FY24 Interim Results

Halfords Group PLC

29th November 2023

Agenda

H1 FY24 Financial Performance
Jo Hartley

Business & Strategic Update
Graham Stapleton

Outlook
Graham Stapleton

Q&A

H1 Overview – strong sales, profit and market share growth.

- Strong start to the year despite poor summer weather and Cycling and Tyre markets underperforming.
- Significant inflation negatively impacting gross margin. Focusing on what we can control:
  - ➢ Growing market share across all categories.
  - ➢ Strong delivery of cost and efficiency savings.
  - ➢ Strategic investments in Services delivering significant uplift in revenue and profit in Autocentres.
- Strategic shift to Services and B2B underpinning our strong performance. Spend in needs-based categories proving more resilient.
- Significant growth potential in Avayler, with Bridgestone commercial agreement adding material scale and endorsement for our SaaS business.

FINANCIAL PERFORMANCE

Jo Hartley

Basis of financial information

- Covers the 26-week period from 1 April 2023 to 29 September 2023
- All comparators are on a one-year basis.
- All figures are post IFRS 16 unless otherwise stated

The macro-economic backdrop remains difficult, but our strategic actions are mitigating the headwinds.

Macro-economic

- High Interest Rates & Inflation
- Utilities Inflation
- USD FX rate
- Consumer Confidence

Strategic Actions

- Cost & Efficiency
- Growing market share
- Improving Garage utilisation

Strong sales and profit growth despite inflationary headwinds and slower than expected market recovery. Very strong Autocentres performance.

Significant Group Revenue Growth

Group Total Revenue Growth YoY

+13.9%

Strong LFL Growth

Group LFL Growth YoY

+8.3%

Strong Underlying Profit Growth

Group PBT

£21.3m

(+15.8% YoY*)

Gross Margin Impacted by FX

Group Gross Margin

47.8%

(-210pts YoY*)

Costs Well Managed Despite Challenging Environment

Cost as % Revenue

44.6%

(-2.1pts YoY)

Strong performance in Autocentres

Underlying EBIT

£10.9m

(+£14.1m YoY*)

*H1 FY23 PBT restated to reflect adjustments relating to FX accounting and Cost of Goods Sold
See Note 20 to the Condensed Consolidated Interim Financial Statements for further detail.

Strong and profitable sales growth with costs well controlled.

	H1 24	vs H1 23*
Revenue	**£873.5m**	+£106.4m +13.9%
Gross margin (%)	**47.8%**	(210)bps
Costs	**(£389.7)m**	(31.0)m +8.6%
Underlying EBITDA	**£90.9m**	+£9.5m +11.7%
Underlying EBIT	**£27.6m**	+£3.8m +16.0%
Interest	**(£6.3)m**	+£0.9m +16.7%
Underlying PBT	**£21.3m**	(£2.9)m +15.8%

- **Vs FY23** – Strong revenue growth, with LFL growth of 8.3%, driven by Retail Motoring and Autocentres.
- **Vs FY23** - Retail margin down 330bps reflecting FX and inflation in COGS; Autocentres down 60bps* driven by higher proportion of lower margin tyres following acquisition of Lodge Tyre in October 2022.
- **Vs FY23** - Costs well managed, with cost to sales ratio down 2.2ppts

*H1 FY23 PBT restated to reflect adjustments relating to FX accounting and Cost of Goods Sold.
See Note 20 to the Condensed Consolidated Interim Financial Statements for further detail.

H1 Prior Period Restatement of Underlying PBT of -£10.6m. FY23 Impact -£7.3m. No impact on FY23 cash or Mid-Term CMD targets.

	H1			Full Year		
Prior Period Restatement (FY23)	**Retail**	**Autocentres**	**Group***	**Retail**	**Autocentres**	**Group***
H1 FY23 Reported PBT	£34.8m	£2.0m	**£29.0m**	£58.6m	£10.4m	**£51.5m**
FX accounting adjustment	(£5.4)m		**(£5.4)m**	£0m		**£0m**
Supplier arrangements & GRNI reconciliation adjustment		(£5.2)m	**(£5.2)m**		(£7.3)m	**(£7.3)m**
Total Adjustment			**(£10.6)m**			**(£7.3)m**
FY23 Restated PBT	**£29.4m**	**(£3.2)m**	**£18.4m**	£58.6m	£3.1m	**£44.2m**

- Retail: FX accounting on hedged derivative instruments and inventory valuation. H1 FY23 adjustment reducing profit by (£5.4)m fully offset by H2 23 adjustment increasing profit by £5.4m, such that there is no change to FY23 full year profit.
- Autocentres: GRNI* reconciliation adjustment resulting in an increase to Cost of Sales of (£5.2)m in H1 FY23 and (£7.3)m for the FY23 full year. Reporting error driven by the accounting complexity of a new wholesale tyre purchase and distribution arrangement in FY23, and the significant growth of purchases, inventory holding, and intercompany transactions in the enlarged Autocentres Group.
- Appropriate steps have been taken to gain assurance over the FY24 reported results, with enhancements made to processes and controls.

