Halfords Group plc

FY24 Interim Results
29th of November 2023
Video Webcast

Transcript

Graham Stapleton: Good morning everyone, and welcome to the Halfords Group Interim Results for the 26 weeks ending the 29th of September 2023. I'm Graham Stapleton, and joining me today is Jo Hartley, our CFO. In terms of the agenda for this morning, Jo will begin today's presentation by taking you through our financial performance. I'll then provide you with an update on the progress against our strategy, and this year's plan, before moving on to the outlook for the remainder of the financial year. You'll then have the opportunity to ask questions at the end.

Before I hand you over to Jo, I thought it would be useful to start with a quick overview of the first half of the year. We've made a very strong start to the year with outstanding sales and profit growth. That's despite some poor summer weather and the fact that two of our core markets, cycling and tyres, have underperformed. In a year of continued macroeconomic headwinds and significant inflation, negatively impacting gross margin, we have maintained our focus on what we can control and here we have made good progress.

Firstly, we've grown share across all four categories and exceeded our own market share targets in three of them. Secondly, we've delivered over £16,000,000 of cost and efficiency savings in the first half. That's more than half of our targeted savings for the year, and Jo will come back to talk about that in a detail in a few minutes. And thirdly, I'm really delighted to say that the strategic investments we've made across motoring services have delivered a significant uplift in both revenue and profit in our Autocentres business. These results are clear evidence that the strategic shift we've made into the more needs based categories of services and B2B over the last few years is creating a resilient performance in volatile markets.

Our services business now accounts for more than 50% of group revenue, and our B2B business has grown over 37% and is now almost a third of revenue. And then finally, outside of our Halfords branded business, a really important highlight for me is that our recently separated Avayler business has secured a commercial agreement with Bridgestone, materially scaling our SaaS operation. And I'll return to this later in the presentation.

So, that's a quick overview of H1. I'll now hand you over to Jo to talk you through our first half performance in more detail. Jo?

Jo Hartley: Thank you Graham, and good morning everyone. Before I start, the usual reminder that all results are post IFRS 16, unless otherwise stated. We've also now reverted to one year comparisons only. The first half of FY24 has continued to be challenging for consumer facing businesses. Inflation until October remains stubbornly high and interest rates remain at 15 year highs, impacting an increasing number of consumers coming off fixed rate mortgages. Energy bills remain much higher than they were a year ago, and Sterling remains significantly weaker than historic averages. We've seen record wage inflation, but consumers continue to be under pressure.

Against that backdrop, we continue to focus on what we can control. Our £30,000,000 Cost and Efficiency Program is on track and being delivered earlier than planned. We've increased market share in all of our categories by remaining agile in how we trade and continuing to offer value for money to customers in a cost of living crisis. And we've continued to optimise our garages business, seeing significant sales growth, utilisation improvements and profit growth. While the consumer environment remains very challenging and forecasting isn't getting any easier, I firmly believe that we're doing all that we can.

And on that note, I'm pleased to be sharing a strong set of results for H1. Total revenue growth was 13.9% supported by the acquisition of Lodge Tyre, which was bought this time a year ago. Like for like revenue growth was 8.3%, with particularly strong performance in Autocentres centres at 18% and retail motoring at 8.2% like for like, highlighting the more resilient performance of our needs based spend areas.

Underlying profit before tax grew 15.8% following two adjustments which reduced prior year profit, which I'll cover in more detail later. Within those results, grace margin at a group level was down 210 basis points year-on-year, primarily driven by the retail business, which has seen the most material impact of weaker Sterling hedges.

We've also continued our emphasis on profitably increasing market share in a challenging consumer environment, through competitive pricing and promotions. Operating costs fell 2.1 percentage points as a percent of revenue despite the significant inflation in energy and wage costs anticipated at our prelims. And this is a result of our continued focus on cost and efficiency as well as the benefit that comes from significant sales growth and leveraging of our fixed cost base. The absolute highlight though has to be our Autocentres performance, which saw EBIT of £10,900,000, an increase of over £14 million versus H1, 2023, showing the considerable progress we've made in this area.

I won't dwell on slide eight, which shows those same results in a tabular format, except to say that the 13.9% revenue growth has contributed over £100,000,000 of additional sales in H1 alone. This highlights the continuing scale of change in our business. H1 revenues of £870,000,000 are now almost the same size as our entire retail business and in line with the total sales of the group in 2013.

I'll now explain two re-statements to last year's reported profit before tax, which have had the combined impact of reducing profit in the first half of last year by £10,600,000. Neither of these adjustments had any cash impact. Firstly, H1 2023 profit has been restated to correct FX accounting on hedged instruments within our retail business. Accounting for hedged FX instruments is inherently complex. The significant volatility in Sterling around the time of our interims last year exacerbated this.

Following a detailed review of FX accounting that was supported by external advisors, it's emerged that we'd overstated H1 profit last year by £5,400,000, with a corresponding understatement in the second half of last year. There is no impact on full-year '23 PBT from this adjustment.

Secondly, in Autocentres, H1 '23 PBT has been revised downwards by £5,200,000. At the start of FY23, we entered into a new agreement with a third party logistics provider of wholesale tar and distribution services. This enabled us to benefit from significantly better cost prices through negotiating directly with manufacturers and cutting out wholesale margins. The cash flows associated with this agreement result in the arrangement being disclosed as supplier financing, although this was not the commercial intention. The reconciliation complexity caused by this arrangement, material growth in purchase volumes and stock holding and intercompany transactions between the enlarged group contributed to an understatement of creditors and cost of goods sold. The impact on the full year numbers for FY23 was £7,300,000.

Appropriate steps have been taken to gain assurance over the half year '24 reported results. A full review's been conducted, appropriate processes and controls are put in place. And in addition to our own auditors, a big four accountancy firm have supported us in ensuring H1 FY24 reported results are correct. I'm therefore confident this will not recur.

