

HALFORDS GROUP PLC
INVESTMENT CASE
JULY 2021

halfords

Market-leading business

We are the UK's largest retailer of motoring and cycling products and services, allowing us to drive benefits in procurement, innovation and customer offering. In car servicing, the market is highly fragmented with no clear leader – with 2% share we have significant opportunity for growth.

Building a services-focused business

In the medium-term, half of our business will be in Services – which are essential in their nature – meaning we are a more resilient business with higher customer retention, lower risk profile and stronger and more sustainable returns on capital.

Value-creating opportunities

Our strategy will see us develop into areas with good long-term growth prospects such as motoring services, B2B and electric mobility. We also have opportunities to significantly improve ROIC.

Cash generative business

The Group has always maintained a strong balance sheet and benefits from a cash generative business model, with good Free Cash Flow enabling investment in our plan and returns to shareholders.

Dividend returns

We recognise the importance of the dividend to our investors and have resumed the ordinary dividend, intending for this to be progressive. Should surplus cash remain it will be returned to shareholders.

Unique and differentiated products and services

Wide range of unique and differentiated products, with exclusive ranges and customer-led innovative products. Much of our Services proposition is also unique including, for example, on-demand fitting.

Convenient services proposition delivered in over 900 locations

We are the only business in the UK who can offer Motoring Services in a retail store, a garage, at home or at work, providing customers with unparalleled choice and convenience.

Strong omnichannel capabilities

Our business has a strong omnichannel customer proposition with high levels of Click & Collect driving footfall into stores and providing a unique advantage over online competitors.

Unique, technology driven proposition in our physical estate

Utilising market-leading and unique proprietary technology in our stores, garages and mobile vans, enabling our colleagues to deliver a best-in-class proposition.

Super-specialist expertise as a key differentiator

As a super-specialist, we have unmatched product and services expertise across both motoring and cycling, creating a significant barrier to entry for our generalist competitors, both online and offline.

Increase in motoring and cycling journeys

Continued avoidance of public transport will result in a larger number of consumers resorting to individual journeys by bike, car or scooter. The ongoing benefit of higher levels of ownership are accelerated by lockdown, particularly bikes

An ageing UK car parc

Recessionary environment will lead to consumers holding onto cars for longer. Combining this with an aversion to public transport, demand for car servicing for cars over 3 years old will increase.

Healthy living and climate change

An increased focus on healthy living and a greater conviction to tackle climate change will drive higher demand in bikes and electric modes of transport. Aversion to foreign travel and lower discretionary spend will mean a rise in staycations.

Further consolidation of our competitor set

With the financial challenges many businesses have been confronted with as a result of COVID-19, it is possible that there will be further consolidation of our competitor set.

Who we are

- UK's leading provider of motoring and cycling products and services
- Trusted brand with over 125 years of heritage
- Market leading brand awareness in our retail business
- Over 20 million customers visit us each year
- A large and growing Services and B2B business

FY21 financial highlights

£1.3bn

Revenue

+13.9%

Revenue growth

£96.3m

Profit Before Tax¹

5.0p

Full-year dividend

29%

Total Group revenue which is service-related

18%

Total Group revenue from B2B

1. Underlying profit before tax, pre-IFRS 16 adjustments

halfords
autocentre

374

Garages

www.halfords.com

halfords
» Mobile Expert »

143

Vans

www.halfords.com

halfords
retail

404

Retail Stores

www.halfords.com

tredz[®]

3

Performance
Cycling Stores

www.tredz.co.uk



	Retail Motoring		Autocentres	Cycling	
	Product	Services (retail)	Services	Product	Services
Market size*	£3.5bn	Significant**	£9.0bn	£2.0bn	£150m
Halfords' market share*	20-25%	High	3%	20-25%	8%
Market growth expectations					

With traditional markets in long-term decline, significant opportunity for innovative and differentiated products to be brought to market.

Halfords is a clear market leader in this market with no scaled competition and we expect this area to grow significantly alongside growth in the DIFM customer segment.