*Goods received not invoiced

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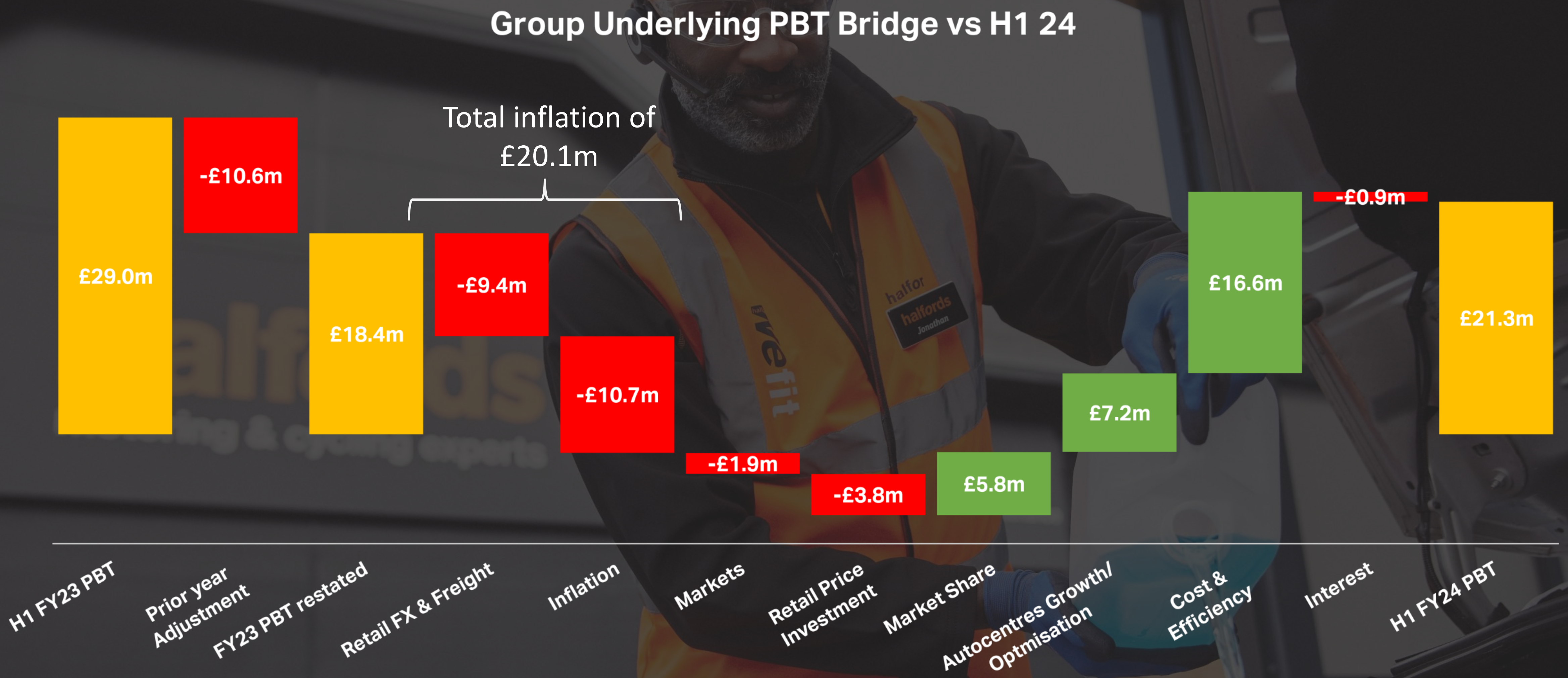
Despite £20m of inflation we have grown underlying profit before tax by 15.8%



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£20m of inflation has impacted H1 FY24, broadly in line with expectations.

FX Rate
Average exchange rate through COGS $1.26

Utilities
Utilities costs have doubled

Pay
National Minimum Wage (NMW) increases of 10%

Freight
YOY cost savings of £4m

Our FY23 FX and energy hedging policy postponed inflation , which is now being seen in FY24.

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£16.6m of cost & efficiency savings delivered in H1 - higher than expected, due to earlier phasing of better buying benefits.

