12 January 2023

Halfords Group plc

Q3 Trading Update: Financial Year 2023

Halfords Group plc ("Halfords" or the "Group"), the UK's leading provider of Motoring and Cycling services and products, today announces its Q3 Trading update for the 13 weeks to 30 December 2022 ("the period").

To provide a better understanding of underlying performance, all numbers unless otherwise stated are against FY20, that is, on a three-year basis. The disruption from COVID-19 to both FY21 and FY22 means that comparators against these years are more difficult to interpret. All numbers are on a post-IFRS 16 basis and before non-underlying items, unless otherwise stated.

Q3 FY23

- Group revenue grew +38.3% and +12.6% LFL vs FY20 (+21.7%, +4.6% LFL vs FY22) reflecting strong sales in Motoring and needs-based categories, but overall revenues were impacted by softer than expected cycling and tyre markets:
    - Services representing 50.3% of Group revenue, and B2B 28.2% with a strong Commercial Fleet performance growing +138% year-on-year.
    - Macro-economic headwinds continue to impact the cycling and consumer tyre markets although we gained share across all our measured markets including Cycling, Motoring and Tyres.
- Autocentres seeing higher proportion of sales in lower margin categories, impacted by the current nationwide shortage of skilled labour. This has had an effect on overall profitability.
- Over 1.2m members within the Motoring Loyalty Club, exceeding full year targets, and interest in our Avayler software as a service business continues to be strong.
- Focus on cost reduction delivering over £20m full year savings and exceeding full year target by +33%.
- Group inventories and cashflow controlled well, with Retail inventory volumes lower than last year.
- Year end Net Debt : EBITDA (including IFRS 16 lease debt) forecast to be within our previously guided range of 1.8x to 2.3x including M&A.

FY23 outlook

The Group continues to deliver strong revenue growth against prior year and three-year comparisons, demonstrating the resilience of our strategically important Services and B2B businesses, and the growth in market share achieved across both Retail Motoring and Cycling.

However, as mentioned above, the labour market remains very challenging, and we have been unable to recruit enough skilled technicians in our Autocentres business which we now expect will limit growth of higher margin sales during the important upcoming Q4 MOT peak. In addition, we have also seen weakness in the consumer tyre market continue for longer than initially anticipated and expect a deeper decline in demand for more discretionary high-ticket items in Retail than previously forecast.

As a result of these revisions to our forecast, we are reducing our FY23 underlying profit before tax ("PBT") guidance to £50m to £60m.

Longer-term outlook

As we look to FY24, it remains particularly difficult forecasting with any certainty.

We expect the resilience and strength of our growing services and needs-based products business to continue, underpinned by the success of our Motoring Loyalty Club, Avayler and B2B business. We also expect the consumer tyre market to recover through the course of the year, and our actions taken on recruitment of skilled labour to unlock the capacity constraints on higher margin revenue opportunities. Consumers will, however, continue to face inflation, and we therefore do not expect a significant short-term recovery in high ticket, discretionary spending.

As indicated at our Interim results in November, we anticipate year-on-year cost inflation in wages, energy and currency, however we will partially offset these pressures through realising reductions in freight and product costs, whilst simultaneously continuing to reduce our cost base.

We remain confident in the longer-term outlook and believe the business is well positioned to capitalise on the strong platform we have built as market conditions improve.

At a Capital Markets Day on 30 March 2023 we will outline in more detail our expectations for FY24 and beyond.

Graham Stapleton, Chief Executive Officer, commented:

"We have seen strong revenue growth in what are exceptionally challenging circumstances, and we have continued to grow our market share whilst also tightly managing our costs, inventories and cashflows. Consumer demand for our services and needs-based categories, which now account for the majority of our revenue, continues to grow, and our Motoring Loyalty Club is exceeding expectations as customers recognise the value of its unrivalled discounts and offers.

With unprecedented demand in our Motoring Services business, we are particularly impacted by the nationwide skills shortage, with recruitment proving to be extremely challenging in the current labour market. We are continuing to take a range of actions in order to fill 1,000 new automotive technician roles, which include our new Later Life Apprenticeship programme, as well as a focus on attracting more women and young people from disadvantaged backgrounds into automotive apprenticeships. We are confident that we can offer unrivalled career progression for automotive technicians, and that this will allow us to attract and retain talented individuals, thereby enabling us to better service the demand through FY24."

