upgrade personnel intellectually almost to do that, to get that training done?

And then, just to quickly, any bullet points you might have on current trading. Obviously you've held guidance, unchanged. Q4's now in the bag, so any headlines you might have on Q4 trading.

Graham Stapleton:

Good. Thanks, Jonathan. Particularly for the last question, which I will take first. Current trading, we're obviously only two weeks into the financial year. What I will say is it is going as we expected it too in the first two weeks, albeit it is only two weeks. In terms of the other two questions perhaps, Rob, do you want to pick up the EV training point? And then maybe Jo around the price reset?

Rob Keates:

Yeah, I mean I think in terms of the EV training, we actually see this as an opportunity to bring in different demographics, perhaps even more diversity because you don't have to have gone through the traditional training in some of the more mechanical side of expertise. It's actually a different career path to bring people in direct with EV. We're actually also trying a more, see if we can get a different qualification in as well on the EV side at the moment as well. It can be a different route as well as a traditional way for our existing colleagues as well.

Graham Stapleton:

I mean just to build on that, Jonathan, obviously we've trained 20% of our colleagues already. We've got a good track record of training, not just in vehicles but also in bikes and scooters too. We're confident that we can train existing colleagues, but as Rob says, there's also potentially new career paths for people to be brought in on, which is even more exciting.

Jo Hartley:

I take the question on by entire pricing. What I was trying to describe, Jonathan, is that we expect the market itself to adjust in terms of pricing on both bike and tires to enable the market growth that's forecast externally. At Halfords we aim to be very competitive from a pricing perspective. We scrape thousands of prices across our competition. We don't intend to lead the market down, but we do intend to remain very competitive across both of those markets as we look forward.

Kate Calvert:

Thank you. I've got three. Do you want them all?

Graham Stapleton:

Mm-hmm.

Kate Calvert:

Okay. The first one is about bikes, which I appreciate is less and less important for you, but I was very surprised to see that about 2 million bikes get sold in the UK when the population is only 66 and many of those don't ride bikes. Perhaps you could talk a little bit about that. I understand that parents always buy new for their growing kids. But why should we have confidence that that 2 million is going to come back?

The second one is kind of a mean one. When Halfords bought Autocentres way back when and even when Kwik-Fit was in, it was a listed company, we heard that market share was going to be scooped up by these bigger companies because there was going to be a transition from mechanical parts to digital and car manufacturers had extended warranties. And it just didn't happen. Why now? Why is it that Halford thinks that they're going to be able to take share? Is it perhaps because the retail estate is shrinking and shrinking and there's nothing else for you to do? Very mean question.

The last one is a little less mean. It's about capacity utilization in the garage's business. That was an interesting chart that you showed without... Even though the axes weren't labeled. Is there any color there. Does it depend on the site? Does it depend how big the site is? Does it depend on which brand is over the top?

Also, isn't that business very, very seasonal? What percentage of garage's business is MOT or MOT-related and isn't that very concentrated in June and now December? There in some cases, how much can you do? As well, you're somewhat bounded by the equipment within the site. How much improvement is realistic? And is there not a point where actually you need to put capital into the business?

Graham Stapleton:

Okay. Thank you. I suggest I take the bike one. Perhaps Rob on capacity and then I don't know. Jo, do you want to take the Autocentre one?

Jo Hartley:

Give it a go.

Graham Stapleton:

Yeah, we'll give it a go. We'll do it together. It is a difficult one. In terms of bikes, the 2 million number is obviously an annual number. And the replacement cycle for bikes is not very frequent, so there's a lot more bike ownership than the two that you've got. It's a much less frequent replacement cycle, for example, than some of the motoring product items that we sell in the needs space categories.

We are still very confident about the industry and market dynamics here. Yes, we've seen a big drop, but that is directly correlated to the cost of living crisis that we can see. We've seen that literally happen as the prices have gone up and the demand has dropped. We've seen those volumes come out of the whole market.

We think because of the deflation, we are likely to see in some of the pricing, coupled with the government spend on infrastructure, that we will see that market come back. And that's why we've put what we put in the presentation today in terms of market growth. And we are well positioned to take more share because the other thing perhaps we didn't make super clear in the presentation is that we think there will be further consolidation opportunities in the cycling market.