Product Cost Reduction

c.£5.9m savings

Outsourcing / Organisational Structure

c.£4.0m savings

Property & Warehousing Savings

c.£3.0m savings

"Goods Not For Resale" Reduction

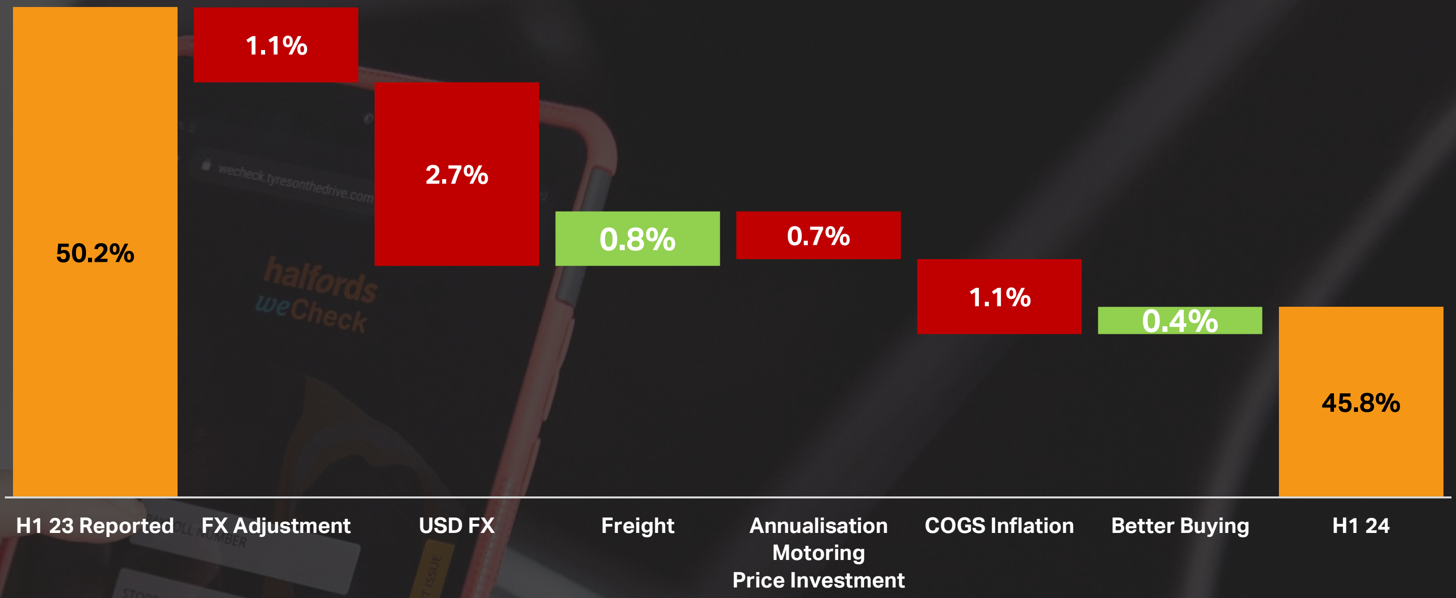
c.£2.5m savings

RETAIL

In Retail, strong revenue growth through market share across needs-based motoring products, helping to mitigate the impacts of FX and market declines across discretionary products.

	HY 24	vs. H1 23
Revenue	**£516.6m**	+3.2% YoY +4.1% LFL
Motoring	***£323.9m***	*+7.9% YoY* *+8.2% LFL*
Cycling	***£192.3m***	*(3.1)% YoY* *(2.8)% LFL*
Gross Margin %	**45.8%**	(330)bps* YoY
Operating Costs	**£217.3m**	+0.4% YoY
Underlying EBIT	**£19.6m**	(33.3)% YoY

Gross Margin Bridge – year-on-year



- Prior period restatement of FX accounting for (110)bps vs FY23 reported GM%.
- Gross Profit down £9.1m. Weaker USD hedged rates accounting for c£13m, diluting GM% by (270)bps.
- Annualisation of Motoring price investment (-70bps) has driven strong volume growth and contributed to increased market share.
- Cost of Goods inflation from FY23 continuing to flow through margin due to stock turn.

*H1 FY23 PBT restated to reflect adjustments relating to FX accounting and Cost of Goods Sold. See Note 20 to the Condensed Consolidated Interim Financial Statements for further detail.

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AUTOCENTRES GROUP

Very strong profit growth due to market share growth and focus on optimisation.

	H1 24	vs. H1 23*
Revenue	**£356.9m**	+33.9% YoY +18.0% LFL
Gross Margin %	**50.6%**	(60)bps YoY*
Operating Costs	**£169.5m**	+21.2% YoY
Underlying EBIT	**£10.9m**	+£14.1m YoY

Autocentres EBIT Bridge

- Strong revenue and gross profit growth driven by acquisitions as well as the LFL business through resilient market performance and growth in share.
- GM% decline a result of Lodge Tyre acquisition, with higher sales mix of lower margin tyres, stabilising through H2.
- Operating cost growth lower than sales growth despite significant inflationary headwinds.
- Significant growth in EBIT as we optimise acquisitions.

*H1 FY23 PBT restated to reflect adjustments relating to FX accounting and Cost of Goods Sold.
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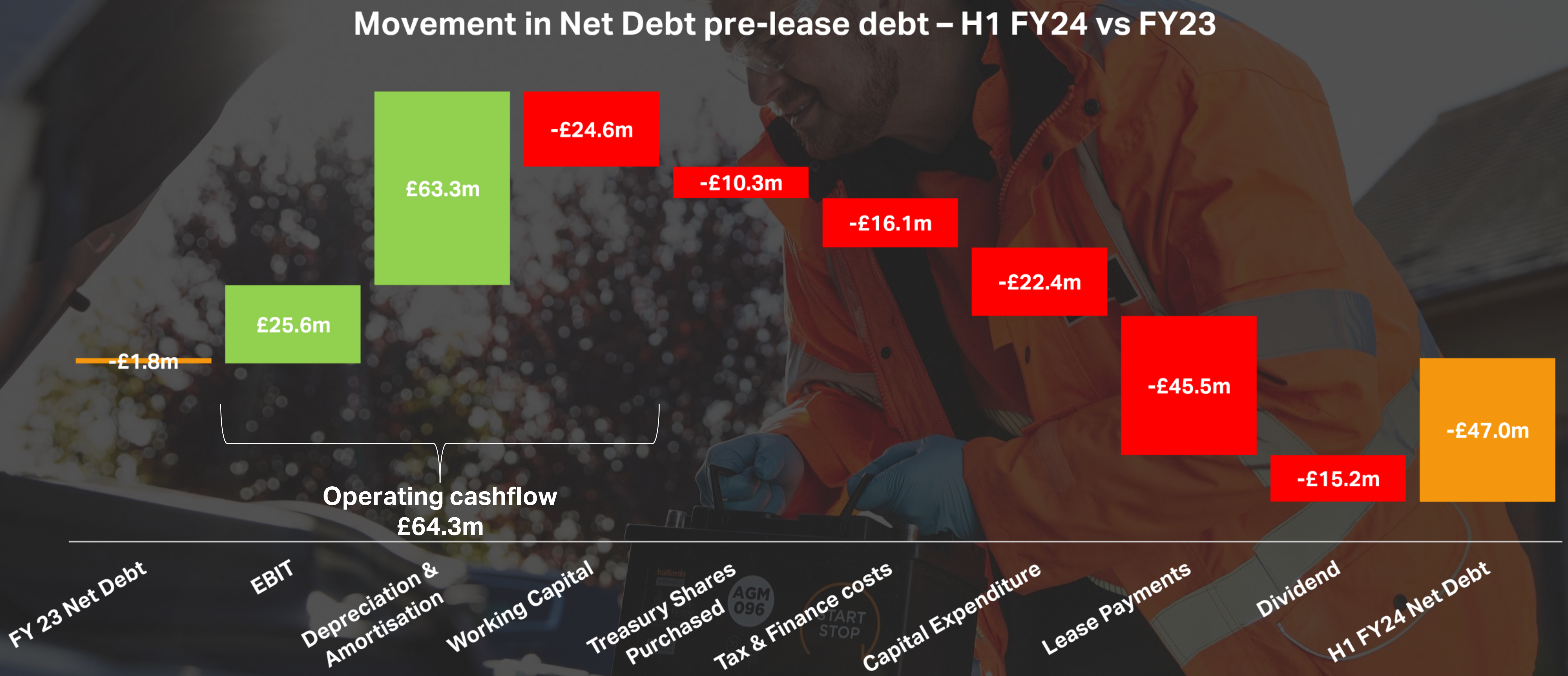
CASH & BALANCE SHEET

