FY23 Preliminary Results

Halfords Group PLC

21st June 2023

Agenda

FY23 Financial Performance
Jo Hartley

Business & Strategic Update
Graham Stapleton

Q&A

FINANCIAL PERFORMANCE

Jo Hartley

Basis of financial information

- Covers the 52-week period from 2 April 2022 to 31 March 2023
- All comparators are on a three-year basis unless otherwise stated (note - from FY24 we will revert to one-year comparison only)
- All figures are post IFRS 16 unless otherwise stated

Strategic transformation and agile trading helped mitigate over £90m of headwinds. Platform built to drive profit progression in FY24 and stronger growth in the mid-term.

Macro Headwinds

- Low consumer confidence
- Skilled labour shortages
- Record inflation
- USD FX rate

Structural Advantages

- Growing Services business
- Continued investment in strategic transformation
- Increasing synergy savings
- Established Loyalty Club

Tactical Action

- Supporting customers
- Growing market share
- Improving Garage utilisation
- Continued cost control

Underlying PBT outturn within our guided range of £50-60m.

Significant Group Revenue Growth

Group Total Revenue Growth Yo3Y

+39.5%

Strong LFL Growth

Group LFL Growth Yo3Y

+13.4%

Gross Margin Impacted by Mix

Group Gross Margin

49.3%

(-180bps Yo3Y)

Challenging Cost Environment

Costs as % revenue

45.3%

(+0.4ppts Yo3Y)

Resilient Profit Performance

Group PBT

£51.5m

(-£5.4m Yo3Y)

Strong Balance Sheet

Net Debt (pre-lease debt)

£1.8m

(+£62.0m Yo3Y,-£47.9m YoY)

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Profitable sales growth offset by extraordinary cost inflation.

	FY23	vs. FY22	vs. FY20
Revenue	£1,593.5m	+£211.1m +15.3%	+£451.1m +39.5%
Gross margin (%)	49.3%	-290bps	-180bps
Costs	-£721.7m	-£101.1m -16.3%	-£208.2m -40.5%
Underlying EBITDA	£186.0m	-£21.1m -10.2%	-£2.6m -1.4%
Underlying EBIT	£63.6m	-£37.5m -37.1%	-£6.9m -9.8%
Finance expense	-£12.1m	-£0.9m -7.6%	+£1.5m +11.0%
Underlying PBT	£51.5m	-£38.3m -42.7%	-£5.4m -9.5%
Net non-underlying items	-£8.0m	-£14.8m	+£26.2m

Vs FY22 – Strong revenue growth driven by Retail Motoring and Autocentres.

Vs FY22 – Retail margin down 230bps, and Autocentres down 500bps primarily driven by mix into tyres, which is comparatively lower margin.

Vs FY22 – Cost controlled with growth broadly in line with revenue growth despite inflation.

FY23 primarily consists of organisational design costs.

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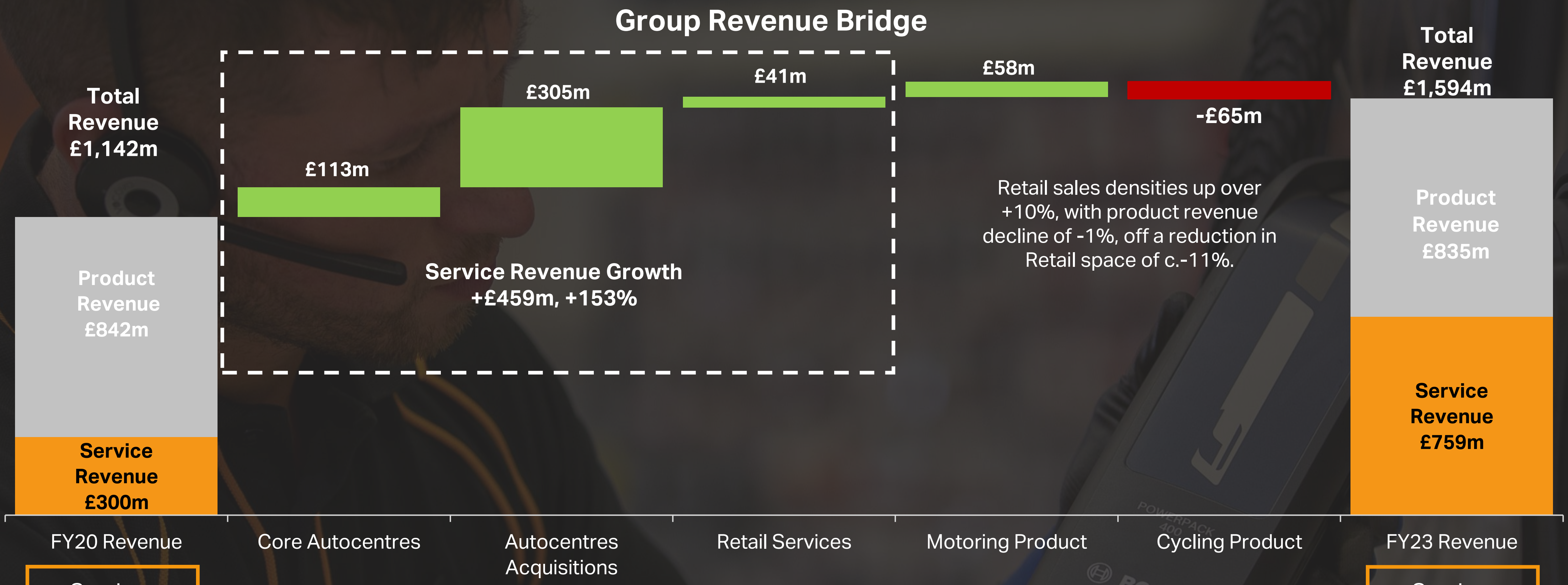
Strong revenue growth driven by the strategically important service-related sales, now representing 48% of Group Revenue.



Services 26% of Group Revenue

Services 48% of Group Revenues

Service-related sales are 50% on a proforma basis after the acquisition of Lodge Tyres

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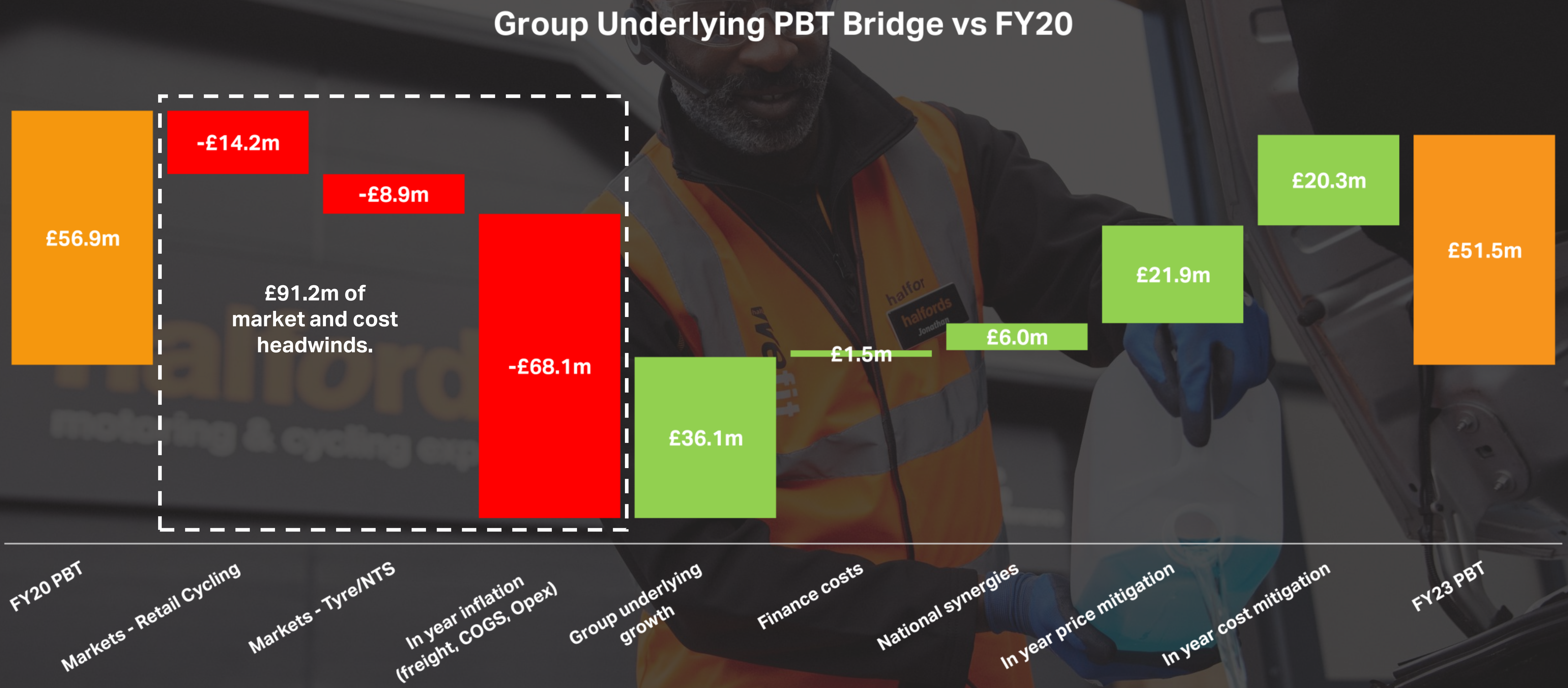
Structural transformation, agile trading and cost control largely offset over £90m of cost and market headwinds.