It's been tough not just for us in cycling, but it's been very tough for some of the independents in the market. And I think we will see some of those independents, particularly the smaller ones, come out of the market over the next six to 12 months. And we are in a fantastic position to take that business with what we've done. That's how I would respond to the cycling piece. Rob, do you want to pick up?

Rob Keates:

Yeah, I think just bringing down a few viewpoints on your question. I think still across this, now that we're getting more forensic at the local level, we still see a lot of garages where there's definitely more growth within the competitive area. And that's why we're saying to take advantage of that, adding in the even more capacity or sharing the resources across the local garages or stores within there, we can take more within that market.

To answer your question more about the brands. I think we talked to you before previously that obviously the National Tyres and the Autocentres brands have got very different mixes of work. Whereas the Autocentres, the core Autocentre's business has been predominantly sales, maintenance, repair and then less tires. And then pretty much the flip has been where we've seen with National Tires.

Already just if we take National Tyres as an example, we've seen 27% growth in service maintenance repair as I was mentioning. And that's seen more as we've gone through the back end of the year. In this first six months, which you could say is not as peaky as the second half of the year, we still see quite a lot of opportunity to growth, service, maintenance and repair in that first half of the year. And I think the other thing we've noticed now that we've got a real established tire business is just how much tires have grown in the established core Autocentres business as well. We still see a lot of growth there.

I think when you combine that with the fleet business as well, we still see a lot more opportunity now we've got the scale of 650 garages across both existing and the newly acquired garages to drive more fleet business into both as well. And to be able to top that up pretty much throughout the year, if that answers your question.

Jo Hartley:

Okay. I'll perhaps take your question by talking about two things that are unique to Halfords and two things that are quite different in terms of where we are now versus where we were back in 2010. The first of those is data and the power of the loyalty club that Karen described to you in some detail, which enables us to take share predominantly through taking customers from our retail channels and funneling them into our Autocentre. That is an infrastructure that no other competitor has. And no one else has access to that number of unique customers to pull them in in that way with that level of efficiency.

The second point though is our electric vehicles servicing capability. And clearly, that wasn't so much of a thing back in 2010. And Jeep have themselves acknowledged that actually, the advent of electric mobility is likely to take consumers away from independent garages who just won't be able to invest in the infrastructure to enable them to service those types of vehicles going forward.

I think those are probably the two new and different things versus 2010. And I won't repeat all the other things I talked about in terms of motoring servicing and the strength of the brand, but those are the two I'd point to. Have I missed anything?

Graham Stapleton:

I offload the two.

Kate Calvert:

Thank you. I've heard the EV argument before. The little bit of research I've done makes it seem like that might be ambitious, that an independent garage can invest in at least the basics. Do you have any pounds and pence comparisons there? Why shouldn't they just go with the market and invest in EV once the EV market gets big enough for them to bother?

Graham Stapleton:

Yeah, I think there's two parts to that. The first is there is definitely an investment in technology be that ADAS, so how you deal with ADAS and windscreens, or the software diagnostic tools that you need and the capability then to meet the needs of every single brand of hybrid and electric car.

There's a second point though, which I think is probably more fundamental, which is whether independent garages want to make that transition. Because a lot of them are owner-operated and they came into the industry because they liked the mechanical part of what they do and I think there will be a number of independent garages run by those types of individuals that decide that they don't want to go onto that digital software transition. That's not what they want to do. It's not the skill, it's, exactly, it's a cultural change. It goes back to Rob's point around there's different career paths now emerging and makes the industry very different going forward.

So I think a scaled operator like Halfords with the access to the breadth of skills across stores, bands, garages, is in a superb position to take advantage of this.

Kate Calvert:

Kate Calvert here from Investec. Three questions for me. First one is, can I try and pin you down on the definition of midterm and also mid to longer term? My second question is that, I think it was pre COVID you signed a buying agreement with Mobivia. How has that progressed, if at all, and how much of the sort of savings you're looking to get on cost of good solds to do with combining some buying with Mobivia? And my third question is, where did you actually get to in terms of recruiting of the 1,000 technicians?

Graham Stapleton:

Yeah. Okay. I think Joe's probably best place for your first question, so we'll come onto that in a moment. I'm happy to pick up the buying agreement with Mobivia. Karen, if you are happy with that. And then Rob, if you could pick up the recruitment piece.