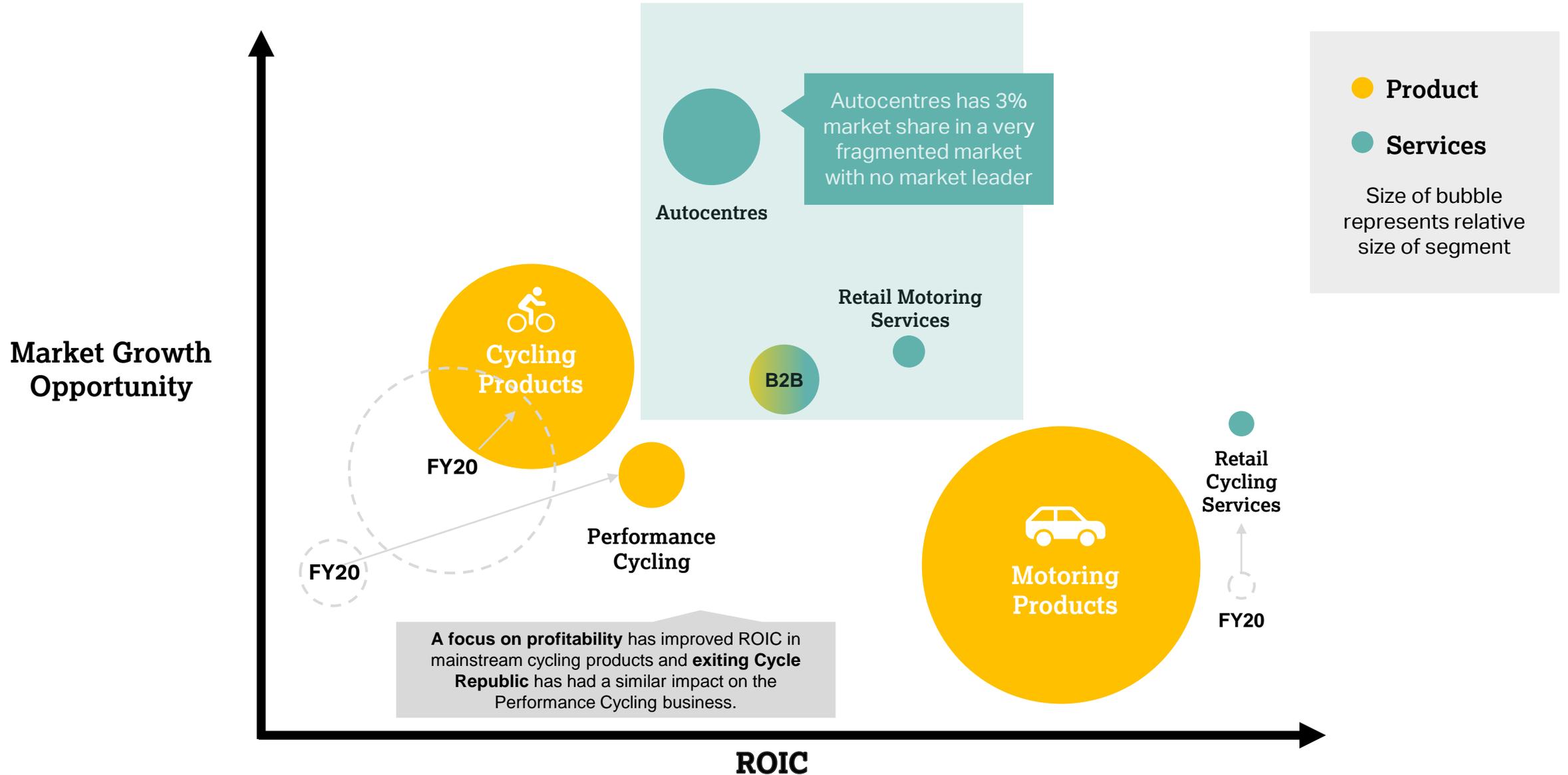
Increasing car complexity, accelerated by electric, is expected to drive growth in the services market, which remains highly fragmented with no clear market leader.