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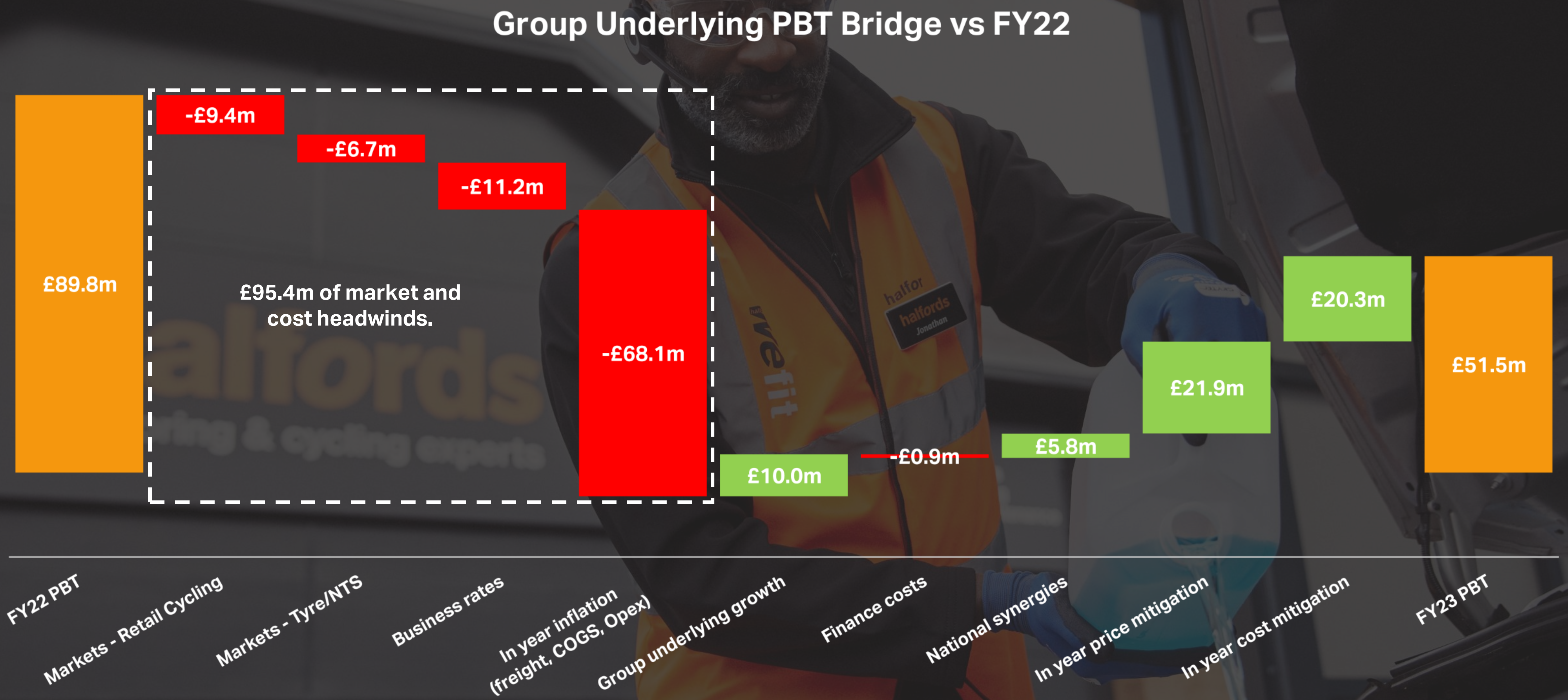
£51.5m PBT delivered despite cost and market headwinds of over £95m, with headwinds exceeding the profit made in FY22.



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Operating cost growth driven by acquisitions and variable costs associated with L4L growth. Cost and efficiency savings offset operating cost inflation and investments.

See appendix for Operating Cost breakdown

Full year cost and efficiency savings of £20.3m exceeded original target of £15m.

Support Costs

c.£9.0m savings

Organisation Structure

c.£4.6m savings

Property Costs

c.£3.6m savings

Continued Cost Culture

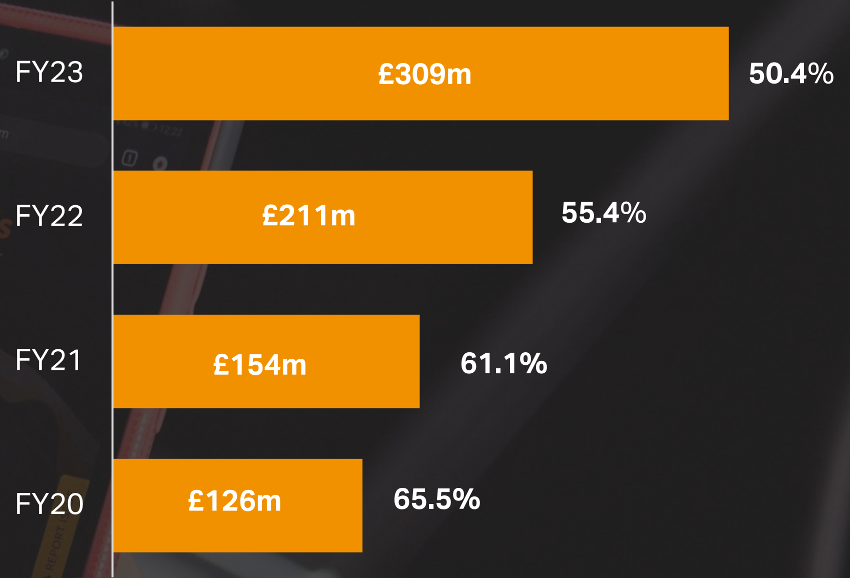
c.£3.1m savings

AUTOCENTRES GROUP

The underlying Autocentres businesses continued to grow, despite the consumer tyre market impact within National.

	FY23	vs. FY20	vs. FY22
Revenue	**£613.9m**	+220.1% Yo3Y +31.6% 3LFL	+61.2% YoY +15.4% LFL
Gross Margin	**50.4%**	-1,510bps Yo3Y	-500bps YoY
Operating Costs	**£299.0m**	+158.2% Yo3Y	+52.1% YoY
Underlying EBIT	**£10.4m**	+6.2% Yo3Y	-28.0% YoY

Autocentres Group Gross Margin (£ / %)



- Strong revenue and gross margin growth driven by acquisitions as well as the LFL business.
- GM% decline a result of acquiring predominantly Tyre businesses.
- Capacity constraints and a shortage of skilled labour meant high GM% SMR* work was lower than forecast.
- GM% to stabilise as Lodge annualises from H2 FY24.
- Operating cost growth was lower than sales growth despite significant inflationary headwinds.