Net debt elevated due to working capital outflow; expected to normalise through H2.



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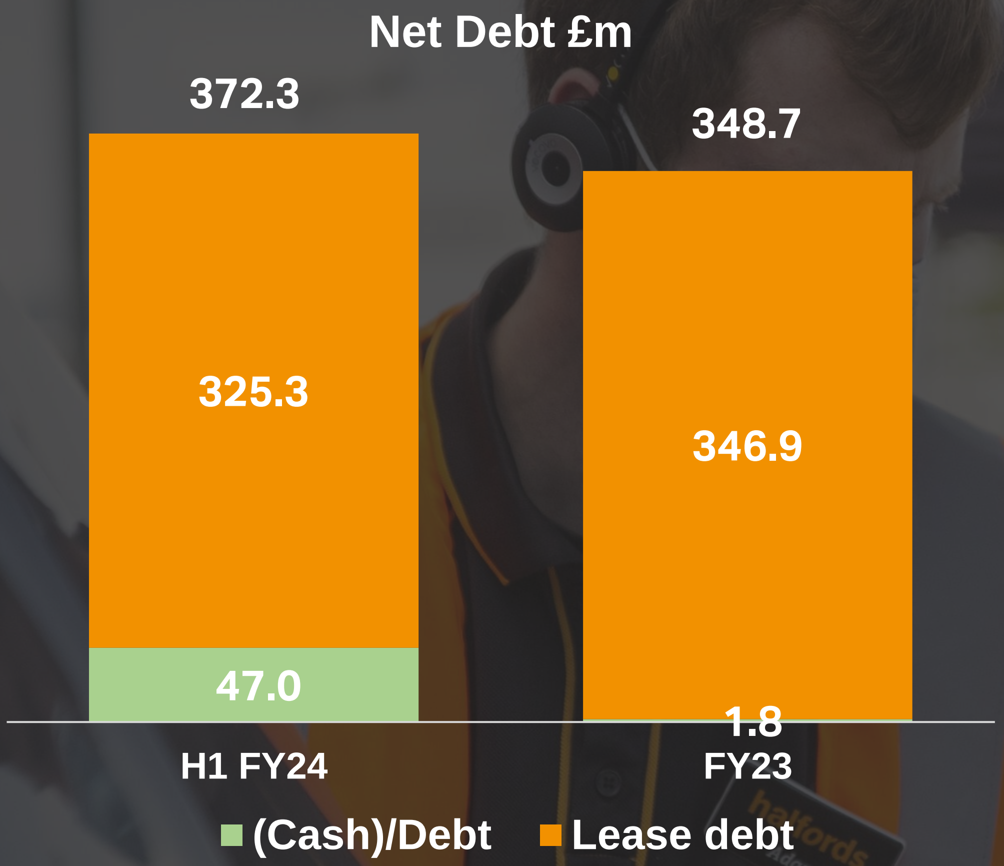
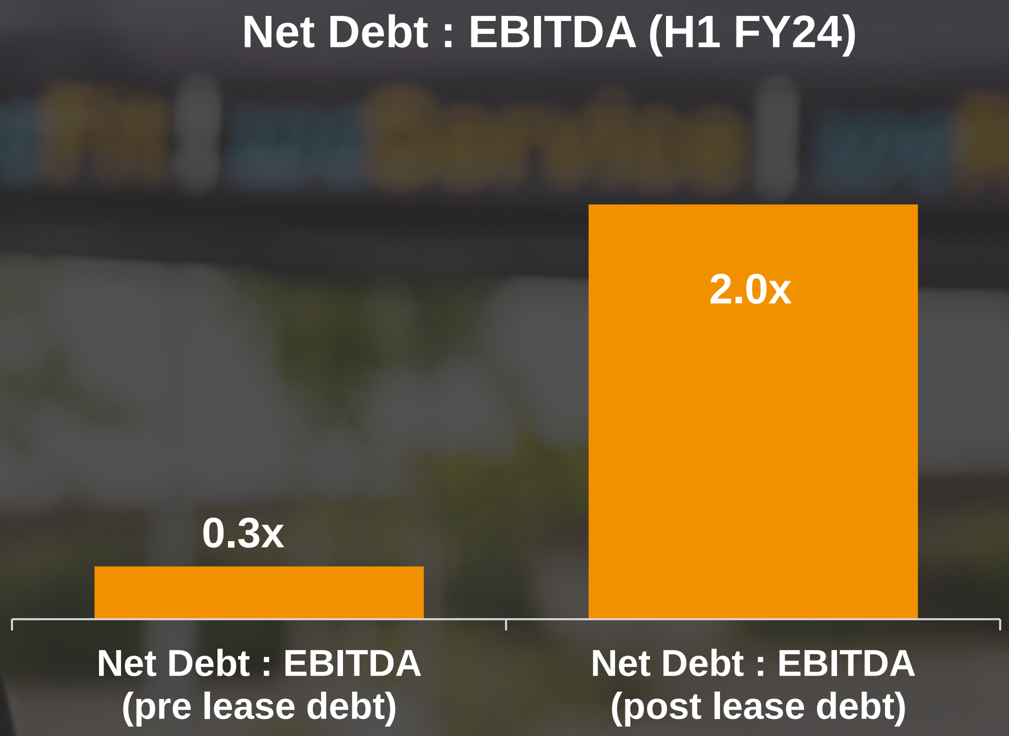
Net debt excluding lease debt of £47.0m. Leverage including lease debt within guided range.