Finally, to reassure, neither adjustment has any impact on our midterm CMD targets or guidance for FY24. We remain confident in our growth ambitions for Autocentres, and the strong profit growth in this area of the business which we're reporting today supports the strategy.

Slide 10 bridges profit between H1 '23 and H1 '24, showing the drivers of very strong underlying growth. I started by showing the £29,000,000 of profit reported in H1 last year, and then the impact of the two restatements that I've just described, which reduced H1 '23 profit to £18,400,000. In the first half of this year, we've seen just over £20 million of inflation driven by energy, wage increases and the impacts of FX hedges, partly offset by lower freight rates.

It's worth pausing here to notice that this inflation effectively wipes out all the profit made in the first half of last year. Markets have been mixed, and we've seen a year-on-year headwind of £2,000,000, driven predominantly by further volume decline in the cycling market. We've invested around £4,000,000 in price in our retail business to ensure we continue to remain competitive in a challenging market, and that is in part how we've managed to gain share in every single market in which we operate, resulting in £6,000,000 of profit growth through share gains.

Autocentres optimisation and growth initiatives were also a very key contributor to profit growth in the period, adding a further £7,200,000 year-on-year, which I'll cover in more detail later. But the biggest driver by far has been our focus on driving out costs and improving efficiency. In total, savings of over £16,000,000 have been realised through our 'Better Buying' Program and reducing operating costs across the group.

At the start of this year, we outlined to you the £30,000,000 of inflationary headwinds we expected to see in FY24 from FX, energy costs and wage costs, partly offset by reduced freight rates. In the first half, we've seen around £20,000,000 of this inflation, with the remains are expected to be seen in H2.

I'll just comment briefly on the two biggest inflationary headwinds, FX and wage costs. Firstly, FX. The average FX rate in cost of goods sold has fallen from 133 in H1 FY23 to 126 in H1 FY24. You'll also recall we saw a £4,300,000 benefit in H1 last year from FX gains on derivative instruments that did not qualify for hedge accounting. Whilst this did not impact full year '23, we do see the year-on-year impact during the first half. Overall, FX was a £13,000,000 year-on-year headwind in H1, and it'll continue to be a headwind in H2, albeit a much smaller one.

For FY25, we're 46% hedged at 123.54. Broadly, the rates assumed in our capital markets stay projections. The other very significant inflationary headwind has been wage increases, which have driven £8,000,000 of cost inflation in the first half of the year. We expect to see slightly lower wage inflation in the second half. Looking further forward into FY25, the recent announcement on minimum wages will bring wage inflation around £5,000,000 higher than that which we had assumed in our Capital Market Day projections.

As we described at our Prelims, we focused on driving cost and efficiency savings to offset these headwinds. The program in total targets £30,000,000 of savings for FY24, of which 16,600,000 have been delivered in the first half across product cost reduction, organisational design, property and warehousing, and in goods not for resale. Around half these savings are expected to come in goods for resale driven by our externally supported 'Better Buying' Program. In H1, we've delivered almost £6,000,000 of Better Buying savings with benefits realised earlier than anticipated. These have come through data base negotiation, tenders for our own label business, and supplier rationalisation, initiatives which we'll continue to deliver for years to come.

Organisation design and outsourcing has delivered £4,000,000 of savings as we further streamlined our Support Centre, outsourced some technology engineering roles and driven efficiency savings across stores and garages. In property, 20 retail lease renewals have been completed, reflecting on average

20% reduction in lease costs. Savings in this area are amounted to £3,000,000 in H1. This also includes the benefit of lease renewals completed last year.

Finally, our 'Goods Not For Resale Program' has delivered £2,500,000 of savings in the year to date. Almost all our spend goes through a competitive tendering process as we seek to reduce costs or mitigate inflation, and in addition, we've simply stopped spending money in areas where we do not see significant value.

So, let's move now to go into a bit more detail on our retail business, and it's here that we've seen the biggest headwinds in terms of both inflation and the consumer markets in which we operate. Overall sales were up 4.1% on a like-for-like basis. As we've seen in previous reporting periods, there's been a marked division between performance and needs based spend areas and performance in more discretionary spend categories.

Retail motoring products saw strong like-for-like sales growth of 8.2%. This was driven by a growing market and a very strong market share performance as a result of the investment in price we made last year and our expansion into car parts. We saw both volume and average selling price growth across H1, resulting in a very strong sales performance. Retail cycling being discretionary in nature was much more challenged. The market fell 6% in H1, and despite our market share growth, this resulted in a 2.8% like-for-like sales decline.

Retail margins fell 330 basis points year-on-year to 45.8%. Given the significant decrease in margin rates, I bridged the movements on the right-hand side and here you can see the very material impact of FX, which drove 270 basis points of the decline in margin. Operating costs grew only 0.4% year-on-year, with our 'Cost and Efficiency' Program mitigating underlying operating cost inflation.

Overall, retail EBIT was £19,600,000, down £9,800,000. We expect to see EBIT in H2 to be higher than H1 and up year-on-year as the benefits of our Better Buying Program come through, FX headwinds reduce, price investment annualises and year-on-year benefits in freight rates come through.

Moving now to the Autocentres business and the standout success story for H1. Total revenue grew 33.9% driven by the acquisition of our commercial fleet services business lodge in October '22. The like-for-like business saw very strong growth at 18%, despite a 0.2% decline in the tyre market. This came as a result of increases in the volume of jobs as we grew market share, and an increase in average selling prices as dynamic pricing was introduced and prices were optimized more generally.