Growth of e-bikes and potentially e-scooters, has been, and will continue to be, a key market growth driver.

Higher bike ownership and the rise of electric mobility could rapidly accelerate growth in this market over the next few years, with Halfords well placed to lead this market.

* Halfords estimates based on all accessible market information, e.g. SMMT, Mintel, Supplier data

** Data on exact size of market is not available



Note: This graph is indicative only and bubbles are relative to each other

Source: Internal analysis, Companies House, Society of Motor Manufacturers and Trading

Macro trends

- **Global economic, political and health crises** leading to low levels of consumer confidence
- **Compliance driven cost inflation** – minimum wage increases, business rates, utilities
- **Increase in online competition**, from both generalists (Amazon, eBay) and specialists (Euro Car Parts, Wiggle)
- **Climate change** driving more extreme and variable weather conditions

Consumer trends

- DIY to DIFM
- Convenience
- Experiences > Product
- Sustainability
- Omnichannel shopping
- Less brand loyalty
- Personalisation
- From Owning to Using
- **Healthy living and exercise**

Industry trends

- Cars and parts lasting longer and becoming more complex
- E-mobility
- PCP participation increasing
- Connectivity of cars and bikes
- Increase in car and bike sharing schemes

1 Inspire our customers with a differentiated and super-specialist offer



2 Support our customers through an integrated, unique and more convenient services offer



3 Enable a **lifetime** of motoring and cycling



“Evolve into a consumer and B2B services-focused business, with a greater emphasis on motoring, generating higher and more sustainable financial returns.”

1 Inspire our customers with a differentiated and super-specialist offer

- Transition from a general-specialist to a super-specialist.
- Lead and differentiate our markets with customer-led innovation.
- Redefine and further differentiate our own label ranges.
- New customer experience in stores and garages, linking online and offline journeys.

2 Support our customers through an integrated, unique and more convenient services offer

- Offer convenience through an integrated and expanded 'on-demand' service proposition across stores, garages and mobile.
- Enhance the digital customer journey from booking through to service delivery.
- Enhance our unique position in E-bike servicing in retail stores and hybrid and electric vehicle servicing in our garages with the most fully trained technicians outside the dealer network.
- Increase awareness of Halfords services by leveraging the Halfords brand.

3 Enable a **lifetime** of motoring and cycling

- A more focused and targeted approach to loyalty at a Group level in order to optimise the lifetime value of our customers.
- Accelerating the development of our Customer Relationship Management ("CRM") programme, offering compelling reasons for our customers to return and shop across the Group.

Underpinned by:

Focus on **Cost and Efficiency**

- We have grown the profitability and returns of our core categories, particularly Cycling
- Strategic review of our supply chain and procurement costs

Investment in our **Colleagues**

- Continue to invest in the engagement and development of our colleagues, e.g. training colleagues to service electric vehicles, E-bikes and E-scooters

Our strategy was adjusted in FY21 in response to the extreme uncertainty caused by COVID-19. We focussed on building strong foundations from which to transform

1

Inspire our customers with a differentiated and super-specialist shopping offer

- Centralised customer contact from our 404 retail stores achieving a call answer rate of over 95%, despite a 4x increase in contact during the pandemic
- Over 160 customer enhancements to our Group website including; 'Email me when back in stock', Frequently bought with adding additional items to 20% of baskets, bookable bike slots, self-service portals and chatbots all helping to drive conversion.

2

Support our customers through an integrated, unique and more convenient services offer

- Increased the scale of our Halfords Mobile Expert to 143 vans, 14 hubs and over 250 technicians achieving +200% growth.
- Acquired Universal Tyres adding 20 garages and 89 vans to expand our commercial coverage. We now have over 180 commercial vans.
- Continued to invest in our Technology; PACE, TOTD integration and our WeCheck app
- Launched our first Group motoring services campaign contributing to increased awareness of our offer and a +28% uplift in it's consideration scores.