- Net debt (post lease debt) : EBITDA ratio within targeted range of 1.8x – 2.3x (post M&A).
- £180m debt facility (inclusive of a £20m overdraft) which has been extended until December 2025.

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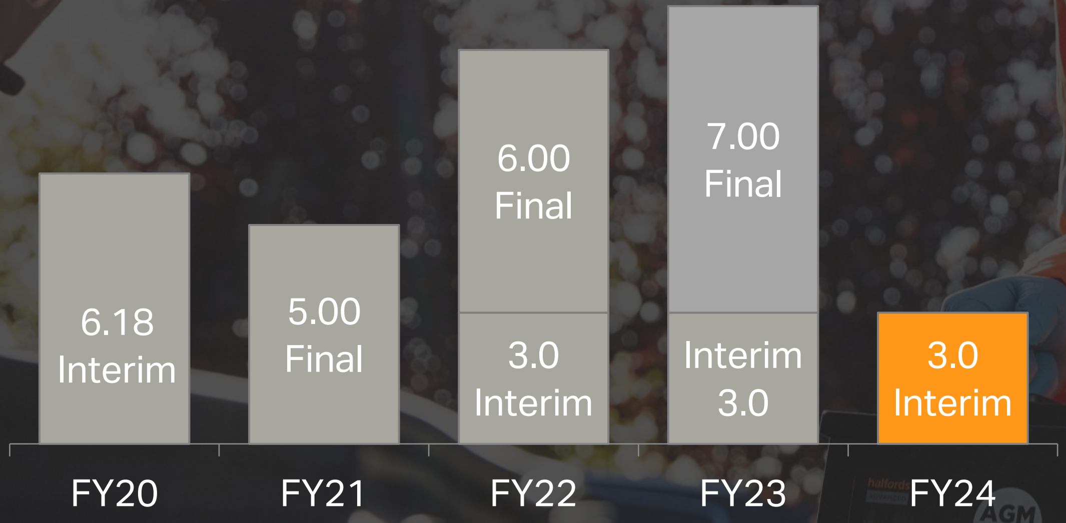
Proposed interim dividend of 3p per share.

Dividend per share



Capital Allocation Priorities

- Maintaining a prudent balance sheet
- Investment for growth
- M&A focused on Autocentres
- Dividend covered by 1.5x – 2.5x underlying P.A.T.
- Surplus cash returned to shareholders

H1 FY24 Summary: Resilient results, against a continuing challenging backdrop.

1. £21.3m of PBT delivered, *in line with expectations* despite over £20m of year-on-year market and inflationary headwinds.

2. Significant revenue growth of +13.9% year-on-year and LFL growth at +8.3% with increased market share across all key categories by *supporting customers through the cost-of-living crisis*.

3. Strategic investments now delivering *significant revenue and profit growth* in Autocentres.

4. Over £16m of cost savings delivered, *and confident on delivering our £30m target for FY24.*

5. *Cash and working capital well controlled*, resulting in net debt on the balance sheet at c.£47m, and retail stock volumes below last year despite very volatile trading environment.

6. *Interim dividend* of 3p per share confirmed, reflecting confidence in medium term strategy described at our CMD.