Like-for-like growth was also supported by some MOT volume shifting back into H1, as new car registrations begin soften the impact of the MOT deferral put in place by the government as a result of COVID. Gross margins declined 60 basis points, driven entirely by the impact of the Lodge acquisition and the fact that Lodge sells a higher mix of lower margin tyres. Operating cost growth at 21.2%

was considerably below sales growth as we leveraged the fixed cost base and saw significant improvements in utilisation, all of which resulted in operating profit growing to £10,900,000, surpassing the profit delivered in the whole of FY23.

The drivers of profit growth are bridged on the right-hand side of the chart, but in summary, we're doing exactly what we said we'd do at the CMD, leveraging the platform we've built. We are profitably taking market share, driving cost and efficiency through better buying and utilisation, optimising our pricing and seeing the benefits of our most recent acquisition, Lodge Tyre come through.

Looking forward, in H2 we expect year-on-year profit growth, albeit to rate significantly lower than that, which we saw in H1 as we annualise the Lodge acquisition and see the impact of the shift in MOT volumes from H2 into H1. I'll now cover our cash and balance sheet movements in the first half of the year. Net debt at the end of H1 was £47,000,000 compared to a year-end position of £1,800,000. Operating cash flow of £64,300,000 was £10,400,000 lower than the same period last year, primarily due to the normalisation of supplier payments timing, which flattered the year-end position as I described at the prelims. You can also see an outflow of £10.3 million relating to the purchase of shares through our EBT to satisfy employee share safe schemes that matured this year. Our tax and interest payments total £16 million in the first half and our lease payments came to £45 million while we invested £22 million in CapEx and paid out £15 million for the FY23 final dividend. We expect a cash inflow in the second half of the year and as such, expect to be in a lower net debt position by the end of the year. As a result of the increase in bank debt, net debt including lease debt grew versus the FY23 year-end, closing the half year at £372.3 million. Leverage excluding lease debt was not 0.3 times and including lease debt was two times within our guided range of 1.8 to 2.3 times post M&A.

Slide 20 serves as a reminder of our capital allocation policy, which remains unchanged. I'm also pleased to announce that our proposed interim dividends is three pence per share. In line with that declared this time last year. Our dividend policy remains to pay a dividend that's covered one and a half to two and a half times by underlying profit after tax.

So to summarise, we are seeing the benefits of following the strategy we laid out at our Capital Markets Day. We are profitably growing market share, we are combating inflation through our focus on cost and efficiency and we're optimising the investments we've made delivering a much more profitable Autocentres business. And had the markets performed as we expected, we would be delivering even better results today. As we look further forward, we remain confident in the strategy we set out at our CMD in April. When the markets recover, we'll be exceptionally well placed to benefit. And with that, I'll pass you back to Graham to update on our strategic progress in H1 and our outlook for the balance of the year.

Graham Stapleton: Thanks, Jo. So, as you can see from Jo's summary, against some challenging headwinds, we've made good progress in H1. As I mentioned at the beginning, we have continued to focus on the controllables, delivering cost and efficiency savings, growing market share and investing in our strategically important motoring services and B2B businesses. I'm now going to cover in a bit more depth how we've progressed against our strategy. And I'll start with a reminder of a slide we shared at the prelims in June, which captures the essence of this year's plan. As you can see, in a year of continued headwinds and economic uncertainty, we've centred on what we can control and that is how we fully optimise our platform. We said that this year we would leverage the investments we have already made in our unique digital and data enabled platform and that we would ensure customers make the most of our differentiated and highly convenient shopping experience across our combination of stores, garages and mobile vans.

This forms the basis for year 1 of the midterm plan that we set out at the CMD, which you can see here on the slide. We outlined our intent to deliver £1.9 billion of revenue, £90 to £110 million of PBIT and a 5.5% operating margin. As you can see, we said that the majority of our profit growth will be delivered by a combination of market recovery, increased market share and a focus on cost and efficiency, which together more than offset the significant inflation. So, how are we doing against the plan? Jo has already covered inflation and cost and efficiency in some detail, so I'm going to move straight on to talk about how our markets are developing, and the progress we are making in market share. It's fair to say that whilst both inflation and cost and efficiency have performed as expected, some of our markets have not, particularly towards the latter part of Q2 of the first half. At the prelims in June, we showed you this slide, which sets out what we expect in year 1 of the CMD plan.

I won't recap the detail now, but broadly we said we expected retail motoring would see market growth as the car park continues to age. In cycling, we predicted further contraction in market size this year as customers continue to be cautious around any high ticket discretionary spend. In consumer tyres, we predicted market recovery as miles traveled continued to increase and customers are no longer able to defer essential maintenance. And finally, in motoring services, we expected the markets to remain broadly flat. On the next slide, you can see how this has played out in H1. It's a mixed performance across our markets with retail motoring and motoring services performing well, but a much softer than expected performance in the cycling and consumer tyre markets.

Briefly taking each in turn. In retail motoring, according to GFK data, the market has grown slightly ahead of our expectations for a number of reasons. The very hot weather at the start of Q1 benefited areas such as pressure washers and car cleaning and the very needs-based areas of spend like oil continue to perform well. In cycling, the market remains depressed from a combination of the cost of living crisis, and the poor weather over the peak summer period. These tough trading conditions have resulted in substantial market consolidation. In consumer tyres, we haven't yet seen the expected pos-COVID recovery in line with the increase in miles traveled. Drivers continue to delay essential maintenance for longer than anticipated. Market data shows an increase in the number of tyres being replaced, which are either borderline or totally illegal. We estimate that one in four vehicles on Britain's roads currently have one or more illegal tyres. And last but not least, motoring servicing, where the DVLA suggests growth in the market ahead of expectations as we see the impact of an aging car park.

