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Operator: Hello and welcome to this Halfords Analyst Call for Q1 FY16 Trading Statement. Throughout this call all participants will be in a listen-only mode, and afterwards there will be a question and answer session. And just to remind you, this session is being recorded. Today, I'm pleased to present Jill McDonald, the CEO, and Andrew Findlay, the CFO. Please begin.

Jill McDonald: Good morning everyone, and thanks for joining the call today. As you just heard, I'm Jill McDonald and I'm the Chief Executive of Halfords, and with me is Andrew Findlay our CFO. So I propose starting by giving you a brief overview of this morning's statement, and then we'll be happy to take your questions.

So overall group revenues were up 3.6% in the period, and looking first at our retail business, our like for like sales continued to grow despite now being up against two previous years of strong growth. And this quarter's performance again illustrated that we are not reliant for one category for growth.

So, looking at the categories in turn, first cycling. So, as you can see, cycling's sales were up 2% year on year against a tough comparative of 21% growth in the same period last year, and 16% the year before that. Premium bike sales in Q1 grew by 8%, helped by the introduction of the 13 brand last October, as well as robust growth in our cycle to work business. Sales of children's bikes grew by 4%, which was driven largely by our ranges for older children. Cycle repair sales were up 24% in the quarter, aided by the investment in equipment and in people that we made in the second half of last year, and we undertook nearly 300,000 cycle repair jobs, which was a record for a single quarter. We opened our fifth Cycle Republic shop in Nottingham in May, and we have a strong pipeline of locations. We continue to anticipate having around 15 Cycle Republic shops by the end of the year.

Turning to car maintenance: our tool sets continue to perform very strongly, helping workshop sales grow 10% in the quarter. In fact, Halfords Advanced 200-piece tool set was our biggest selling product by value across all categories. Parts revenues were up 7% with sales of wiper blades and batteries growing by 13% and 12% respectively. We sold over 1.7 million wiper blades, bulbs and batteries in the quarter, equating to four items for every second that Halfords was open. 3B fitting sales grew by 7%, which, when combined with the cycle repair performance, helped grow our total fitting and repair revenues by 12.5% in the quarter. On to car enhancements: the like for like sales fell by 0.3%. We launched our trade-in event on 1st June, after which sales of both audio and sat-nav were in growth. Car cleaning sales were down 5%, but this was more than offset by 31% growth in sales of new technology such as in-car connectivity equipment and dash cams, reflecting our increased range of product and brand.

Looking at travel solutions: sales grew by 9.2%, driven in particular by camping and child safety seats, with travel equipment such as roof boxes and cycle carriers also in strong growth. Our online retail sales grew by 8.2%, and in June we launched our marketplace initiative, adding an incremental 5,000 products to our online offering by the end of the quarter.

Turning to Autocentres: the sales momentum continued with like for like growth of 4% against growth of 4.3% in the same period last year. We continue to anticipate opening 10–15 new centres this year with one centre closed during the quarter and one opened shortly after. We also rolled out our light-touch refresh for a handful of sites.

So, just to summarise: a solid quarter for retail. Our 'Getting into Gear' programme progressed well, including a further seven refreshed stores opening in the period and a further improved customer service metric and continued momentum within our 3 Gears training programme. Progress in Autocentres with continuing robust like for like sales, and looking ahead there is no change to full-year guidance. So thanks for listening, and Andrew and I will now be happy to take your questions.

Operator: Thank you very much. Ladies and gentlemen, if you would like to ask a question please press 01 on your telephone keypads now. You can cancel your question at any time by pressing 02 to cancel, and there will now be a brief pause while questions are being registered.

And our first question comes from the line of Charlie Muir-Sands of Deutsche Bank. Please go ahead, your line is now open.

Charlie Muir-Sands: Good morning guys, thank you very much, hi.

Andrew Findlay: Good morning.