3

Enable a **lifetime** of motoring and cycling

- Continued to drive cross shop across the group through WeCheck, CRM opt-in, Group website and Group marketing campaigns.

Underpinned by:

Focus on **Cost and Efficiency**

- Improved returns of cycling business by +680bps
- Sustainable working capital reduction of £20m in FY21
- Average retail rent reductions of 30% on FY21 renewals.
- GNFR savings of £7m
- Closed 80 low returning stores and garages

Investment in our **Colleagues**

- Included in Top 25 employers by the Sunday Times
- Gained approval to deliver Hybrid and Electric vehicle level 3 training

**Growth in
Services and
B2B**

To become the UK's largest independent provider of automotive services, maintenance and repairs, whilst also capitalising on the growth opportunity in B2B

**Increasing
customer
lifetime
value**

Integrating online, garages, retail stores and vans to drive customer cross-shop, retention and higher basket size, supported by an attractive loyalty mechanic

**Invest in our
product
business**

Increasing the number and proportion of innovative, unique and differentiated products that we bring to market

**Reduced
operating
leverage**

Reduce fixed cost in our business through property and supply chain efficiencies, and improving the profitability of our cycling business

**Market leader
for electric
products and
services**

Lead the markets in delivering products and services for all electric modes of transport

**Reduced
working
capital**

End-to-end review of our supply chain to further reduce stock and working capital

Unlocking value within our property estate

- Opportunity to optimise the assets within a town:
 - Lower rentals on existing store estate
 - Integrate the property assets across a town to increase customer experience and drive service sales

Opportunity across end-to-end supply chain

- Opportunity to operate with less working capital
- Operate with greater cost efficiency across the end-to-end supply chain
- Investment in the operating model to provide market leading omni-channel convenience

Further optimisation across the Group

- Continued focus on reducing Group-wide GNFR spend by optimising deals across the Group
- Redesign of the staffing model in both stores and support centre

Closing uneconomic locations

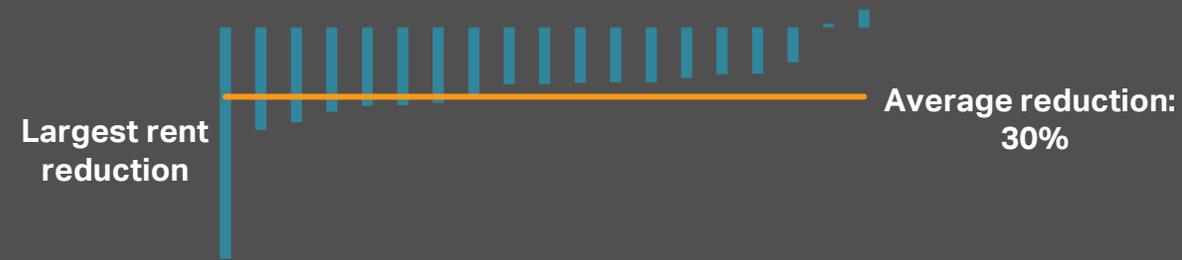
This year

Lower rentals on existing estate

We closed ~10% of the Group's fixed estate during FY21.



19 Retail lease agreements completed in FY21 resulting in an average rent reduction of -30%. We anticipate further reductions, although not necessarily to this magnitude.



