
# Halfords Group plc: FY25 Interim Results

26 November 2024

halfords

# Agenda

1. H1 FY25 Financial Performance
2. Business Update
3. Outlook
4. Q&A

# H1 Overview: Controlling the Controllables

**FY25 focus:** optimising our platform to drive profit and cash generation

## Financial highlights:

- ✓ c.£15m of **cost savings** offsetting similar levels of inflation to deliver broadly **flat PBT YoY**
- ✓ **Gross margin +160bps** through pricing optimisation and Better Buying
- ✓ Balance sheet **net cash*** supported by excellent **stock management** (down £18.8m YoY)

## Strategic progress:

- ✓ Outstanding results and strong returns from **Fusion** motoring services roll out
- ✓ Decision to **accelerate** Fusion program in H2
- ✓ **Motoring Club** membership exceeded 4m

* *Net cash / debt stated excluding lease liabilities.*

*Note: Throughout this document, H1 FY24 comparatives are inclusive of discontinued Viking and BDL wholesale tyres operations unless otherwise specified.*

# H1 FY25 Financial Performance

# Basis of financial information

**H1 FY25 covers the 26-week period from 30 March to 27 September 2024.**

**Unless otherwise stated:**

- Comparators are on a one-year basis
- Numbers are post-IFRS 16
- Prior year income statement numbers are based on total operations (i.e. including the discontinued tyre and wholesale operations of Viking and BDL)

# H1 focused on optimising our platform to offset high labour inflation and a weak consumer backdrop

**Macro factors**

- Elevated wage growth (NLW +10%)
- Weak consumer and challenged end-markets
- Stable inflation (CPI c.3%)
- Interest rates falling, but slowly

**Mitigations**

- Price & proposition optimisation
- Better Buying
- Cost and efficiency
- Cash management

# H1 delivered good results in a challenging environment, against a very strong comparative period

**LfL sales:**
**-0.1% YoY**
(+8.2% Yo2Y)

**Gross margin:**
**49.4%**
(+160bps YoY)

**Operating cost % of sales:**
**46.4%**
(+180bps YoY)

**Underlying PBT:**
**£21.0m**
(-£0.3m YoY)

**Free cashflow:**
**+£28.1m**
(+£47.3m YoY)

**Net cash*:**
**£1.3m**
(+£48.3m YoY)

** Net cash / debt stated excluding lease liabilities.*

*Note: Throughout this document, H1 FY24 comparatives are inclusive of discontinued Viking and BDL wholesale tyres operations unless otherwise specified.*