So if I start with the buying agreement with Mobivia, very, very important venture with Mobivia. Unfortunately, we started it as COVID started too, and as we were buying a lot of products from Asia, we had to pause a lot of the strategic procurement that we'd planned because we just couldn't get to the factories. And then you know where we are. We have very recently started to pick that up again and we now have a new plan and there will be some value in the cost of goods number that we've talked about here, the reduction in that coming from Mobivia. It won't be the lion's share of it, but they will definitely play a role.

Rob, do you want to pick up?

Rob Keates:

Yeah, sure. So we've recruited 600 since November, and then on top of that we've obviously got labor turnover as well. And then this year we're planning to increase by an incremental 400 as well by the end of the financial year. And that includes a hundred new apprentices as well.

And obviously, as we've talked about as well, the big focus we're trying to do then is focus on the utilization and how we use our existing colleagues on top of that to create the capacity that we want.

Jo Hartley:

And then midterm and mid to long-term, look, we haven't formally defined that in our presentation and I'm sure you can imagine why we haven't done that. But I think it would be fair to assume that the midterm's sort of around three to four years and the long-term's are a little way after that, Kate, if that helps.

Kate Calvert:

Okay, thank you.

John Stevenson:

Thanks. Hi. Morning, John Stevenson at Peel Hunt. Three questions as well please. First one, the implied market share of Avayler in the long term, it doesn't feel like the longer term client opportunity was particularly aggressive. I suppose it depends on the size of your 15 clients, but can you maybe just talk about that and maybe the wider opportunity going forward?

On customer average lifetime, you sort of talked about retaining being as important as recruiting. What is your average customer lifetime and why do people leave you? And then as a sort of add on to that, I guess, the average age of the [inaudible 00:15:02], as you mentioned, was at eight years. How successful are you tapping into people when they come out of the dealerships sort of three, four years and getting those sort of that first 25% of the car parking?

Graham Stapleton:

So what I suggest is, Chris, do you want to pick up first the Avayler question?

Chris McShane:

Sure.

Graham Stapleton:

Yeah. And then Karen, do you want to pick up the lifetime one?

Karen Bellairs

Yeah.

Graham Stapleton:

And then I will try and pick up the last one around the age of the car park. Thanks John.

Chris McShane:

Great. So just to touch on the future performance of Avayler and the forecast of the number of enterprise clients that you talked about, really this comes back to the sales strategy that we have. We are clear, we will not have large numbers of clients that we will be converting in the future. We will have a smaller number of larger clients.

If you take the type of businesses that we're talking about, they're often multi-country, hundreds or potentially a thousand of garages in a potential country. And then you have the opportunity to expand into mobile with those partners as well.

The focus strategy to really put our effort into nurturing those clients, making them really successful and expanding actually presents a greater number of expansion of garages and therefore licensed users that are larger, number of independent clients, for example.

There are other garage management platforms within the marketplace that focus on SMB or independents. But if you think about the level of focus you have to convert one garage and then another independent garage versus working on a potential partner that may have multiple thousand opportunities, that's why the enterprise focus strategy is really key for us.

Obviously the value that it generates is also a different level of value from a Halfords perspective. So the revenue in the software market is focused on its annual recurring revenue position and therefore that can generate much greater multiples and value for a business off the back of that.

John Stevenson:

And so I suppose if it's all about the market share and the kind of pool of those kind of potential customers, what would the implication be in the long term?

Chris McShane:

So the market data for the software space in the automotive market actually is relatively limited at the moment. So to be able to find a source and therefore to pitch exactly the market share we will have, we're not at that point yet to be able to do it.

What we've been able to show though is that the market opportunity of even just in our individual target markets of 500,000 potential customers is very large. If you look at those 15 customers and the relative scale of each of those that we've talked about that we're working on, for example, a Mobivia where we're launching into Germany, there's 600 garages plus in that one client alone in one territory, and they actually cover over 10 territories within the European estate.

So there's significant market share opportunity at this point in time because of that market data position, we can't state what the future market share position will be.

Karen Bellairs:

So on the lifetime value point, so obviously I shared earlier our change from our under 81 to our over 470 pounds and it's definitely that move that obviously the club and all of our retention work is trying to set out. And you saw the one point growth obviously can deliver up to 77 million.

So we are obviously trying to move as many customers into that top right-hand box as possible. And at the very high level, the average is 470 pounds, as I said, of that sort of customer behavior, which is really rooted in multi-category within retail and cross shop into garages. And that's obviously what we're trying to change in those behaviors.