- *"SMR" refers to Service, Maintenance and Repair work.*

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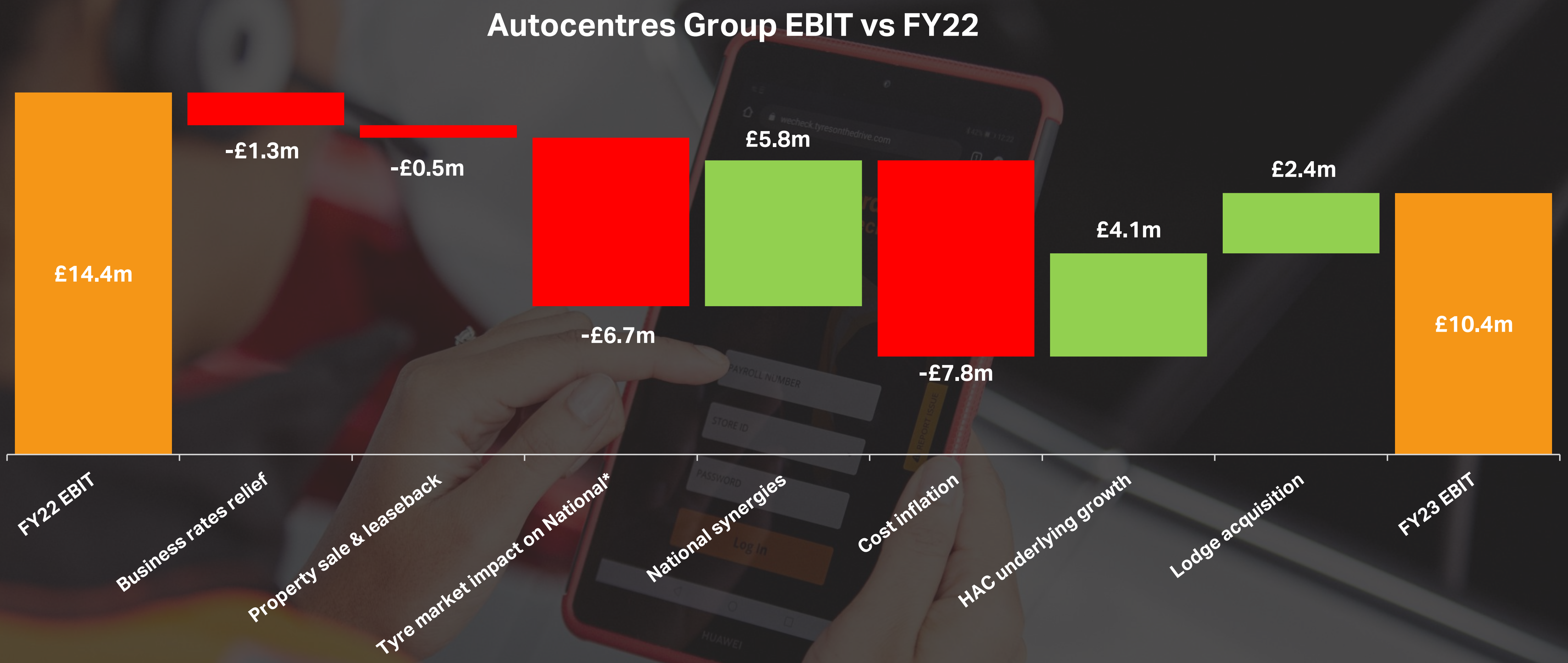
Underlying growth and acquisition synergies delivered in line with the business case were offset by significant tyre market impact and inflationary headwinds.

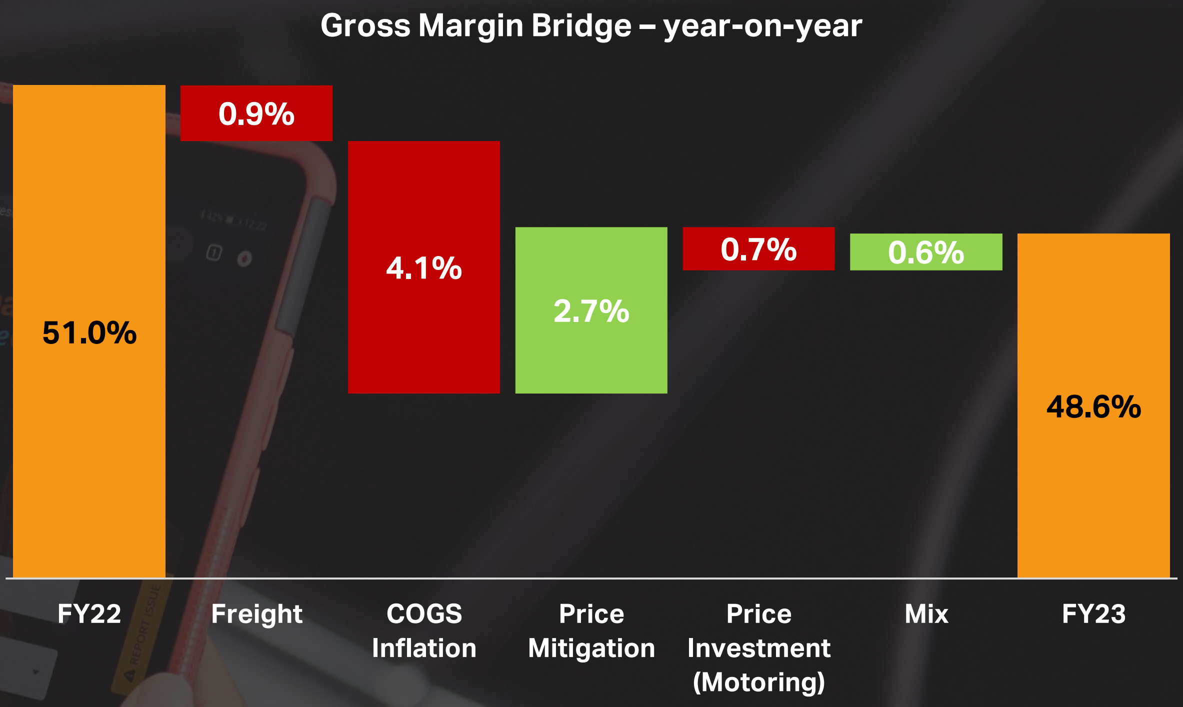


** Impact of owning National Tyres full a full year in FY23 versus a part-year in FY22, and therefore the full year impact of the depressed consumer tyre market.*

RETAIL

In Retail, strong trading in needs-based motoring products, alongside a focus on cost and efficiency has helped partially mitigate significant COGs inflation.

	FY23	vs. FY20	vs. FY22
Revenue	**£979.6m**	+3.1% Yo3Y +9.9% 3LFL	-2.2% YoY -1.8% LFL
Motoring	***£614.1m***	*+10.3% Yo3Y +14.5% 3LFL*	*+3.2% YoY +4.0% LFL*
Cycling	***£360.6m***	*-8.3% Yo3Y +1.3% 3LFL*	*-11.3% YoY -10.9% LFL*
Gross Margin	**48.6%**	+40bps Yo3Y	-240bps YoY
Operating Costs	**£417.4m**	+5.5% Yo3Y	-0.8% YoY
Underlying EBIT	**£58.7m**	-6.6% Yo3Y	-34.7% YoY



- Significant Inflation in COGs and freight impacting GM%.
- Cycling £s COGs inflation passed through to consumers. Margin not taken on cost inflation, leading to GM% dilution.
- Motoring price investment has driven strong volume growth.
- Mix into motoring product has been margin accretive.

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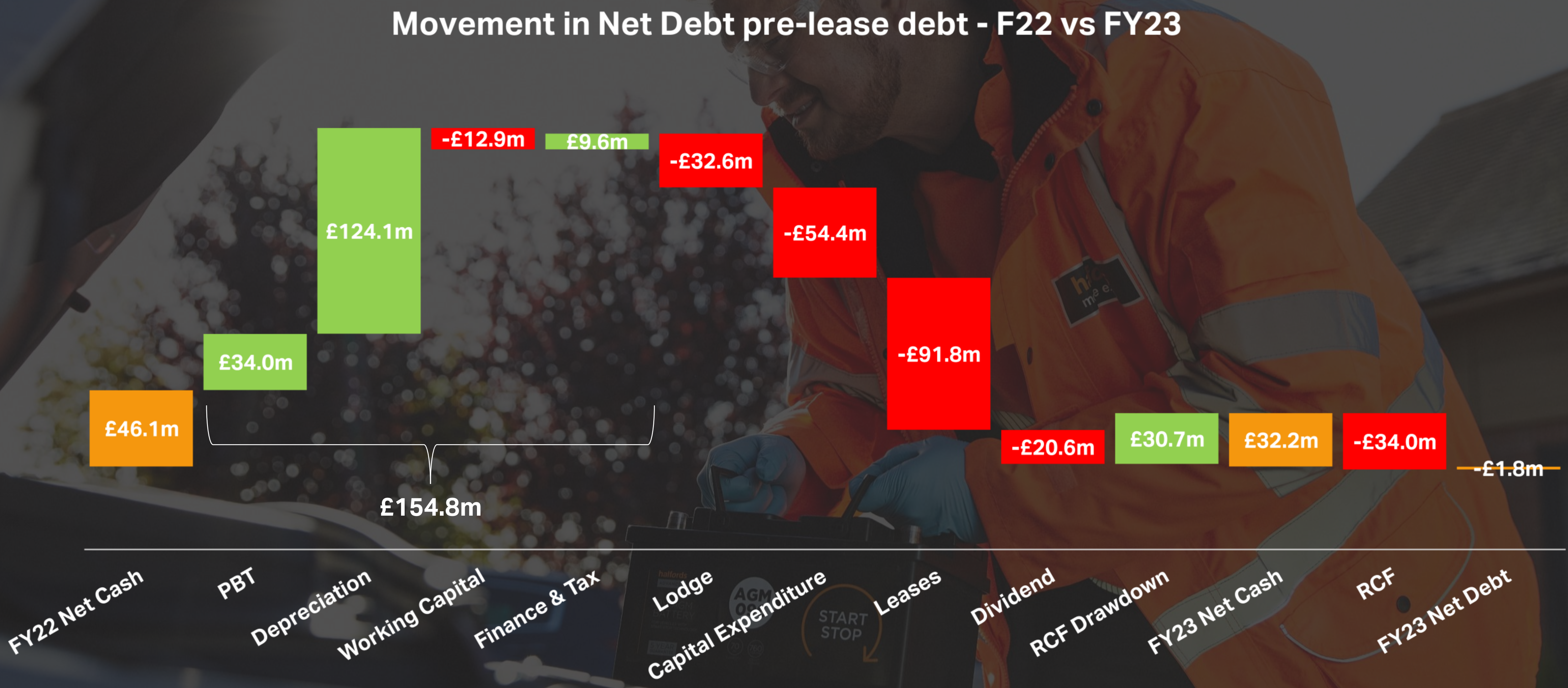
CASH & BALANCE SHEET