Group revenue summary

	Q3				H1			
	3-Year vs. FY20 Growth		1-Year vs. FY22 Growth		3-Year vs. FY20 Growth		1-Year vs. FY22 Growth	
	Total	LFL	Total	LFL	Total	LFL	Total	LFL
Halfords Group	**+38.3%**	**+12.6%**	**+21.7%**	**+4.6%**	**+31.4%**	**+13.3%**	**+10.2%**	**-1.5%**
Autocentres	**+227.8%**	**+41.1%**	**+74.1%**	**+14.6%**	**+220.7%**	**+30.0%**	**+69.9%**	**+14.3%**
Retail	**-0.1%**	**+7.6%**	**+1.9%**	**+1.8%**	**+0.1%**	**+10.4%**	**-7.1%**	**-6.0%**
Motoring	+7.9%	+13.0%	+9.5%	+9.7%	+3.7%	+10.2%	-2.4%	-1.5%
Cycling	-10.5%	-0.1%	-8.5%	-8.6%	-4.4%	+8.6%	-11.8%	-12.5%

Autocentres

- Autocentres revenues +41.1% LFL vs FY20 and +14.6% LFL vs FY22 but overall gross margin impacted by lower service, maintenance and repair sales due to technician capacity being lower than anticipated in this area.

- Recruitment drive of 1,000 technicians continues but remains challenging with the nationwide shortage of skilled labour. Further actions are being taken, but we now expect to have fewer technicians in place than previously anticipated for our Q4 MOT peak.
- The consumer tyre market remains materially (-13%) below pre-Covid levels as customers defer high ticket spends, impacting the performance of National Tyres. Having previously expected this market to show recovery in Q4, we now expect the recovery during the course of FY24.
- Lodge Tyre trading in-line with expectations following acquisition in October 2022.
- Demand for Halfords Mobile Expert very strong, up +32% LFL vs FY22.

Retail

- Overall Retail revenues +7.6% LFL vs FY20 and +1.8% LFL vs FY22.
- Retail NPS +3.6ppts year-on-year, driven by improvements in availability and our value proposition.
- Performance divide between Motoring (+13.0% LFL vs FY20) and Cycling (-0.1% LFL vs FY20) reflects the needs-based and more discretionary product split across the categories.
- Motoring:
  - Revenue growth ahead of H1 as the less discretionary nature of spend is demonstrated.
  - Increased market share in core categories following our strategic price investments including batteries, bulbs, wiper blades and oils.
  - Maintenance and Parts performance very strong across seasonal categories as well as core, non-winter related products, despite average weather across the period being mild.
  - High ticket products, in particular technology, contracting against both FY20 and FY22, albeit this is a small category within Retail motoring.
- Cycling:
  - Overall revenues outperforming the market, however the market remains -20% down year on year year to date.
  - Kid's bikes performed well due to the stronger year-on-year availability and Christmas gifting demand with revenues +4.6% vs FY22.
  - Adult bikes performed weaker than expected down -12.0% vs FY22, reflecting the impact of weaker consumer backdrop relative to H1, and the more discretionary, higher ticket nature of the category.
  - Cycle2Work continues to show resilience against economic backdrop, growing +20.1% vs FY22.

Capital Markets Day

Halfords is today announcing a Capital Markets Day on 30 March 2023.

Graham Stapleton and members of the senior management team will present the Group's vision alongside the strategic and financial ambition over the next phase of its transformation. The event will showcase the planned evolution of our Services and B2B business, our loyalty platform and Avayler, and how the Group operating margin will evolve over the medium to long term through continued investment in high margin, high returning initiatives. The day will be a mix of presentations as well as physical site tours.

Enquiries

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Results presentation

A conference call for analysts will be held today, starting at 09:00am UK time. Attendance is by invitation only. A copy of the transcript of the call will be available at www.halfordscompany.com in due course. For further details please contact Powerscourt on the details above.

Next trading statement

On 15 June 2023 we will report our Preliminary Results for the financial year ending 31 March 2023.

Notes to Editors

www.halfords.com www.tredz.co.uk www.halfordscompany.com

Halfords is the UK's leading provider of motoring and cycling services and products. Customers shop at 396 Halfords stores, 3 Performance Cycling stores (trading as Tredz and Giant), 634 garages (trading as Halfords Autocentres, McConechy's, Universal, National Tyres and Lodge Tyres) and have access to 268 mobile service vans (trading as Halfords Mobile Expert, Tyres on the Drive and National) and 433 Commercial vans. Customers can also shop at halfords.com and tredz.co.uk for pick up at their local store or direct home delivery, as well as booking garage services online at halfords.com.

Cautionary statement

This report contains certain forward-looking statements with respect to the financial condition, results of operations, and businesses of Halfords Group plc. These statements and forecasts involve risk, uncertainty and assumptions because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. These forward-looking statements are made only as at the date of this announcement. Nothing in this announcement should be construed as a profit forecast. Except as required by law, Halfords Group plc has no obligation to update the forward-looking statements or to correct any inaccuracies therein.