Note: * includes the acquisition of 20 Universal Tyres Garages

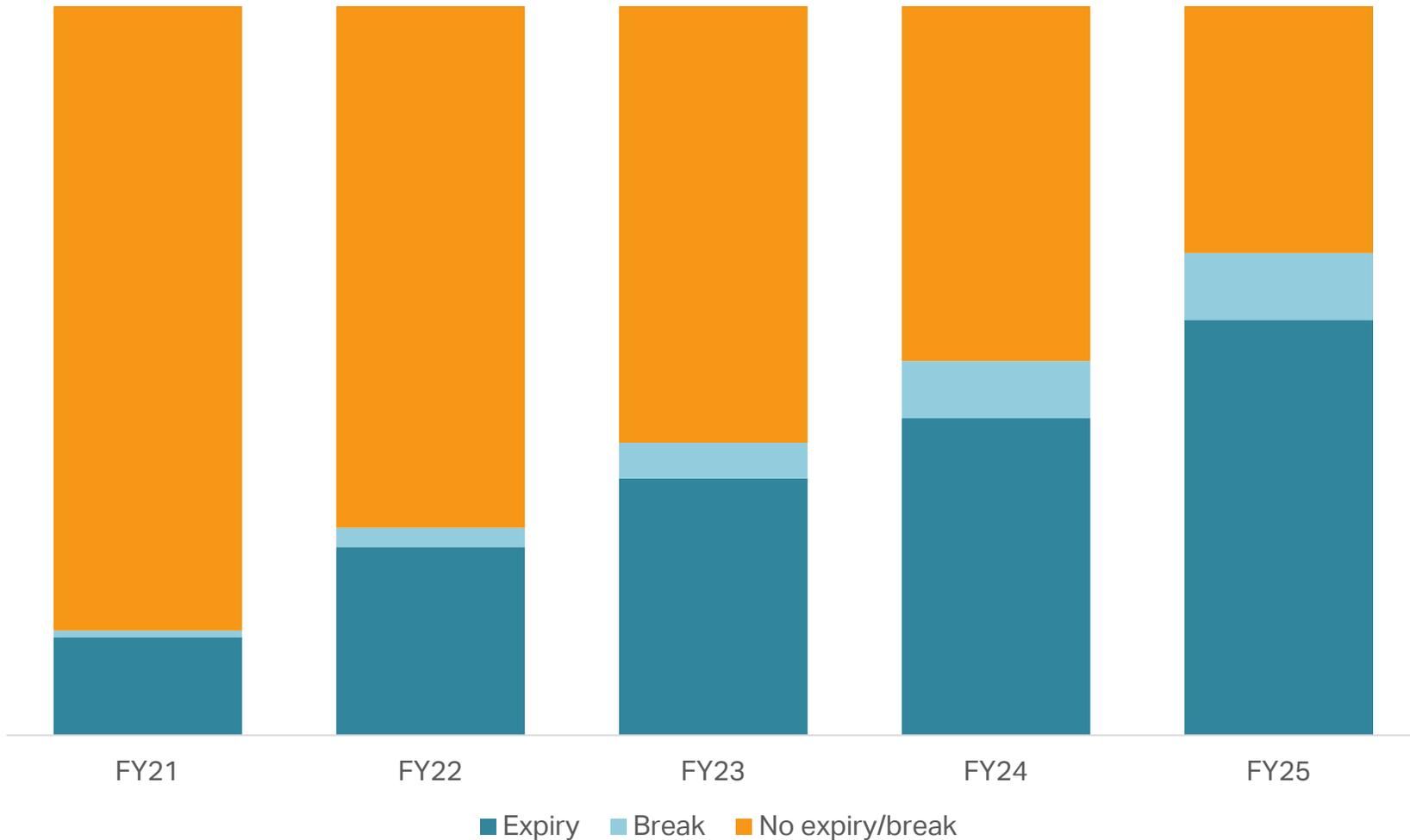
Destination Retail Store

Fusion

Updated Autocentre Garage



Physical retail estate lease expiry / breaks
cumulative number of stores



In Retail, we have a flexible lease portfolio, with two-thirds of leases having expiries or breaks in the next 5 years.

Note: These are indicative and relative to the Halfords average

	Product		Services	
	Motoring	Cycling	Retail	Autocentres
Medium-term growth prospects	Lower	Higher	Higher	Higher
Gross margin (%)	Average	Lower	Higher	Higher
Opex as a % of sales	Lower	Higher	Average	Higher
ROIC	Higher	Lower	Higher	Higher

The financial dynamics of our Services segments are more attractive and offer the greatest opportunity for growth and returns

	FY21 ¹	In 5 years
Sales CAGR	+4.8%	↑
Gross Margin %	50.8%	↑
Operating cost % of sales	42.9%	↓
ROIC²	40%	↑
Stock turn³	4.0	↑↑
Services % of group sales	29%	↑↑↑
Motoring product % of group sales	37%	↓

- By implementing our strategy we will evolve into a services-focused business, with an ambition to double our services revenue to 50% of Group sales.
- With a materially larger services business, alongside a more unique and differentiated products business, the Group will be more resilient to consumer sentiment, FX volatility and price inflation. As a less capital-intensive business, it will also earn higher returns on capital and generate more free cash flow.
- Finally, as a services-focused business, we will increase customer retention and recurring revenue streams, improving customer lifetime value and group cross-shop.