# 160bps margin improvement offset inflationary headwinds to keep PBT broadly in line with prior year

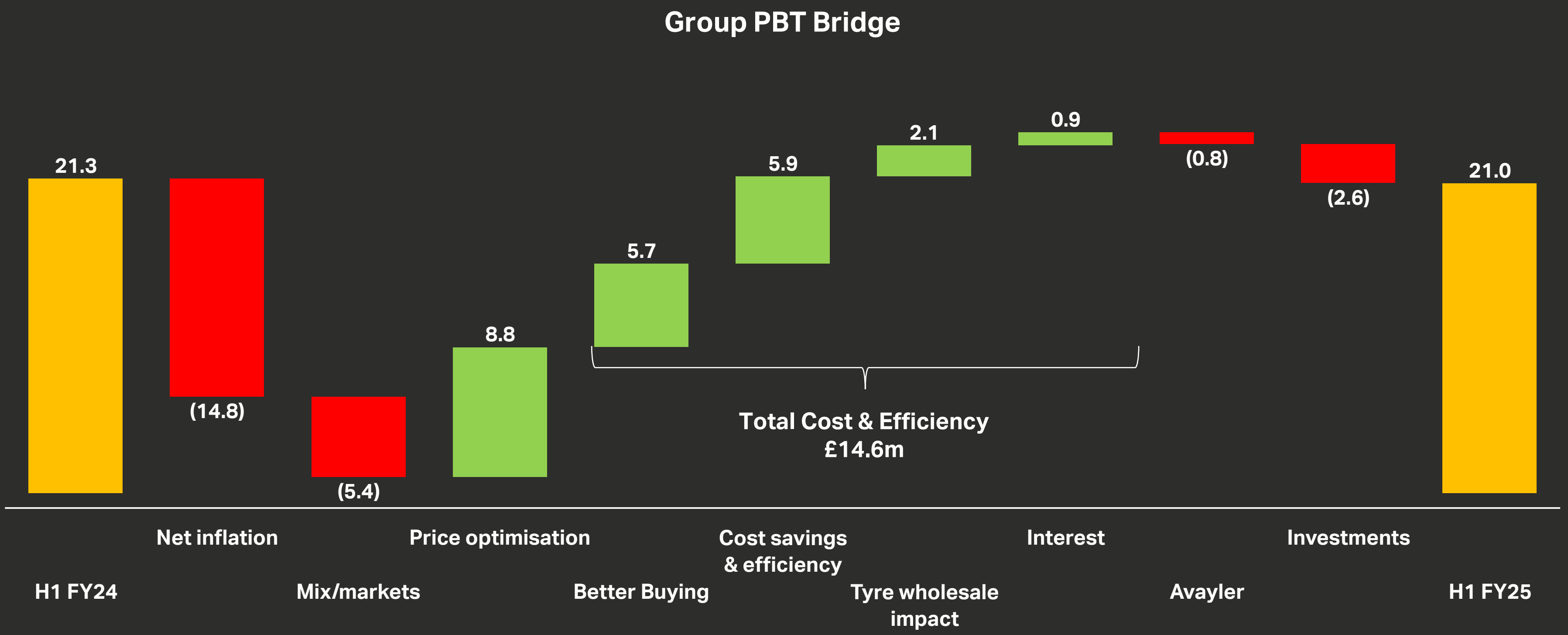
| | H1 FY25 | H1 FY24 | Change vs. LY |
|---|---|---|---|
| **Revenue** | £864.8m | £873.5m | (1.0%) |
| **Gross margin (%)** | 49.4% | 47.8% | 160bps |
| **Operating costs** | (£401.1m) | (£389.7m) | (£11.4m) |
| **Underlying PBT** | £21.0m | £21.3m | (£0.3m) |
| **EPS** | 7.6p | 7.6p | - |
| **DPS** | 3.0p | 3.0p | - |
| **Net cash / (debt)** | £1.3m | (£47.0m) | £48.3m |

- ✓ Flat LfL sales (+8.2% Yo2Y)
- ✓ Focus on gross margin, +160bps
- ✓ c.£15m of cost savings** offsetting c.£15m of inflation, predominantly wages
- ✓ Underlying PBT broadly flat YoY at £21.0m
- ✓ Very strong cash performance further strengthening balance sheet
- ✓ 3p dividend declared, flat YoY

** Net cash / debt stated excluding lease liabilities. ** Cost savings of £14.6m comprising £5.7m in gross margin and £8.9m in operating costs.*

*Note: Throughout this document, H1 FY24 comparatives are inclusive of discontinued Viking and BDL wholesale tyres operations unless otherwise specified.*

# PBT broadly flat despite c.£15m of inflationary headwinds and continued end market challenges

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# Market share performance reflects focus on pursuing growth only where it is profitable to do so