Charlie Muir-Sands: I appreciate that it's not a question specifically on the quarter but it's quite topical: I wondered what your thoughts are on the potential impact on your business from the new plans on national minimum wage and national living wage, and how – in terms of how much you think you will be affected, what proportion of staff would be under that, and what things you might be able to do to mitigate the cost inflation?

Jill McDonald: Sure, okay. So we're obviously going to take the time to look at what we – what we want to do carefully. You know, it is quite a complex calculation that we need to do and there are some principles as well that we need to look at. So you know, currently we have a 50/50 split of colleagues who are over 25. We do have pay differentiation based on completion of Gear 2 training, Gear 3 training. We do have some different pay levels, whether you're inside London, inner London outer London, we have some hotspots, and we have a different rate again for the provinces. So you know, there are a number of different factors that we want to take in place, and I'm really not going to speculate on what we may or may not do yet, because we need to take our time to do that work properly. However, what I would say is that by the end of the year we estimate that over 80% of our colleagues over the age of 25 will either already be on or above that £7.20 new minimum living wage that the government announced, and that's at group level.

Charlie Muir-Sands: Great, thank you very much.

Jill McDonald: Thank you.

Operator: Thank you. Our next question comes from the line of David Jeary of Cannacord Genuity. Please go ahead, your line is now open.

David Jeary: Good morning Jill, good morning Andrew.

Jill McDonald: Good morning David.

Andrew Findlay: Good morning.

David Jeary: A couple of quick questions re: cycling, if I may, just to go into that a little bit further. I wondered how you are doing in the packs area with a view to the future and development of that sector, and also in terms of either any brand refreshes of new brand introductions – VooDoo, from memory, coming in and things like that?

Jill McDonald: Sure, okay. So packs was pretty much flat for the first quarter, although clothing was up 6% and our online sales of packs was up 11%. It is a very competitive part of the market and it is one that we did okay in but I think we can do better, although online was strong at 11% growth. So more to do in pack. In terms of new brand launches, we have been focused on certainly VooDoo, a new range of VooDoo, and we've got some women's VooDoo and 13 actually range, which is being launched and we had a kids' Apollo refresh, so we did – and we are introducing some variants around our brands, and we have launched quite successfully our Boardman range of packs and clothing.

David Jeary: Thank you very much.

Jill McDonald: Thank you.

Operator: Thank you. Our next question comes from the line of Michelle Wilson of Bird and Bird. Please go ahead, your line is now open.

Michelle Wilson: Hi guys, it's Michelle from Berenberg here. Just a question around the kind of promotional environment you're seeing in the sector at the moment: has there been any sort of difference in the level of promotional activity this year versus last year at all?

Jill McDonald: It is a competitive sector; as I mentioned to the earlier question, we have seen you know a lot of competitive price activity particularly around packs. We've been focused on trying to bring a little bit more kind of clarity to some of our promotional offers, so for example you know offering straight three for twos rather than it only being on certain ranges, and we've put together some bundle deals, which have proved quite popular. But it's a competitive sector, particularly around packs, but we are in quite a unique position, particularly with our 'We Fit' business, which does give us a real point of differentiation both around both around cars and bikes in terms of repair and fitting.

Michelle Wilson: Okay, great, thanks. And then just in terms of online, I mean you mentioned that packs was actually stronger online, up 11%. Are you very happy with your online proposition at the moment? Is there any area that you think needs to be improved or you would like to improve, to compete with the on – the kind of pure-play online players?

Jill McDonald: Well, you know, we are pleased that we continue to see the overall proportion of online growing slightly. We actually had 2 million more visitors to Halfords.com in this quarter, which I think is good progress. Interestingly, we have a high proportion of click and collect, which I actually see as being a very positive thing, because you know the more people that we actually drive in store, even although they are ordering online, it gives our colleagues an opportunity to, you know, create some additional sales, and we do see additional sales particularly when people come in and click and collect. So you know, website always needs improvement; it is an area that is, you know, moving at a fast pace, so I want to ensure that we keep on that and keep evolving. You know, I'm pleased that we have launched marketplace; you know we're obviously, earlier this year, moved into eBay. So we're seeing good innovation around the area but there's always more to do.