So as I said, a mixed performance across our four core markets. Moving now to market share, this slide sets out the share gains we said we expected to see in FY24. The good news is that despite the challenging headwinds, we remain confident in our strategy and ability to grow market share. And as you can see on this slide, we are making solid progress with positive share gains across the board ahead of expectations. In motoring, the GFK data shows that we're delivering strong growth in volume share at +3.8 percentage points year-on-year, well ahead of our target. This performance has been driven through a combination of investment in price, extending our motoring offer to more categories, product innovation and the Motoring Loyalty Club where we now have just under 3 million members. In cycling, where the market remains soft, we've seen excellent share gains ahead of our expectations at +1.8 percentage points year-on-year.

This is partially driven by market consolidation where Tredz, our performance cycling business, has benefited and by further product innovation, particularly in our own brand ranges. In tyres, as you can see, we grew 0.4 percentage points of share. The improving performance here has been driven by the benefits we're now realising from the integration of our acquired businesses and the improvements we've made to the customer proposition. And finally, motoring servicing. Here data from the DVLA detailing growth in the MOT market shows that our share gain is in line with expectations.

So, positive results across the board, and a clear indication that the investments we are making in price and proposition are delivering. I'll now take a few moments to walk you through some examples of how we have grown our share in retail motoring, cycling and tyres across the first half. Starting with retail motoring, where we've grown share through a combination of extending our offer and product innovation. The best example that I can give of where we've extended our motoring offer is in specialist car parts. Our entry into this £1 billion market earlier this year has driven a four fold revenue increase.

Customers have responded positively to several initiatives, including our Never Beaten on Price promise, a step change in convenience with a new click and collect in 60 minutes offer, and adding the fourth B, brakes, to our three Bs proposition. At the same time, we've continued to bring new and innovative products to our retail motoring customers. These include the market leading

Nextbase iQ dash cams and a huge range change in our own brand of car seats aimed at providing better choice and innovation with sustainability front and centre via the utilisation of recycled fabrics. Moving now to cycling where we are making the most of consolidation in the market. Over the last 12 months, we have seen 35 large independent bike dealers close or go into administration, alongside two large retail cycling chains, two bike brands and three big distributors.

That gives you a sense of the scale of change we're seeing across the industry. And with household disposable income squeezed, we don't foresee things getting any easier here in the short term. The good news is that as you can see, our Tredz Performance Cycling business is well placed to take share as this part of the market consolidates. With growing brand awareness and excellent Trustpilot rating and market leading finance options, our Tredz business is going from strength to strength. Tredz is also a key contributor to our B2B revenue through 'Cycle to Work' and in total is now delivering double-digit like for like growth. At the same time, we also continue to innovate across our Halfords Retail Cycling range. For example, here you can see the new Boardman SLR 8.9 Men's Road Bike, which combines a best in class spec with a market leading price point.

Moving on now to consumer tyres, where we focused on two key areas to drive share growth. The first is value for money. Here, enhancements to our value credentials have been instrumental in driving our market share in H1. We've improved our own brand budget tyre range with sales up 14% in the first half. We've also made our tyres more affordable with initiatives such as Never Beaten on Price promise, combined with our market leading range of financial services offers, including buy now pay later. Combined, these initiatives have seen our value for money score improve by 4.6 points in H1. The second is convenience. With the obvious distressed nature of this category offering, customers' convenience is a key part of our strategy. Here our focus is on same day fitting of tyres across our national garages. Over the first half, we have seen sales growth of 66% on same day fitting, with customers rating this proposition highly. And for the ultimate convenience, our Halfords Mobile Experts come to you with an industry leading 4.8 Trustpilot rating.

So as you can see, when you combine value and convenience, it's a winning approach. So to summarise some great progress. However, we are not just growing market share, we are growing it profitably and the best example of this is our Autocentres business. Here our focus has been on utilisation, specifically reducing labor turnover and ensuring that we drive demand into those areas where we have the capacity available to service it. The good news is that the ongoing focus here means we are seeing a state wide utilisation improve, increasing 7% in H1 versus our 10% full year target. The introduction of dynamic pricing not only helps customers to see their quickest, nearest and best value options across our garage network, it also helps us significantly improve margin per worked hour. This is a consequence of being able to push demand where we need it most, improving efficiency, driving high utilisation and higher profit.

That concludes my update on the very positive progress we have made across the key pillars of growth that we outlined in the CMD, and at the Prelims in June. I'm now going to spend a few minutes on the mid to long-term elements of our strategy. And I'll frame this around the progress we're making in our consumer and B2B businesses. Starting with our consumer business and our motoring club. After a very strong first year, I'm pleased to say that the club continues to grow. The benefits clearly resonating with customers looking for value in a cost of living crisis. Now with just under 3 million members, we anticipate significantly exceeding our signup targets for this financial year.

We continue to see growth in the number of members new to the Halfords brand at 40% versus 31% in November last year. The mix of premium members is a critical measure for us, driving cross shop recurring revenue and lifetime value. This has increased in year to more than 10% and growing, supported by the recent launch of premium till signup capability in our retail stores. We're delighted that the club is delivering on its goal to change customer attention behaviours in retail as demonstrated by the significant increases in both frequency and breadth of shop. As we showed at the CMD, the club is an acquisition tool which drives customers from our retail stores across to our garages. Year to date, the proportion of MOTs in our consumer garages coming from loyalty members is just under 40%.

Overall, the club remains a core part of our strategic plans over the mid to long-term, with vehicle and vehicle health data absolutely central to our lifetime strategy. As we have said previously, our goal here is to drive stronger data analytics, predictive modeling, monetisation and even more profitable utilisation alongside a highly personalised customer experience. You'll remember that at the CMD we set out our longer term plans to bring the Fusion town experience to more towns across the UK. This year, we have seen incredible results across our two Fusion towns, Colchester and Halifax, where the biggest shift in performance has been across our garage services. This includes our physical garages and the motoring service areas of our retail car parts where we fit three Bs and refer customers across to our garages.