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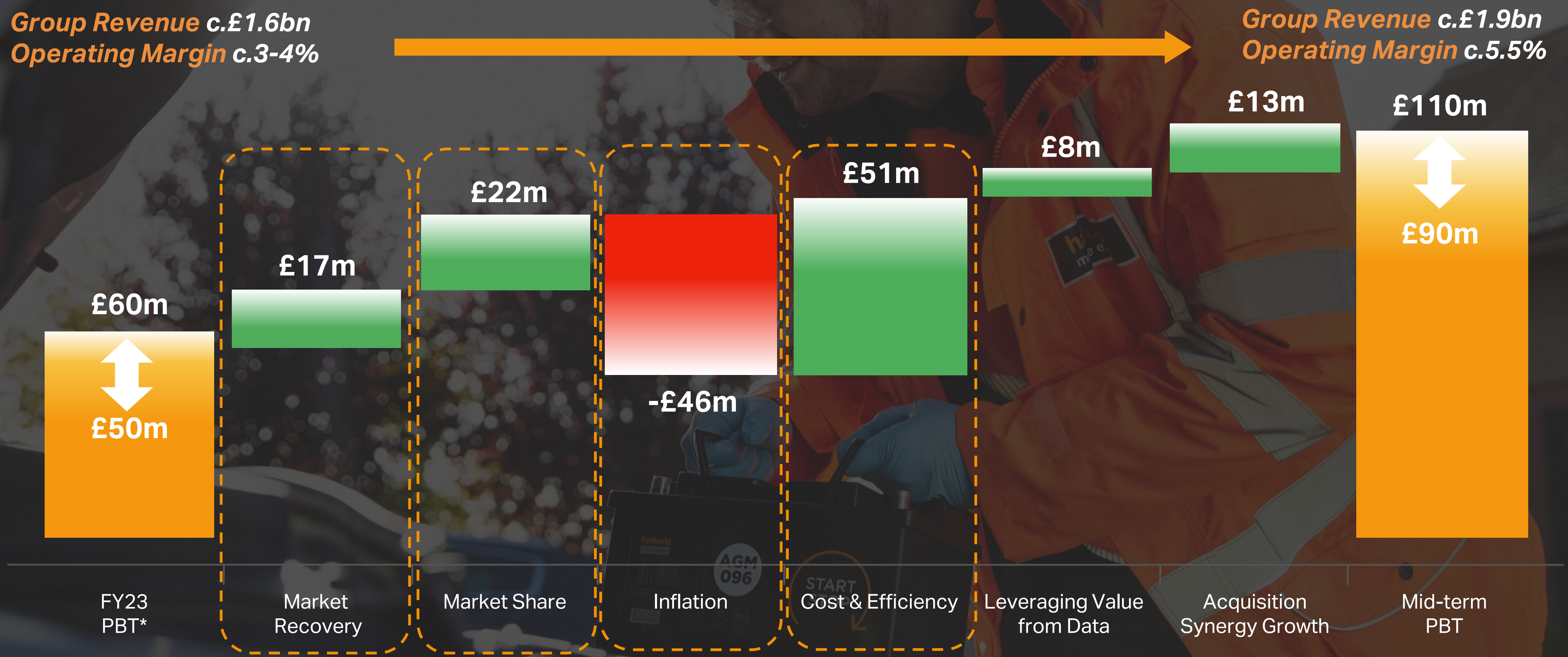
BUSINESS & STRATEGIC UPDATE

Graham Stapleton

*"To fully **leverage** our unique, digital and data-enabled omnichannel **platform**, driving **improved financial returns**."*

At our Capital Markets Day, we outlined a plan to get £90-110m PBT in the mid-term. Market recovery, share, cost inflation, and efficiency were the most material moving parts.

Group PBT Bridge - FY23 to mid-term



*FY23 as per guidance at 18th April 2023 Capital Markets Day

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Market Volumes

We expected most of our main markets to begin recovery through FY24.

	Retail		Autocentres	
	Retail Motoring	Cycling	Consumer Tyres	Motoring Servicing
Growth Assumed Year 1 FY24 vs FY23	↑ c.+0.5%	↓ c.-1%	↑ c.+2.6%	→ Broadly flat

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Macro-economic impacts in H1 have resulted in markets underperforming.

	Retail		***Autocentres***	
	Retail Motoring	**Cycling**	**Consumer Tyres**	**Motoring Servicing**
Growth Assumed Year 1 FY24 vs FY23	c.+0.5%	c.-1%	c.+2.6%	Broadly flat
Market Volume movement – H1 YOY	+0.9%	-5.8%	-0.2%	+3.5%

Sources: Market Volume data: Retail Motoring, GFK; Cycling, Bicycling Association; Consumer Tyres, GFK; Motor Servicing – MOT data from DVLA: All data for 6 months to end September 2023. Growth forecast provided by these third-party data providers.

Market Share

We remain confident in our ability to grow share across all markets.

	Halfords Retail		***Autocentres***	
	Retail Motoring	**Cycling**	**Consumer Tyres**	**Motoring Servicing**
Share expectation year 1 FY24 vs FY23	c.+0.6ppts YOY	c.+0.7ppts YOY	c.+0.2ppts YOY	+0.2ppts YOY

Market Share

We are growing share across all four core markets.

	Halfords Retail		*Autocentres*	
	Retail Motoring	**Cycling**	**Consumer Tyres**	**Motoring Servicing**
Share expectation year 1 FY24 vs FY23	c.+0.6ppts YOY	c.+0.7ppts YOY	c.+0.2ppts YOY	+0.2ppts YOY
Share Movement H1 YOY	c.+3.8ppts YOY	c.+1.8ppts YOY	c.+0.4ppts YOY	est.+0.2ppts YOY

Sources: Market share data: Retail Motoring, GFK; Cycling, Bicycling Association; Consumer Tyres, GFK; Motor Servicing – MOT data from DVLA: All data for 6 months to end September 2023.

Extended range and product innovation driving growth.

Car Parts Revenue Growth YoY

+400%

World's first Smart Dash Cam

- Video-monitoring and AI-powered sensing technology.
- National exclusivity through 2023.