Michelle Wilson: Okay, great, thanks. And just on that upselling, for people coming into store: do you give a figure on what level of click and collect you actually sell additions when they come into store?

Jill McDonald: No, we haven't, no we don't.

Michelle Wilson: Okay, great, thank you.

Operator: Thank you. Our next question comes from the line of Jonathan Pritchard of Peel Hunt. Please go ahead, your line is now open.

Jonathan Pritchard: Thanks, good morning. Can I just come back to the point on packs? I mean your full-year 2016 target is 20% growth. Even if there wasn't any deflation in the market, your first quarter number would be 5. You're quite a long way off that. You say you can do better. Can you just give us a bit more detail on that, because that does seem to be an area that isn't really firing in the way you'd like?

And then, secondly, do you think some of the premium brands that aren't within Halfords at the moment – is there any hope, any sort of evidence that the Cycle Republic stores are making them sort of sit up and take notice a bit where Halfords is concerned?

Jill McDonald: Right, so I do think there is opportunity to do more to leverage the brands that we have in the core chain, and although it's very early days in terms of Cycle Republic, we do see a higher proportion of pack sales in Cycle Republic, which is what we expected. I think there's opportunity within the Boardman range. You know, we've launched that very recently. We've seen growth of up to 6% in clothing, which is good. And for me there has to be some opportunities about better attachment, so when somebody comes in to buy a bike that we're making sure that we are offering our customers all the additions that they're going to need, so they don't leave, you know, needing anything more. So we have been focused on training around attachment, and obviously of bikes this summer, so there is still more to do. And ensuring that we've got the right awareness in terms of our position in cycles etc., it's not just bikes.

Jonathan Pritchard: Okay, I don't think I expressed my question very well early on then. The premium brands – the third party brands sorry, that aren't currently part of the Halfords' offer: are you – do you – are you having conversations with them, or is there any hope that they might actually – you know, you've got Pinarello in there, but any more that might come board?

Jill McDonald: In terms of actual bikes?

Jonathan Pritchard: Yes.

Jill McDonald: Right, sorry, apologies if I misunderstood that. So as you know, the majority of our bikes are own brand, and we have launched the 13 range this year. You know, it's not a requirement in terms of, you know, our growth plan. And you have to be a little bit careful what you wish for, as obviously there's a lower margin with some of the branded – the branded bikes. So, you know, we do have Pinarello in some of our stores, and I think we are their largest European customer; we've introduced Kona, and you know we have Tifosi as well. So we do have a number of the premium ranges, but it is a balance, you know; we want to ensure that we are strong in terms of our own branded ranges – premium bikes for example grew 8% in the quarter – so it's a balance.

Jonathan Pritchard: Okay, thanks very much.

Jill McDonald: Thank you.

Operator: Thank you. Our next question comes from the line of Matthew McEachran of N+1 Singer. Please go ahead, your line is now open.

Matthew McEachran: Yeah, morning guys. Just to beat this one to death, just a question on packs as well, if you don't mind? Rather than looking at the sort of – you know, how much ammunition you've got for driving improved performance, could we just look at the sort of the profile of the 20% that you're – that's the ambition and the target for the year, and maybe think whether or not the performance you've seen in the first quarter kind of throws you off track on that, or whether the trajectory throughout the course of the year is for it to build, you know in sort of – in steps?

Jill McDonald: You know, I would like to see – I would like to see us doing better in packs, to be honest. And, you know, 20% was, you know, our original target. You know, we'll look at that as we go through the year, but we are certainly focused on cycle accessories as an opportunity, for sure.

Matthew McEachran: Yeah, okay, all right thanks. And just coming back to click and collect: could you just give us a rough idea as to within click and collect, how much of that is reserve and collect?