Continued strong cash position, allowing investment in the business and returns to shareholders.



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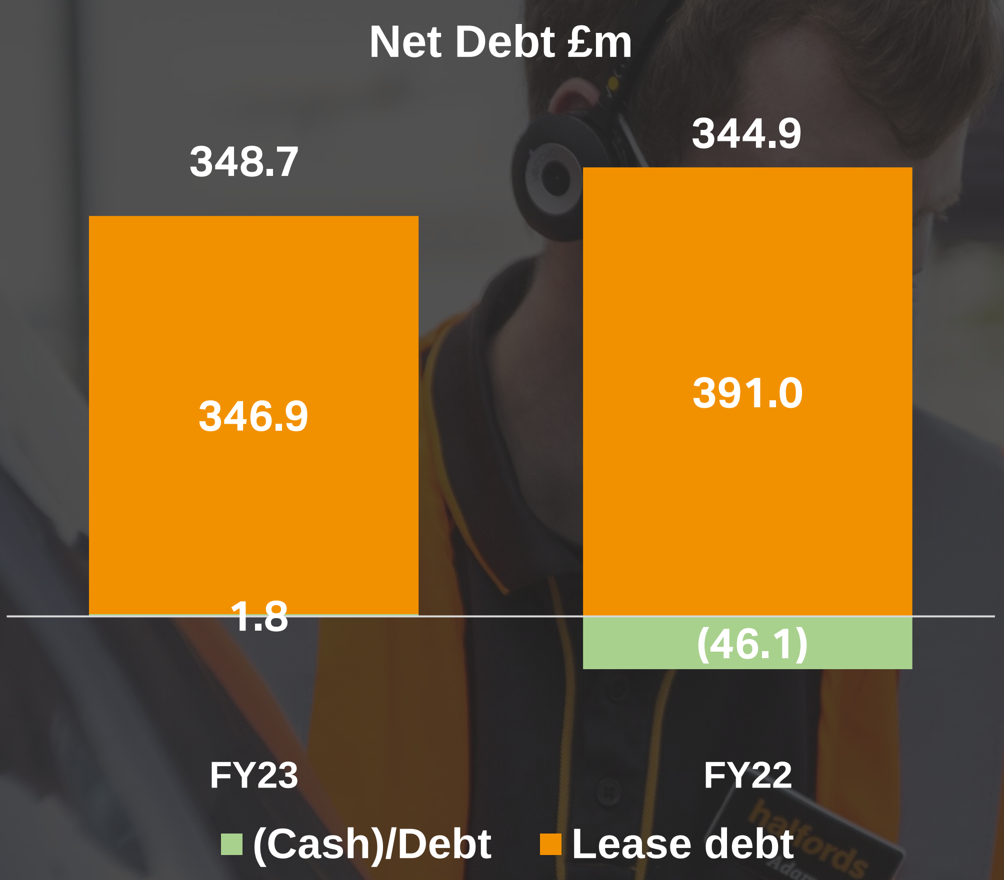
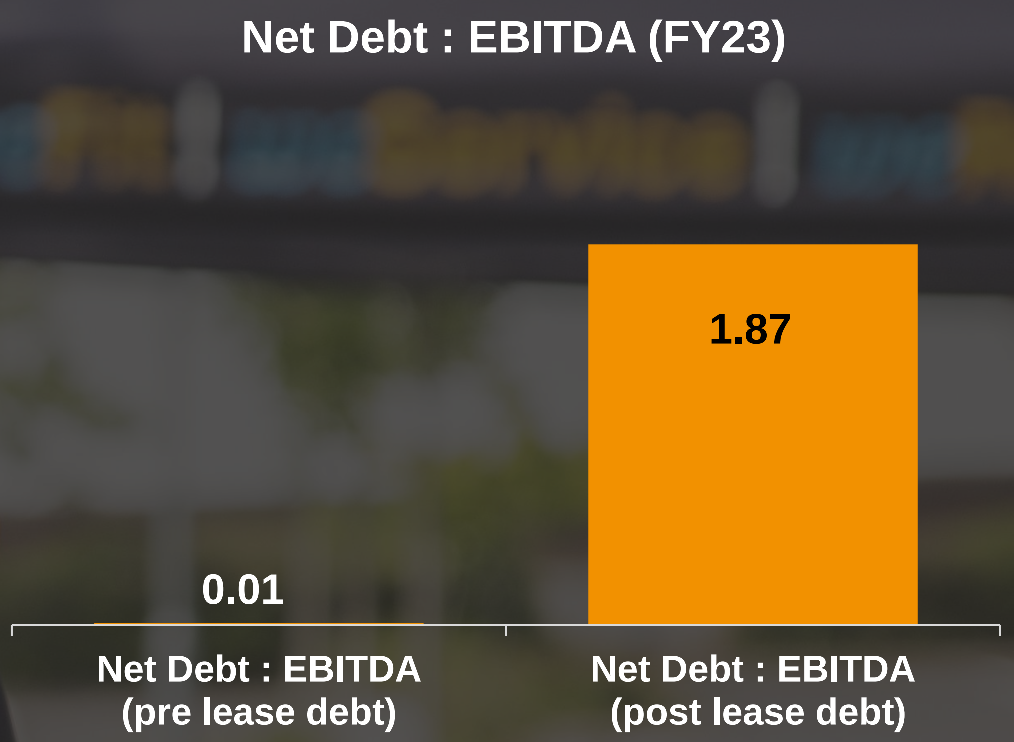
Net debt excluding lease debt of £1.8m. Leverage including lease debt within guided range.





- 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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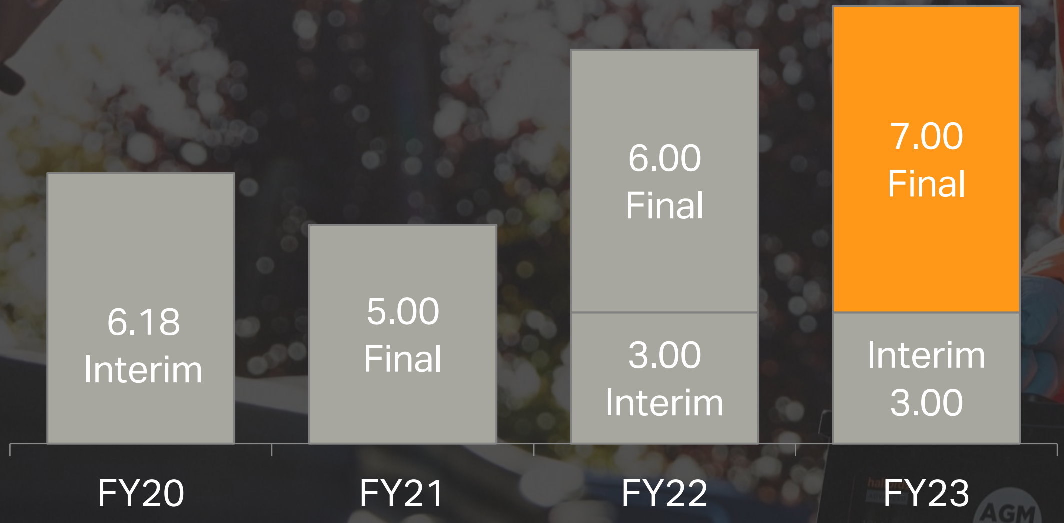
Progressive dividend for FY23, following proposed 7p final dividend.