The cross shop point's really important and if we take something like MOT to specifically talk about retention, we only retain half of those after the first year. So that's obviously what the loyalty scheme is trying to support. They leave because we're just not front of mind, they shop around. So having this loyalty club and being in a regular communication, regularly relevant, timely with the communication that we are giving will hopefully mean that we see that improve.

We're at the point that our anniversary is coming up, so we'll be able to share more obviously in the future around how successful we've been with that.

Graham Stapleton:

Okay. Right. Moving on to the average age of the car park that we serve and how do we get to newer cars. Well, the great thing is the plan we've shared today is going to be a big enabler of that.

So if you start straight away with The Motoring Club, The Motoring Club enables us to acquire customers from retail stores and the retail web journey. In the retail stores and the retail web journey, we have customers with cars of all age groups. They aren't necessarily from an average age of eight years. They might be buying polish for their brand new car. So when we bring them into the club, we can then build a relationship with that customer and introduce them to the garage. And as you heard, I think from Karen, pretty much a third of all the MOTs that we offer now are for Motoring Club members basically. So that gives you a sense of that.

The other thing to say is our business strategy of moving more into tires also helps because tires burst on any type of car, on any age car. And therefore be that through the Halfords mobile expert provision or through the National Tyre acquisition, we can start to again, get that data from those customers to try and build a relationship with potentially a new car customer into the club or just into our data capture piece.

In the future, our plans also think about this key point. So electric, when we have built a destination positioning for that, obviously we'll become more relevant for newer car owners. But also, as you heard, we are looking at potentially adding to our mobile servicing business, the installation of electric power points for the cars. If you put the power point in, you are there right at the beginning of a car ownership journey.

So that gives a unique position to build the relationship at that point. Last bit in the strategy is one-stop shop. And one-stop shop is also good at bringing new customers to Halfords for new cars because you will be doing things with that customer at the start of their ownership journey, not through the middle of it. So for example, insuring the car or providing a warranty is right at the outset of any car, be that new or old.

So we think both today and in the future, we will start to see a lot more newer cars come into the Halfords business.

John Stevenson:

Yeah. A couple of questions please. On Avayler, why is it so small in the forecast in outer year? You've got 15 clients and you're only getting 25 mil. The fee looks a bit on the tiny side. And a related point on Avayler, are you going to be limited in terms of the tech of potential clients? Presumably they have to have sort of headless systems to just plug your system into. Is that how it works and is that a limiting factor? Moving on to Karen. I guess there's going to have to be some sort of maturity profile in terms of your utility from that data, because you've got to establish the transaction behavior of the people going into the database.

So when would you really expect to start to get decent economic results from your data collection? And the last one, we haven't really talked about marketing at all, nor just for the record, retail. But on marketing, I sort of got the sense that you sort of feel that the marketing cost is actually going to go down, because you're going to be sort of more in-house data rather than transactional SCM, that type of thing. Is that a fair comment and is it material?

Graham Stapleton:

Okay. Thanks, Tony. Chris, do you want to pick up the Avayler points? Karen, on the lifetime, and I'll try and pick up the marketing and retail point.

Chris McShane:

Should I go first?

Graham Stapleton:

Yeah. Is that okay?

Chris McShane:

Sure. So Avayler is obviously at an early stage of its development. At any early stage software business does progress on a development curve of its product, but also on a development curve for its financial performance. What we have shown in the mid to long-term forecast here is an annual recurring revenue of 25 to 35 million per year, five to 8 million EBIT, and an operating margin that is accretive to the Halfords Group. So I recognize that there can of course be more aggressive performances and forecasts that could improve the business, but for a software business in that stage of its evolution, particularly in the market we operate, it does create a significant value for the Halfords business.

Just on the technology side of the question, so how does a partner interact with the Avayler software? It is absolutely an integrated enterprise piece of software. Ultimately, it's running a garage's end-to-end operation. What we provide though in the product portfolio, so if you may recall the hub and hub pro definitions that are utilized, we provide two versions. One which is a lighter version, less integration. And then one that is a fuller end-to-end garage management platform. Businesses will need a front end, a website. But that's often, and in reality what the market wants. Customers, clients want to own their own customer journey, and therefore we've built a platform that enables our service offering and our product to be integrated into, easily integrated into clients' backend systems, but also their front end.