Jill McDonald: Okay, so it's around 25%.

Matthew McEachran: Of the 91?

Jill McDonald: Yes, that's right.

Matthew McEachran: Okay. And do you have any opinion on what John Lewis has done? I mean, do you think this is something that Halfords might have some scope to introduce further down the line in terms of some charges for click and collect rather than reserve and collect?

Jill McDonald: You know, I think we have to stay close to what other retailers are doing in this sector, but I'll be largely driven by what the customers think, so I know that there's been some different views expressed in the media by customers on the charging. So, you know, our online average transaction value is higher – it's higher than possibly some other retailers and, you know, I'll take a view, but I'm going to be driven by the customers on this one.

Matthew McEachran: Okay, fair point, thanks. And then just the final question was in relation to cycling, on the actual hardware side. I believe the plan is to rationalise some of the range and to do some work around pricing architecture. Have you actually conducted any of that yet, have you implemented any changes yet? And if not when? When does that start to happen?

Jill McDonald: We've re-ranged and re-laid out all our stores that have BikeHuts, so we've already done a lot of work in that area, so that sort of is in stores at the moment. So you know that will take effect largely from quarter two, because we've really only completed that towards the end of quarter one ready for the summer peak.

Matthew McEachran: Okay, so that's good, so it's a work under – it's obviously a work in progress, and is it too early to sort of give us a sort of flavour of how that's performing?

Jill McDonald: It is, because it creeps into quarter two.

Matthew McEachran: Yeah, I'll save the question for the next conference call. Okay, thank you very much.

Jill McDonald: Thank you.

Operator: Thank you. Our next question comes from the line of Ben Hunt of Banco Espírito Santo. Please go ahead, your line is now open.

Ben Hunt: Good morning. I presume you've now bought most of your dollar requirements for this financial year: can you tell us now how your position relates to the year before?

Andrew Findlay: Hi there Ben. Yeah, we're – as I've said in the year prelims, our margin guidance is predicated on a pretty static 155 position. So from our perspective we're in good shape for 2016, I think. With respect to 2017, obviously we'll take a view at that point, but I think as it stands 155 is our budget assumption.

Ben Hunt: Okay, fine. In that case, obviously packs has been quite subdued, premium cycling is sort of slow to single-digit growth, the dollar headroom doesn't sound too bad and you're doing more on the car maintenance: how should we start to think about the gross margin guidance?

Andrew Findlay: Well, I –

Jill McDonald: No sorry – I was going to say to you exactly what Andrew was going to say, which is we don't guide on margin until half-year, so we're saying that the full-year guidance for decline in 25–75 bit remains as we've communicated.

Andrew Findlay: Yeah, we're comfortable with that guidance, with no change. Either with that and/or cost.

Ben Hunt: Okay, fine.

Operator: Thank you. Just to remind all participants: if you would like to ask a question, please press 01 on your telephone keypad. You can press 02 at any time to cancel your question, and there will now be a further pause while questions are being registered. Once again, if you do have a question please press 01 on your telephone keypad.

And we have a question now from the line of Charlie Muir-Sands of Deutsche Bank. Please go ahead, your line is now open.

Charlie Muir-Sands: Thanks very much. Sorry, a very quick question.

Jill McDonald: Sure.

Charlie Muir-Sands: The sort of non-like-for-like revenue contribution in retail was actually sort of a tiny bit negative. I just wondered what the dynamics are – because obviously you're opening Cycle Republics – what are the moving parts and how should we think about non-like-for-like revenue contribution over the year as a whole?

Andrew Findlay: Yeah, hi Charlie. Cycle Republic's in there but it's been subdued by the impact of Ireland, so in there you've got Ireland which is obviously denominated in euros. But when you look at the whole P&L of Ireland we pay a considerable number of our costs in Ireland in euros and we buy around 2% of our total cost goods sold in euros, so there's an element of hedging within the P&L. From a revenue perspective, we are seeing Cycle Republic coming through as we expected. Obviously it's back-end loaded, but the Irish translation is impacting the like for like differential. On a constant currency obviously that's what we're reflecting like for like, but from a reported perspective it affects the statutory reported number on a currency basis.