(1). On a 52-week basis, before IFRS 16 adjustments and before non-underlying items; (2). EBIT / Average (Equity + Net Debt – Goodwill); (3). Cost of Sales / Average Inventories

1 Maintaining a prudent balance sheet

2 Investment for growth

3 M&A, focused on Autocentres

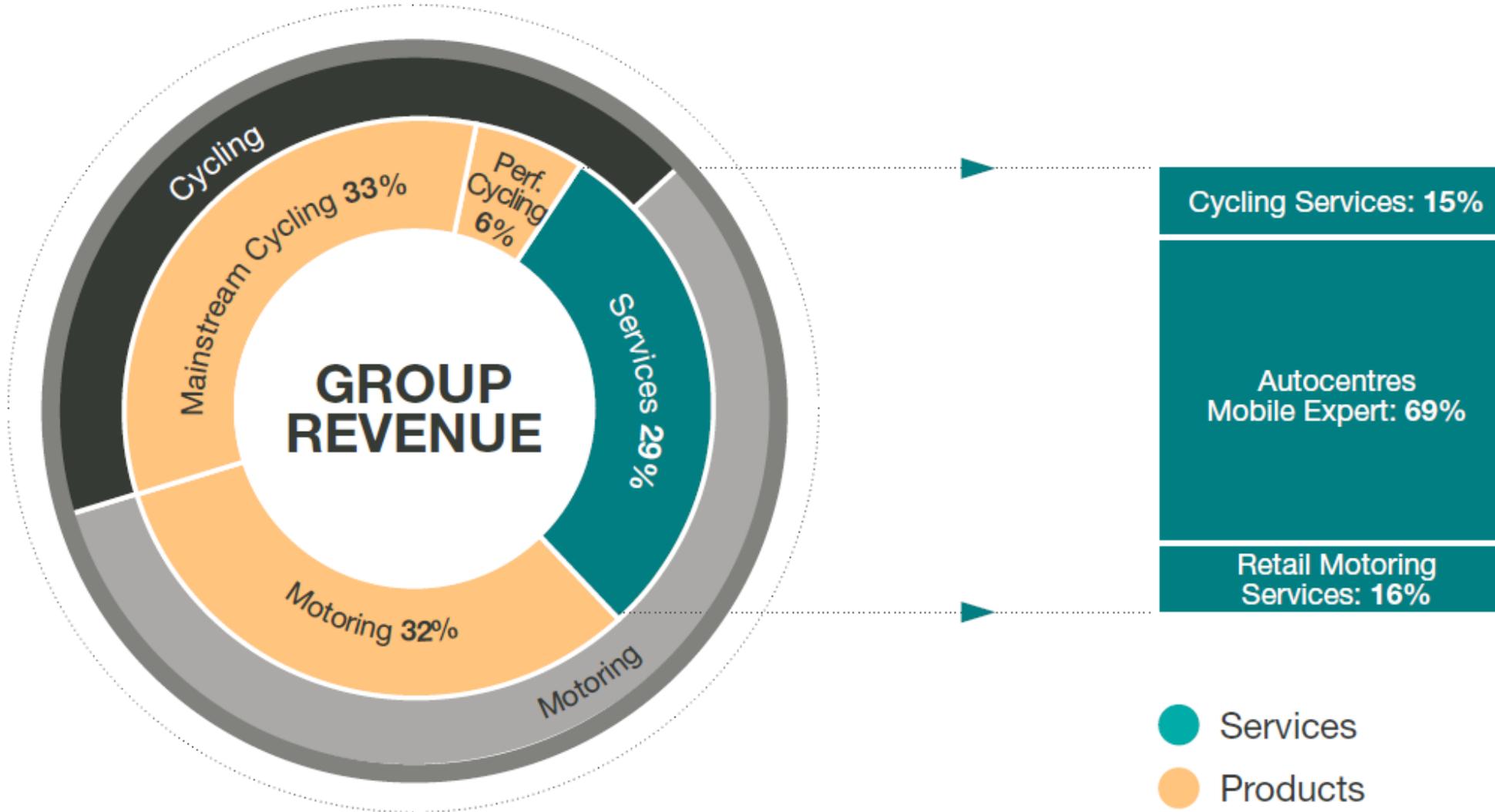
4 Progressive dividend policy

5 Surplus cash returned to shareholders

halfords
James

APPENDIX





Electrification

Our Ambition:

"The leading name in electric services giving everybody the confidence to switch and continually enjoy the benefits of electric mobility."

Description:

- **Lead the market in Electric Servicing.**
- Invest in **education and community engagement** programmes
- **Provide industry-leading training to our colleagues** to better support customers as they make the switch to electric.
- Broaden **our ranges of electric services and solutions.**
- **Lobby campaigns** designed to accelerate the transition to electric mobility.

Net Zero Commitment

"Achieve Net Zero value chain emissions by 2050 and interim reductions aligned to science-based principles."

- **Commit to a 1.5°C science-based target across our own operations** by 2030, **reducing our emissions by at least 42%** in this time period.
- **Engage with 67% of our suppliers** with the objective of them having science-based targets by the start of 2026.
- Achieve **net zero emissions across our value chain by 2050.** through collaboration with suppliers, vendors and customers.

Diversity & Inclusion

"Make Halfords a truly inclusive place to work and representative of the customers and communities we serve."

- Create an **inclusive workplace** in which all colleagues are able to be themselves at work, feel valued for their contribution and are supported to perform their best.
- **Provide equal opportunities** for all colleagues.
- **Remove the gender/ethnic/diversity pay gap.**
- Create accessible opportunities and training to **improve female representation** across our Group, particularly in our garages.

Product, Packaging and Waste Management