Graham Stapleton:

Just to add on the first point, obviously Avayler is a couple of years old. It's a relatively early stage SaaS business, even with very big enterprise international clients, Tony. We have deliberately put a plan together that we are comfortable with the visibility of pipeline that we will deliver. So this isn't a SaaS plan that you may see elsewhere, where there's some quite big dreams in it. This is grounded in sort of practical reality of what we see in the pipeline, the stage that the pipeline's at, the type of clients, and the experience we've got with the clients we already have. Could it be bigger? Maybe. And in fact, part of the reason for separating Avayler within the Halfords business as we talked about earlier, is so we can have those sort of conversations with shareholders and look at the potential opportunity more broadly.

Jo Hartley:

Yeah. So on the data points, I think certainly from what you've seen today with the growth in our CRM and our underlying performance, ultimately we have been driving market share from our advancements in CRM personalization over a number of years. The loyalty scheme, we've got every confidence that that's just going to grow further. Hence, talking about how much it's underpinning the market share growth set out in the midterm. If you think about our type of business, as I said earlier, our sort of level of frequency is clearly for our services and products quite low.

What we're seeing with our loyal customers is a much higher frequency. So 3.2 for free, 5.1 for paid, versus sort of two normally. So we're already seeing those behaviors change to underpin that continued growth. I think the exciting bit is that the data's got to a position now that we can look at that discreet part of income. And we talked about the 8 million figure in our bridge this morning, which we can now start to unlock in the midterm. So the time is definitely now, it's definitely through this midterm that we can see that maturity

Graham Stapleton:

So marketing, no, we haven't pulled that out specifically. We're not necessarily suggesting that our marketing spend would significantly decline, because in the planet as well, we've talked about some investment in things like establishing a brand position for electric servicing for example, towards the latter end of the plan. We think that we will definitely be more efficient in the way that we market, there's no doubt with the club, but we haven't built a significant reduction in marketing spend into the plan that you've seen to date. We can obviously pick up in a bit more detail on that afterwards if need be, Tony, as well.

In terms of retail, your point of retail, I do want to pick that up. You're absolutely right, we haven't pulled retail out separately and that is deliberate. Because we see retail as part of a omnichannel offer. So what you'll have heard us talk about with retail time and time again, is how all of the assets come together in a town, the interconnecting assets of vans, garages, and retail stores. Because we want to view our business the way customers do or should do, which is these are just locations in a town that we help them connect together. And we've utilize all of them with customers getting the best from every part of what we do. So we've looked and viewed it through that lens to date.

John Stevenson:

But actually, that's just a shrinking strategy, isn't it? It's like condensing all the retail sort of formats into something that right sizes the town. You're not really talking that much about what you're going to do inside the store to improve the performance.

Graham Stapleton:

Well, that's the fusion, that is very much fusion. Now, admittedly today, the video that we showed was certain more services oriented, because that's how we connect the town is through the services offer. Because we've got garages obviously doing services, vans, and the store. We do infusion invest within the store in the retail product offer as well. Be that the three B's desks that we showed as a new operation, or new displays and fixtures for cycling, new displays for touring for example, we showed in the video. So there is a lot of investment into the products part of the store through fusion too. But you are right, that doesn't come out as much in that video, there's a lot of fixed cost in the stores and improving the productivity of the stores, arguably will not be transformational, but certainly protect your downside.

Definitely. And that's why we've said today, we will improve sales densities from seven to 15%. We will do literally double the improvement that we've had. We've had 7% improvement over the last period of the plan. We are going to make that 15% over the next period, so we will have much more effective stores in the future.

John Stevenson:

It's just how.

Graham Stapleton:

Yeah.

John Stevenson:

Anyway. Sorry, go on, let someone else ask a question.

Ben Hunt:

Hi there, Ben Hunt from Investec. Just elaborating a bit more on this customer lifetime value and acquisition. You alluded to, I think you equated a sort 20 pound bid cost to acquire a customer. And if you are doing somewhere between that 80 and 470, it sort of strikes me as quite a high acquisition cost and you're not probably making a huge amount of return for those. What assurances can you give us that with the personalization and the data that you do, you can bring that down quite meaningfully to get people to repeat? If I'm candid, if I turn on my mobile and check my inbox, I've probably got about five different emails from insurance companies to the OEM, all telling me if I've got to have an MOT at some point in this month. It sort of feels like I'm getting a bit blind to it all. And so really where does your sort of marketing come head and shoulders above them that's going to make me want to go to you rather than your competitors?