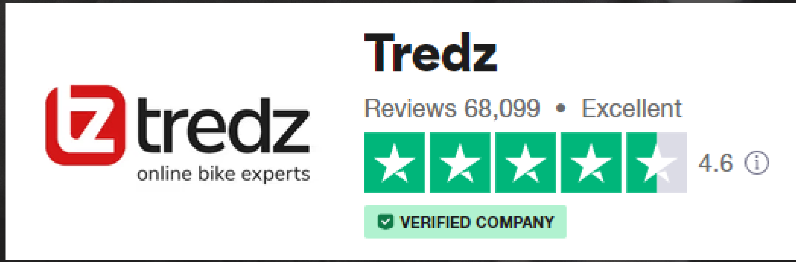
Own Brand Child Seats

- Latest Safety Legislation.
- Recycled Fabrics.

Innovation and market consolidation presenting further opportunities for share growth

- Considerable market consolidation across 35 large Independent Bike Dealers, 2 large chains, 2 Brands, 3 Distributors
- tredz well placed to take market share

Tredz Revenue Growth	Tredz Customer Awareness
+11% YoY	+30% YoY



Continued innovation in Halfords Retail Cycling offer

Boardman SLR 8.9 Di2

- Own brand road bike matching best in class specification.
- Market beating price.

Share growth driven by a focus on value and convenience

Value for money

- Never beaten on price promise and buy now pay later options
- Improved own brand budget tyre range
- Value for money score improved 4.6 points in H1

Convenience

- 20% of all customers opting for same day tyres in our National garages
- NPS of same day tyres +17pts above pre booked tyres
- Halfords Mobile Experts rated 4.8 on Trust Pilot

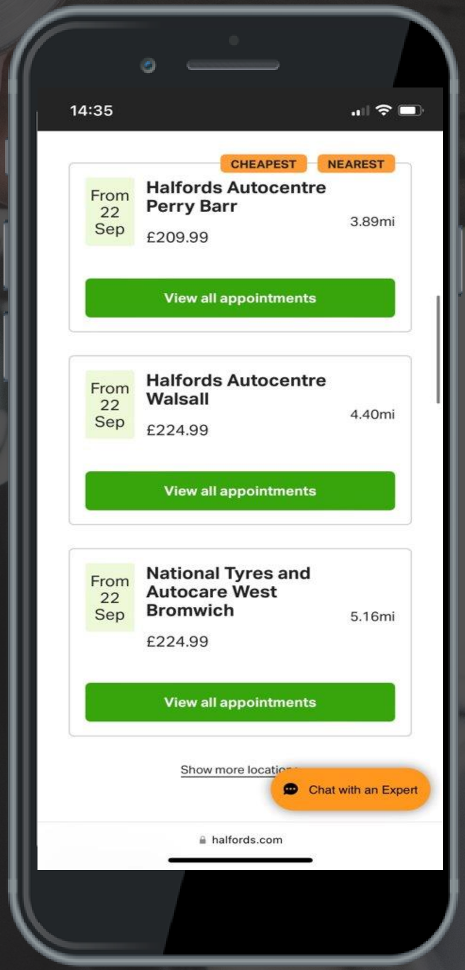
Dynamic pricing and better utilisation in our Autocentres business delivering profitable market share growth.

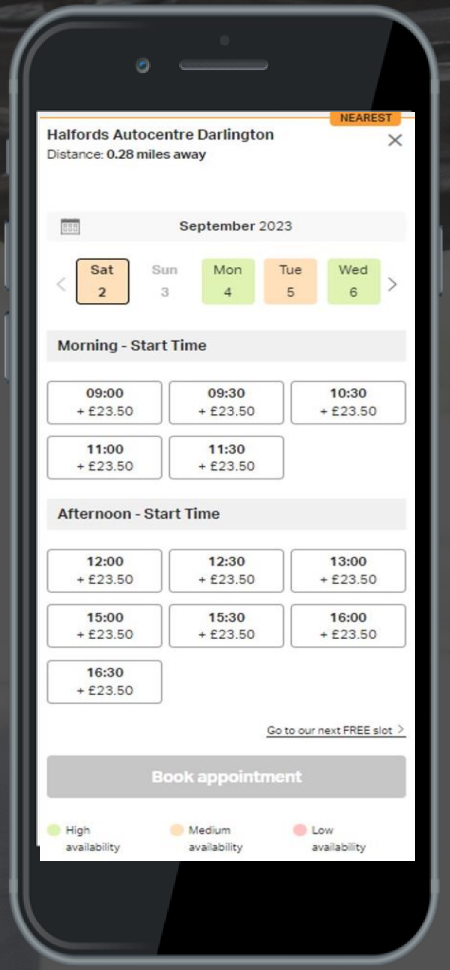
Better utilisation and improving returns

- Driving demand to under-utilised garages.
- Utilisation improved +7% in H1 versus our full year target of 10%.
- High margin incremental revenue from booking slot fees.
- Continued focus on recruitment and retention driving reduction in labour turnover.

Dynamic Pricing across MOT & Tyre services

- Customer choice based on quickest, nearest and best value.
- Improve margin per worked hour.





MID TO LONG-TERM STRATEGIC PROGRESS

- Consumer Motoring Services
- B2B

Our Motoring Loyalty Club now has c.3 million members.

40%
new to Halfords vs 31% LY

10%
In year Premium Mix

+81%
Breadth of shop versus non members

NPS +6pts
higher than non members

Cross Shop
>5x ahead of non members

Renewal rates
ahead of expectations

Our Fusion towns are generating outstanding financial results.

- In our trial Fusion towns- Colchester and Halifax, we have seen:
  - Our Halifax garage move from 200th to 2nd sales ranking across our garage estate
  - Sales performance across the garages **more than doubled versus** pre investment period
  - **EBITDA more than doubled**, and **profit % significantly higher than company average**
- 10 towns identified for investment in H2, implementing major changes to operating model in both the garages and retail car park.