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

FY23 Summary: Resilient results, against an exceptionally challenging backdrop.

1. £51.5m of PBT delivered, *within guided range* despite over £90m of year-on-year market and inflationary headwinds.

2. Significant revenue growth of +15.1% year-on-year and L4L growth at +2.4% with increased market share across all key categories by *supporting customers through the cost-of-living crisis*.

3. Over £20m of cost savings delivered, *ahead of our £15m target*.

4. Lodge Tyre acquired and integration continued in National with *both delivering forecast synergy savings*, providing a platform for future growth.

5. *Cash and working capital well controlled*, resulting in net debt on the balance sheet at c.£2m, and retail stock volumes below last year despite very volatile trading environment.

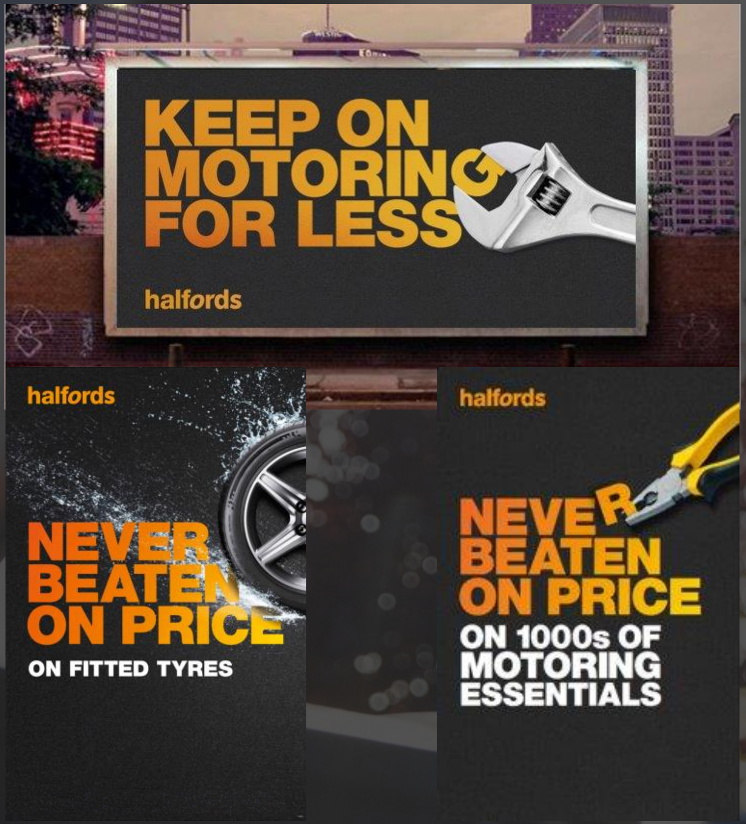
6. *Progressive final dividend* of 7p per share confirmed, reflecting confidence in medium term strategy described at our CMD.

BUSINESS & STRATEGIC UPDATE

Graham Stapleton

We have supported our Motoring customers through the cost-of-living crisis.

Motoring Value Campaigns



Industry Leading Finance Offers

Market Leading Motoring Club

Our customers have responded to our investments to support their motoring needs.

Awareness increase
+4.6%

Consideration increase
+7%

Value Perception increase
+7.9%

FY23 Tyre Market Share
+0.4ppts

FY23 Motoring Market Share
+2.6ppts

As we outlined at our Capital Markets Day, we are delivering against our strategy.

Inspire our customers with a differentiated, super-specialist offer

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

Enable a **lifetime** of motoring and cycling

To access the Halfords Capital Markets Day April 2023 contents please follow the attached QR code

The changing shape of our business evidences our strategic shift into a more resilient motoring services and B2B focused business.

	FY19	FY23
Group Revenue	£1.1bn	£1.6bn
Revenue from Services	24%	48%
Revenue from Motoring	66%	77%
Revenue from B2B	12%	24%

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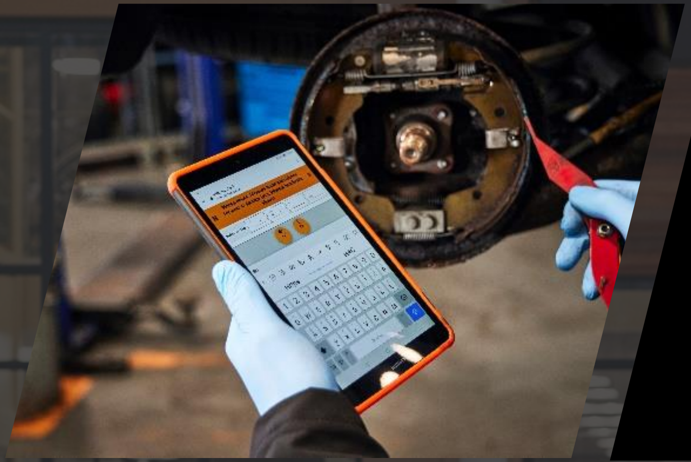
FY23 STRATEGIC PROGRESS

Our FY23 transformation has centered around 4 strategic priorities …



Building a Nationwide, market leading garage services business

Leveraging our unique data capability

Optimising the shopping experience across a town

Developing our SaaS business

Garage services

In FY23 we focused on building our unique physical infrastructure …

Garages: 316
Vans: 0

FY18

Halfords Mobile Expert launched

halfords mobile expert

FY20

Acquisition of Tyres On The Drive, & McConechy's

TyresOnTheDrive

McCONECHY'S TYRE & EXHAUST CENTRES

FY21

Acquisition of Universal Tyre

Universal TYRE & AUTOCENTRES

FY22

Acquisition of National Tyres

NATIONAL TYRES AND AUTOCARE Going the EXTRA mile

FY23

Acquisition of Lodge Tyre

LODGE TYRE

Garages: 643
Vans: 748

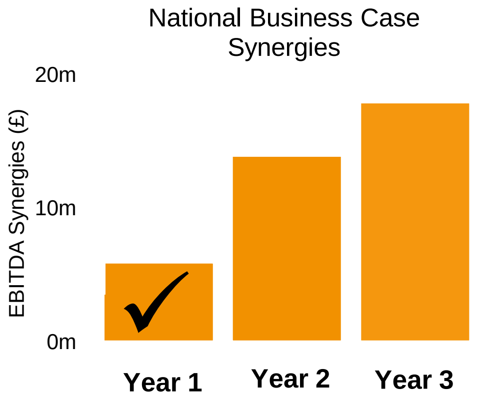
The acquisition of Lodge Tyre has made Halfords the UK's largest Commercial Tyre Service Provider.

- Lodge completes full UK coverage of commercial vehicle tyre & service market.
- Already delivering business case. Additional improvements in performance at McConechy's and Universal via new combined commercial garages leadership.
- Significant synergies through consolidated procurement, and the ability to win National contracts.