Jo Hartley:

Yeah. So I think the answer is in what we're seeing in the club so far, if we took MOT. So we obviously haven't started to look at an exchange for tires at the moment. That was why I use that example to, that's something that we've got coming to try to use the loyalty scheme to actually attract customers across to both our vans but also our national business, as well as our core auto centers. But I think the MOT is indicating just how well we're doing with that. As Graham said, it's 33% of our MOT business is coming from club members and growing. So that I think really speaks loud sort of live signs to how well that's working and how the customer is staying with us. Clearly the key will be as we get to this anniversary point, and I think that's one we'll be able to give you more confidence around that.

Ben Hunt:

Okay. And just, one of the biggest cogs in your bridge between FY23 and the mid is the 30 million of cogs. How underpinned is that number? It's quite an important piece in the jigsaw, I guess. What's the downside or the upside, even, to that and your assumptions as well?

Jo Hartley:

Yeah, look, so we've assumed we can reduce the cost of goods sold by 3.5% across the midterm. So that's the cumulative reduction across the midterm plan. The way we've got comfortable with that is actually by getting some external consultants to come in and help us look at the Halfords business, understand the size of the prize and benchmark that as a savings target versus what's seen in other companies. Actually, it looks very reasonable versus what's seen externally, which can be five to seven percent more usually over a similar timeframe. So we are really pretty confident in that. And the levers to deliver it are the ones that I described to you earlier.

Graham Stapleton:

Yeah. And we've seen six percent product cost inflation outside of freight and FX over two years, and we are now starting to see some deflation come through. So it's also what we are seeing today that gives us the confidence.

John Stevenson:

I think we're almost at the time, but I've got a couple of questions that have come online.

Graham Stapleton:

I've just got one more.

John Stevenson:

Okay, go for it.

Graham Stapleton:

Sorry.

Kate Calvert:

Thank you. So, what about the garage's business? Despite more trips in a car being done by women, the garage visit is almost always male. How much is that Autocentres fault and how much of that is just culture's fault? Is there anything that Halfords can do to acquire female customers? Is it even worth, being honest, is it worth bothering with?

A couple of numbers questions. In that lovely returns and margins bubble chart, did those bubbles move or have they always been exactly where they were and will they always stay where they are, or have they moved through time? In terms, you mentioned about the investment or reducing near term investment in CapEx, what about working capital and how does that change as the tire business gets back to normal? How do you see day sales outstanding changing over time versus what we are used to in a more retail oriented business? And then finally, was it minus 0.3 net debt to EBITDA? Is that an average over the year or is that the year-end number?

That's it.

Graham Stapleton:

Jo, do you want to pick up the two finance questions and then maybe I'll pick up the bubble chart. And then Cam, do you want to pick up the one about female customers and Autocentres?

Jo Hartley:

So, Kate, just to make sure I've got them correctly, I think your first question was about working capital for me. Yeah, okay.

So we have seen stock levels reduce through this year, which is actually better than we expected, particularly in the retail business. The supply chain team and the commercial team have done a fantastic job to manage our stock levels through actually what's been a very challenging consumer environment and decline in the sales forecast.

We expect that momentum to continue as we look into next year and beyond. So we see stock levels come down to a more normalized level, particularly in the retail business, which is good.

The growth in the Autocentres business and the tire market we don't see having a very material impact on our working capital position because the stock turn is much, much quicker on tires than it is anywhere else in our retail business. So actually we see inflows from a working capital perspective in the near term and then a fairly stable position looking forward.

In terms of our positive leverage, so the cash on the balance sheet, what we described as positive leverage was the average per annum across the period.

Graham Stapleton:

In terms of bubble chart, yes, the bubbles do move in size over time. I think we highlighted that Autocentres and B2B had moved in size over that period.

Kate Calvert:

The size of the bubble, but where they are on the chart?

Graham Stapleton:

Where they on the chart will move. It's indicative the chart. Maybe we should have made that even clearer. It's an indicative sense of where the return on invested capital is versus the market growth opportunity. If it was being drawn super accurately, it would probably have moved some of those bubbles around a bit, if I'm honest. But it was really just to show that B2B and Autocentres had grown and that's where the biggest market growth and return on invested capital was.

Kate Calvert:

So there's no material change though in the..

Graham Stapleton:

In the relativity.

Kate Calvert:

Okay.