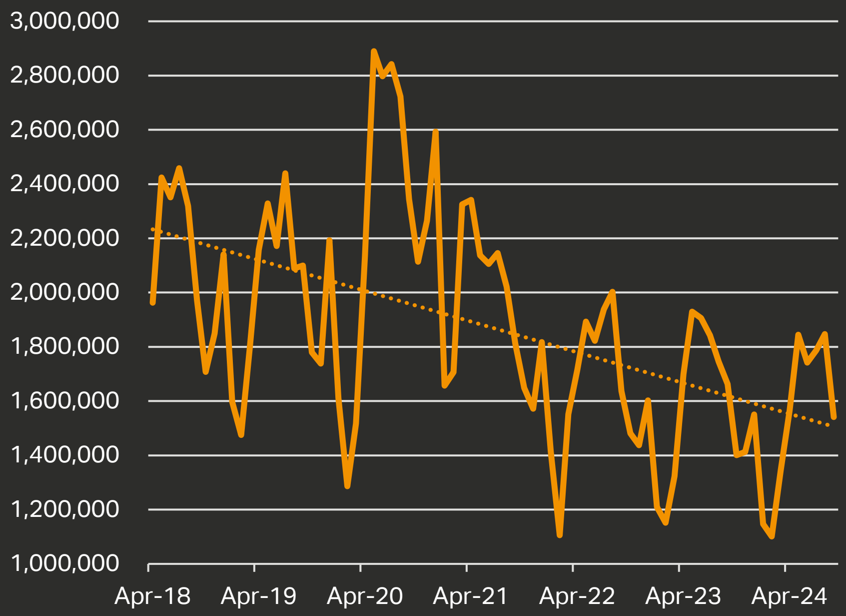
| | Autocentres | | Retail | |
|---|---|---|---|---|
| | **Consumer Tyres** | **Motoring Servicing** | **Retail Motoring** | **Cycling** |
| **Market growth expectation** FY25 vs FY24 | c. -2.0% | Broadly flat | Broadly flat | -2.0% |
| **Actual market growth** H1 YoY | c. +0.8% | +3.7% | +2.5% | -4.2% |
| **Market share expectation** FY25 vs FY24 | +0.5 ppts to flat | +0.25 ppts to flat | Flat to -1.5 ppts | +1.5 to +0.5 ppts |
| **Actual market share** H1 YoY | -0.2 ppts | +0.2 ppts | -1.6 ppts | +0.2 ppts |

*Sources: Consumer Tyres – GfK, Motoring Servicing, - DVSA, Retail Motoring – GfK, Cycling – Bicycle Association*

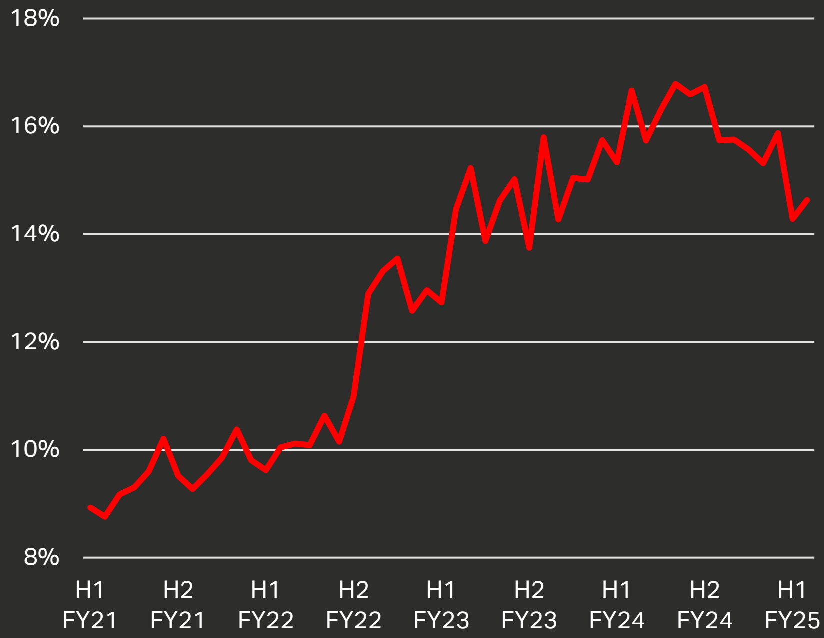
*Notes: Following the purchase of Wiggle by Frasers Group in Feb 24, Wiggle data, which was previously included in Bicycling Association Cycling data, was removed retrospectively and fully from this point forwards. The data service also excludes Evans Cycles. GfK Tyres market reporting includes sales data from Tyre Specialists, Autocentres and Online Pure Players. From May 2024, Kwik Fit discontinued data supply to GfK and its data has been modelled using GfK's advanced research methodology and modelling techniques. Use of these data sources in future reporting is under review given reduced market coverage.*