To give you a sense of the scale here, our Halifax garage has gone from being ranked 200th on sales, to second in our garage estate. And is now running better than both Halfords and industry averages at 17% EBITDA. That's more than double the profitability pre-Fusion investment. These results have given us the confidence to accelerate investment in our Fusion program in H2. We've identified 10 towns with a similar catchment and demographic footprint to Halifax and Colchester, and sites where we can materially expand physical capacity. We will invest circa £1.8 million of CapEx in H2 to enable major changes to our operating model in both the garage and retail car park.

Moving on now to our B2B business, which now accounts for a very resilient almost third of our total group revenue. At a headline level, H1 saw our biggest ever six months in Cycle to Work and the biggest ever six months for our commercial fleet services. Just some of the highlights here include the launch of our new Cycle to Work portal for SME businesses, making it even easier to sign up to participate in our Cycle to Work scheme. As a result, we've already surpassed the total volume of Cycle to Work clients that did business with us in the whole of FY23.

And in our commercial fleet services business, we continue to attract new customers with a strong pipeline of contracts. As a reminder, we are already working with the likes of DHL, DPD, Evri and Yodel, alongside some substantial local government contracts. Finally, for today, I'm delighted to be able to report some excellent progress for our Avayler SaaS business. On this slide, you can see a reminder of what our Avayler business is and what it does. For our customers, Avayler delivers a full end-to-end digital solution, which streamlines process and delivers improved efficiencies. And for Halfords, Avayler delivers resilient contracted B2B recurring revenue. Along the bottom of this slide, you can also see the brands we currently work with. Last month we announced an exciting new partnership with Bridgestone to implement our Avayler technology across the US where Bridgestone has 2000 consumer garages and a substantial fleet of mobile vans.

In addition, to show their confidence in our business, Bridgestone have also acquired a 5% stake in Avayler for $3 million. Due to launch in early December, this landmark moment presents an incredible growth opportunity for Avayler, with significant scope to develop further over time. Bridgestone operates across 150 countries, with more than 9,000 workshop locations. And as you can see here, across the breadth of our existing contracted partnerships, there is substantial global growth opportunity of over 100,000 garage service locations. I'm thrilled by the progress our SaaS business is making, and the partnerships we are creating with significant motoring services companies.

So, that concludes our update on H1 performance and the strategic progress that we've made. To close today's presentation, I'll now move on to the outlook for the remainder of this financial year.

Our B2B businesses and needs-based categories continue to show very strong growth. However, trading in the first half of the year has been volatile, and we've seen some recent softening in high-ticket discretionary spend areas. It therefore remains challenging to predict whether these trends will continue. We continue to expect profit before tax to be weighted towards the second half of the year, as inflation annualises, and we deliver the balance of our planned cost and efficiency savings. As such, assuming trading conditions on average continue to reflect what we have seen across the year to date, we believe underlying profit before tax will now fall within a narrower range of £48 to £53 million.

To conclude, H1 has delivered good strategic progress, with a strong financial performance, given the inflationary consumer and macroeconomic headwinds we continue to face. We have delivered outstanding sales and profit growth and market share gains across the board. However, we have seen two of the four markets in which we operate become more challenging towards the end of the first half of the year. We believe that our strategic investments provide a strong platform for growth, and we're well positioned to take advantage as markets consolidate and improve. Looking beyond FY '24, assuming the markets recover, we expect profit growth in FY '25, as we take a step forward on our mid to long-term expectations of £90 to £110 million underlying PBIT, as outlined at our capital markets day in April, 2023. Thanks for listening. Jo and I will now be happy to take your questions.

Operator: Thank you. Ladies and gentlemen, if you would like to ask a question on today's call, please signal by pressing star one on your telephone keypad. That is star one for your questions. And our first question today comes from Adam Thompson of Liberum. Please go ahead.

Adam Thompson: Morning. Thanks for taking my questions. The first question really is a simple one, if you could just give a little bit more colour around the trading in more recent weeks. So, you've said softer in discretionary categories, but any numbers you can give around that would be helpful, please.

Second question is just to talk us through a little bit more the impact of the recent national living wage increases, how that flows into numbers.

Third question. You've highlighted obviously the tougher markets in the discretionary areas, but my understanding is you're holding that medium-term guidance of £90 to £110 million of PBT. So, if the markets do stay softer and don't come through as expected, then what's the delta that still gives you comfort that you can get to those numbers? And I guess thinking about that in the context of this year's guidance is now, I think, slightly below where you were pre-COVID at the group PBT level.

And then a fourth question, just a quick one, with the narrowing and slight lowering of that guidance range today, does that put any more pressure on the board to consider some of the bids that have been rumoured to have come through for Halfords? That's the four questions. Thanks.

Graham Stapleton: Thanks, Adam, for your questions. I don't know, do you want to talk first about the impact of the national minimum wage?

Jo Hartley: Yes, certainly. So, the announcement last week on national minimum wage clearly has a significant impact on us looking forward into FY '25. The total year-on-year wage inflation we're anticipating is around £13 million. However, we'd assumed around £8 million of that in the Capital Market Day projections, so the additional headwind is £5 million as a result of last week's announcements.

Graham Stapleton: I'll try and pick up some of the other questions for you, Adam, as well. So, we don't disclose what the trading numbers are in the most recent weeks. What I would say is that we've had a successful set of Black Friday deals that have gone out. We're pleased with the performance on the Black Friday deals that we've done, albeit we are still in the process of finishing that Black Friday promotional campaign. It goes on through the whole of this week, so we'll have to see how that pans across the week.

I think what I would say is, where we're providing great value for customers, customers are responding, and the needs-based part of our business, which is obviously much bigger than it used to be, is proving very resilient, both in consumer and in B2B, and we expect that to continue not just in the run-up towards Christmas but into next calendar year as well.