Jo Hartley:

Yeah, so it's definitely an industry challenge for us. We are trying our very best to try to move forward and recruit and retain more female colleagues. We're going to be setting out in the next annual report more of a strategy around D&I in that space. I think the one thing that we do believe is that we might well have more success when we move into more of that EV space to attract into the industry female colleagues, but that's-

Kate Calvert:

I guess it wasn't so much as attracting the colleagues as attracting the female customer who uses the car more often than the male customer.

Jo Hartley:

Yeah, okay.

Kate Calvert:

So, for example, an Autocentre is almost always in an ill-lit industrial estate that a woman doesn't feel safe going into it at 4:00 PM after picking up the kids in November when it's dark and it's very toxic atmosphere. The reception is much improved, but the atmosphere can be extremely unpleasant.

Jo Hartley:

Yeah. So we've been working really hard on that and we are seeing a more skew female mix in our loyalty club, so that's-

Kate Calvert:

It may not be worth doing. And well, that's not a woke thing to say. It just may not be worth spending money.

Graham Stapleton:

No. We've got, I think just to add to that, I think obviously with Fusion we definitely update. I think female customers are important. They use cars a lot. It's a big market. I think our brand is positioned really well to meet their needs. Fusion certainly unlocks that potential further because we do update the garage, as you can see in the video. Having a mobile service is also very important. And I think with electric there will be more maintenance and servicing of cars able to be done on the drive or at work. And I think that will help us access the female customer in the market too. So, again, I think we're well-placed and it's an industry challenge for sure.

John Stevenson:

Okay. Shall I ask the three online? I'm going to ask all of them now. The first two from Peter Bate at Killik. How have you added capacity without adding colleagues to your garages? The next one, what are the first new one-stop shop markets you will enter, when will it be and what are the lowest and greatest capital intensity markets you'll enter? And then the final one from Craig McDougall at Aura Capital, what are your ambitions for percentage conversion motoring club members into paid subscribers, and what do you anticipate the lifetime value of a subscriber is?

Graham Stapleton:

Right. Rob, do you want to start with that first question on capacity?

Rob Keates:

Yeah. No, sure. So, I think to probably to bring this to life, this was the question about how we put more capacity in without recruiting. If you can imagine the town based focus, we're putting a lot more effort in at the moment. You could have two traditional Autocentres garages. You could have a couple of national garages, you could have a store and two or three vans.

Within that, if you look at the skew of the utilization I was talking through earlier on, we do have underutilized areas. So, very simply being able to move our existing colleagues from underutilized garages to those where there's more demand and higher capacity. We are doing that a lot more now within a local town.

I think the other couple of points I'd still say is when we say more capacity, what we're flagging is at the top level, at the national level, it may look like, at a macro level, need fundamentally more capacity. When you look at a local level, how do we drive more demand in to take advantage of that capacity that already exists. And that's why we were trying to do a lot more of the local demand driving and activity that we talked about.

Graham Stapleton:

So shall I take the one-stop shop question next and then Karen, the last one? So, yeah, in terms of one-stop shop categories, we have said obviously that's a mid to longer term plan.

All that said, where we've got an opportunity to enter an adjacent market in a way that isn't very capital intensive, where we don't have to own a lot of stock, it leverages the assets that we already have. We will prioritize those first. I think we mentioned car parts in the presentation. It's an 800 million pound market. We have 1% share. That's where we're focusing our attentions right now.

And we think we've got a market beating and market leading proposition there. And I think we'll be talking about some really exciting news in that space as we go through this financial year. We aren't going to indicate where the next parts will be, partly because we do not want competitors to know that information.

Karen Bellairs:

And on the paid subscribers, so we talked about 8 to 10%. So that's our paid subscriber mix that we're hoping to get. And that's in the midterm of four to 6 million overall members. The lifetime value, of course, is sitting in that top right-hand box, that 470 average because they are cross shopping at a very high level.

There's a huge breadth of shop across our category. But really, until we get to the annual element around how those subscribers stay with us then, and at the moment we've assumed a 30% churn, we're not seeing anything to indicate so far, but it's very early that it's going to be above that. But that's what we're looking to understand.

So I think it'll just be a little bit further on before we can give an exact lifetime value figure.

John Stevenson:

I have no further questions, Graham, so over to you.

Graham Stapleton:

Any more further questions? No. Well, thank you very much indeed for your time this morning and look forward to seeing you in June.