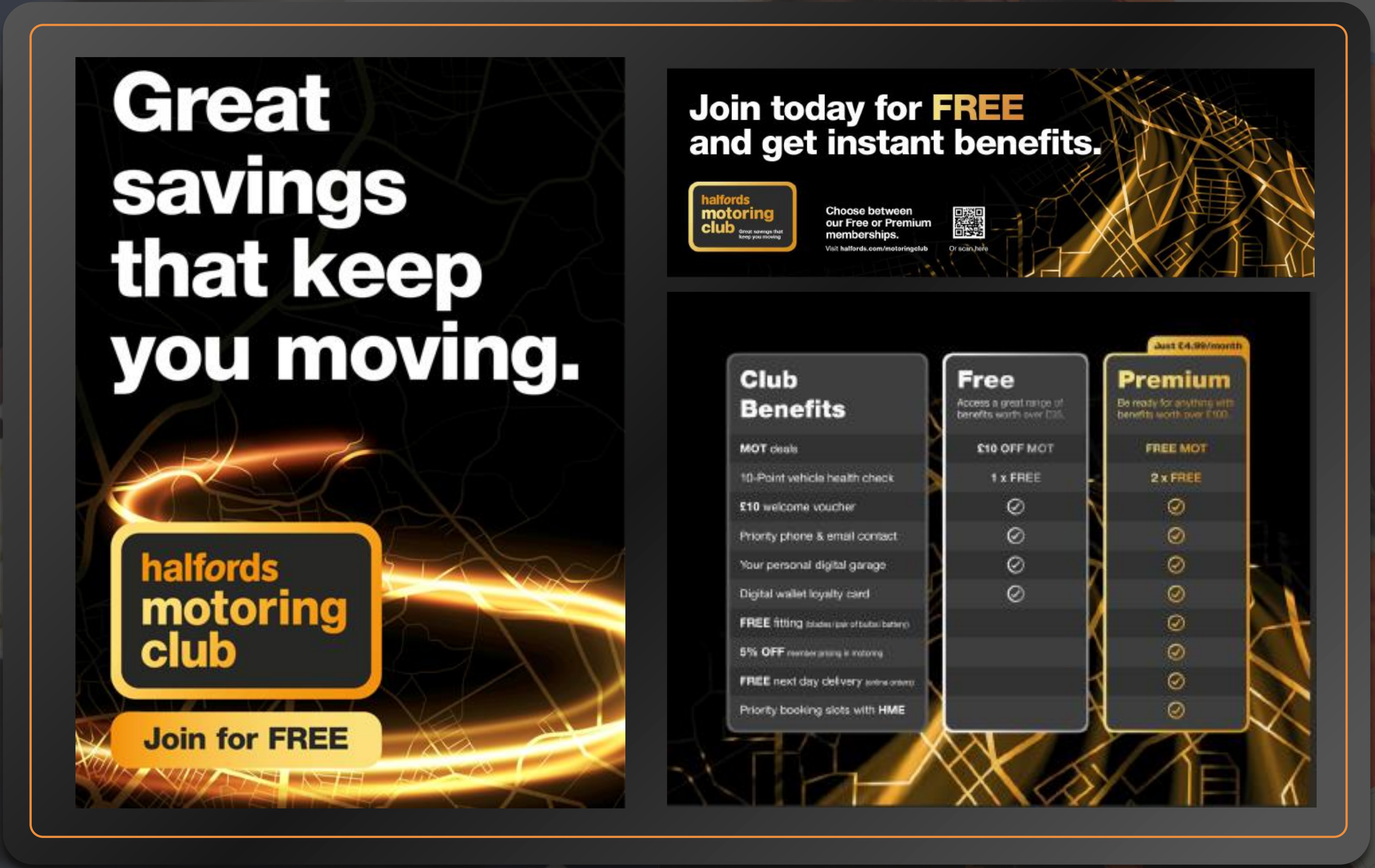
We delivered our £6m National Tyres synergies target in FY23.

NATIONAL TYRES AND AUTOCARE
Going the EXTRA mile

Value area	Synergy plan	Progress	Key successes		FY23 synergy delivered
Grow scale (Purchasing)	**Tyre & parts economies of scale**	◕	**£5m+** Annualised savings negotiated	**128,000** Wholesale tyres to HAC group	**£6m+**
	Halfords to use Viking network	◑			
	Halfords GNFR contracts	◑			
National coverage (People & property)	**Exit underperforming sites**	●	**£1m** Annualised head office saving	**26** Sites merged or closed	
	Technician redeployment	◑			
	Consolidation of central support roles	◑			
Leverage core platform (Performance)	**Integration into Halfords.com**	●	**100%** Garages using Avayler	**27%** Growth in National SMR	
	Rollout of Avayler system	●			
Expand capabilities Other synergies	**Synergies from group fleet business**	◑	**17%** YoY growth in fleet revenue	**SAME DAY** Tyre booking	
	Improved Halfords tyre proposition	◑			



We are building valuable relationships with 1.7m Motoring customers.



FY23 highlights:

Club Members
1.7m

Record NPS
+4pts

Data

The Club has already delivered tangible financial benefits to the Group …

We are enjoying tangible benefits from valuable Motoring Club members

Customer Type	Subscription Revenue	Shop Frequency	Average Spend per Visit*	Customer Numbers	Revenue Uplift per Customer	Revenue Vs Non-Loyalty
Non-Member	£0	2.1x	£36			
Free Member	£0	3.2x	£44	1.58m	£63	+£98.8m
Paying Loyalty Member	£44	5.1x	£65	116k	£245	+£30.7m

FY23 highlights:

Higher Group cross-shop

15%

Vs 4% for non-members

**Excludes subscription revenues. All values exclude VAT. Customer numbers for full financial year. All other numbers from customers signing up during first 6 months and behaviour up to week 52.*

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Halfords in a town

In FY23, we rolled out the more capital-efficient elements of our Fusion trial to 50 towns.

Upgrading the retail car park service and referral model

Solution selling

Halfords Fusion Video Link

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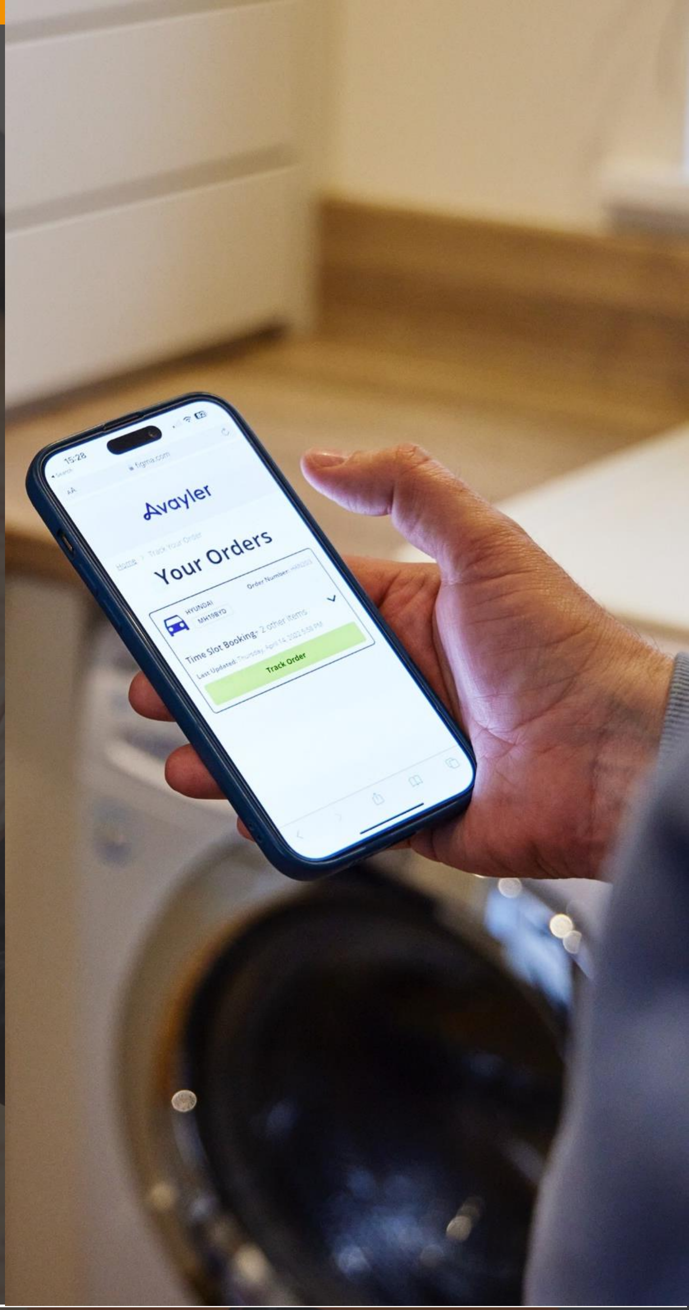
SaaS

Avayler signed its third major international client.

- Mobivia becomes first major European client contracted. Mobivia operates 9 brands over 2,000 sites.
- Successful launch of Avayler in Germany via Mobivia's ATU brand
- Extended US reach with new contract via Tire Pro, a 600-garage chain who are now rolling out Avayler to their mobile fleet