In terms of, I think your third question, which is what happens if the tougher markets in discretionary areas carry on? I mean, we will obviously adapt our offer. We'll keep taking more cost and efficiency out, becoming more effective, and grow the needs-based parts of our business, so we offset as much as we can of any discretionary headwinds that we see. It's very, very difficult to say exactly how this will pan out. We've had a very volatile first half. We've had good months in the first half, where we've actually seen discretionary spend grow, and we've had poorer months. And therefore, it's very difficult to say what that will look like over a number of years.

What I am confident is that the strategy that we have got is very much more focused on needs-based spend and consumer, it's very much focused on B2B, and we think we've got a great position on how we take as much share out of the discretionary parts of the market to ensure, when these markets do come back, we will bounce back very strongly and get an even bigger uptick. So, that would be my answer on that.

In terms of narrowing the guidance range, what's the position of the board on options? What I would say there, very simply, is the board always looks at its number one priority, which is to maximise shareholder value. We're confident we can do that through the CMD, but if of course there are options that mean we can see even greater value than we will deliver through the CMD, of course we'll consider them, and we have advisors around us to help us make those decisions.

Adam Thompson: Okay. That's very helpful. Thanks a lot.

Operator: Thank you. And we're now moving on to a question from Jonathan Pritchard of Peel Hunt. Please go ahead.

Jonathan Pritchard: Thanks, and good morning. Three for me. Firstly on Fusion, that sounds quite exciting, but 10 stores in the second half, could we expect to see that really kick on in FY '25? Or is there some sort of... You did talk about very specific geographical constraints, so how many could that be perhaps in the FY '25, now things have clicked for Halifax?

Incoming calls into Avayler since Bridgestone, has that picked up? Has that been a proof of concept to a degree? Has Avayler seen more incoming to the sales team?

And just a little bit on the Motor Club, a bit more detail on the premium doing a bit better. I think you talked about doing it at till, but has there been any bells and whistles on the offer that have helped?

Graham Stapleton: Yeah. Okay. I'll try and pick those up, Jonathan. Thanks very much for your questions. Firstly, in terms of Fusion, we're not just pleased with Halifax. The garages in Colchester actually have seen an even bigger EBITDA growth. They're at, I think, on average 19%. So, the three garages with obviously the supporting retail stores in those towns, they've all done very, very well, and that's why we're very confident in delivering the additional 10. Of course there is definitely, in an estate of nearly 600 garages, there will be more opportunities than just that. We are probably looking at circa another 40 garages and retail store car parks for FY '25. We're still in the process of scoping that. We obviously want to see how the 10 towns do as well in the second half of this year, but it could be as much as that in FY '25, and obviously we'll keep you posted on the results.

In terms of Avayler, yes, absolutely. The deal that we've done with Bridgestone has definitely sparked interest. We have had incoming from big brands, not just in the US, but around the globe. We have a very strong pipeline of clients in that business, and our focus will be on obviously converting them, but also in making sure that the existing contracts are fully optimised and delivered. That's another big focus for the team.

In terms of the last question, which is the Motoring Club detail on premium, we now have over £200,000 premium members in the club. It is now, I think, every week we are getting a record number of premium members signing up. We haven't materially changed the offer. The most important change is we've made it much easier for colleagues to sign customers up at the till point. And the easier we make things for colleagues, the better results we get. It's as simple as that. But we think we'll definitely beat the targets that we've set on sign-up for premium subscription going forward, and it's a very, very important part of the club, not just in terms of revenue generation, but the behaviors of premium members are different and better.

Jonathan Pritchard: Great. Thanks very much.

Graham Stapleton: Thanks, Jonathan.

Operator: Thank you. And as a brief reminder, that is star one for your questions today. And up next we have Manjari Dhar of RBC. Please go ahead.

Manjari Dhar: Morning, guys. Thanks for taking my question. I just had two, if I could. The first is on cycling market and pricing impacts. Obviously you talked a lot about consolidation in the market. Has there been a lot of clearance stock coming into the market which has impacted you guys? And has that changed how you thought about pricing in the period? And my second question is on the fleet services business, just how much more capacity is there in the health of the ecosystem for more nationwide contracts, and how many could you guys take on in the medium term?

Graham Stapleton: Thanks, Manjari. Some good questions. I'll try and take those. So, in terms of the cycling market, yes, as we've said, we are seeing quite significant consolidation, as a combination of overstocks coming into the market post-COVID, as deliveries were later, at the same time as demand came off, and obviously a consequence of the cost of living crisis where customers are being more considered on big ticket discretionary spend. It has meant that we've had to become a bit sharper on pricing, albeit not much more than we originally forecast. We've seen a little bit of margin dilution, but that is what we expected in this year. And I think we would say that we're pretty much on track in terms of our price investment to that that we thought we would make. We've taken significant share. I think we've taken pretty much the share growth that we said we would take in the entire mid-term in the first half, at just under 2% more additional share.

Our cycling business as well, it is just 2.8% negative like for like, for the first half, so it's not even a disastrous sales number, I think. If we keep giving customers great value and the innovation that the team are delivering as well through Boardman, electric, and the premium offer, then I think we'll be in a good place. But we are going to have to remain competitive to maintain and grow our share in a consolidated market. But the benefits coming out will be significant, because we'll bounce back with a much bigger share.

In terms of fleet services, we have got more capacity both in our consumer garages, where we manage some fleet contracts, and in the commercial garages that we have too. We haven't given, I think, a capacity number before, and I don't think we're going to do today, but it's partly why we have acquired the garages that we have over the last few years, both in the commercial space and in the consumer space, is to manage these fleet customers more effectively and nationwide. So, plenty of capacity to grow and a good pipeline.

Operator: Thank you. And up next we have Kate Calvert from Investec. Please go ahead.