# Cycling volumes are c.33% below FY19 levels and our own Tyres data suggests replacement is still being delayed

## Cycling market volume vs. FY19




## Share of tyre jobs where at least one tyre has <2mm tread



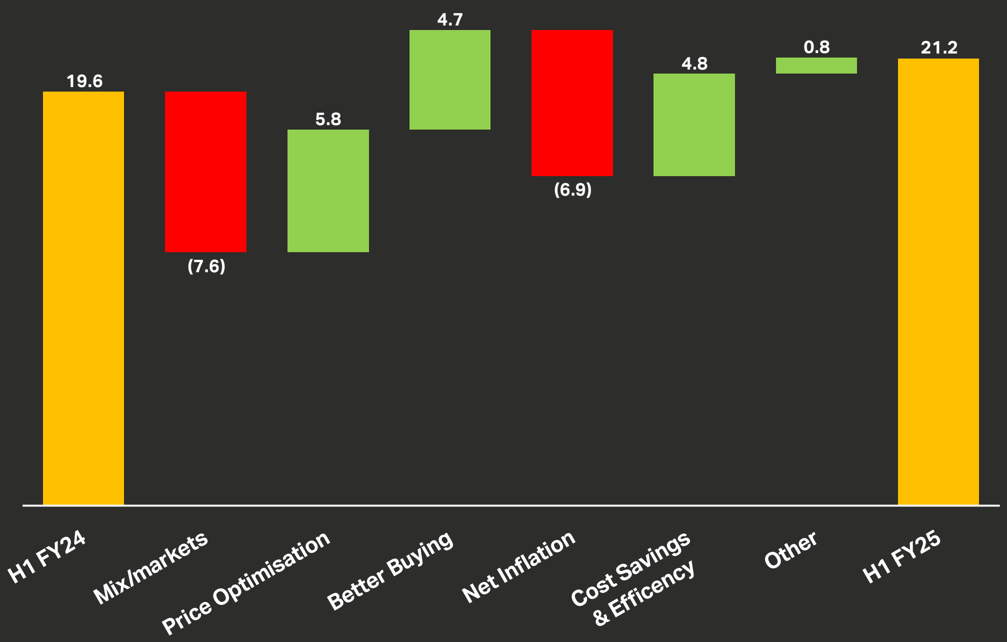

*Source: Analysis based on Bicycle Association (Cycling) and Halfords (Tyres) data*

# Segmental Performance

# Retail profit grew 8.1% year on year driven by margin expansion; H2 impacted by elevated freight costs

| | H1 FY25 | H1 FY24 | Change vs. H1 FY24 |
|---|---|---|---|
| **Revenue** | £516.1m | £516.6m | (0.1%) YoY<br>(0.7%) LfL |
| ***- Motoring**** | *£324.2m* | *£323.9m* | *0.1% YoY<br>(0.2%) LfL* |
| ***- Cycling**** | *£191.1m* | *£192.3m* | *(0.6%) YoY<br>(1.6%) LfL* |
| **Gross margin (%)** | 47.8% | 45.8% | 200bps |
| **Operating costs** | (£225.3m) | (£217.3m) | (£8.0m)<br>(3.7%) |
| **Underlying EBIT** | £21.2m | £19.6m | £1.6m<br>8.1% |