Mobivia ATU TIRE PROS



 Avayler Video link

FY24 YEAR-TO-DATE

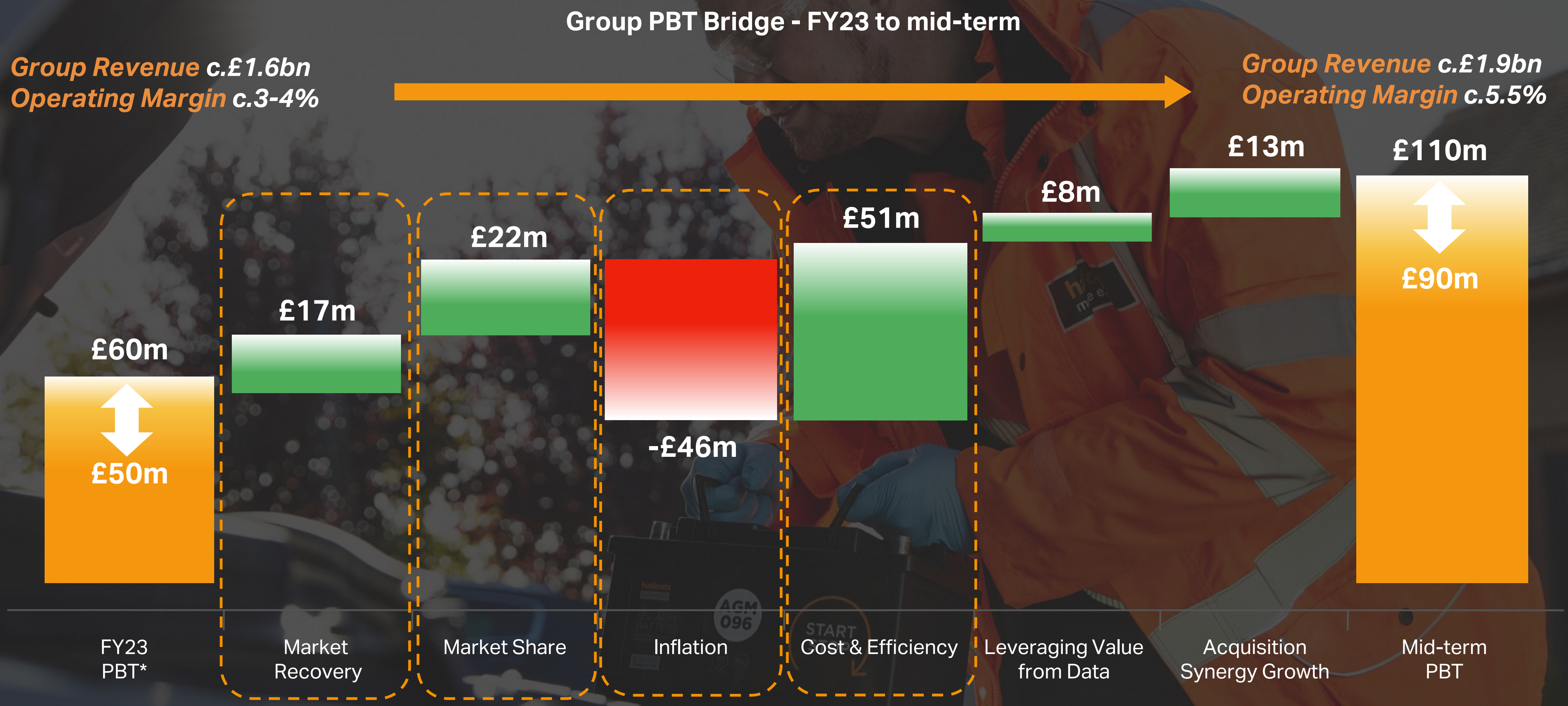
Trading year-to-date has been strong

- Positive Group LFL growth year-to-date.
- Overall, sales performance has been ahead of our expectations underpinned by **strong market share performance** across all key categories.
    - **Highest recorded market share results**
        - ✓ **Consumer Tyres**
        - ✓ **Oils**
- Overall, markets performing in-line with Capital Markets Day expectations.

FY24 FOCUS

"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.



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

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FY24 represents Year 1 of our CMD plan. Our expectations in this year are underpinned by the following 4 building blocks.

Inflation

Cost & Efficiency

Market Volumes

Market Share

At the CMD we highlighted an expected £46m of inflation in the mid-term …

Inflation

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Inflation

In FY24, we expect to see c.£30m of this inflation – nearly two thirds of the mid-term expectation.

FX Rate
(c.84% of FY24 requirement bought at rate of $1.22)

Utilities
(c.75% of FY24 requirement bought)

Pay
(Assumes National Minimum Wage and general rate inflation)

Freight
(c.50% saving year-on-year in container rates)

Our FY23 FX and energy hedging policy postponed significant inflation, which will now be seen in FY24.

Cost & Efficiency

At the CMD we highlighted an expected £51m of cost savings in the mid-term …

In FY24, we expect to deliver c.£30m of cost and efficiency savings – nearly 60% of our mid-term target.

Product Cost Reduction

Outsourcing / Organisational Structure

Property & Warehousing Savings

"Good Not For Resale" Reduction

Approximately 1/3 of the required cost and efficiency target will be achieved through initiatives already delivered in FY23.

Market Volumes

At the CMD we highlighted that we expected mid-term growth across Retail Motoring, Cycling, and Consumer Tyres …

	Retail		Autocentres	
	Retail Motoring	Cycling	Consumer Tyres	Motoring Servicing
Market Size	c.£4bn	c.£1.2bn	c.£2.2bn	c.£9bn
FY23 Market Volumes vs pre-COVID	Broadly flat	c.-24%	c.-14%	c.+4%
CMD – Market volumes Mid-term vs pre-COVID	+2%	c.-10%	c.-3%	Broadly flat
Market Growth Assumed over Mid-term	↑ +2%	↑ c.+18%	↑ c.+13%	→ Broadly flat

Market Volumes

In FY24, we expect to see growth across both Retail Motoring and Consumer Tyres, a resilient performance in Motoring Servicing, and a small decline in Cycling.

	Retail		Autocentres	
	Retail Motoring	Cycling	Consumer Tyres	Motoring Servicing
Market Growth Assumed over Mid-term	↑ +2%	↑ c.+18%	↑ c.+13%	→ Broadly flat
Growth Assumed Year 1 FY24 vs FY23	↑ c.+0.5%	↓ c.-1%	↑ c.+2.6%	→ Broadly flat

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Market Volumes

To date, the Tyre and Motoring Products markets are ahead of expectations. Cycling performance impacted by customer sentiment and poor weather.

	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 – April FY24 vs April FY23	c.+1.3%*	c.-10.8%	+4.6%	Broadly flat

*Kantar Market Value Feb-Apr 2023. Volume data and one month not currently available

Market Share

At the CMD, we highlighted that we expected to take share across all of our major markets over the mid-term.

	Retail		Autocentres	
	Retail Motoring	Cycling	Consumer Tyres	Motoring Servicing
Market Size	c.£4bn	c.£1.2bn	c.£2.2bn	c.£9bn
Approximate Volume Share FY23	c.41.8%	c.37.0%	c.9.5%	c.3.5%
Approximate Volume Share Mid-term estimate	c.43.0%	c.39.0%	c.11.0%	c.3.8%
Approximate Volume Share change	↑ +1.2%	↑ +2.0%	↑ +1.5%	↑ +0.3%

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Market Share

In FY24, we expect to take share in all markets.

	Retail		Autocentres	
	Retail Motoring	Cycling	Consumer Tyres	Motoring Servicing
Approximate Volume Share Change Mid term	+1.2%	+2.0%	+1.5%	+0.3%
Share expectation year 1 FY24 vs FY23	c.+0.6ppts YOY	c.+0.7ppts YOY	c.+0.2ppts YOY	+0.2ppts YOY

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Market Share

Year-to-date, we have exceeded targets and grown share across all categories.

	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
April Share Movement FY24 vs FY23	c.+1.5ppts YOY*	c.+3.8ppts YOY	c.+0.2ppts YOY	YOY**

*Kantar Market Value Feb-Apr 2023. Volume data and one month not currently available

** Market share information is not available – estimate based on year-on-year LFL SMR sales which exceed market growth expectations. A longer period is needed to form detailed estimate.

Our share gains will be supported by three major initiatives in FY24 …

1

Growing our market leading extended *car parts* proposition

2

Leveraging our significant *financial services* offer

3

Major improvements to *utilisation* across our garage business

Market Share – Car Parts

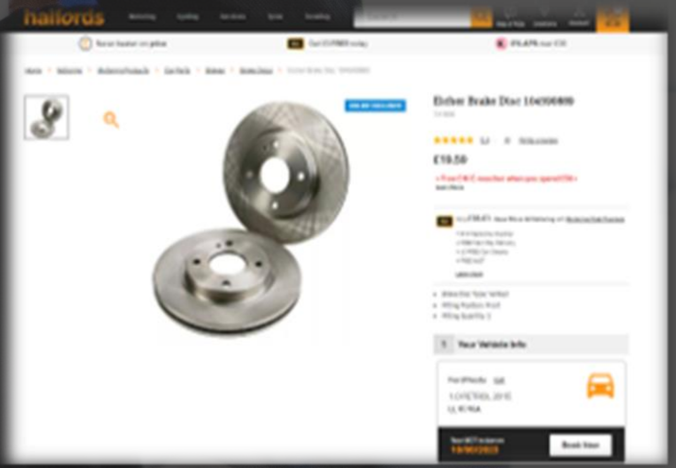
We will establish our unique customer offer in the £1bn specialist parts market.