Kate Calvert: Morning, everyone. Two questions from me. The first question is really about, as you go into next financial year, what is the opportunity to take out further costs in retail? Is there a lot more you can do on rent, for example? And the second question is just on the consumer tyre downturn at the moment. Could you just remind us where we are through the downturn versus history, and how much you think is being driven by people delaying, and extending out tyre replacement, or how much is still being driven by less miles being driven versus pre-COVID levels? Thank you.

Graham Stapleton: Yeah. Do you want to pick up the...

Jo Hartley: Yeah, shall I pick up the one on removing cost from retail? So look, Kate, our cost and efficiency program continues, and at the CMD we laid out I think £46 million of cost and efficiency savings over the midterm, of which £30 million will deliver within FY '24. The biggest part of cost and efficiency that will continue with strength into next year is our costs of goods for resale reduction program that's been externally supported, our better buying program, if you like, where we expect to continue to see very significant savings into FY '25 and beyond. Because of our stock turn, it obviously takes a bit of time for all the benefits we're realising this year to actually materialise into better margins in the year ahead.

We do also expect to continue to see further savings within retail from property costs, as we've had a very successful program over many years of reducing retail rents when they come up for renewal, and we always have ongoing programs around how we can drive better efficiency through our garages and retail business. So in short, yes, you should expect to continue to see cost savings as we move forward.

Graham Stapleton: Yeah. The build on property cost savings I give there is, we have 63 leases up for renewal in FY '25, so actually more than this year, and obviously we have a fairly low average lease length of just around three years. So, we've got a lot of flexibility there to make changes. We'll be closing seven/eight retail stores in this financial year as well, which is in line with the Circa50 that we said we would do in the mid to long term. So we keep looking at every site accordingly. In terms of consumer market, consumer tyre market and the downturn there, we think it's primarily the delay now to essential maintenance that's causing the challenges not necessarily as much miles traveled. Miles traveled is a little lower in terms of where it was pre-COVID, but we think it's mostly the delay of essential maintenance because of the cost of living crisis. We've said, I think in the presentation today, and we've talked as well about this at length from a PR perspective, there is evidence that some customers are driving with illegal tyres. We've said we think it's probably one in four cars now has an illegal tyre or two on them.

We're certainly seeing a lot more cars coming in to us for an MOT with tyres that are below the minimum tread depth and would fail the MOT accordingly. We've also seen that the secondhand tyre market, the retread market, that is still quite big and certainly the interest in that market has spiked as customers moved out of COVID into a cost of living crisis and that's about 10% of the tyre volume in the market at the moment. So customers' tyres aren't cheap. We're obviously providing customers with the very best options to buy in terms of both never beaten on price on fitted tyres, but also buying now pay later and other value options. But obviously, the market overall is not recovering as quickly as we would've liked to have seen, or believe we should have seen yet.

Kate Calvert: Great. Thanks so much.

Operator: Thank you. I'm now moving to a question from Matthew McEachran from Singer Capital Markets. Please go ahead.

Matthew McEachran: Thanks and good morning. I think my question on the cycling markets and some sales, I think that's been answered. So, just one remaining question, just relates to your market share gains. Clearly some very good performance in retail motoring. Within services, it feels like you're tracking in line with plan, but there's a lot of initiatives there which are still bedding in. So, I'm just wondering, as we look forward into the second half and particularly into next year, with things like fusion and your Autocentre utilisation rates improving, is it feasible that the trajectory on market share wins is going to lift you beyond what you've just reported today in those two sections of the business? Understand that the other two parts of the market are weaker than expected, but that's the question, really relates to where you are really starting to gain extra market share and the trajectory of that.

Graham Stapleton: Yeah. Thanks for your question there Matthew. Absolutely, our intention would be to beat. We are spending a lot of time optimising the garage services business and as you say, we're seeing some very good success in the fusion towns that we're going to try and capitalise on. So as we get better at optimising and working with our garages, we're also reviewing our tyre supply chain as well at the moment. There could be more value to unlock and we will certainly be internally aiming to beat the market share growth targets for services and tyres.

Matthew McEachran: When you mentioned the Fusion results, you talked about outstanding performance and you cited a couple of examples. Halifax moving to number 2 in the list from 200. Could you just give us some sort of quantum in terms of sales uplift for that that has delivered?

Graham Stapleton: I can give you, I don't know how much detail-

Matthew McEachran: Or just approximately.

Graham Stapleton: Well, I can give you the profit uplift, which was about nine times from memory, about eight to nine times in increase in profit in that garage, in terms of Sterling Quantum.

We can come back on the sales side as well, but it is absolutely enormous the growth that we're seeing in these businesses. So as Jonathan said, we're very excited and if you remember, fusion was very much part of the longer term plan at the CMD and we are deciding to accelerate that much more quickly because of the results that we're seeing. What we've found over the last year, the growth has really increased, and I think that's probably the thing to say is we've been surprised at how the growth has increased over the last 12 months and we think that's partly because the customer experience is significantly better. We're retaining more customers and equally, colleagues enjoy working in these environments more than a garage that's obviously had little investment. So, that coupled with the operating model change, it all comes together and it means that you just get better customer attention and more value per customer from the investments that we're making. So hence the 10 straight away in H2 and maybe 40 or more next year.

Matthew McEachran: Thanks. You mentioned staff retention, which was the other piece of market share trajectory piece I was going to ask about. So, you have flagged it in the R&S today about technician recruitment and technician retention. Can you just elaborate a little bit more as to where you think you can get to by the end of the year? Because you reduced, I think your targets, didn't you? Are you going to be able to restore some growth versus that original target?