Our B2B business is providing highly predictable recurring revenues.

cycle2work

- UK's largest Cycle2work provider
- Continuing to grow customer base and market share
- Launched new portal for SME customers

Commercial Fleet Services ('CFS')

- Acquisition of Lodge Tyre providing national coverage, attracting new customers
- Significant local authority contracts including Dudley, Coventry, Liverpool, Cheshire West, Nuneaton & Bedworth and services such as West Midlands Fire Service, Shropshire Fire & Rescue, and the Ministry of Defence.

DHL dpd EVRi YODEL

B2B
37%
of total group revenue

Cycle2work
+15% YoY
Sales in H1

CFS
+150% YoY
Revenue H1

Strategic Progress

Avayler our SaaS business offers customers a market leading omnichannel solution.

What is Avayler?

Avayler Is the **Automotive Software Platform** built By **Halfords** to run Its **Automotive Services**, now available to large aftermarket **Automotive businesses** in EMEA & USA

What do we do?

Build software that drives operational **efficiency** and **compliance**, delivering sales **growth** and amazing **customer** experiences in mobile, garage, and commercial businesses

BRIDGESTONE Solutions for your journey

Mobivia

tirebuyer driven by service.

ATD AMERICAN TIRE DISTRIBUTORS

Avayler and Bridgestone begin landmark 15-year Commercial Agreement.

Avayler | BRIDGESTONE Your Journey, Our Passion

Bridgestone is a powerful catalyst for US & worldwide Avayler growth:

- Significant **15-year commercial agreement** to implement our Avayler technology across **2000 US garages** and fleet of mobile vans
- Bridgestone acquired a 5% stake of Avayler for USD 3m
- **Global agreement** framework with huge potential
- Underpins automotive business growth trajectory set out at CMD in April 2023

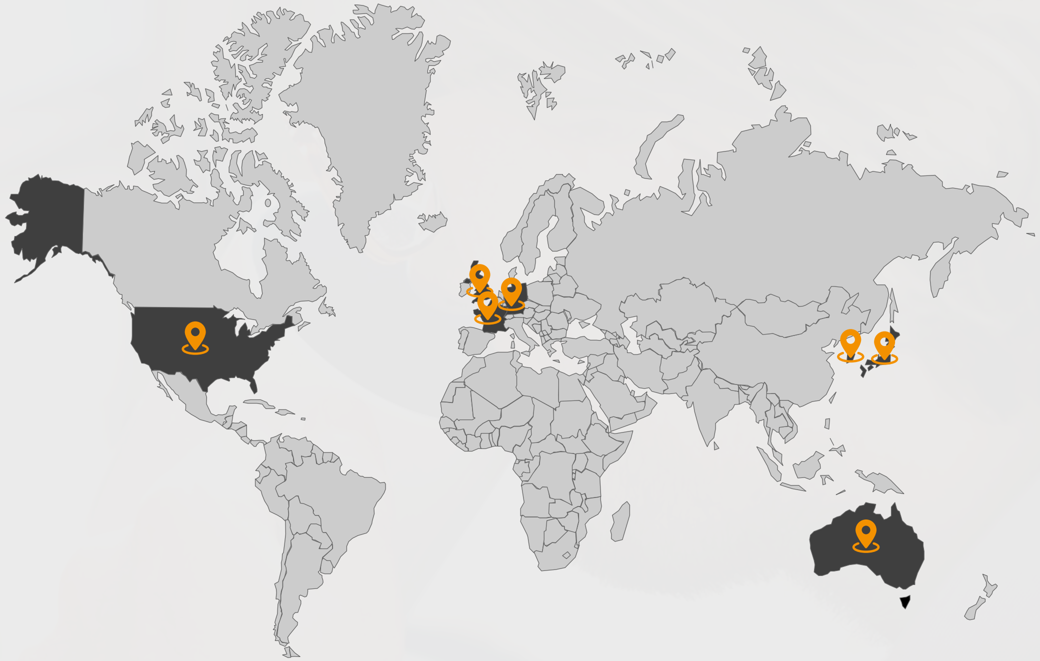
Strategic Progress

We have a significant contracted, global opportunity of over 100,000 garage services locations.

Mobivia	1,970 garage services locations across Europe
ATD American Tire Distributors / Tire Pros & Wheel Experts	80,000 garage services locations across the US
tirebuyer driven by service.	18,000 garage services locations across the US
Bridgestone	2,000 garage services locations across the US

Avayler

Global Opportunity



OUTLOOK & GUIDANCE

Graham Stapleton

Outlook & guidance

- B2B and needs based categories continue to show very strong growth.
- Trading in H1 has been volatile - some recent softening in high ticket discretionary spend.
- We continue to expect PBT to be weighted towards H2.
- Assuming trading conditions on average continue to reflect what we have seen year to date, we believe Underlying PBT will now fall within a narrower range of £48m to £53m.

Conclusion & summary

- Strong financial performance and good strategic progress in H1.
- Outstanding sales growth, with good market share and LFL growth.
- Cycling and tyre markets remain challenging, with no short-term improvement forecast.
- Strategic investments provide strong platform for growth, business well placed to succeed.
- Assuming markets recover in line with projections, we remain confident in our mid-term Underlying PBT target of £90-£110m, with profit growth expected in FY25.

Q&A

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Contact and Newsflow

For further information, please go to
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Next newsflow:
25 January 2024: FY24 Q3 trading update