We will create a unique parts offer

- **Market leading convenience and expertise –** "Click & Collect" in store in 60 minutes will go live in H1.
- **Unique super-specialist fitting offer –** available across stores, garages or at home.
- **"Never beaten on price"–** competitive pricing through scale and service attach.

We aim to own "the 4th B" - Brakes

- As a major part of creating a unique parts offer, we aim to lead the market for "have a go" customers.
- We will leverage our existing market leading position in 3Bs (batteries, bulbs and blades) together with the Motoring Club to gain traction in the market.

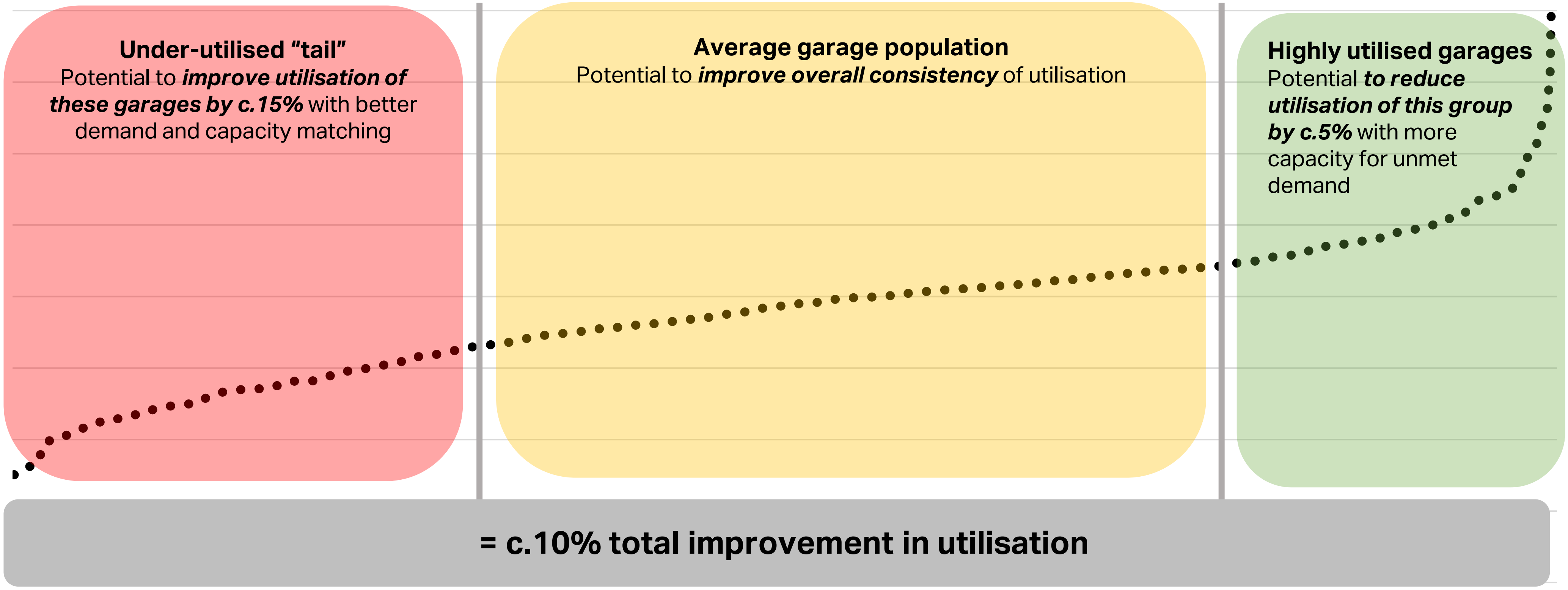


Last week we launched an industry leading "Buy Now Pay Later" offer.

- Offer expected to be particularly beneficial to tyre proposition, which is typically a high invoice value, distressed purchase.

Our utilisation plan is built upon improving the "tail" of garages which are c.15% below our company average performance.

Garage utilisation distribution:



We believe our plan will deliver year-on-year profit growth in FY24 and are comfortable with current analyst consensus of £53.3m.

See Appendix for further FY24 guidance detail

Conclusion & Summary

1. FY23 was another year of strategic progress, with a solid financial performance given the context and economic backdrop.

2. Year-to-date trading has been strong, with good market share and LFL growth.

3. FY24 will see us face further market and cost headwinds, but our plans to take share and drive efficiency means we expect profits to grow, in line with current analyst consensus of £53.3m.

4. In the mid-term, we reiterate the aspiration laid out at our April CMD of delivering PBT in the range of £90-£110m, with a significant step-up in profit expected in FY25.

Q&A

Contact and Newsflow

For further information, please go to
www.halfordscompany.com
or contact:

Andy Lynch
Head of Investor Relations and Corporate Finance
andrew.lynch@halfords.co.uk

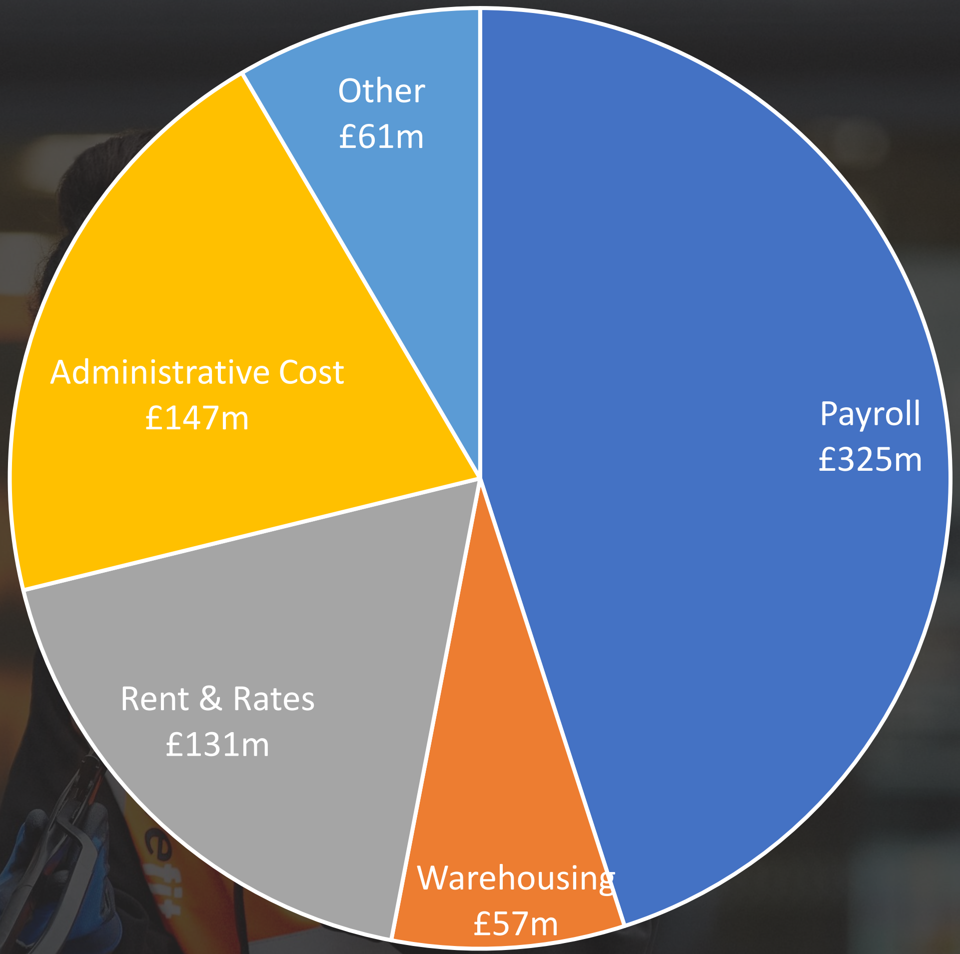
Next newsflow:
6 September 2023: FY24 20-week trading update

APPENDIX

Appendix 1 - FY23 Group Operating Cost Breakdown

FY23 Group Operating Cost Breakdown

FY23
£722m



Appendix 2 – Further Guidance Detail

- We anticipate H1 PBT to be down YoY, and H2 to be up YoY, with the H1 variance impacted by the one-off FX credit taken in H1 FY23.

- We expect to invest some gross margin rate year-on-year, as we look to support customers through the cost-of-living crisis, whilst driving profitable sales growth.

- Capex for FY24 is expected to be at the lower end of our £50-60m p.a. mid-term average presented at the CMD, as we look to maximise ROCE.

- A cash outflow is envisaged in H1 FY24, with a corresponding and offsetting cash inflow in H2, ending the year with a small net cash (pre-lease debt) position.