## Retail EBIT Bridge

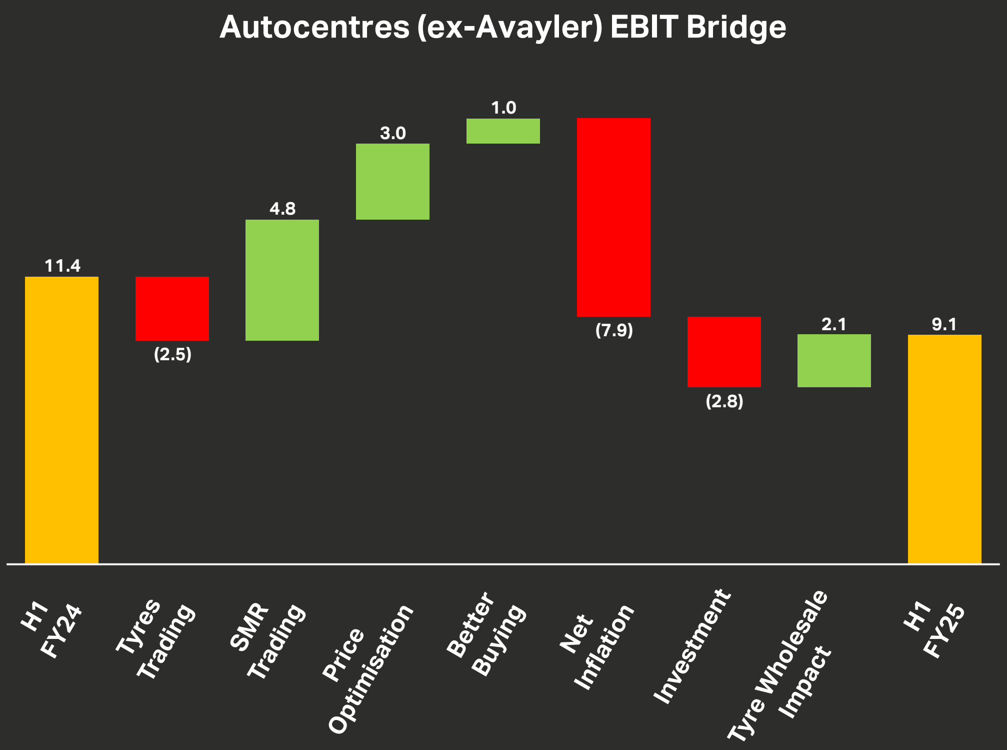



*Sales breakdown excludes miscellaneous sales of £0.8m (H1 FY24: £0.4m)*

# Autocentres EBIT fell YoY against strong comparatives and significant inflation; improving trajectory in H2

| Autocentres exc. Avayler | H1 FY25 | H1 FY24 | Change vs. H1 FY24 |
|---|---|---|---|
| **Revenue** | £347.1m | £355.7m | (2.4%) YoY<br>0.8% LfL<br>*18.0% Yo2Y* |
| **Gross margin (%)** | 51.7% | 50.4% | 130bps |
| **Operating costs** | (£170.5m) | (£167.8m) | (£2.7m)<br>(1.6%) |
| **Underlying EBIT** | £9.1m | £11.4m | (£2.3m)<br>(20.6%) |

| Avayler | H1 FY25 | H1 FY24 | Change vs. H1 FY24 |
|---|---|---|---|
| **Revenue** | £1.6m | £1.2m | +£0.4m<br>+33.3% |
| **Avayler EBIT** | (£1.3m) | (£0.5m) | (£0.8m)<br>+160% |

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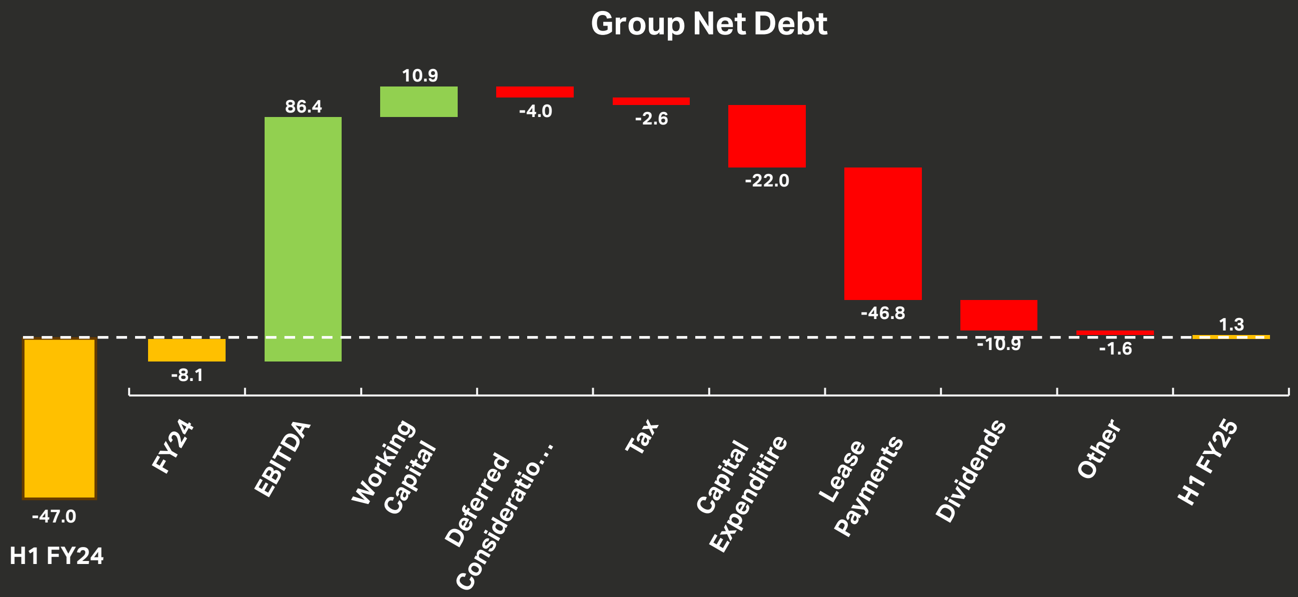
# Cash and Balance Sheet