Graham Stapleton: Yeah. Our focus as we set up CMD really has moved to utilisation and there, the target is 10%, we're at seven at the moment, so there's a bit of opportunity to improve that further. We've got the best labour turnover we've had for 19 months. We are seeing better retention in most months of the first half. We've recruited well over 500 technicians already as well in the first half of the year and we put an enormous amount of investment into recruitment and the support for the field teams, and we've got a lot more initiatives and ideas to build on that and make it even better because obviously, the more optimal our colleagues are in garages, the better for customers and shareholders. So we are fully focused. The number one priority for this business in the second half is the garage services transformation and further optimisation. That's what all of my leadership team are focused on because we do think there's a lot more value there.

Matthew McEachran: That's great. Thank you very much.

Graham Stapleton: Thanks Matthew.

Operator: Thank you. And I'd now like to hand the call over to Scott for any questions from the webcast.

Moderator: A number of questions from the webcast. First question is from Georgia Pettman from Panmure Gordon. Within the B2B environment, what are the opportunities to grow revenues given it's less discretionary? There are further questions, but I'll go one by one to make it more convenient.

Graham Stapleton: In B2B, there are some discretionary parts which actually we're doing very well in. So Cycle to Work is a really good example. We're the market leader in Cycle to Work. We've seen a very significant double-digit growth. I think 15% sales growth in Cycle to Work in the first half despite the fact that we've had a challenging cycling market. So Cycle to Work remains a big opportunity. The SME platform we've put in to enable SME customers to sign up more quickly and effectively will help. Of that, there's no doubt.

We also have a trade card business that's been doing very, very well as we've been growing our car parts business and our motoring retail business overall. And then obviously, the commercial fleet and fleet services parts of what we do in B2B still has enormous potential. We've only just really brought McConnechy's Universal and Lodge together. The lodge management team run that as a coordinated consolidated business unit and because it's now nationwide, there's an opportunity to talk and bring on board a much broader range of businesses like Yodel as we announced recently. There's a lot more we can do in that space. We have still got a relatively small market share, albeit the biggest share of commercial fleet services now in the UK.

Moderator: And further questions from Georgia, given performance in cycling versus broader market and previous commentary around the promotional backdrop stroke, not wanting to follow the market down on price. Could you speak more about this segment further? And then our final question is, any plans to add more margin accretive services in Autocentres?

Graham Stapleton: Yeah. So in terms of cycling, yes of course, we absolutely don't want to drive the market down. So, I think that's what we were really referring to, Georgia, is what we're not about is leading the market down into a price spiral. What of course we do have to do is ensure though that we are competitive enough to retain our share and meet the market share targets that we've set at the CMD and take the opportunity where it comes to play an active role in the consolidation of the market. So we get into a very much better place when things recover.

So, we're paying a very fine balance there between ensuring we invest enough on price to do that, but not too much to lose profit. And that's why as I've mentioned I think a bit earlier, where we position our business for margin investment is important and in that respect, our margin investment is pretty much on track to where we thought it would be on cycling as we knew there could be some consolidation that we set at the beginning of the financial year. And we'll just keep reviewing that as the opportunities and the market changes. But what we are not about is promoting the market down and leading the market down into a price spiral. Even though we're a market leader, that's not what we believe is the right thing to do at the moment.

In terms of the second question, which is around any additional services that we can add into our Autocentre business, yes, we're always looking to review that, not just in garages interestingly, but also on the vans that go to customer's houses or work to get work done. There is still opportunity there to extend the range of servicing because the car park continues to change, vehicles continue to change, what they need continues to change. So we will keep reviewing that and we'll keep adding services where applicable.

Moderator: Thank you. Next question is from Peter Testa from One Investments. He's got three questions. I'll do them individually. Were the accounting changes described one-off or did the application of the impact H1 results reported today, for example, the tire distribution agreement deemed to be a financial arrangement.

Jo Hartley: So the restatements that we described solely impacted FY23, we're confident in the robustness of the H1 '24 reported results. We were supported by a big four accountancy firm in ensuring their accuracy and our own auditors, as you would expect, have taken a very good look at that. The arrangement that we entered into is disclosed as a supplier financing arrangement in H1's results correctly and accurately. We still have that same arrangement, which was actually entered into because it's very beneficial for Halfords from a margin perspective, enabling us to access better cost prices from our suppliers.

Moderator: Wonderful, thank you. Also from Peter, can you be more specific on the year and year impact on gross margin estimated in H1 from FX Hedging and what would be the current hedge rates in 2025?

Jo Hartley: Okay, so we included in the presentation a bridge of retail margin that shows the impact of FX hedging year-on-year and shows that that had a 2.7% point negative impact on gross margin. That really reflects two things. Firstly, the fact that we saw a lower hedged FX rate in cost of goods sold in H1 '24 than that, which we saw in H1 '23. And secondly, the fact that in the first half of last year, we benefited from a one-off credit on FX instruments that did not qualify for hedge accounting of four and a half million. So the impact on gross margin was that 2.7 percentage point decline that you saw on the retail gross margin bridge. In terms of FY25, we expect to see a much lower year-on-year headwind, if any. The hedge rate for FY25 that we've got at the moment is 12354 and we've bought around forty-six percent of our currency requirement at that rate. So you'll see a similar year-on-year rate.

Moderator: Thank you. And also from Peter. Would you expect the price investment to be largely covered by purchasing and product costs driven savings that were described as something that would be continue to deliver for years to come?

Jo Hartley: I think it's more than covered by that. As we look forward, we've seen the annualisation in the first half of some price investment we made into motoring products last year. As we look forward into the second half, we won't see a year-on-year impact from that price investment going forward. And we will start to see more of those better buying benefits come through.

Moderator: Superb. Thank you. Well, no further questions at the moment, so Graham back to you for any closing remarks.

Graham Stapleton: Yeah. Well thanks very much indeed for joining us today and look forward to speaking to you again at the next set of results. Thank you.