Charlie Muir-Sands: Understood, thanks.

Operator: Thank you. And our next question comes from the line of Matthew McEachran of N+1 Singer. Please go ahead, your line is now open.

Matthew McEachran: Thanks, just one follow-up if that's okay, just on the cycle market overall in the first half: do you have any stats sort of giving some idea as to the volume and value dynamics in that market overall so far?

Jill McDonald: No, no we don't so far, no.

Matthew McEachran: When do we start to see some data on that, do you know?

Andrew Findlay: Matthew, it's Andrew here. As you know, it's not well audited –

Matthew McEachran: No.

Andrew Findlay: – we do give both on GFK[?]; a lot of is anecdotal. You know, if you look in the market, it's very competitive and the impact – and the views that we've got is that there was an element of volatility around some of the – weather instances in the first quarter. But I think from our perspective, you know, it's – it can be misleading taking anecdotal evidence. We've got – so competitively Mintel do an update once a year and based on this – their view, they're still expecting growth around 5–6% in value. Less so in volume, but as far as we're concerned we need to concentrate on what we're doing rather than the competition and trade into it. But I think from anecdote, it has been a little bit more volatile than we saw last quarter, but what we can see is that we're doing well on premium and we're focusing on getting the bike volume through, which we are seeing in the quarter.

Matthew McEachran: Yeah, I mean, your – presumably the work that you're doing – going back to the question on repositioning and re-ranging – presumably there's going to be more of an emphasis around price for you guys and volume compared to what has been seen perhaps over the last couple of years?

Andrew Findlay: Yeah, our repositioning in our stores is very much focused on – you know, it's kind of something we call internally – it's very much focused on the trade-up. So we've issued linkeys[?] and effectively, you know, collateral to our colleagues in stores, to make it very clear on how they can trade up customers into a better value bike up the range, and our layout in our stores is – is going to be much easier for our colleagues to trade those customers up, and that's the key really for the focus of the Q2 trading post.

Jill McDonald: And I think the other thing to build on that is – you know, women's bikes have been in strong growth, and so you know the introduction of new women's bikes in the VooDoo and 13 brands will take effect from quarter two as well, so you'll see those in store.

Andrew Findlay: Yeah, so we've given quite a lot of clout to our stores to focus on that, and that's their challenge.

Matthew McEachran: Yeah, super. Okay, that's useful feedback, thank you very much.

Operator: Thank you. And our last question comes from the line of Andrew Porteous of HSBC. Please go ahead, your line is now open.

Andrew Porteous: Hi guys, just a quick one on the motor side. I saw there was some legislation in the Budget around MOTs lengthening out to four years from three years. Are you anticipating any impact on the business from that, I mean any sort of hiatus in activity perhaps?

Jill McDonald: We're not anticipating a significant impact, so MOTs on three-year-old cars are less than 8% of all the MOTs we carry out, and the average of value of those MOTs are lower than other vehicles age, obviously due to fewer faults given the age of the vehicle. So we're not anticipating a significant impact. We are concerned about the road safety aspect of this, and we will be, you know, consulting on it. So – you know, MOTs are an opportunity to find or rectify faults, so if a car's first MOT is to be postponed by a further year then there's an increased risk of unsafe cars in the road, and it's a proposal at the moment.

Andrew Porteus: Brilliant, that's really helpful, thank you.

Jill McDonald: Thank you.

Operator: Thank you. As we have no further questions, I'll return the call to Jill McDonald and Andrew Findlay for closing comments.

Jill McDonald: Thank you very much indeed for joining the call today, and if you have any further questions please contact our Head of Investor Relations, Adam Phillips. Thanks very much.

Operator: This now concludes our call, thank you for attending. Participants, you may disconnect your lines.