"Minimise our environmental impact and increase our transparency whilst continuing to pursue sustainability opportunities within our product portfolio."

- **Increase repair services** across products and mitigate environmental impact of returns.
- Increase the **recyclability of retail packaging** and **reduce transit packaging.**
- **Extend waste management** to accommodate new streams including rubber-based products and flexible plastics.

Developing our ‘Super-Specialist’ Proposition

These propositions demonstrate the key areas and customer take-outs that we need to achieve for us to be seen as super-specialists within our market

Inspire

Expertly Curated Range

An expertly curated range that has the breadth to show that we are experts; but a recommended focus to ensure customers can shop with ease.

Leadership and Purpose

We have a higher purpose role within our categories, providing a positive voice for the markets we operate in.

Support

Ultimate Accessibility

Despite being super-specialist, we can be found easily – always highly visible and super-convenient to get to and access.

Specialist Services

The easiest access to the best expertise in cars and bikes.

Trusted Advice & Extensive Knowledge

Our people are passionate, know their stuff and want to share it.

Lifetime

Customer-centric

Within our area of specialism, our scope is extremely broad and utterly focused on customer needs and wants.

Unbeatable Value

We offer an unbeatable combination of product quality, advice, service and aftercare

Any decisions that we make regarding our offering and our ultimate ‘Reasons To Believe’, should be measured against the above areas



Graham Stapleton
Chief Executive Officer



Loraine Woodhouse
Chief Financial Officer



Andy Randall
Group Chief Operating
Officer



Karen Bellairs
Chief Customer Officer



Wendy Taylor
Chief People Officer



David Hutchinson
Chief Commercial
Officer



Paul O'Hara
Chief Property Officer



Neil Holden
Chief Information
Officer



Rob Keates
Chief Transformation
Officer



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