# Net Cash of £1.3m reflects £48.3m improvement year on year, driven by strong working capital management




- Closing net cash of £1.3m
- Stock down £18.8m YoY
- Cash capex of £22.0m
- Free cash inflow of +£28.1m vs £(19.2)m outflow in prior year
- Net debt : EBITDA of 1.6x including leases, just below target range of 1.8x-2.3x post-M&A
- £180m RCF extended to April 2028

** Net cash / debt stated excluding lease liabilities.*

*Note: Throughout this document, H1 FY24 comparatives are inclusive of discontinued Viking and BDL wholesale tyres operations unless otherwise specified.*

# H1 Summary: Controlling the Controllables to deliver PBT broadly in line with Prior Year

- ✓ LfL sales flat vs. tough prior year comparatives, especially in Autocentres
- ✓ Strong progress on gross margin up 160bps
- ✓ Broadly flat PBT YoY (£21.0m) with c.£15m of cost savings offsetting c.£15m of inflation
- ✓ Segmentally:
  - Profit growth in Retail through gross margin accretion
  - Autocentres EBIT down in H1 but with improving trajectory in H2
- ✓ £18.8m reduction in stock driving £28.1m free cash inflow (H1 FY24: £19.2m outflow)
- ✓ Balance sheet net cash (£48.3m better YoY) supporting an interim dividend of 3.0p

** Net cash / debt stated excluding lease liabilities.*

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# Business Update

# Our priorities for FY25 are to:

1. Optimise the unique platform we have created to deliver greater returns

2. Mitigate headwinds by driving cost and efficiency

3. Selectively prioritise existing and proven strategic initiatives

# 1. Optimise the platform

# H1 gross margin +160bps as we have focused on leveraging our unique platform to drive profitability

**Price Optimisation**

**£8.8m**

**Better Buying**

**£5.7m**

**Proposition Effectiveness**

**£1.7m**

*Note: Throughout this document, H1 FY24 comparatives are inclusive of discontinued Viking and BDL wholesale tyres operations unless otherwise specified.*

# We have taken a more scientific approach to pricing and promotion, taking share only where profitable

01

**Price Scraping**

>2m competitor price points daily

02

**Guardrails**

To ensure prices are fair, competitive and profitable

03

**Elasticity modelling**

To predict the impact of price changes on demand

04

**Testing**

To ensure price changes deliver anticipated results

05

**Dynamic Pricing**

Matching pricing to demand and capacity

# Our Better Buying programme is in its second year and continues to deliver meaningful results

## Supplier Partnerships

Developing partnerships in Retail and Garages across key categories to unlock mutual benefit

## Own Brand

Ongoing tender activity generating annualised and in-year savings - supporting participation and growth

## Group Buying Synergies

External support to develop best-in-class buying through data-enabled tools

# Changes to our customer proposition have supported mix shift into higher margin categories

**E.g.**

**Autocentres:** technician upskilling driving 'Additional Work Identified' +30% YoY

**Retail:** driving fitting service penetration through colleague incentives and improved online purchasing journey

- **+3% YoY increase** in mix towards higher margin SMR
- **+5% YoY increase** in services added to product purchases

# 2. Cost and efficiency

# c.£9m of cost savings have been delivered through a relentless focus on efficiency

**Embedded efficiencies in stores, garages and supply chain**

**£3.6m**

**Delivered savings in Goods Not For Resale**

**£2.3m**

**Effectively restructured tyre supply chain**

**£2.1m**

**Reduced interest through cash management**

**£0.9m**

*Note: Total cost savings of £14.6m include £8.9m detailed above plus £5.7m of Better Buying as described on slide 23.*

# 3. Strategic transformation

# Halfords Motoring Club continues to resonate with customers, reaching over 4m members


- >4m members (launched FY22)
- c.340k Premium members generating c.£17m of annual subscription revenue
- Efficiencies in marketing spend e.g. MOT marketing down >30% YoY
- Market-leading retention rate >70%

# Fusion Motoring Services is our near-term strategic priority

**Connecting the Retail Car Park to the local Autocentre and rebranding as Halfords Garage Services**

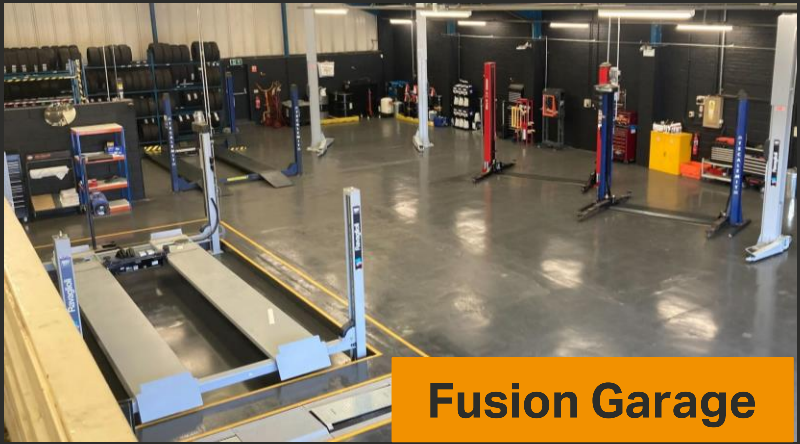
**Retail car park**

Fixed canopy and Automotive Services Manager

+

**Autocentre**

- Increased capacity (ramps, technicians)
- Welcoming reception area with dedicated staff
- Specialist equipment for B2B servicing

# Outstanding returns to date give us confidence to roll out Fusion further and faster

- ✓ **22 of 25** original planned sites delivered
  - ✓ c.**£200k** each
  - ✓ Payback c.**2 years**
- ✓ After just 3 months:
  - ✓ **Sales +50%**
  - ✓ **Doubled profit**
- ✓ Outperformance in **National**: larger garages with lower servicing mix
- ✓ Accelerating rollout to **c.40 sites this year** based on excellent returns so far

# Summary

1. Optimisation focus drove +160bps of gross margin expansion
2. Delivered c.£15m of savings
3. Invested selectively in strategic initiatives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# Outlook

# Comfortable with FY25 consensus with expected profit strongly weighted to H1

## Strong performance in H1:

- Flat LfL sales against strong comps
- 160bps of gross margin expansion
- c.£15m of cost savings
- Broadly flat PBT despite headwinds
- Excellent cash and stock management
- Balance sheet net cash

## H2 considerations include:

- Uncertainty re: consumer outlook
- Continued wage inflation plus incremental freight at lower end of previously guided £4-7m range
- c.£1m of profit foregone due to Fusion acceleration
- Reintroduction of performance-related variable incentives

** Net cash / debt stated excluding lease liabilities.*

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# Budget measures add significant cost in FY26 and we are assessing all mitigation levers at our disposal

## Impacts

c.£23m direct labour costs

- £9m expected and mitigated

Impact on managed services

Macro and consumer response

## Mitigations under review

Pass-through in pricing

Further cost reductions (noting c.£85m cost savings delivered in last 3 years)

Other tactical and structural options

# Q&A


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www.halfordscompany.com

or contact

investor.relations@halfords.co.uk

Halfords Group Plc
Icknield Street Drive
Washford West
Redditch
Worcestershire
B98 0DE

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# Appendix


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# Capital allocation priorities remain unchanged

## Capital allocation priorities:

- Maintaining a prudent balance sheet
- Investment for growth
- M&A focused on Autocentres
- Dividend covered by 1.5-2.5x Profit After Tax
- Surplus cash returned to shareholders

## Dividend per Share